



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

No of Pages : 03
No of Questions : 05
Total Marks : 70

ACC 3111- CORPORATE LAW

Date : 01. 01. 2016

Time : 01.30 pm. – 04.30 p.m.

BACHELOR OF BUSINESS ADMINISTRATION DEGREE- 3000 LEVEL

03 hours

1st SEMESTER END EXAMINATION – DECEMBER 2015/ JANUARY 2016

Answer all questions.

Candidates will be penalized for illegible handwriting.

- (1) (a) With reference to decided cases, explain what is meant by the 'separate legal personality' of a company and also illustrate when the courts will lift the veil of incorporation.

(10 marks)

- (b) Trendy Co. Ltd. has four shareholders, A, B, C and D. Each of them owns 25 percent of the company's share capital. The company has discovered that D has been operating a business which competes with the Trendy Co. Ltd. Therefore, the company altered its articles to authorize the directors to require any shareholder who carried on competing business with the company to sell his shares at a fair price to persons nominated by the directors.

D wants to challenge the alteration. Advise D of any rights which he might have.

(04 marks)

(Total marks 14)

- (2) (a) "Directors owe no statutory duties whatsoever under the Companies Act, No.7 of 2007".

Comment.

(06 marks)

- (b) Iranga is a member of the board of directors of ABC Co. Ltd., a furniture manufacturing company. He also a shareholder of XYZ Co. Ltd., a leading company deals with timber export and import. Iranga hold a significant number of shares of XYZ Co. Ltd. In August 2015, ABC Co.Ltd. entered into a contract to buy a load of timber from XYZ Co.Ltd. Iranga attended the board meeting which

resolve to purchase timber from XYZ Co. Ltd. and voted in favour of it. However, during or after that board meeting Iranga did not disclose his link with XYZ Co. Ltd.

Three months later, Iranga's connection with XYZ Co. Ltd. comes to light. It now appears that the price of timber was not the best price that ABC Co. Ltd. could get and XYZ Co. Ltd. made a considerable profit on the contract. Further, it is discovered that the timber is of an inferior quality.

ABC Co.Ltd. seeks your advice. Advise.

How far, if at all, would your answer differ if the price of timber was the best price and that timber was in good quality?

(08 marks)

(Total marks 14)

- (3) (a) Explain the difference between compulsory winding up and voluntary winding up.

(06 marks)

- (b) Being good friends since the university education, Piumal and Safna decided to incorporate a company named PIUSAF Co. Ltd. Both became the shareholders with equal shares and also acted as directors of the company. Although the company ran very well while earning huge profit, very often Piumal and Safna quarrel about Piumal's previous affairs that he had during his university life. As a result, they stopped talking and only they communicated with each other through notes passed via the company Secretary.

Now, Safna seeks your advice. Advise her.

(04 marks)

- (c) Suppose, Piumal and Safna had maintained a good relationship but the PIUSAF Co. Ltd. failed to honour a demand made by Chamodi for Rs. 65, 000/= as a price for the goods supplied.

Advise Chamodi.

(04 marks)

(Total marks 14)

- (4) You have recently been appointed as an advisor to a large company. The board of directors has sought your assistance to clarify some statements. You are required to assist the board of directors to clarify the legal position of the following statements?

Your clarifications should be supported with relevant statutory provisions and decided cases, if any.

- (a) There are no differences whatsoever between debentures and shares.
(04 marks)
 - (b) The Companies Act, No. 7 of 2007 has failed not only to recognize shareholders' rights but also to provide any remedy to minor shareholders in order to redress an abuse of power by the directors.
(06 marks)
 - (c) A company can enter into any contract without any limits.
(04 marks)
- (Total marks 14)

(5) Write comprehensive notes on **any 4 (four)** of the following.

- (a) Contracts intended to be made on behalf of a company before it has been incorporated.
- (b) Corporate social responsibility.
- (c) Security which a company can offer third parties in order to secure its borrowings.
- (d) The legal requirements to be considered by the board of directors of a company when issuing new shares.
- (e) Distribution.
- (f) The role of company secretary and auditor of the company.

(3.5 marks each)
(Total marks 14)

****ALL RIGHTS RESERVED ****