

LEGAL ASPECTS OF BUSINESS

Digital Assignment – 1

Practical Problems_1

The promoter has prepared MOA and AOA, paid the registration fees and got the company incorporated in the name of Thai Coffee private limited on 1st April 1996. The promoter has also entered into a contract with 'B' on 1st March, 1996 for supply of raw materials when the company came into existence. The company has mentioned in the object clause of memorandum that it was formed for the purpose of manufacturing coffee from dates with a patent granted by the Government of Germany. The company was also to obtain other patents of similar kind. The German patent was not granted to the company and the latter purchased a Swedish patent and the company started making and selling coffee from dates. A shareholder of the company received certain amount as dividend in respect of shares held by him in the company. Under the Income Tax Act, then in force, sixty per cent of the income of a tea company was exempted from income tax as it was deemed to be agricultural income and only forty per cent of its income was taxable as income from manufacture and sale of coffee. The shareholder also claimed that his dividend income should be regarded as agricultural income upto sixty per cent as in the case of the company. The income tax officer refused to grant the exemption and taxed the whole of his income without any exemption.

Practical Problems_2

ABC limited company was formed under the Companies Act, 2013, on 1st May, 2017 to carry on business India and abroad. In the first year of its incorporation, the company carried on business in abroad only and no business was transacted in India during this period. Meanwhile the company issued a prospectus advertising that the company has a great potential with "turnover of a million bags of cement in a year". It is discovered later that the company has the installed capacity of one million bags, it had never produced more than 6 lakh bags of cement in a year. Ram purchased shares in the market relying on the prospectus and filed a suit against the company for damages for misstatements.

Practical Problems_3

A director of a public limited company, whose articles require the holding of share qualification, has held the shares within the prescribed time but did not get the shares registered in his name within 2 months of his appointment.

Practical Problems_4

The objects of the XYZ Company, as stated in the MOA, were 'to make, sell or lend on hire, railways carriage and wagons, and all kinds of railway plants, fitting, machinery and rolling stock'. The XYZ Company entered into a contract for the purchase of a deal for constructing a

new railway line in Australia. The company altered its memorandum of association accordingly. A shareholder of the XYZ Company filed suit for setting aside the contract since it was outside the scope of the objects clause of the company. But the XYZ Company defended the suit under the plea that the general body of shareholders has ratified the action taken by its directors.

Practical Problems_5

The articles of a company contained a clause like this. "The holders of preference shares shall be entitled out of the net profits of each year to a preference dividend at the rate of ten per cent per annum". Due to losses, the company could not pay dividend to its preference shareholders in 1977 and 1978. The preference shareholders compel the directors to pay the dividend of 1977 and 1978 out of huge profits made by the company in 1979.