

Chapter 27

Company Management

I. Choose the Correct Answer

Question 1.

A person shall hold office as a director in _____ companies as per the Companies Act, 2013.

- (a) 5 companies
- (b) 10 companies
- (c) 20 companies
- (d) 15 companies

Answer:

- (c) 20 companies

Question 2.

Which Director is appointed by a Financial institution?

- (a) Nominee
- (b) Additional
- (c) Women
- (d) Shadow

Answer:

- (a) Nominee

Question 3.

A Private Company shall have a minimum of _____

- (a) Seven directors
- (b) Five directors
- (c) Three directors
- (d) Two directors

Answer:

- (d) Two directors

Question 4.

A Public Company shall have a minimum of _____ Directors.

- (a) Twelve
- (b) Seven
- (c) Three
- (d) Two

Answer:

- (c) Three

Question 5.

A Public Company having a paid up Share Capital of Rs. _____ or more may have a Director, elected by such small shareholders.

- (a) One
- (b) Three
- (c) Five
- (d) Seven

Answer:

- (c) Five

Question 6.

Under the companies Act, which one of the following powers can be exercised by the Board of Directors?

- (a) Power to sell the company's undertakings
- (b) Power to make call
- (c) Power to borrow money in excess of the paid up capital
- (d) Power to reappoint an auditor

Answer:

- (b) Power to make call

Question 7.

Which director need not hold qualifying shares?

- (a) Directors appointed to Central Government
- (b) Directors appointed to Shareholders
- (c) Directors appointed to Managing Director
- (d) Directors appointed to Board of Directors

Answer:

- (a) Directors appointed to Central Government

Question 8.

What is the status of Directors who regulate money of the company?

- (a) Banker
- (b) Holder
- (c) Agent
- (d) Trustees

Answer:

- (d) Trustees

Question 9.

According to Companies Act, the Directors must be appointed by the _____

- (a) Central Government
- (b) Company Law Tribunal
- (c) Company in General Meeting
- (d) Board of Directors

Answer:

(c) Company in General Meeting

Question 10.

The Board of Directors can exercise the power to appoint directors in the case of _____

- (a) Additional Directors
- (b) Filling up the Casual vacancy
- (c) Alternate Directors
- (d) All the above

Answer:

(d) All the above

II. Very Short Answer Questions

Question 1.

Define Director.

Answer:

The Companies Act 2013 section 2 (34) defines a director appointed to the board of a Company is:

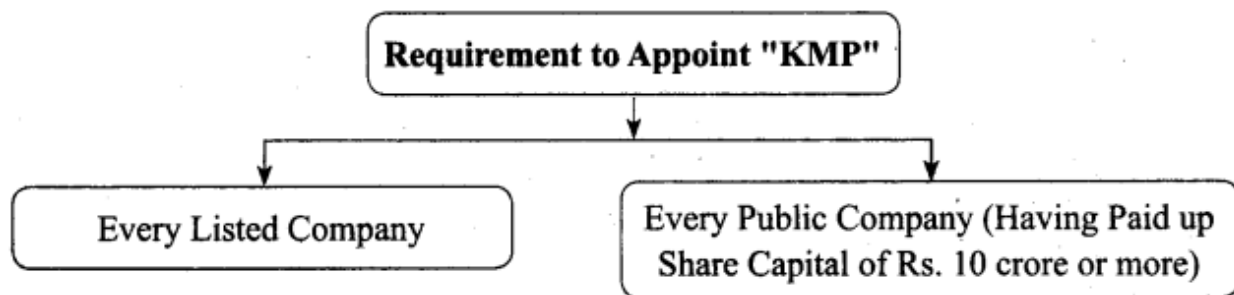
“A Person who is appointed or elected member of the Board of Directors of a company and has the responsibility of determining and implementing policies along with others in the board.

Question 2.

Name the companies required to appoint KMP.

Answer:

Following Companies are required to appoint KMP:



Question 3.

Who is whole time Director?

Answer:

A whole time Director is one who devotes whole of his time of working hours to the company and has a significant personal interest in the company as the source of his income.

Question 4.

Who is called as Managing Director?

Answer:

A Managing Director is one who is employed by the company and has substantial powers of management over the affairs of the company subject to superintendence, direction and control of the board.

Question 5.

Who can be Executive Director?

Answer:

An executive director is a Chief Executive Officer (CEO) or Managing Director of an organization, company, or corporation, who is responsible for making decisions to complete the mission and for the success of the organisation.

III. Short Answer Questions

Question 1.

Differentiate Executive and Non-Executive Directors.

Answer:

Basis for Difference	Executive Director	Non-Executive Director
1. Meaning	An Executive Director can be either a whole-time Director of the Company or a Managing Director.	A Non- Executive Director is a Director who is neither a Whole-time Director nor a Managing Director.

Question 2.

When are alternative directors appointed?

Answer:

Alternate director is appointed by the Board of Directors, as a substitute to a director who may be absent from India, for a period which is not less than three months.

Question 3.

Who is a shadow director?

Answer:

A shadow director is a person who is not the member of Board but has some power to run it and can be appointed as the director but according to his/her wish.

Question 4.

What is causal vacancy?

Answer:

If a director is absent from India, for a period which is not less than three months, then it is called casual vacancy. It may be filled by the appointment of alternate director. The appointment must be authorised by the articles of association by passing a resolution in the meeting.

Question 5.

State the minimum number of Directors for a private company.

Answer:

Under section 149 (1) of the Companies Act, 2013 states that the requirement of Minimum/ Maximum Number of Directors in a Company.,

Private company:

In case of One Person Company: The requirement of directors is one.

Other Private Companies: The minimum requirement of Directors is two.

IV. Long Answer Questions

Question 1.

Who are the KMP?

Answer:

Companies Act, 2013 has introduced many new concepts and Key Managerial Personnel (KMP) is one of them. KMP covers the traditional roles of managing director and whole time director and also includes some functional heads.

Key Managerial Personnel: The definition of the term Key Managerial Personnel is contained in Section 2(51) of the Companies Act, 2013. This Section states:

1. The Chief Executive Officer
2. The Managing Director or Manager
3. The Company Secretary
4. The Whole-time Director
5. The Chief Financial Officer
6. Such other officer as may be prescribed

Question 2.

Explain composition of the board of directors.

Answer:

Composition of the Board of Directors:

1. General Optimum Combination: Board of Directors shall have an optimum combination of executive and non-executive directors with at least one woman director.
2. When the non-executive Director is the Chairperson: In this case, at least one-third of the board of directors shall comprise of independent directors.

3. When the non-executive chairperson is a promoter or is related to any promoter or person occupying management positions at the level of board of director or at one level below the Board of Directors: In this case, at least one half of the board of directors of the company shall consist of Independent Directors.

Question 3.

Briefly explain different types of Directors.

Types of Directors as per Companies Act 2013:

Answer:

1. Residential Director: According to Section 149 (3) of Companies Act 2013, every company should appoint a director who has stayed in India for a total period of 182 days.
2. Independent Director: An independent director is an alternate director other than a Managing Director who is known as Whole time director or Nominee director.
3. Small shareholder's Director: Small shareholders can appoint a single director in a listed company.
4. Nominee Director: A director nominated by any financial institution in pursuance of the provisions of law.
5. Additional Directors: Any Individual can be appointed as Additional Directors by a company.
6. Alternate Directors: Alternate director is appointed by the Board of Directors, as a substitute who may be absent from India, for a period of 3 months.

Question 4.

State the qualification of directors.

Answer:

Qualifications of Director: As regards to the qualification of directors, there is no direct provision in the Companies Act, 2013. In general, a director shall possess appropriate skills, experience and knowledge in the fields of finance, law, management, sales, marketing, research and other disciplines related to the business. The following are the qualifications:

1. A director must be a person of sound mind.
2. A director must hold share qualification, if the article of association provides such.
3. A director must be an individual.
4. A director should be a solvent person.
5. A director should not be convicted by the Court for any offence, etc.

Question 5.

List the disqualification of a directors.

Answer:

Disqualifications of a Director: Section 164 of Companies Act, 2013, has mentioned the disqualification as follows:

A person shall not be capable of being appointed director of a company, if the director is

- (a) Of unsound mind
- (b) An undercharged insolvent
- (c) Has been convicted by a court for any offence
- (d) Has not paid any call in respect of shares of the company held by him
- (e) An order disqualifying him for appointment as director has been passed by a court
- (f) He has not got the Director Identification Number

Question 6.

Explain how director of a company can be removed from the office.

Answer:

A Director of Company can be removed from his Office before the expiry of his term by ‘

- 1. the Shareholders
- 2. the Central Government
- 3. the Company Law Board

(i) Removal by shareholders (Sec- 169): A company may, by giving a special notice and passing an ordinary resolution, remove a director before the expiry of his period of office.

(ii) Removal by the Central Government: The Central Government has been empowered to remove managerial personnel from office on the recommendation of the Company Law Board under the following situations:

- (a) Where a person concerned in the conduct and management of the affairs of a company has been guilty of fraud and negligence.
- (b) If the business is managed by a person without sound business principles.
- (c) Where the business of a company has been managed by such a person, who likes to cause injury or damage to the business.

(iii) Removal by the Company Law Board: If an application has been made to the Company Law Board against the oppression and mismanagement of the company's affairs by a director, then the Company Law Board may order to terminate the director.

Question 7.

What is the maximum limit for the Managerial remuneration?

Answer:

Managerial Remuneration: The Managerial remuneration is payable to a person's appointed u/s 196 of the Act. The Term remuneration means any money or its equivalent given for their services.

Adequate profits: A Public Company can pay remuneration to its directors including Managing Director and Whole-time Directors, and its managers which shall not exceed 11% of the net profit.

Maximum Remuneration Payable by a Company to its Managerial Personnel – No adequate Profits: Remuneration Payable by a company in case where there is no profit or inadequacy of

	Where Effective Capital is	Limit of yearly Remuneration payable shall not exceed (Rupees)
(i)	less than ₹ 5 Crore	₹ 30 lakh
(ii)	Above ₹ 5 Crore and less than ₹ 100 Crore	₹ 42 lakh
(iii)	₹ 5 Crore and above but less than ₹ 100 Crore	₹ 60 lakh
(iv)	₹ 250 Crore and above	₹ 60 lakh plus 9.91% of the effective capital in excess of ₹ 250 Crore

Question 8.

What are the duties of a director?

Answer:

Directors act as agents of the shareholders and act as trustees of shareholders. The following are the duties of directors:

Collective Duties of Directors: Directors as apart of Board perform certain duties collectively. The duties are as follows:

1. Approval of annual accounts and authentication of annual accounts
2. Appointment of First Auditors
3. Passing of resolutions at board meetings
4. Directors report to shareholders highlighting the performance of the company.

General duties of Directors:

1. Delegating power to any committee
2. Issuing instructions to employees for implementation of policy
3. Appointing their subordinates like Managing director, Manager, Secretary and other employees

4. Act in Good faith in order to promote the objectives of the company

Question 9.

State the powers of the directors.

Answer:

Powers of Directors: The directors must have powers to carry on objectives of the company. The powers may be of four types:

1. Statutory Powers of Directors
2. Managerial Powers of Directors
3. Powers only with a resolution
4. Other Powers

Statutory Powers: The following powers must be used in the Board meeting:

1. Power to make calls on shareholders in respect of money unpaid on their shares
2. Power to issue debentures
3. Power to borrow money other than on debentures
4. Power to invest the funds of the company
5. Power to approve financial statement and Board report
6. Power to allot, forfeit or transfer shares of company
7. Power to decide the terms and conditions to issue debentures
8. Power to appoint Managing Director, Manager and Secretary of the company.

Powers only with a resolution:

1. To sell or lease any asset of the company
2. To issue bonus shares
3. To allow time to the director for repayment of the loan

Other Powers:

1. Power to fill casual vacancy
2. Power to appoint the first auditor of the company
3. Power to appoint alternative directors, additional directors
4. Power to remove key managerial personnel

Question 10.

State the Criminal liabilities of Directors.

Directors will be liable with a fine and imprisonment or both for fraud of non-compliance of any statutory provisions in the following situations where:

1. There is mis-statement in Prospectus
2. There is failure to file return on allotment with the registrar
3. Failure to give notice to the registrar for conversion of share into stock
4. Failure to issue Share Certificate and Debenture Certificate

5. There is default in holding Annual General Meeting
6. There is failure to provide Financial Statements