

CA Inter – Paper 2 (Law) – Case Studies

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(Covering ICAI SM, MTPs & RTPs till May 2022 applicable for May 2023 Exams)

Integrated Case Study - 21	
<p>Sourabh Publishers Ltd., a listed entity, passed a resolution in its Board meeting for appointment of Jain & Jain, a Chartered Accountants firm, as Statutory Auditor of the company. The company obtained the consent in writing from Jain & Jain and also placed this recommendation before the general meeting of the shareholder and got it approved.</p> <p>The company thereafter informed the CA Firm about their appointment and also filed a notice of appointment with the Registrar of Companies within the prescribed time.</p> <p>Jain & Jain, Chartered Accountants firm is having 3 partners namely, Mridula Jain, Shyamla Jain, Parul Jain. In this firm Mayank Jain and Shashank Jain were associates and were being paid on case-to-case basis and not on fixed salary.</p> <p>Prior to the appointment of Jain & Jain, the previous auditor was Agrawal Jain & Associates. In this CA firm there were 6 partners namely, Prashant Agrawal, Vikas Agrawal, Vishal Agrawal, Vyom Agrawal, Mayank Jain and Shashank Jain.</p> <p>Mayank Jain and Shashank Jain were common persons in both the firms.</p> <p>While working with Sourabh Publishers Ltd., Jain & Jain started facing a lot of issues with the management of the company. After sometime, due to these disputes with the management, Jain & Jain resigned from the company. [MTP-March 22]</p>	
1	<p>The newly appointed CA Firm (Jain & Jain) and retiring CA Firm (Agrawal Jain & Associates) have common persons i.e., Mayank Jain and Shashank Jain. Whether the appointment of Jain & Jain in Sourabh Publishers Ltd. is valid as per the provisions of the Companies Act, 2013:</p> <p>(a) It not valid since both the CA Firms (New and Old) have common persons.</p> <p>(b) Mayank Jain and Shashank Jain are the associates in Jain & Jain and not the partners, hence appointment of Jain & Jain, is valid.</p> <p>(c) Jain & Jain should expel Mayank Jain and Shashank Jain in order to retain its appointment.</p> <p>(d) Agrawal Jain & Associates should expel Mayank Jain and Shashank Jain.</p>
2	<p>What would have been the position if, Mayank Jain and Shashank Jain are partners in Jain & Jain:</p> <p>(a) The position will remain same as MCQ 1 above.</p> <p>(b) There shall be no change and the Jain & Jain may continue as audit firm.</p> <p>(c) The appointment of Jain & Jain would not have been in terms of the provisions of the Companies Act, 2013.</p> <p>(d) The company may obtain permission from the shareholders in the general meeting by way of Special Resolution for continuation of appointment of Jain & Jain.</p>
3	<p>In the given case, Jain & Jain due to some dispute with the management on some issues resigned from the company. Choose the correct option in respect to filling of this vacancy:</p>

	<p>(a) Jain & Jain cannot resign and has to hold the office till the conclusion of the next annual general meeting.</p> <p>(b) The resignation is tendered by the auditor, the Board of Directors shall appoint new auditor within 30 days and such appointment shall also be approved by the shareholders in the general meeting within 3 months of the recommendation of the Board.</p> <p>(c) This vacancy of auditor can be filled by the shareholders in consultation of the Central Government.</p> <p>(d) This vacancy of auditor can be filled by the Board of Directors in consultation of the Comptroller and Auditor-General of India.</p>
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Answers							
1	(b)	2	(c)	3	(d)		

Integrated Case Study - 22

Rupesh took a house loan of ₹ 80 lakhs from Best Bank Ltd. While granting the house loan, the bank insisted to provide a guarantee. Rupesh’s neighbour, Mithun gave the guarantee for such housing loan.

Rupesh also purchased a life insurance policy on his life from A-One Life Insurance Company Ltd., for a sum assured of ₹ 1 crore for a policy term of 20 years. He paid the first premium to the insurance company. This policy was purchased by Rupesh in order to protect his family, in case of untimely death of Rupesh. Rupesh made nomination of the policy in favour of Archana, his wife.

After some time Rupesh’s business started running into losses and he was not able to pay the instalments of housing loan to the bank. As a result, his loan account was classified by the bank as Non - Performing Asset (NPA) and the bank initiated to recover its pending dues. The Bank first sent the reminder letters/emails to both the borrower and his guarantor and thereafter a legal notice was served.

Even after notices, when the loan account was not regularised, the bank filed a suit in Debt Recovery Tribunal (DRT) against the guarantor. The guarantor objected and asked the bank to first get it recovered from the borrower and if the borrower does not pay, then only the guarantor will be liable to pay. But the bank continued to follow up the matter in DRT and ultimately the decree was passed in favour of the Bank to recover the dues from the guarantor.

Bank recovered entire outstanding loan from the guarantor as per the decree. Now the guarantor filed a suit against Rupesh to pay the amount, which he paid to the bank. Mithun also requested to the court to provide the possession and ownership of the house, if Rupesh is not able to pay such amount.

Meanwhile, Rupesh met with an accident and died on the spot. Claim was lodged by his wife and the insurance company paid the sum assured along with bonus amount to Archana (nominee of the deceased). Archana paid the amount to Mithun, which had been paid by Mithun to the bank in discharge of his guarantee and settled down all the issues. [MTP-March 22]

1	<p>In the given case, who is discharging the liability of a third person in case of his default in relation to the contract of guarantee?</p> <p>(a) Mithun</p> <p>(b) Rupesh</p> <p>(c) Archana</p> <p>(d) The Bank</p>
2	<p>What is the consideration in case of contract between Mithun and the Bank?</p> <p>(a) Promise made for the benefit of the principal debtor to avail loan on the guarantee of the surety.</p> <p>(b) In contract of guarantee, there is no consideration involved between surety and the creditor.</p> <p>(c) Mithun can freely utilise the house.</p> <p>(d) Any past consideration.</p>

Answers							
1	(a)	2	(a)				

Integrated Case Study - 23

Madhu Oils and Fats Ltd. is a listed entity. It finalised its annual accounts for the year ended on 31st March, 2021. The Audit Committee of Board (ACB) recommended and subsequently the Board approved the same. Annual General meeting of the shareholders was convened on 25th August, 2021, in which the annual accounts of the company were presented before the shareholders. The shareholders have approved dividend @ 10%.

A report of the Board of Directors was attached with the annual accounts of the company.

During the said meeting, a shareholder pointed out that during the year of 2020-21 there was a big news in the media and newspaper that a fraud has happened in the company of an amount of ₹ 75 lakhs, with the involvement of a senior management official of the company, who is absconding since the news came into media. However, there was no mention about the fraud in the Auditor's Report as well as no comment in the Board's Report. The auditor, who was also present in the General Meeting of the shareholders informed that fraud was detected during the course of audit but no further action was taken by him (auditor).

[MTP-April 22]

1	<p>Going by the facts of the case, by what date should the amount be deposited in a separate account maintained with the scheduled bank for dividend purposes?</p> <p>(a) By 30th August, 2021 (b) By 1st September, 2021 (c) By 7th September, 2021 (d) By 24th September, 2021</p>
2	<p>By what date should the dividend declared in the meeting, be paid to the members of the company?</p> <p>(a) By 30th August, 2021 (b) By 1st September, 2021 (c) By 7th September, 2021 (d) By 24th September, 2021</p>
3	<p>With regard to preservation of the books of Madhu Oils and Fats Ltd, the books of account for the Financial Year (FY) 2020-21 needs to be kept in good order until at least which of the following years?</p> <p>(a) FY 2025-26 (b) FY 2026-27 (c) FY 2027-28 (d) FY 2028-29</p>
4	<p>The auditor had noticed the fraud that was committed by the senior management. Which is the correct statement in this respect:</p> <p>(a) The auditor shall report the matter to the Central Government immediately. (b) It is not necessary to disclose the details of fraud in the Board's Report (c) The auditor shall report the matter to the audit committee constituted under section 177 or to the Board. (d) Since the Senior Management Personnel is absconding, the auditor is not required to take any action.</p>

Answers							
1	(a)	2	(d)	3	(d)	4	(c)

Integrated Case Study - 24	
<p>Ramji Lal is in the business of selling wheat, rice, pulses and other food grain items under the banner of Ramji Lal & Sons. Bhim Singh was working as an employee with Ramji Lal, since past 10 years and have earned good image and trust. In the absence of Ramji Lal, Bhim Singh takes care of the business of Ramji Lal as a prudent person.</p> <p>Ramji Lal executed a Power of Attorney in favour of Bhim Singh for doing the banking transactions i.e., to withdraw money, issue of cheque for making payment to creditors etc.</p> <p>One day, Bhim Singh went to bank for withdrawal of ₹ 50,000 to make payments for utility bills and for some petty expenses. When Bhim Singh was counting cash after taking it from the cash window, some unscrupulous persons just standing behind him, snatched the cash from his hands and disappeared quickly. Bhim Singh immediately informed the manager of the Bank, lodged FIR with nearby Police Station and also informed Ramji Lal. Police visited the bank premises and asked for the CCTV footage. However, the incident was not recorded since the CCTV were found damaged. Ramji Lal was annoyed with this news and asked Bhim Singh that he should be very careful while dealing the banking transactions, and advised to take care in future.</p> <p>Due to demand of the food grains in the nearby city, Ramji Lal opened a branch in that city and Bhim Singh was asked to take care of the business at the branch under the banner of Ramji Lal & Sons and shall not act beyond his delegated authority, nor he shall employ any staff or agent, without having the express authority of him (Ramji Lal). Bhim Singh started doing the business activity under the banner of Ramji Lal & Sons. He also appointed Chatur Singh, as manager there to look after this business, but this fact was not made known to Ramji Lal. Chatur Singh was a very cunning person. Since 'Ramji Lal & Sons' has established a good reputation in the market, so Chatur Singh started taking advantages of brand image. He raised money from several sources, in the name of 'Ramji Lal & Sons' and one day, ran away, without informing anyone and is absconding from that day.</p> <p>The fraud came to the light when creditors started demanding money from Ramji Lal on the pretext that the branch was running the business in the name and style of Ramji Lal & Sons'. [MTP-April 22]</p>	
1	<p>When Bhim Singh was returning to shop after withdrawing money from the bank, theft had occurred. Who is to bear such loss?</p> <p>(a) Ramji Lal will bear the loss of money due to theft.</p> <p>(b) Bhim Singh will bear the loss of money due to theft.</p> <p>(c) Bank will be liable since the dacoity occurred in the bank's premises.</p> <p>(d) The person in charge of the CCTV in the bank is responsible.</p>
2	<p>Bhim Singh while doing business in the banner of 'Ramji Lal & Sons', appointed another person Chatur Singh as manager of the business without informing his principal, Ramji Lal. Whether Bhim Singh have the authority to do so?</p> <p>(a) It is usual to appoint staff to take care of the business. Looking to the volume of business, Bhim Singh has appointed Chatur Singh to manage the business.</p> <p>(b) Bhim Singh has done beyond the express authority of his principal (Ramji Lal) in employing Chatur Singh as Manager of that branch.</p> <p>(c) It is an implied authority to appoint sub-agent since the big business transactions cannot be handled by a single person.</p> <p>(d) Chatur Singh should have directly inform to Ramji Lal that he has been appointed as sub-agent.</p>

Answers							
1	(a)	2	(b)				

Integrated Case Study - 25

Perfect Tyres and Rubbers Ltd. is a listed entity engaged in the business of manufacturing of tyres and tubes for Light and Heavy Commercial Vehicles. During the financial year 2019-20, the company has declared interim dividend of 5% on the equity shares in its Board meeting held on 17th October, 2019, out of the profits earned during the first quarter of FY 2019-20. Further, the Board of Directors of the company after reviewing results of the fourth quarter of FY 2019-20 again recommended for second Interim Dividend @ 5% on 25th April, 2020.

The Board of Directors of the company approved the financial result for the FY 2019-20 in its meeting held on 5th August, 2020, and recommended a final dividend of 15% (including the interim dividends paid earlier) in this board meeting. The general meeting of the shareholders was convened on 31st August, 2020. The shareholders of the company demanded that since interim dividend @10% (5% + 5%) was declared by the company, so the final dividend should not be less than 20% (including the interim dividends). When the Company Secretary emphasised that final dividend cannot exceed, what the Board of Directors have recommended in their board meeting, some of the shareholders boycotted the meeting and moved out of the meeting hall, in protest of the company's decision. However, the agenda for declaration of the dividend was passed unanimously by rest of the shareholders present in the meeting hall, fulfilling the criteria of requirement of quorum, as per the provisions of the Companies Act, 2013.

After approval of the shareholders, the dividend amount was paid to the shareholders, however dividend to some of the shareholders could not be paid within the prescribed period for variety of reasons. The company transferred the unpaid dividend amount to a separate bank account on 15th October, 2020.

The details of the unpaid dividend amount for the previous year's lying in the unpaid dividend account is as under:

S. No.	Dividend pertaining to the FY	Date of declaration of Dividend	Date when the amount was transferred to Unpaid dividend Account	Amount lying in the Unpaid Dividend Account (₹ in lakhs)
1	2019-20	31.08.2020	15.10.2020	92.50
2	2018-19	25.08.2019	28.09.2019	85.14
3	2017-18	20.08.2018	22.09.2018	80.00
4	2016-17	5.09.2017	7.10.2017	75.25
5	2015-16	1.09.2016	4.10.2016	45.15
6	2014-15	7.09.2015	9.10.2015	35.26
7	2013-14	5.05.2014	8.06.2014	15.10
8.	2012-13	6.06.2013	8.07.2013	07.25

Sustram, one of the investors who is holding 1000 shares in physical form, by visiting website of the company, came to know that company had declared the dividends in some previous years, but have not been paid to him. This happened due to the fact the company was not having his current address and bank account details. Sustram approached the company, along with all the supporting evidence to his claim and demanded the dividend amount.

The company after being satisfied, paid all the dividend amount pertaining to the FY 2013-14 to FY 2019-20. However, for FY 2012-13, the company informed that since the amount of dividend has been transferred to Investor Education and Protection Fund, it cannot be taken back now. Aggrieved from this, Sustram threatened the company officials to take appropriate legal action.

Based on the above facts, answer the following MCQs:

[RTP-May 22]

1	<p>When the shareholders demanded for increase in the rate of dividend, but since the shareholders cannot increase the rate of dividend what the Board of Directors have recommended, some of them walked out of the meeting hall. What shall be the consequences of it:</p> <p>(a) If, even after boycott, quorum is present, all the time during the course of general meeting and they have approved with majority, the rate recommended by the Board shall be treated as approved.</p> <p>(b) Members present at the beginning of the meeting shall remain present all the time during the general meeting, to approve any agenda, else it will be treated as nullified.</p> <p>(c) The approval of the dividend is an ordinary business resolution of the company, so if some of the members have boycotted the meeting, it will have no effect, even if the quorum is not present.</p> <p>(d) The recommendation of the Board of Directors of the company relating to the rate of dividend shall stands withdrawn.</p>
2	<p>At which date, the unpaid dividend not claimed by the shareholders, shall be transferred to a separate bank account, in the above case:</p> <p>(a) On 5th August, 2020 (the date of Meeting of Board)</p> <p>(b) On 31st August, 2020 (the date of Meeting of Shareholders)</p> <p>(c) On 30th September, 2020 (the date, after 30 days from the meeting of shareholders)</p> <p>(d) Latest by 7th October, 2020 (within seven days from the date of expiry of 30 days)</p>
3	<p>The company transferred the amount of unpaid dividend to a separate bank account on 15th October, 2020. What is the interest liability on the part of the company?</p> <p>(a) No liability.</p> <p>(b) Interest @ 10% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.</p> <p>(c) Interest @ 12% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.</p> <p>(d) Interest @ 15% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.</p>
4	<p>In the given case, when and how much amount, the company shall transfer the funds to the Investor Education and Protection Fund:</p> <p>(a) Four years after 1.09.2016; ₹ 45.15 lakh</p> <p>(b) Five years after 7.09.2015; ₹ 35.26 lakh</p> <p>(c) Six years after 5.05.2014; ₹ 15.10 lakh</p> <p>(d) Seven years after 8.07.2013: ₹ 07.25 lakh</p>

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Answers							
1	(a)	2	(d)	3	(c)	4	(d)