



The Institute of
Chartered Accountants
of Pakistan

Certificate in Accounting and Finance Stage Examination

7 September 2019
3 hours – 100 marks
Additional reading time – 15 minutes

Business Law

Mercantile Law Section

- Q.1 (a) Briefly describe the composition of Federal Shariat Court. (03)
- (b) What do you understand by 'Persuasive precedent' and 'Declaratory precedent'? (02)
- Q.2 (a) Fauzia is working as a sales girl for a pottery store, owned by Mirza Baig, in a famous mall. Fauzia, in the absence of Mirza Baig, often displays her own pottery items on the shelves and uses her employer's time, resources and facilities to sell her own items.
- Recently, on a surprise visit to the store, Mirza Baig caught Fauzia selling her own items in the store. Upon investigation, it was also revealed that on certain instances Fauzia had sold Mirza Baig's pottery wares at a higher rate than recommended and pocketed the difference.
- Under the provisions of the Contract Act, 1872 identify the nature of contractual relationship between Fauzia and Mirza Baig. Discuss the duties breached by Fauzia and the rights available to Mirza Baig under the above circumstances. (05)
- (b) Under the provisions of the Contract Act, 1872 define pledge. Also describe the conditions in which a pledge made by a non-owner is considered to be a valid pledge. (05)
- Q.3 Respond to the following scenarios, under the provisions of the Contract Act, 1872:
- (a) Shoaib, aged 15, is the son of a billionaire businessman, Ijaz Munsif. Last month Shoaib drove his father's 2018 Model BMW to a vintage car exhibition arranged by Volkswagen Club of Pakistan. At the exhibition he saw a vintage Mercedes-Benz and entered into a contract with the seller for the purchase of the car.
- The seller, knowing Ijaz Munsif's status, delivered the car to Shoaib at his house. The seller requested for payment for the car but Shoaib refused to pay. The seller is now requesting for full payment by Ijaz Munsif. *Discuss whether the seller would succeed in recovering the payment from Shoaib or Ijaz Munsif.* (05)
- (b) Haroon was engaged to be married to Ghazala. Haroon wanted to establish his own business and therefore he entered into a contract with Ghazala for providing him all her jewellery and apartment by way of a gift and in return Haroon agreed to give her a small share in business profit. After some time, Ghazala filed a suit against Haroon, requesting for setting aside the gift deed as it was not made with her free will. *Discuss whether Ghazala would succeed in her contention.* (04)
- (c) Sultan bought electronic appliances worth Rs. 700,000 from Zameer on thirty days' credit. At the time of purchase, Sultan knew that he was in insolvent circumstances. *Discuss the validity of the contract.* (03)
- (d) Majid and Soomro went to a money lender. Majid said to the money lender, 'Let Soomro have a loan of Rs. 50,000, I ensure that you will be paid'. *Identify and describe the type of contract and state Majid's responsibility in the contract.* (03)

Q.4 (a) Under the provisions of the Partnership Act, 1932 state the mandatory duties of partners which cannot be modified by an agreement amongst them. (03)

(b) Masoom, Rahul and Naila are partners in a trading firm. In 2016, they borrowed Rs. 500,000 from Ishtiaq for purchasing a shop in Multan. The loan was agreed to be repaid in two years' time. However, due to financial crises the loan could not be re-paid in time. For the purpose of settling the loan, Ishtiaq has offered Naila to admit his seventeen-year-old son Muneer to the partnership business.

Under the provisions of the Partnership Act, 1932 discuss whether Muneer can be admitted to the partnership business. State Muneer's rights and liabilities if he is so admitted. (04)

(c) Aftab, Rehan and Bali were partners in a law firm. The partnership deed, among other things, provided that the profits or losses of the firm would be shared equally among the partners. The firm continued its business for many years with Aftab receiving fifty percent share in the net profit and Rehan and Bali each sharing twenty-five percent of the net profit. Rehan and Bali never objected to this arrangement. Later on, partners developed some differences and Rehan and Bali filed a suit against Aftab for the recovery of their share in profits on the basis of partnership deed.

Under the provisions of the Partnership Act, 1932 discuss whether Aftab would succeed in defending the suit filed against him by Rehan and Bali. (03)

Q.5 (a) Respond to the following independent situations, under the provisions of the Negotiable Instruments Act, 1881:

(i) Talat Mir, acting within the scope of his authority as an agent, draws a bill upon his principal, Mirza Nadir. *Discuss what kind of a negotiable instrument it may be regarded.* (03)

(ii) Samad drew a cheque which was payable to 'Munaf or order'. Saleem after forging Munaf's endorsement on the cheque received payment from the banker. *Discuss whether the banker would be liable on the cheque to Samad.* (02)

(b) Under the provisions of the Negotiable Instruments Act, 1881 briefly describe:

(i) When an acceptance is said to be qualified (03)

(ii) Payment in due course (02)

Company Law Section

Q.6 (a) Under the provisions of the Companies Act, 2017 discuss how a person may become a member of the company. (03)

(b) The Registrar, after registering the memorandum and articles of association, has issued the certificate of incorporation to Shahbaz Limited, a company with an authorized share capital of Rs. 300 million.

Under the Companies Act, 2017 briefly describe the effects of such registration. (05)

Q.7 Respond to the following scenarios, under the provisions of the Companies Act, 2017:

(a) On 31 August 2019, Easy Life Limited (ELL) paid the last installment of its long-term finance which was obtained from a commercial bank against the mortgage of factory building.

Briefly describe the duties of both ELL and the Registrar for the release of mortgage after the payment. (04)

- (b) Fancy Works Limited (FWL) is in process of finalizing the prerequisites of holding its first Annual General Meeting (AGM) to be held on 31 October 2019.
- (i) Advise FWL about the matters relating to proxies which must be included in the notice of AGM. (02)
- (ii) Arbaz Limited (AL) is a member of FWL. How would AL represent itself in the AGM? (02)
- (c) The Board of Directors of Hassam Textiles Limited (HTL) is not satisfied with the performance of its chief executive officer (CEO) and wants to remove him from his office before the expiry of his term on 31 August 2020.

Briefly explain the options available to HTL for removal of CEO under the above situation. (02)

- Q.8 (a) Kalaam Limited (KL) is considering the following options to invest its excess funds:

- (i) Acquire 8% shareholdings in Lighter Oil Limited (LOL) for Rs. 120 million. LOL is a growing company and is expected to fetch higher returns in futures.
- (ii) Grant a loan of Rs. 100 million to Monsoon (Private) Limited (MPL) for launching a new product. The loan would carry interest at the rate prevailing in the market. KL currently holds 25% of MPL's paid-up capital.

Under the provisions of the Companies Act, 2017 specify the condition(s) which KL must fulfill before opting for any of the above investment options. (07)

- (b) Faraz Limited (FL) is considering to enter into a contract with Bari Limited (BL) for the construction of its new manufacturing facility. The Board of Directors of FL has authorized Hasan Ali, an executive director, to negotiate the final price with BL. Sara Ali, who is a chief executive in BL, is the spouse of Hasan Ali.

In view of the provisions of the Companies Act, 2017 briefly explain the responsibilities of Hasan Ali towards FL under the above circumstances. (05)

- Q.9 Under the provisions of the Companies Act, 2017 briefly explain the exception(s) to the following general rules:

- (a) No public company shall give financial assistance to anyone whether directly or indirectly for the purchase of its own shares. (03)
- (b) No subsidiary company shall, either by itself or through its nominees, hold any shares in its holding company. (02)
- (c) Companies can commence the business only after obtaining certificate of commencement of business from the registrar. (02)

- Q.10 (a) Zeeshan Limited (ZL) has recently acquired the majority shareholdings in Ghaffar Limited (GL). ZL has decided to replace the existing auditor of GL in the next annual general meeting and has recommended to appoint Javed and Company, Chartered Accountants, as GL's auditor for the next year.

Under the provisions of the Companies Act, 2017 explain the procedure(s) to be followed and formalities to be complied with for the appointment of Javed and Company as the auditor of GL. Also explain the rights of the retiring auditor in this regard. (09)

- (b) Under the provisions of the Companies Act, 2017 explain the term 'Independent director'. Discuss the provisions relating to the payment of remuneration to any of the directors for attending the board meeting and performing extra services. (04)

(THE END)