

## National Test Series 2

### Test Paper 3

#### Test Instruction:

1. Please write your solution in new sheets of paper. It is advisable to create a separate notebook for writing test.
2. You have to give the test between 2 PM to 5 PM .
3. Suppose, if you are not able to complete the test (or any part of the test) in prescribed time, then please draw line in the sheet whenever the prescribed time is getting over and clearly mention "Time Over". But keep writing the remaining part we will check that. We want to check your accuracy.
4. Include all rough work in your answer sheet only. Don't use separate pages for rough work.
5. Start different part of the test paper in new pages. Properly mention **page number** on your every answer sheet.
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## **Subject:- Corporate Laws & Other Laws**

**Marks:** 100 Marks

**Duration:** 3 Hrs.

### **Part I**

**Multiple choice Questions.**

**(30 Marks)**

**Case Study Based MCQs**

#### **Case Study 1**

Mr. B R Mohanty, around two-decade back; along with two of his elder brothers and few friends, who are pharma and chemical engineers by profession promoted two companies; first being Well-Mount Limited (WML) dealing in wellness products and pharmaceuticals; whereas other is Tex-Mount Limited (TML) dealing in textile products. During these two decades, both WML and TML has grown magnificently as both the sectors expanded beyond imagination. Both companies went public and stock of same listed on leading stock exchanges of countries.

TML did well in the past and emerged as a major export unit but in recent years the textile sector witness stiff competition due to new entrants. The increased cost of the workforce and other input materials is also made sector unprofitable and recent lockdown hit the sector further adversely. TML's bottom line for the current financial year is red. TML was declaring dividends since the very first year of operation and willing to continue the tradition considering dividend as signaling effect to an investor for valuation purpose. Rate of dividend for the recent five years was 9%, 10%, 8%, 5% and 2% (9% being five years ago and 2% being the previous year) respectively. The management at TML decided to declare dividends out of the profit of previous years. TML deals in export hence came under the scanner of enforcement authority, who seek financial statements and books of accounts of TML for scrutiny for the last 10 preceding financial years. In response to notice, TML furnish financial statements and books of accounts for last 8 immediately preceding financial years only, stating as per its Article of Association; TML is required to maintain and keep the books of accounts for 8 immediately preceding financial years only and that too without any record of vouchers pertaining to such accounts.

WML is doing well, it seizes outbreak of COVID-19 as a business opportunity and registers significant growth in both top and bottom line. For the past many years, WML declare a dividend at a constant rate of 20%. During the financial year 2019-20, WML earns a profit of 580 Crores. Board of directors of WML declares 25% dividend without transferring any % to reserve on 15th June, 2020. On 14th July, 2020 some of the amount remaining unpaid, due to operation of law; has been transferred to unpaid dividend account on 20th July, 2020. CA. Dev was appointed as auditor under section 139 of Companies Act, 2013 of WML in individual capacity during 17th AGM for against the financial year 2018-19.

**(5 x 1 Mark = 5 Marks)**

1. In case of TML, which of the following statements are correct regarding the declaration of dividend?
  - a) TML can't declare the dividend because it earns a loss in the current financial year.
  - b) TML can declare the dividend but only up to 9%
  - c) TML can declare the dividend but only up to 5%
  - d) TML can declare the dividend but only up to 6.8%
  
2. CA. Dev, who is the auditor of WML have to vacate the office of the auditor in and can be reappointed again only in
  - a) 22<sup>nd</sup> AGM and 27<sup>th</sup> AGM

- b) 27<sup>th</sup> AGM and 32<sup>nd</sup> AGM
  - c) 22<sup>nd</sup> AGM and 23<sup>rd</sup> AGM
  - d) 22<sup>nd</sup> AGM and can't be re-appointed again.
3. In case of WML, which of the following statements is correct regarding the declaration of dividend?
- a) WML can't declare the dividend at a rate more than 20%
  - b) WML can declare the dividend out current year's profit but it needs to transfer sum equal to 20% to reserve first.
  - c) WML can declare the dividend out current year's profit but it needs to transfer sum equal to 10% of paid-up share capital to reserve first.
  - d) WML can declare the dividend out of current years' profit without transferring any % to reserve
4. In case of TML, regarding maintenance and keeping the books of account; which of the following statements hold truth?
- a) TML needs to maintain and keep the books of account for 10 preceding financial years, hence TML violate the law.
  - b) TML doesn't violate the provision of law because it keeps the books of account for 8 immediate preceding financial years.
  - c) TML violate the provision of law because it keeps the books of account for 8 immediately preceding financial years without keeping relevant vouchers in the record pertaining to such books of account.
  - d) TML doesn't violate the provision of law because it is complying to its Article of Association.
5. Regarding declaration and distribution of dividend by WML, which of the following statements is correct from the view of the timeline?
- a) WML violates the law, because some of the dividend remain unpaid; irrespective of reason for non-payment
  - b) WML violates the law, because unpaid dividend need to transfer to unpaid dividend account by 19<sup>th</sup> July 2020
  - c) WML doesn't violate the law, because an unpaid dividend transferred to unpaid dividend account prior to 21<sup>st</sup> July 2020.
  - d) WML doesn't violate the law, because an unpaid dividend can be transferred to unpaid dividend account at any time within 90 days from the date of declaration

## Case Study 2

Vishal Crockery Limited was incorporated on 24<sup>th</sup> September, 2010 under the jurisdiction of Registrar of Companies, Rajasthan with its registered office located in Jaipur and its manufacturing units spread out in Mumbai, Kanpur, Delhi and Ludhiana. Under the dynamic leadership of Hans Rajpal, the Chairman and Managing Director (CMD) of the company, it could easily be ascertained that the company had reached the new heights of success. The directors of the company numbered eight including CMD of which two were the independent directors.

The turnover of the company for the Financial Year 2018-2019 was Rs.750.00 crores – a whopping rise of more than 20% from the previous year and net profit stood at a prestigious figure of Rs.6.60 crores – also increased by Rs.1.80 crores as compared to the net profit of previous year. The company had a net worth of Rs.250.00 crores; and it was noticed that the net worth had also registered a northern trend by more than 15%. The authorised and paid-up share capital of the company was Rs.8.00 crores. Keeping in view the applicability of forming a CSR Committee for the current financial year 2019-20, a CSR Committee was formed with four directors as members of which one was the independent member. The Committee was, among others, given the responsibility to formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII.

The company plans to diversify its business by adding another segment to manufacture steel utensils and therefore, is desirous to shift its registered office to Mumbai from the present one at Jaipur which will help the company in easing out the new business. Another strategically important segment which the company tapped earlier and now wishes to engage itself on a large scale relates to manufacturing of stationery items.

The company hopes that with the shifting of registered office to Mumbai, it shall be able to target international markets to export its quality products. As on date, the export turnover of the company is not that much significant. The directors, Janardan Mittal (Finance) and Ratish Jain (Marketing), however, have in-depth knowledge of export markets, particularly those existing in UK and Singapore, where they can place their products successfully and achieve laurels for the company in terms of wealth maximisation.

During the current Financial Year 2019-20, the company under the CSR activities provided ample support for improvement of infrastructure in schools established at Mumbai, Kanpur, Delhi and Ludhiana. Not only this, the company contributed towards establishment of Digital Smart Classroom, Libraries and computer labs in these cities. The company also deployed mobile medical units equipped with medical facilities and qualified doctors. In addition to this, a large number of public health and sanitation activities had been initiated under Swachh Bharat Abhiyan. The total amount spent on these activities was, till date, almost equal to the minimum spendable amount and it is hoped that as the current Financial Year 2019-20 approaches its end, the total spending on CSR activities will certainly exceed the budgeted figure.

**(3 x 2 Marks = 6 Marks)**

1. Which of the following criterion prompted Vishal Crockery Limited to mandatorily form a Corporate Social Responsibility (CSR) Committee for the current financial year?
  - a) The net profit had increased to Rs.6.60 crores and it was more by Rs.1.80 crores in comparison to previous year's net profit
  - b) The turnover was Rs.750.00 crores which was increased by more than 20% as compared to the previous year.
  - c) The net worth was Rs.250.00 crores which when compared to the previous year had registered an increase by more than 15%.
  - d) The paid-up share capital was Rs.8.00 crores.
  
2. What is the minimum amount (in percentage form) that Vishal Crockery Limited is required to spend during the Financial Year 2019-20 on the CSR activities after it formed a Corporate Social Responsibility Committee.
  - a) Minimum 2% of the average net profits made during the two immediately preceding financial years.
  - b) Minimum 2% of the average net profits made during the three immediately preceding financial years.
  - c) Minimum 2.5% of the average net profits made during the two immediately preceding financial years
  - d) Minimum 2.5% of the average net profits made during the three immediately preceding financial years.
  
3. In the given case scenario, Vishal Crockery Limited decided to undertake CSR activities at its own. In case, it had decided to engage an external Section 8 company for undertaking its CSR activities and such charitable company is not established by Vishal nor it is established by the Central/State Government or by any entity established under an Act of Parliament or a State Legislature, then what should be the established track which this Section 8 company should have in undertaking similar programs or projects which Vishal Crockery Limited wants it to accomplish?
  - a) Track record of minimum one year
  - b) Track record of minimum two years
  - c) Track record of minimum three years
  - d) None of the above

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### Case Study 3

Vivek Shah is the Chief Finance Officer (CFO) and Sachin Bhatt is the Company Secretary of Jitendra Iron Works Private Ltd (JIWPL), in Manipal, Karnataka. JIWPL is an integrated set up of foundries and machine shops that add value by machining more than 75% of the castings manufactured to fully finished condition. JIWPL is one of the largest jobbing foundries producing grey iron castings required for automobile, farm equipment sector and diesel engines industry. JIWPL serves customers globally. The turnover of JIWPL is about Rs.600 Crores, including export turnover of about Rs.250 Crores.

During the year 2019, JIWPL planned expansion to enhance its production capacity to meet the increasing demand from its customers, by importing fully automatic plant and equipment from Germany for the unit at Manipal. The means of finance of the expansion project:-

- (a) JIWPL received an amount of Rs.25 Crores from Malini Shetty, wife of one of the promoter director of JIWPL, Mahesh Shetty. Mahesh Shetty wanted to know from Sachin Bhatt any compliance needed from the perspective of acceptance of Deposits.
- (b) The Board and the CFO also approached the main banker of the company viz., Bank of Baroda. The Bank after proper credit analysis, sanctioned an amount of Rs.50 Crores for meeting the working capital needs of the expansion project, which included interchangeable limits of cash credit, foreign and inland bills for negotiation and acceptance. The security cover was floating charge on the book debts, inventory and other current assets of the expansion project in Manipal of JIWPL.

The CFO and the CS together coordinated with the legal department of the Bank on procedures relating to creation of security and registration of charges.

The registered office of JIWPL is located in Manipal. Out of the company's 180 members, 20 members, who are entered in the Register of Members reside in Mangaluru, a nearby city, requested the company for some reasons to maintain the Register of Members in the company's liaison office in Mangaluru, instead of Manipal henceforth.

**(3 x 2 Marks = 6 Marks)**

1. JIWPL received an amount of Rs.25 Crores from Malini Shetty, wife of one of the promoter directors Mahesh Shetty of JIWPL. Mahesh Shetty wanted to know from Sachin Bhatt any compliance needed from the perspective of acceptance of deposits. The CS has to ensure :-
  - a) That the particulars of amount received are immediately entered in the register of deposits maintained in such manner and in such format as prescribed;
  - b) To issue immediately a circular to the members of the company with a statement of deposits accepted as on date with the names of each depositor, amount(s) received as on date, the due date(s) and the liability(ies) on the due date(s) in respect of each depositor

- c) That a declaration is to be obtained to the effect that the amount given is not sourced from borrowed funds or accepting loans or deposits from others and disclose the details in the Board's Report;
  - d) To file the particulars of deposits received within 30 days from the date of its receipt with the Registrar.
2. JIWPL was also sanctioned an additional amount of Rs.50 Crores for meeting the working capital needs of the expansion project., which included interchangeable limits of cash credit, foreign and Inland bills for negotiation and acceptance. The security cover was floating charge on the book debts, Inventory and other current assets of the expansion project of JIWPL. A floating Charge, in general is created by way of :
- a) Passing a board resolution
  - b) Signing and acknowledging the Credit Sanction letter
  - c) Mortgage
  - d) Hypothecation or lien.
3. The registered office of JIWPL is located in Manipal. Out of the company's 180 Members, 20 members, who are entered in the register of members (ROM) reside in Mangaluru, a nearby city. These members requested the company for some reasons to maintain the Register of members (ROM) in the company's liaison office in Mangaluru, instead of Manipal henceforth.
- a) The ROM shall be maintained only at the registered office in Manipal and maintaining in a place other than the registered office is not permitted under the Companies Act 2013 and the relevant Rules there under.
  - b) By passing a Special Resolution in a General Meeting, the ROM can be maintained in Mangaluru.
  - c) The Board of Directors by passing a Board Resolution in one of its meetings, may direct the Company Secretary to maintain the ROM in Mangaluru.
  - d) If more than 1/3rd of the members, whose names are entered in the ROM request for the change, then only the ROM can be maintained at Mangaluru after passing a Special Resolution in a General Meeting.

**MCQs other than Case Studies:**

1. As per the Negotiable Instruments Act, 1881, when the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the..... .
- a) said public holiday
  - b) 5 days succeeding public holiday
  - c) next succeeding business day
  - d) next preceding business day
- (1 Mark)**
2. Rule of Beneficial construction is also known as—
- a) Purposive construction
  - b) Mischieve Rule
  - c) Heydons's Rule
  - d) All of the Above
- (1 Mark)**
3. Formal legal document which creates or confirms a right or record a fact is a—
- a) Document
  - b) Deed
  - c) Statute
  - d) Instrument
- (1 Mark)**

4. The preamble is most important in any legislation, it:
- Provides definitions in the Act.
  - Expresses scope, object and purpose of the Act
  - Provides summary of the entire Act
  - None of the above

**(1 Mark)**

5. Atul contracts to indemnify Neha against the consequences of any proceedings which Chirag may take against Neha in respect of a sum of Rs.15,000/- advanced by Chirag to Neha. Now, Neha who is called upon to pay the sum of money to Chirag but she fails to do so. Now, as per the provisions of the Indian Contract Act, 1872, advise the future course of action to be taken by Chirag.
- Chirag can recover the amount only from Neha
  - Chirag can recover the full amount from Atul
  - Chirag cannot recover the amount from Atul
  - Chirag can recover at least 10% of the total amount from Neha

**(2 Marks)**

6. Mr. Vishal parks his car at a parking lot, locks it, and keeps the keys with himself. Which of the following statement is correct in this regard?
- This is a case of bailment
  - The parking people has possession of the car of Mr. Vishal
  - The parking people has custody of car of Mr. Vishal
  - This is the case of mortgage

**(1 Mark)**

7. M drew a cheque amounting to Rs.2 lakh payable to N and subsequently delivered to him. After receipt of cheque N endorsed the same to C but kept it in his safe locker. After sometime, N died, and P found the cheque in N's safe locker. State the nature of the Instrument as amounting to endorsement under the Negotiable Instrument Act,1881.
- Yes its an endorsement, as P becomes the holder of the cheque that he found in the N's safe locker.
  - No, its not an endorsement, as P does not become the holder of the cheque
  - Yes, its an endorsement, as P was a ultimate custodian of the cheque
  - No, its not an endorsement, as N endorsed it to C and not to the P.

**(2 Marks)**

8. A is residing in Delhi and has a house in Mumbai. A appoints B by a power of attorney to take care of his house. State the nature of agency created between A and B:
- Implied agency
  - Agency by ratification
  - Agency by necessity
  - Express agency

**(1 Mark)**

9. One Person Company shall file a copy of the duly adopted financial statements to the Registrar in:
- 30 days of the date of meeting in which it was adopted
  - 90 days of the date of meeting in which it was adopted
  - 90 days from the closure of the financial statement
  - 180 days from the closure of the financial statement

**(1 Mark)**

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**10.** A guarantee which extend to a series of transactions is called

- a) Special Guarantee
- b) Continuing Guarantee
- c) Specific Guarantee
- d) None of the above

**(1 Mark)**

**11.** An aid that expresses the scope, object and purpose of the Act—

- a) Title of the Act
- b) Heading of the Chapter
- c) Preamble
- d) Definitional sections

**(1 Mark)**

## **Part II**

**Question 1 is compulsory.**

**Answer any three out of remaining four questions.**

### **Question 1.**

**(A)** Aptech Technology Limited (listed on Stock Exchange) was incorporated on 1<sup>st</sup> October, 2019 with a paid-up share capital of Rs.200 crores. Within this small time of 4 months, it has earned huge profits and has topped the charts for its high employee friendly environment. The company wants to issue sweat equity to its employees. A friend of the CEO of the company has told him that they cannot issue sweat equity shares as 2 years have not elapsed since the time company has commenced its business. The CEO of the company has approached you to advise them about the essential conditions to be fulfilled before the issue of sweat equity shares especially since their company is just a few months old?

**(6 Marks)**

**(B)** Vijay, a member of Mayur Electricals Ltd. gave in writing to the company that the notice for any general meeting be sent to him only by registered post at his residential address at Kanpur for which he deposited sufficient money. The company sent notice to him by ordinary mail under certificate of posting. Vijay did not receive this notice and could not attend the meeting and contended that the notice was improper.

Decide:

- (i) Whether the contention of Vijay is valid.
- (ii) Will your answer be the same if Vijay remains in London for two months during the notice of the meeting and the meeting held?

**(6 Marks)**

**(C)** Explaining the provisions of the Indian Contract Act, 1872, answer the following:

- (i) A contracts with B for a fixed price to construct a house for B within a stipulated time. B would supply the necessary material to be used in the construction. C guarantees A's performance of the contract. B does not supply the material as per the agreement. Is C discharged from his liability?
- (ii) C, the holder of an overdue bill of exchange drawn by A as surety for B, and accepted by B, contracts with X to give time to B. Is A discharged from his liability?

**(4 Marks)**

**(D)** Sandeep guarantees for Gaurav, a retail textile merchant, for an amount of ₹ 1,00,000, for which Sharma, the supplier may from time to time supply goods on credit basis to Gaurav during the next 3 months.

After 1 month, Sandeep revokes the guarantee, when Sharma had supplied goods on credit for ₹ 40,000. Referring to the provisions of the Indian Contract Act, 1872, decide whether Sandeep is discharged from all the liabilities to Sharma for any subsequent credit supply. What would be your answer in case Gaurav makes default in paying back Sharma for the goods already supplied on credit i.e. ₹ 40,000?

**(3 Marks)**

## **Question 2.**

**(A)** Shekhar Limited appointed an individual firm, Suresh & Company, Chartered Accountants, as Auditors of the company at the Annual General Meeting held on 30<sup>th</sup> September, 2019. Mrs. Kamala, wife of Mr. Suresh, invested in the equity shares having face value of ₹ 1 lakh of Shekhar Limited on 15<sup>th</sup> October, 2019. But Suresh & Company continues to function as statutory auditors of the company. Advice.

**(5 Marks)**

**(B)** The Board of Directors of Vishwakarma Electronics Limited consists of Mr. Ghanshyam (Director), Mr. Hyder (Director) and Mr. Indersen (Managing Director). The company has also employed a full time Secretary.

The Profit and Loss Account and Balance Sheet of the company were signed by Mr. Ghanshyam and Mr. Hyder. Examine whether the authentication of financial statements of the company was in accordance with the provisions of the Companies Act, 2013?

**(5 Marks)**

**(C)** Mrs. A delivered her old silver jewellery to Mr. Y a Goldsmith, for the purpose of making new a silver bowl out of it. Every evening she used to receive the unfinished good (silver bowl) to put it into box kept at Mr. Y's Shop. She kept the key of that box with herself. One night, the silver bowl was stolen from that box.

Whether the possession of the goods (actual or constructive) delivered, constitute contract of bailment or not?

**(4 Marks)**

**(D)** Explain the function of 'proviso' as an internal aid to construction.

**(3 Marks)**

### **Question 3.**

**(A)** The Board of Directors of Ramesh Ltd. proposes to issue the prospectus inviting offers from the public for subscribing the shares of the Company. State the reports which shall be included in the prospectus for the purposes of providing financial information under the provisions of the Companies Act, 2013.

**(5 Marks)**

**(B)** K Limited, a subsidiary of Old Limited, decides to give a loan of ₹ 4,00,000 to the Human Resource Manager, who is not a Key Managerial Personnel of K Limited, drawing salary of ₹ 30,000 per month, to buy 500 partly paid-up equity Shares of ₹ 1000 each in K Limited. Examine the validity of company's decision under the provisions of the Companies Act, 2013

**(5 Marks)**

**(C)** Mr. V draws a cheque of Rs. 11,000 and gives to Mr. B by way of gift. State with reason whether-

- (i) Mr. B is a holder in due course as per the Negotiable Instrument Act, 1881?
- (ii) Mr. B is entitled to receive the amount of Rs. 11,000 from the bank?

**(4 Marks)**

**(D)** 'The meaning of a word is to be judged by the company it keeps'. Explain the concept of 'Noscitur A Sociis'.

**(3 Marks)**

### **Question 4.**

**(A)** Mr. A was having 500 equity shares of Open Sky Aircrafts Limited. Mr. B acquired these shares of the company from Mr. A but the signature of Mr. A, the transferor on the transfer deed was forged. The company registered the shares in the name of Mr. B by issuing share certificate. Mr. B sold 100 equity shares to Mr. C on the basis of share certificate issued by Open Sky Aircrafts Ltd. Mr. B and Mr. C are not having the knowledge of forgery. State the rights of Mr. A, Mr. B and Mr. C under the Companies Act, 2013.

**(5 Marks)**

**(B)** Chetan Ltd. issued a notice for holding its Annual general meeting on 7<sup>th</sup> November 2019. The notice was posted to the members on 16<sup>th</sup> October 2019. Some members of the company allege that the company had not complied with the provisions of the Companies Act, 2013 with regard to the period of notice and as such the meeting was valid. Referring to the provisions of the Act, decide:

- (i) Whether the meeting has been validly called?
- (ii) If there is a shortfall, state and explain by how many days does the notice fall short of the statutory requirement?

(i) Can the delay in giving notice be condoned?

**(5 Marks)**

**(C)** Raj gives his umbrella to Manoj during raining season to be used for two days during Examinations. Manoj keeps the umbrella for a week. While going to Raj's house to return the umbrella, Manoj accidentally slips and the umbrella is badly damaged. Taking into account the provisions of the Indian Contract Act, 1872, who will bear the loss and why?

**(4 Marks)**

**(D)** What is the meaning of service by post as per provisions of the General Clauses Act, 1897?

**(3 Marks)**

**Question 5.**

**(A)** Examine the validity of the following decision of the Board of Directors with reference of the provisions of the Companies Act, 2013:

In an Annual General Meeting of a company having share capital, 80 members present in person or by proxy holding more than 1/10<sup>th</sup> of the total voting power, demanded for poll. The chairman of the meeting rejected the request on the ground that only the members present in person can demand for poll.

**(5 Marks)**

**(B)** Green Ltd. was dealing in export of rubber to specified foreign countries. The company was willing to purchase rubber trees in A.P. State. The prospectus issued by the company contained some important extracts of the expert report and number of trees in A.P. State. The report was found untrue. Mr. Andrew purchased the shares of Green Ltd. on the basis of the expert's report published in the prospectus. However, he did not suffer any loss due to purchase of such shares. Will Mr. Andrew have any remedy against the company? State also the circumstances where an expert is not liable under the Companies Act, 2013.

**(5 Marks)**

**(C)** 'Preamble does not over-ride the plain provision of the Act.' Comment. Also give suitable example.

**(4 Marks)**

**(D)** Manoj owes money to Umesh. Therefore, he makes a promissory note for the amount in favour of Umesh, for safety of transmission he cuts the note in half and posts one half to Umesh. He then changes his mind and calls upon Umesh to return the half of the note which he had sent. Umesh requires Manoj to send the other half of the promissory note. Decide how rights of the parties are to be adjusted in reference to the Negotiable Instruments Act, 1881.

**(3 Marks)**

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