

# UNIVERSITY OF COLOMBO, SRI LANKA

## FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II – Semester V) Examination 2010

### ACT 2205 – Corporate Law

Two (02) Hours

Answer All Questions

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#### Question 1

The summarised draft balance sheet of a company as on 31 March 2009 was as follows:

Fixed assets at cost less depreciation	Rs.000
Land and buildings	1,500
Machinery	60
Fixtures	15
	<u>1,575</u>
Net current assets	925
	<u>2,500</u>
Ordinary share capital	1,600
Profit and loss account	900
	<u>2,500</u>

An independent professional valuation undertaken on 31 March 2009 showed valuations of Rs.1,400,000 and Rs.50,000 for the land and buildings and machinery respectively which the directors decided to incorporate into the company's accounting records. They considered that the value of the fixtures was not less than Rs. 15,000.

Advise the directors of the maximum amount of profit legally available for distribution explaining fully the relevant statutory requirements.

(25 Marks)

#### Question 2

- (a) In the celebrated case of *Saloman v. Saloman & Co. Ltd* [1897] AC 22, Lord Halsbury LC observed.

'Either the limited company was a legal entity or it was not. If it was, the business belonged to it and not to Mr. Saloman. If it was not, there was no

person and no thing to be an agent at all and it is impossible to say at the same time that there is a company and there is not.'

Comment

- (b) Jayasekera was the owner of a large bulk-carrier called Lanka-Peerless. The ship was valued at Rs. 100 million and was insured for that sum with Lloyd's in Jayasekera's name. Subsequently Jayasekera incorporated Jayasekera (private)Ltd in which he held all the shares but one which was held by his wife as his nominee. Lanka-Peerless was then sold to Jayasekera Ltd and the purchase price was secured by a deRosytire issued in favour of Jayasekera giving as a security a fixed charge on the only asset of the company the Lanka-Peerless was attacked by Colombian gun-boats and sunk.

Consider whether Jayasekera or in the alternative Jayasekera Ltd could claim to be indemnified by Lloyd's for the loss of the bulk-carrier.

(15 Marks)

### Question 3

Nanayakkara , who had decided to transfer his existing wholesale food business to a private limited company called Nanayakkara (private) Foods Ltd, delivered the necessary documents to the Registrar of Companies and received the Certificate of Incorporation.(dated 1 April) on 6 April 2009.

On 15 March 2009, Nanayakkara agreed to purchase a quantity of coffee from Jayasekera PLC in a letter which he signed 'For and on behalf of Nanayakkara Foods Ltd, B Nanayakkara , Director'.

At the first meeting of the board of directors of Nanayakkara (private) Foods Ltd the contract with Jayasekera PLC was approved and the company took delivery of the first consignment. The board later found that the Jayasekera brand of coffee was more difficult to sell than had been anticipated and decided to cancel any subsequent consignments.

- (a) Advice Nanayakkara (private) Foods Ltd on their liability to Jayasekera PLC.

AND

- (b) How far, if at all, will your answer to (a) differ if on 10 April 2009 the two companies re-negotiated the contract and agreed on a different contract price ?

AND

- (c) How far, if at all, will your answer to (a) differ if in the letter of 15 March 2009 Nanayakkara expressly excluded his personal liability ?

(15 Marks)



#### **Question 4**

Rosy is a minority shareholder in Ranil PLC, whose directors are Geetha, Sanath and Susanthika. Though not the controlling shareholders the directors control the company in practice.

- (i) Last year one of the company's employees was convicted of stealing property belonging to the company and was given a suspended sentence. A general meeting instructed the directors to bring civil proceedings to recover the value of property stolen but they refused to do so.
- (ii) It has also come to light that the directors have diverted to themselves contracts obtained by the company. Fearing litigation the directors called a general meeting and persuaded the shareholders to approve their actions by passing a simple resolution. The directors cast their votes in favour of the resolution.

Advice Rosy whether she could sue the directors personally or on behalf of the company in respect of the two matters.

**(15 Marks)**

#### **Question 5**

MR is chairman and controlling shareholder of MR PLC. You are company secretary. MR informs you he wishes to buy a seaside cottage for himself and his wife and that, to finance the transaction, he will propose to the next board meeting that the company lend him Rs Six Million for 10 years at 9 per cent per annum on a mortgage of the property. He asks for your comments.

Advice MR and the board.

**(15 Marks)**

#### **Question 6**

SF PLC is a public limited company. Mangala and Somawansa are directors of the company who own 85 per cent of its equity shares between them. In addition, Mangala also owns certain debentures issued by the company. The remaining 15 per cent of the equity shares is owned by Paba. Paba now wishes to dispose of her shares so as to enable her to retire to enter into film industry. Somawansa and Mangala are concerned that the shares and debentures should not fall into the hands of strangers who might disrupt the smooth running of the company.

They consult you to advice how they could exercise to purchase Paba's shares by the Company.

**(15 Marks)**