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Index and Last Day Revision Plan

SN	Name of Chapters	No. of Question	No. of MCQ
1	Preliminary	14	16
2	Incorporation of Company and Incidental Matters	34	26
3	Prospectus and Allotment of Securities	27	25
4	Share Capital and Debentures	40	27
5	Acceptance of Deposits by Company	20	14
6	Registration of Charges	21	11
7	Management and Administration	55	20
8	Declaration and Payment of Dividend	22	11
9	Accounts of Companies	30	21
10	Audit and Auditors	34	8
11	Companies Incorporated Outside India	25	13
12	The General Clauses Act, 1897	39	21
13	Interpretation of Statutes	41	26
14	Foreign Exchange Management Act. 1999 (Includes Master Question)	43	28
15	Limited Liability Partnership Act, 2008	22	31
16	Case Scenario		16
		467	314

How to make this question bank yours?

1. Solve the questions chapter wise along with the classes.
2. While solving the questions, mark the questions and categorize it into A/B/C category.
   a. A Category - Important / Difficult Questions
   b. B Category - Question which will either be categorized as either C or A in next revisions.
   c. C Category - Easy questions or questions which you are personally very comfortable with.
3. Mark all the questions which you find tricky, unique, or controversial for your last day revision.
4. Ensure that the no. of questions that you keep for last day revision is < 50 in total.

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1 Preliminary

Question 1

The paid-up share capital of Saras Private Limited is Rs. 1 crore, consisting of 8 lacs Equity Shares of Rs. 10 each, fully paid-up and 2 lacs Cumulative Preference Shares of Rs.10 each, fully paid-up. Jeevan (JVN) Private Limited and Sudhir Private Limited are holding 3 lacs Equity Shares and 50,000 Equity Shares respectively in Saras Private Limited. Jeevan Private Limited and Sudhir Private Limited are the subsidiaries of Piyush Private Limited. With reference to the provisions of the Companies Act, 2013 examine whether Saras Private Limited is a subsidiary of Piyush Private Limited? Would your answer be different if Piyush Private Limited has 8 out of 9 Directors on the Board of Saras Private Limited?

[RTP May'18, May'19 – 4 marks]

Answer

Relevant Provisions

In terms of section 2 (87) of the Companies Act 2013 "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company:

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation—For the purposes of this clause—

a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors.

Analysis and Conclusion

In the present case, Jeevan Pvt. Ltd. and Sudhir Pvt. Ltd. together hold less than one half of the total share capital. Hence, Piyush Private Ltd. (holding of Jeevan Pvt. Ltd. and Sudhir Pvt) will not be a holding company of Saras Pvt. Ltd.

However, if Piyush Pvt. Ltd. has 8 out of 9 Directors on the Board of Saras Pvt. Ltd. i.e., controls the composition of the Board of Directors; it (Piyush Pvt. Ltd.) will be treated as the holding company of Saras Pvt. Ltd.

Question 2:

Hastprat Ltd. is an unlisted public company, having five directors in its board which includes two independent directors. Sankul (P) Ltd., is subsidiary company of Hastprat Ltd., actively carrying on its business, having paid up capital of ₹ 1.5 crore with 40 members and turnover of ₹ 18 crore, respectively and the said company is not a start-up company.

In the context of aforesaid case-scenario, please answer to the following question(s):
Whether Sankul (P) Ltd. is mandatorily required to prepare cash flow statement for the financial year as a part of its financial statements?

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Provide your answer by analyzing Sankul (P) Ltd. into following category of companies:-
(i) One person company, (ii) Small company, (iii) Dormant company and (iv) Private company, respectively.
[RTP May'23]

OR

Sriram Private Limited is a start-up company. Mr. Lovely has been appointed as Accounts Manager of Sriram Private Limited. The Board meeting for approval of accounts is to be held on 1st August, 2024 and he has to prepare the financial statements for approval by the Board. Referring to section 2(40) of the Companies Act, 2013, advise Mr. Lovely about the statements that are required to be prepared.
[May'2018, Nov'22, MTP May'25 - 5 marks]

Answer

According to section 2(40) of the Companies Act, 2013, Financial statement in relation to a company, includes:

(i) a balance sheet as at the end of the financial year;
(ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
(iii) cash flow statement for the financial year;
(iv) a statement of changes in equity, if applicable; and
(v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv)

Provided that the financial statement, with respect to one person company, small company, dormant company and private company (if such private company is a start-up company) may not include the cash flow statement

For considering the applicability of preparation cash flow statement in case of Sankul (P) Ltd., it is required first to be analyzed that Sankul (P) Ltd. does not fall in any of the categories of companies mentioned under proviso to section 2(40) of the Companies Act, 2013:

(i) One person company - It is given that the company is having 40 members and also its name does not contain the words 'OPC', so it is not a one person company.

(ii) Small company - A company which is a subsidiary company cannot be categorized as a small company as per proviso to section 2(85) even though its paid up capital and turnover are within the prescribed limits and accordingly, as Sankul (P) Ltd. is a subsidiary company of Hastprat Ltd., it cannot be considered as small company also.

(iii) Dormant company - It is given that the company is actively carrying on its business, so it cannot be also categorized as a dormant company based upon the facts given.

(iv) Private company (which is a start-up) - It is given that Sankul (P) Ltd. is not a start- up company and also, as per proviso to section 2(71) of the Act, a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

So, Sankul (P) Ltd. shall be deemed to be a public company as it is subsidiary of Hastprat Ltd., an unlisted public company and so it will not fall into this category of exemption as well.

Thus, it can be concluded that Sankul (P) Ltd. is mandatorily required to prepare cash flow statement for the financial year as a part of its financial statements as it does not fall in any of the categories of companies mentioned under proviso to section 2(40) of the Companies Act, 2013.

Author's Note:
For May'26 attempt, the limit is Rs. 4 crores and 40 crores
But for students appearing in Sept'26 & Jan'27, the revised limits for a small company are paid up share capital not exceeding 10 crores & turnover not exceeding 100 crores.

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Question 3:

The statutory auditors of a company were required to issue a certificate on the net worth of the company as per the requirement of the management as on 30th September 2020 computed as per the provision of section 2(57) of the Companies Act, 2013.

The company had fair valued its property, plant and equipment in the current year which was mistakenly taken into retained earnings of the company in its books of accounts. Please advise whether this fair valuation would be covered in the net worth of the company as per the legal requirements.

[RTP Nov 21]

Answer

As per sec 2(57) of the Companies Act 2013, any reserves created out of revaluation of assets doesn't form part of net worth. The company fair valued its property, plant and equipment and took that to retained earnings.

Even if the company has taken the fair valuation to the retained earnings in its books of accounts, the resultant credit in reserves (by whatever name called) would be in the category of 'reserves created out of revaluation of assets' which is specifically excluded in the definition of 'net worth' in section 2 (57) and hence should be excluded by the company.

Further the auditors should also consider the matter related to accounting of this reserve separately at the time of audit of books of accounts of the company.

Question 4:

SKP Limited (Registered in India), a wholly owned subsidiary company of Herry Limited decided to follow different financial year for consolidation of its accounts outside India. State the procedure to be followed in this regard.

[Nov'19, RTP Sept'24, ICAI Module, MTP Jan'26]

Answer

Where a company or body corporate, which is a holding company or a subsidiary or associate company of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Central Government may, on an application made by that company or body corporate in such form and manner as may be prescribed, allow any period as its financial year, whether or not that period is a year.

SKP Limited is advised to follow the above procedure accordingly.

[Note: This answer is based on the assumption that Herry limited is a foreign Company registered outside India as inferred from part (i) of the question]

Question 5:

The information extracted from the audited Financial Statement of Smart Solutions Private Limited as at 31st March, 2020 is as below:

(i) Paid-up equity share capital Rs. 50,00,000 divided into 5,00,000 equity shares (carrying voting rights) of Rs. 10 each. There is no change in the paid-up share capital thereafter.
(ii) The turnover is Rs. 2,00,00,000.

It is further understood that Nice Software Limited, which is a public limited company, is holding 2,00,000 equity shares, fully paid-up, of Smart Solutions Private Limited. Smart Solutions Private Limited has filed its Financial Statement for the said year with the Registrar of Companies (ROC) excluding the Cash Flow Statement within the prescribed timeline during the financial year 2020-21. The ROC has issued a notice to Smart Solutions Private Limited as it has failed to file the cash flow statement along with the Balance Sheet and Profit and Loss Account.

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You are to advise on the following points explaining the provisions of the Companies Act, 2013:

(i) Whether Smart Solutions Private Limited shall be deemed to be a small company whose significant equity shares are held by a public company?

(ii) Whether Smart Solutions Private Limited has defaulted in filing its financial statement?

[July 2021, MTP May 24 - 5 marks]

Answer

According to section 2(85) of the Companies Act, 2013, small company means a company, other than a public company, having-

a) paid-up share capital not exceeding fifty lakh rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and

b) turnover as per profit and loss account for the immediately preceding financial year not exceeding Rs. 2 crore or such higher amount as may be prescribed which shall not be more than Rs. 100 crores.

Provided that nothing in this clause shall apply to a holding company or a subsidiary company.

Also, according to section 2(87), subsidiary company, in relation to any other company (that is to say the holding company), means a company in which the holding company exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

In the given question, Nice Software Limited (a public company) holds 2,00,000 equity shares of Smart Solutions Private Limited (having paid up share capital of 5,00,000 equity shares @ Rs. 10 totalling Rs. 50 lakhs). Hence, Smart Solutions Private Limited is not a subsidiary of Nice Software Limited and hence it is a private company and not a deemed public company Further, the paid up share capital (Rs. 50 lakhs) and turnover (Rs. 2 crores) is within the limit as prescribed under section 2(85), hence, Smart Solutions Private Limited can be categorised as a small company.

Part (ii)

According to section 2 (40), Financial statement in relation to a company, includes:

a) a balance sheet as at the end of the financial year;

b) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

c) cash flow statement for the financial year;

d) a statement of changes in equity, if applicable; and

e) any explanatory note annexed to, or forming part of, any document referred to in points (a) to (d).

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Smart Solutions Private Limited being a small company is exempted from filing a cash flow statement as a part of its financial statements. Thus, Smart Solutions Private Limited has not defaulted in filing its financial statements with ROC.

Question 6: *(partially related to chapter 3)*

Johnson Limited goes for public issue of its shares. The issue was oversubscribed. A default was committed with respect to allotment of shares by the officers of the company. There were no Managing Director, Whole time Director or any other officer/person designated by the Board with the responsibility of Complying with the provisions of the Act.

State, who are the persons considered as officers in default under the Companies Act, 2013. Examine who will be considered in default in the instant case?

[July 2021 - 5 marks]

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Answer

Relevant Provisions

As per section 39 of the Companies Act, 2013, which deals with the allotment of securities, states that in case of any default related to minimum subscription and of return of allotment money under sub-section (3) and (4), the company and its officer who is in default shall be liable to a penalty, for each default, of one thousand rupees for each day during which such default continues or Rs. 1 lakh, whichever is less.

As per section 2(60) of the Act, Officer who is in default, has been described as:
For the purpose of any provision in this Act which enacts that an officer of the company who is in default shall be liable to any penalty or punishment by way of imprisonment, fine or otherwise, means any of the following officers of a company, namely:—

(i) whole-time director (WTD);
(ii) key managerial personnel (KMP);
(iii) where there is no key managerial personnel, such director or directors as specified by the Board, or all the directors, if no director is so specified;
(iv) any person who, under the immediate authority of the Board or any key managerial personnel, is charged with any responsibility.
(v) any person in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act,
(vi) every director, in respect of a contravention of any of the provisions of this Act,
(vii) in respect of the issue or transfer of any shares of a company, the share transfer agents, registrars and merchant bankers to the issue or transfer;

Conclusion

In the given case, as stated Johnson Limited, committed a default with respect to the allotment of shares by the officers. As in company there were no managing director, whole time director, or any other officer/person designated by the Board with the responsibility of complying with the provisions of the Act. Therefore, in such situation, all the directors of the company may be treated as officers in default.

Question 7:

New Private Ltd. is a company registered under the Companies Act, 2013 with a paid -up share capital of Rs. 70 lakh and turnover of Rs. 60 crores. Explain the meaning of the "Small Company" and examine the following in accordance with the provisions of the Companies Act, 2013:

(i) Whether the New Private Ltd. can avail the status of small company?
(ii) What will be your answer if turnover of company is Rs. 35 crore and the capital is same as Rs. 70 lakh?

[MTP Dec'21 – 5 marks]

OR

MNP Private Ltd. is a company registered under the Companies Act, 2013 with a, paid up share capital of Rs. 45 lakh and turnover of Rs. 3 crores. Explain the meaning of the "Small Company" and examine the following in accordance with the provisions of the Companies Act, 2013:

(i) Whether the MNP Private Ltd. can avail the status of small company?
(ii) What will be your answer if the turnover of the company is Rs. 1.50 crore?

[May'18, MTP Oct'20, ICAI Module – 6 marks]

Answer

Relevant Provisions

Small Company: According to Section 2(85) of the Companies Act, 2013, Small Company means a company, other than a public company:

(i) paid-up share capital of which does not exceed Rs. 50 lakhs or such higher amount as may be prescribed which shall not be more than ten crore rupees; and
(ii) turnover of which as per its last profit and loss account does not exceed Rs. 2 crores or such higher amount as may be prescribed which shall not be more than one hundred crore rupees.

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Nothing in this clause shall apply to:
(A) a holding company or a subsidiary company;
(B) a company registered under section 8; or
(C) a company or body corporate governed by any special Act.

As per the Companies (Specification of Definitions Details) Rules, 2014, for the purposes of sub clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid up capital and turnover of the small company shall not exceed Rs. 4 crores and Rs. 40 crores respectively.

Conclusions

(i) In the present case, New Private Ltd., a company registered under the Companies Act, 2013 with a paid up share capital of Rs. 70 lakh and having turnover of Rs. 60 crore. Since, only one criteria of share capital not exceeding Rs. 4 crores is met, but the second criteria of turnover not exceeding Rs. 40 crores is not met, and the provisions require both the criteria to be met in order to avail the status of a small company, New Private Ltd. cannot avail the status of small company.

(ii) If the turnover of the company is Rs. 35 crore, then both the criteria will be fulfilled, and New Private Ltd. can avail the status of small company.

Author's Note:
For May'26 attempt, the limit is Rs. 4 crores and 40 crores
But for students appearing in Sept'26 & Jan'27, the revised limits for a small company are paid up share capital not exceeding 10 crores & turnover not exceeding 100 crores.

Question 8:

MNP Limited is a registered public company having the following:

(a)	Directors and their Relatives	18
(b)	Employees	26
(c)	Ex-Employees (Shares were allotted during employment)	15
(d)	Members holding shares jointly (7 x 2)	14
(e)	Other Members	137

The Board of Directors of MNP Limited proposes to convert the company into a private limited company. Referring the provisions of the Companies Act, 2013, Advise:
i. Whether the company can be converted into a private company?
ii. Whether existing number of members need to be reduced for the proposed private company?

[ICAI Module, May'22, MTP Sept'25 - 5 marks]

Answer

According to Section 2(68) of the Companies Act, 2013, "Private company" means a company having prescribed minimum paid-up share capital, and which by its articles, limits number of its members to 200. However, where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member.

It is further provided that following shall not be included in the number of members -
a) persons who are in the employment of the company; and
b) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased.

Accordingly, total number of members in MNP Limited are:

(i)	Directors and their relatives	18
(ii)	Joint shareholders (7x2)	7
(iii)	Other Members	137
	Total	162

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i. MNP Limited may be converted into a private company only if the total members of the company are limited to 200. In the instant case, since existing number of members are 162 which is within the prescribed maximum limit of 200, so MNP Limited can be converted into a private company.

ii. There is no need for reduction in the number of members for the proposed private company as existing number of members are 162 which does not exceed maximum limit of 200.

Question 9:

ABC Private Ltd. has two wholly owned subsidiary companies, D Private Limited and E Private Limited. Examine, whether, D Private Limited and E Private Limited will be treated as related party as per the provisions of the Companies Act, 2013?

[May 2022 - 3 marks]

Answer

According to section 2(76)(viii) of the Companies Act, 2013, Related party, with reference to a company, means any body corporate which is -

a) a holding, subsidiary or an associate company of such company;
b) a subsidiary of a holding company to which it is also a subsidiary; or
c) an investing company or the venturer of the company;

In the given question, D Private Limited and E Private Limited are wholly owned subsidiary companies of ABC Private Ltd. According to stated clause (B), above, D Private Limited and E Private Limited are related parties.

However, as per the Notification No. G.S.R. 464(E) dated 5th June, 2015, clause(viii) shall not apply with respect to section 188 to a private company, though being a related parties.

Alternate Answer

According to section 2(76)(viii)(B) of the Companies Act, 2013, Related party, with reference to a company, means any body corporate which is a subsidiary of a holding company to which it is also a subsidiary.

However, Clause (viii) shall not apply with respect to section 188 (Related Party transactions) to a private company vide Notification No. G.S.R. 464(E) dated 5th June, 2015.

In the given question, D Private Limited and E Private Limited are wholly owned subsidiary companies of ABC Private Ltd. According to stated clause (B), above, D Private Limited and E Private Limited are related parties.

However, as per the mentioned Notification, clause (viii) shall not apply with respect to section 188 to a private company. Therefore, D Private Limited and E Private Limited are not related parties for the purpose of section 188.

Question 10:

Referring the relevant provisions of the Companies Act, 2013, examine, whether following companies will be considered as listed company or unlisted company:

(i) ABC Limited, a public company, has listed its non-convertible Debt securities issued on private placement basis in terms of SEBI (Issue and Listing of Debt Securities) Regulations, 2008.
(ii) CHG Limited, a public company, has listed its non-convertible redeemable preference shares issued on private placement basis in terms of SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013
(iii) PRS Limited, a public company, which has not listed its equity shares on a recognized stock exchange but whose equity shares are listed on a stock exchange in a jurisdiction as specified in sub-section (3) of section 23 of the Companies Act, 2013.

[Nov 22, MTP Sept'25 - 5 marks]

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Answer

According to Section 2(52) of the Companies Act, 2013, listed company means a company which has any of its securities listed on any recognised stock exchange.

Rule 2A: According to Rule 2A of the Companies (Specification of definitions details) Rules, 2014, the following classes of companies shall not be considered as listed companies, namely:

(a) Public cos. which have not listed their equity shares on a recognized stock exchange but have listed their:
   (i) non-convertible debt securities issued on private placement basis in terms of SEBI (Issue and Listing of Debt Securities) Regulations, 2008; or
   (ii) non-convertible redeemable preference shares issued on private placement basis in terms of SEBI (Issue & Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013; or
   (iii) both categories of (i) and (ii) above.

(b) Public cos. which have not listed their equity shares on a recognized stock exchange but whose equity shares are listed on a stock exchange in a jurisdiction as specified in section 23(3) of the Act.

In view of the above provisions of the Act:
   (i) ABC Limited is an unlisted company.
   (ii) CHG Limited is an unlisted company.
   (iii) PRS Limited is an unlisted company.

Question 11

H Ltd. is the holding company of S Pvt. Ltd. As per the last profit and loss account for the year ending 31 March, 2022 of S Pvt. Ltd., its turnover was Rs. 1.80 crores; and paid up share capital was 80 lakhs. The Board of Directors wants to avail the status of a small company. The company secretary of the company advised the directors that the company cannot be categorized as a small company. In the light of the above facts and in accordance with the provisions of the Companies Act, 2013, you are required to examine whether the contention of practicing company secretary is correct, explaining the relevant provisions of the Act.

[Nov'22, May 2023, RTP May'24, RTP Sept'25 - 5 marks]

Answer

As per section 2(85) of the Companies Act, 2013, Small company means a company, other than a public company –
(i) paid-up share capital of which does not exceed four crore rupees, and
(ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed forty crore rupees.

Provided that nothing in this clause shall apply to—
(A) a holding company or a subsidiary company;
(B) a company registered under section 8; or
(C) a company or body corporate governed by any special Act

In the instant case, as per the last profit and loss account for the year ending 31st March, 2022 of S Pvt. Ltd., its turnover was to the extent of Rs. 1.80 crore, and paid-up share capital was Rs. 80 lakhs. Though S Pvt. Ltd., as per the turnover and paid-up share capital norms, qualifies for the status of a 'small company' but it cannot be categorized as a 'small company' because it is the subsidiary of another company (H Ltd.)

Author's Note:
For May'26 attempt, the limit is Rs. 4 crores and 40 crores
But for students appearing in Sept'26 & Jan'27, the revised limits for a small company are paid up share capital not exceeding 10 crores & turnover not exceeding 100 crores.

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Question 12:

Cross Limited is a company incorporated under the erstwhile the Companies Act, 1956 while XYZ Private Limited is a company registered under the Companies Act, 2013. XYZ Private Limited has issued Rs. 1,00,000 convertible preference shares (carrying right to vote) of Rs. 100 each and 10,00,000 equity shares of Rs. 10 each fully paid. Cross Limited is holding all the preference share and 1,00,000 equity shares of XYZ Private Limited. Examine whether:

(i) The provisions of the Companies Act, 2013 are applicable on Cross Limited?

(ii) XYZ Private Limited is a public company as per the Companies Act, 2013?

[MTP May'24 - 5 marks]

Answer

(i) Section 1 of the Companies Act, 2013, provides that the provisions of this Act shall apply to companies incorporated under this Act or under any previous company law. Hence, the provisions of the Companies Act, 2013 are also applicable on Cross Limited.

(ii) According to section 2(71) of the Companies Act, 2013, public company means a company which is not a private company.

Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

According to section 2(87) of the Companies Act, 2013, "subsidiary company", in relation to any other company (that is to say the holding company), means a company in which the holding company:

1. controls the composition of the Board of Directors; or
2. exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

In the given question, total voting power in XYZ Private Limited is:

Particulars	Amount in Rs.
Convertible Preference Shares (carrying voting rights)	1,00,00,000
Equity Shares	1,00,00,000
Total Voting Power	2,00,00,000

Cross Limited holds more than one- half of the total voting power [(Rs. 10,00,000 equity shares+ Rs. 1,00,00,000 preference shares)/ Rs 2,00,00,000]. Therefore, XYZ Private Limited is a subsidiary of Cross Limited.

Further, in terms of the provisions of section 2(71), XYZ Private Limited being subsidiary of Cross Limited (a public company), shall also be deemed to be a public company.

Question 13:

MNO Limited are finalising its financial statements and found that the value of one of its properties has increased. The company came across certain other transactions also and got confused as to what should be included as 'free reserves'.

The company has approached you to define to them the meaning of the term "free reserves" for dividend distribution as per the provisions of the Companies Act, 2013.

[MTP Jan'25 - 5 marks]

Answer

As per section 2(43) of the Companies Act, 2013, free reserves means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend:

Provided that—

(i) any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or

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(ii) any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves.

Question 14:

Mr. Kaushal is a Chartered and an MBA by profession, has been appointed as an Executive Director on the Board of XYZ Limited. His job profile includes advising the Board of Directors of the company on various compliance matters, strategies, business plans, and risk matters relating to the company. Keeping in view of above position whether Mr. Kaushal can be classified as the Promoter of XYZ Limited? Examine the same under the provisions of the Companies Act, 2013.

[MTP Jan'25 - 5 marks]

Answer

According to section 2(69) of the Companies Act, 2013, Promoter means a person:

(a) Who has been named as such in a prospectus or is identified by the company in the annual return; or

(b) Who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or

(c) In accordance with whose advice, directions or instructions the Board of Directors of the Company is accustomed to act.

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity.

As the job profile of Mr. Kaushal is only limited to advise the Board of Directors on various compliance matters, strategies, business plans and risk matters relating to business of the company and that to only in a professional capacity, he will not be classified as a Promoter of XYZ Limited.

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2 Incorporation of Company and Matters Incidental Thereto

Question 1

The Articles of Association of XYZ Ltd. provides the Board of Directors authority to issue bonds provided such issue is authorized by the shareholders by a necessary resolution in the general meeting of the company. The company was in dire need of funds and therefore, it issued the bonds to Mr. X without passing any such resolution in general meeting. Can Mr. X recover the money from the company? Decide referring the relevant provisions of the Companies Act, 2013.

[Nov'16]

Answer

Relevant Provisions

Doctrine of Indoor Management:

According to this doctrine, persons dealing with the company need not inquire whether internal proceedings relating to the contract are followed correctly, once they are satisfied that the transaction is in accordance with the memorandum and articles of association.

Stakeholders need not enquire whether the necessary meeting was convened and held properly or whether necessary resolution was passed properly. They are entitled to take it for granted that the company had gone through all these proceedings in a regular manner.

The doctrine helps to protect external members from the company and states that the people are entitled to presume that internal proceedings are as per documents submitted with the Registrar of Companies.

The company is bound to Mr. X:

(i) since the lender, Mr. X, had lent the money to the company assuming that the company was authorized to borrow money after obtaining authorization from the members in GM;

(ii) since, on the same facts, the Court held in "Royal British Bank v Turquand" that the outsiders dealing with the company were not required to inquire into the internal management of the company, and the outsiders were entitled to assume that as far as internal proceedings of the company were concerned, everything had been done regularly (termed as doctrine of indoor management).

Conclusion

In the present case, XYZ Ltd. will be bound to return the money to Mr. X.

Question 2

Repeated question. Hence, merged with other question.

Question 3

The role of doctrine of 'Indoor management' is opposed to that of the role of 'Constructive notice'. Comment on this statement with reference to the Companies Act, 2013.

[Jan'21 - 5 marks]

OR

The persons (not being members) dealing with the company are always protected by the doctrine of Indoor management. Explain. Also, explain when doctrine of Constructive Notice will apply.

[Nov'18, ICAI Module, MTP Nov'22, MTP Nov'23- 6 marks]

OR

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The directors of Smart Computers limited borrowed a sum of money from Mr. Tridev. The company's articles provided that the directors may borrow on bonds such sums as may, from time to time, be authorized by resolution passed at a general meeting of the company. The shareholders claimed that there had been no such resolution authorizing the loan, and therefore, it was taken without their authority and the company is not bound to repay the loan to Tridev. In the light of the contention of shareholders, decide whether the company is bound to pay the loan.

[MTP May 2020 - 6 marks]

Answer

According to this doctrine, persons dealing with the company cannot be assumed to have knowledge of internal problems of the company. They can simply assume that all the required things were done properly in the company.

Stakeholders need not enquire whether the necessary meeting was convened and held properly or whether necessary resolution was passed properly. They are entitled to take it for granted that the company had gone through all these proceedings in a regular manner.

The doctrine helps protect external members from the company and states that the people are entitled to presume that internal proceedings are as per documents submitted with the Registrar of Companies.

The doctrine of indoor management was evolved around 150 years ago in the context of the doctrine of constructive notice. The role of doctrine of indoor management is opposed to of the role of doctrine of constructive notice. Whereas the doctrine of constructive notice protects a company against outsiders, the doctrine of indoor management protects outsiders against the actions of a company. This doctrine also is a possible safeguard against the possibility of abusing the doctrine of constructive notice.

Basis for Doctrine of Indoor Management

(i) What happens internal to a company is not a matter of public knowledge. An outsider can only presume the intentions of a company, but not know the information he/she is not privy to.

(ii) If not for the doctrine, the company could escape creditors by denying the authority of officials to act on its behalf.

Exceptions to Doctrine of Indoor Management (Applicability of doctrine of constructive notice)

(1) Knowledge of irregularity: In case this 'outsider' has actual knowledge of irregularity within the company, the benefit under the rule of indoor management would no longer be available. In fact, he/she may well be considered part of the irregularity.

(2) Negligence: If, with a minimum of effort, the irregularities within a company could be discovered, the benefit of the rule of indoor management would not apply. The protection of the rule is also not available in the circumstances where company does not make proper inquiry.

(3) Forgery: The rule does not apply where a person relies upon a document that turns out to be forged since nothing can validate forgery. A company can never be held bound for forgeries committed by its officers.

(4) Where the question is in regard to the very existence of an agency.

(5) Where a pre-condition is required to be fulfilled before company itself can exercise a particular power. In other words, the act done is not merely ultra vires the directors/officers but ultra vires the company itself.

The above doctrines have been well considered while framing the provisions of various Acts pertaining to the companies worldwide. The Companies Act, 2013 and the earlier Acts relevant for the Companies in India are no exception to the same.

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Conclusion relevant for the Alternate question of Smart computers:

In the given question, Mr.Tridev being a person external to the company, need not enquire whether the necessary meeting was convened and held properly or whether necessary resolution was passed properly. Even if the shareholders claim that no resolution authorizing the loan was passed, the company is bound to pay the loan to Mr.Tridev.

Question 4

Mr. Dan, an Indian citizen decides to start a software development company and opts for a One Person Company (OPC). He appoints his friend, Mr. Rohit as the nominee at the time of incorporation, following all legal requirements. After two years, Mr. Rohit wants to withdraw his nomination. Mr. Dan then nominates Mr. Akaram in his place and submits the necessary Forms to the Registrar of Companies (RoC).

Considering the legal provisions governing OPCs, analyze the following:

1. What legal process must be followed when a nominee withdraws his consent?
2. How does the change of nominee impact the Memorandum of Association (MoA) of the company?
3. Can Dan own another OPC while still being a member of Dan Technologies OPC Pvt. Ltd.?

[Nov'2020, MTP May'25 - 5 marks]

Answer

A One Person Company (OPC) allows a single entrepreneur to establish a business with limited liability while ensuring continuity through the appointment of a nominee. The role of the nominee is crucial, as they automatically become the company's owner in case of the original member's death or incapacity.

1. Legal Process for Nominee Withdrawal

   In case if a nominee wishes to withdraw his consent the following steps must be followed:

   a. The nominee must submit a written notice to both the sole member (Mr. Dan) and the company.
   b. Mr. Dan has 15 days to appoint a new nominee.
   c. The new nominee, Mr. Akram, must provide written consent in Form INC-3.
   d. Mr. Akram must submit Form INC-4 to the RoC to update the company's records.

2. Impact on the Memorandum of Association (MoA)

   A change in the nominee's name does not alter the Memorandum of Association (MoA). The law ensures that nominee changes do not require formal amendments, simplifying administrative processes.

3. Membership Restriction on Multiple OPCs

   As per Rule 3(2) of the Companies (Incorporation) Rules, 2014, an individual cannot be a member of more than one OPC at any given time. Therefore, Mr. Dan cannot start another OPC unless he exits his current one. Similarly, Mr. Akram cannot be a nominee for multiple OPCs.

Question 5

Red Limited was incorporated on 1st April, 2014 is facing severe effects of depression of the economy. Owing to its bad financial status most of the members have started withdrawing their holding from the company. The company had 250 members on 10th January, 2019. By 15th January, 2019, 244 members had withdrawn their holding. No new member has invested in the company after 15th February till date. Now, Mr. A, an existing member has approached you to advise him regarding his liabilities in such a situation.

[RTP Nov'19, MTP Nov'21 - 4 marks]

Answer

Relevant Provisions

According to section 3A of the Companies Act, 2013, if at any time the number of members of a company is reduced, in the case of a public company, below seven, in the case of a private company, below two, and the company carries on business for more than six months while the number of members is so reduced, every person who is a member of the company during the time that it so carries on business after those six months and is cognizant of the fact that it is carrying on business with less than seven members or two members, as the case may be, shall be severally liable for the payment of the whole debts of the company contracted during that time, and may be severally sued therefor.

Conclusion

Hence, in the given situation, the number of **members** in the said public company **have fallen below 7** [250-244=6] and these members have continued beyond the specified limit of 6 months, the reduced members of the company **shall be severally liable** for the payment of the whole debts of the company contracted during that time, and may be severally sued therefor.

Question 6

Yadav Dairy Products Private limited has registered its articles along with memorandum at the time of registration of company in December, 2014. Now directors of the company are of the view that provisions of articles regarding forfeiture of shares should not be changed except by a resolution of 90% majority. While as per section 14 of the Companies Act, 2013 articles may be changed by passing a special resolution only. Hence, one of the directors is of the view that they cannot make a provision against the Companies Act, 2013. You are required to advise the company on this matter.

[RTP May'20, ICAI Module, MTP Sept'25 - 5 marks]

OR

The Articles of Association of a Company may contain provisions for entrenchment under Section 5 of the Companies Act, 2013. What is meant by entrenchment provisions in this context? Also State the relevant provisions of the said Act dealing with entrenchment provisions.

[Nov'20, MTP Nov'22, MTP 2 Nov'23 - 6 marks]

Answer

Relevant Provisions

As per **section 5** of the Companies Act, 2013 the article may contain provisions for entrenchment to the effect that specified provisions of the articles may be altered only if more restrictive conditions than a special resolution, are met.

The provisions for entrenchment shall only be made either on **formation** of a company, or by an **amendment** in the articles agreed to by all the members of the company in the case of a private company and by a special resolution in the case of a public company.

Where the articles contain provisions for entrenchment, whether made on formation or by amendment, the company shall give **notice to Registrar** of such provisions in prescribed manner [SPICE+ or MGT-14]

In the **present case**, Yadav Dairy Products Private Limited is a private company and wants to protect provisions of articles regarding forfeiture of shares. It means it wants to make entrenchment of articles, which is allowed. But the company will have to **pass a resolution taking permission of all the members** and it should also give notice to Registrar of Companies regarding entrenchment of articles.

Question 7

Mr. Shyamlal is a B. Tech in computer science. He has promoted an IT start up and got it registered as a Private Limited Company. Initially, only he and his family members are holding all the shares in the company. While drafting the Articles of Association of the company, it has been included that Mr. Shyamlal will remain as a director of the company for lifetime.

Mr. Mehra, a close friend of Mr. Shyamlal has warned him (Mr. Shyamlal) that in future if 75% or more shares in the company are held by non- family members then by passing a Special Resolution, the relevant articles can be amended and Mr. Shyamlal may be removed from the post of director.

Mr. Shyamlal has approached you to advise him for protecting his position as a director for lifetime. Give your answer as per the provisions of the Companies Act, 2013.

[MTP April'21]

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Answer

Relevant provisions

As per the provisions of sub-section (3) of section 5 of the Companies Act, 2013, the articles may contain provisions for entrenchment to the effect that specified provisions of the articles may be altered only if conditions or procedures as that are more restrictive than those applicable in the case of special resolution, are met or complied with.

Usually, an article of association may be altered by passing a special resolution but entrenchment makes it one difficult to change it. So, entrenchment means making something more protective.

Manner of inclusion of the entrenchment provision:

As per the provisions of sub-section (4) of section 5 of the Companies Act, 2013, the provisions of entrenchment shall only be made either on formation of a company, or by an amendment in the Articles of Association as agreed to by all the members of the company in the case of a private company and by a special resolution in case of a public company.

Notice to the Registrar of the entrenchment provision:

As per the provisions of sub-section (4) of section 5 of the Companies Act, 2013, where the articles contain provision for entrenchment whether made on formation or by amendment, the company shall give notice to the Registrar of such provisions in such form and manner as may be prescribed.

Conclusion

In the said situation the IT startup company is a private company. Therefore, Mr. Shyamlal can get the articles altered which is agreed to by all the members whereby the amended article will say that he can be removed from the post of director only if, say, 95% votes are cast in favour of the resolution and give notice of the same to the Registrar.

Question 8

Mr. Ram along with his brothers got registered a company in the state of Telangana by furnishing false information knowingly. What action may be taken against the company and its promoters under the provisions of The Companies Act, 2013?

[MTP May'23, Nov'19, MTP May'24, RTP Sept'24 - 5 marks]

Answer

Order of the Tribunal:

According to section 7(7) of the Companies Act, 2013, where a company has been got incorporated by furnishing false or incorrect information or representation or by suppressing any material fact or information in any of the documents or declaration filed or made for incorporating such company or by any fraudulent action, the Tribunal may, on an application made to it, on being satisfied that the situation so warrants:

(i) pass such orders, as it may think fit, for regulation of the management of the company including changes, if any, in its memorandum and articles, in public interest or in the interest of the company and its members and creditors; or
(ii) direct that liability of the members shall be unlimited; or
(iii) direct removal of the name of the company from the register of companies; or
(iv) pass an order for the winding up of the company; or
(v) pass such other orders as it may deem fit.

However, before making any order-.

(i) the company shall be given a reasonable opportunity of being heard in the matter; and
(ii) the Tribunal shall take into consideration the transactions entered into by the company, including the obligations, if any, contracted or payment of any liability.

Also, the promoters, the persons named as the first directors of the company and the persons making declaration at the time of registration of company shall each be liable for action under section 447.

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Question 9

Mr. Bindra is holding 950 equity shares of Bio safe Herbals, a section 8 company. Bio safe Herbals is planning to declare dividend in the Annual General Meeting for the Financial Year ended 31-03-2020. Examine whether the act of the company is in accordance with the provisions of the Companies Act, 2013.

[RTP May 2021]

Answer

Relevant Provisions

According to Section 8(1) of the Companies Act, 2013, the companies licensed under Section 8 of the Act (Formation of companies with Charitable Objects, etc.) are prohibited from paying any dividend to their members. Their profits are intended to be applied only in promoting the objects for which they are formed.

Conclusions

Hence, in the instant case, the proposed act of Bio safe Herbals, a company licensed under Section 8 of the Companies Act, 2013, which is planning to declare dividend, is not in accordance to the provisions of the Companies Act, 2013.

Question 10

One of the matters contained in the articles of Dhimaan Foundation, incorporated as a limited company under section 8 of the Companies Act, 2013, was altered by passing a special resolution in its general meeting and thereafter, intimation for the same was given to Registrar of Companies.

However, such alteration in the articles was opposed by Dhwaj & Co., a partnership firm which is its member that there such alteration was not valid.

Advise, as per the provisions of the Companies Act, 2013, whether the contention of Dhwaj & Co. was valid and whether it can be a member in such company?

[RTP May'22, MTP May'25 - 5 marks]

Answer

According to section 8 of the Companies Act, 2013, a company registered under this section shall not alter the provisions of its memorandum or articles except with the previous approval of the Central Government (the power has been delegated to Registrar of Companies).

Also, a firm may be a member of the company registered under section 8. Here, one of the matters of articles of Dhimaan Foundation was altered by passing a special resolution in its general meeting and thereafter, intimation for the same was given to Registrar of Companies.

As per the provisions of the Act, it is necessary to take previous approval of the Registrar of Companies for the same which was not done in the present case and thus the contention of Dhwaj & Co. was valid. Also, section 8 allows a firm to be a member of such company and hence, Dhwaj & Co. can be its member.

Question 11

Alfa school started imparting education on 1.4.2010, with the sole objective of providing education to children of weaker society either free of cost or at a very nominal fee depending upon the financial condition of their parents. However, on 30th March 2018, it came to the knowledge of the Central Government that the said school was operating by violating the objects of its objective clause due to which it was granted the status of a section 8 company under the Companies Act, 2013. Describe what powers can be exercised by the Central Government against the Alfa School, in such a case?

[MTP Aug 2018, MTP March 2019, ICAI Module - 5 marks]

OR

Mr. X, in association with his relative formed a company to promote education for the children of poor section. A license was issued by the Central Government allowing the said company to be registered under section 8 of the Company. Government aids and lot of funds were contributed by public for the fulfilment of the benevolent object. However, on the compliant against the company, CG came to know about the manipulation of the funds in the company and so order to revoke the license of the company. Further,

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directed for the amalgamation with another company registered under this section with an object to save girl child. Examine the legal position as to the order passed by the Central government in the given situation in the light of the Companies Act, 2013.

[MTP Oct'18 - 6 marks]

OR

State Cricket Club was formed as a Limited Liability Company under Section 8 of the Companies Act, 2013 with the object of promoting cricket by arranging introductory cricket courses at district level and friendly matches. The club has been earning surplus. Of late, the affairs of the company are conducted fraudulently, and dividend was paid to its members. Mr. Cool, a member decided make a complaint with Regulatory Authority to curb the fraudulent activities by cancelling the license given to the company.

(i) Is there any provision under the Companies Act, 2013 to revoke the license? If so, state the provisions.

(ii) Whether the Company may be wound up?

(iii) Whether the State Cricket Club can be merged with M/s. Cool Net Private Limited, a company engaged in the business of networking?

[July 2021, MTP Nov'22, MTP Nov'23 - 5 marks]

Answer

Section 8 of the Companies Act, 2013 deals with the formation of companies which are formed to promote the charitable objects of commerce, art, science, education, sports etc. Such company intends to apply its profit in promoting its objects.

Section 8 companies are registered by the Registrar only when a license is issued by the Central Government to them. Since, Alfa School was a Section 8 company and it had started violating the objects of its objective clause, hence in such a situation the following powers can be exercised by the Central Government:

(i) The Central Government may by order revoke the license of the company where the company contravenes any of the requirements or the conditions of this sections subject to which a license is issued or where the affairs of the company are conducted fraudulently, or violative of the objects of the company or prejudicial to public interest, and on revocation the Registrar shall put 'Limited' or 'Private Limited' against the company's name in the register.

Provided that, no such order shall be made unless the company is given a reasonable opportunity of being heard.

(ii) Where a license is revoked, the Central Government may, by order, if it is satisfied that it is essential in the public interest, direct that the company be wound up under this Act or amalgamated with another company registered under this section.
However, no such order shall be made unless the company is given a reasonable opportunity of being heard.

(iii) Where a license is revoked and where the Central Government is satisfied that it is essential in the public interest that the company registered under this section should be amalgamated with another company registered under this section and having similar objects, then, notwithstanding anything to the contrary contained in this Act, the Central Government may, by order, provide for such amalgamation to form a single company with such constitution, properties, powers, rights, interest, authorities and privileges and with such liabilities, duties and obligations as may be specified in the order.

Conclusion of the alternative question (Mr. X, in association with ...)

According to the given situation, on revocation of license, the Central Government ordered for the amalgamation of the company with the separate entity registered under the section 8 of the Companies Act, 2013. However, an object for which both the Companies formed were promoting different objects. Accordingly, the order passed by the Central Government after the revocation of license, is not in compliance of the Section 8 of the Companies Act, 2013.

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Question 12

A group of individuals intend to form a club namely 'Budding Pilots Flying Club' as limited liability company to impart classroom teaching and aircraft flight training to trainee pilots. It was decided to form a limited liability company for charitable purpose under Section 8 of the Companies Act, 2013 for a period of ten years and thereafter the club will be dissolved and the surplus of assets over the liabilities, if any, will be distributed amongst the members as a usual procedure allowed under the Companies Act, 2013.
Examine the feasibility of the proposal and advise the promoters considering the provisions of the Companies Act, 2013.

[MTP Oct 2020, May 2019, ICAI Module, Nov 23 - 5 marks]

Answer

Relevant provision

According to section 8(1) of Companies Act, 2013, where it is proved to the satisfaction of CG that a person or an association of persons proposed to be registered under this Act as a limited company:

(i) has in its objects the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object;
(ii) intends to apply its profits, if any, or other income in promoting its objects; and
(iii) intends to prohibit the payment of any dividend to its members;

the Central Government may, by issue of license, allow that person or association of persons to be registered as a limited liability company.

Conclusion

In the instant case, the decision of the group of individuals to form a limited liability company for charitable purpose under section 8 for a period of ten years and thereafter to dissolve the club and to distribute the surplus of assets over the liabilities, if any, amongst the members will not hold good, since there is a restriction as pointed out in point (b) above regarding application of its profits or other income only in promoting its objects.

Further, there is restriction in the application of the surplus assets of such a company in the event of winding up or dissolution of the company as provided in sub-section (9) of Sec 8 of the Companies Act, 2013.

Therefore, the proposal is not feasible.

Author's Note:
Depending on the marks of the question, student may include the provision of Sec 8(9) in the Relevant provision section of this answer. Sec 8(9) is as stated below:
If on winding up/dissolution, there remains any assets, after satisfaction of its liabilities, they may be:
a. transferred to another section 8 co. having similar objects subject to T&C imposed by Tribunal, or
b. sold and proceeds thereof credited to Insolvency and Bankruptcy Fund formed u/s 224 of IBC, 2016

Question 13

Mr. Dinesh incorporated a new Private Limited Company under the provisions of the Companies Act, 2013 and desires to commence the business immediately. Please advise Mr. Dinesh about the procedure for commencement of business as laid under the provisions of the Section 10A of the Companies Act, 2013.

[MTP April'21]

Answer

As per Section 10A of the Companies Act, 2013, a company having a share capital shall not commence any business or exercise any borrowing powers unless:

(i) A declaration is filed by a director within a period of 180 days of the date of incorporation of the company in such form and verified in such manner as may be prescribed, with the Registrar that every subscriber to the memorandum has paid the value of the shares agreed to be taken by him on the date of making of such declaration; and
(ii) The company has filed with the Registrar a verification of it registered office as provided in sub-section (2) of section 12.

Mr. Dinesh has to comply with the above requirements and procedure for commencing business of company.

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Question 14

XY Ltd. has its registered office at Mumbai in the State of Maharashtra. For better administrative conveniences the company wants to shift its registered office from Mumbai to Nashik (within the State of Maharashtra). What formalities the company has to comply with under the provisions of the Companies Act, 2013 for shifting its registered office as stated above? Explain.

[MTP April'19, MTP Oct'19, ICAI Module - 4 marks]

Answer

The Companies Act, 2013 under **section 13** provides for the process of altering the Memorandum of a company. Since the location or Registered Office clause in the Memorandum only names the state in which its registered office is situated, a change in address from Mumbai to Nashik, **does not result in the alteration of the Memorandum** and hence the **provisions of section 13** (and its sub sections) **do not apply** in this case.

However, under **section 12** (5) of the Act which deals with the registered office of company, the change in registered office from one town or city to another in the same state, must be approved by a **special resolution** of the company.

Further, **presuming that the Registrar will remain the same** for the whole state of Maharashtra, there will be **no need** for the company to seek the confirmation to such change from the **Regional Director**.

Question 15

Examine the validity of the following different decisions/proposals regarding change of office by A Ltd. under the provisions of the Companies Act, 2013:

(i) The Registered office is shifted from Thane (Local Limit of Thane District) to Dadar (Local limit of Mumbai District), both places falling within the jurisdiction of the Registrar of Mumbai, by passing a special resolution but without obtaining the approval of the Regional Director.

(ii) The Registered office is situated in Mumbai, Maharashtra (within the jurisdiction of the Registrar, Mumbai, Maharashtra State) whereas the Corporate Office is situated in Pune, Maharashtra State (within the jurisdiction of the Registrar, Pune). A Ltd. proposes to shift its corporate office from Pune to Mumbai under the authority of a Board resolution.

(iii) The registered office situated in certain place of a city is proposed to be shifted to another place within the local limits of the same city under the authority of Board Resolution.

[July'21, MTP May'23 - 5 marks]

Answer

Regarding the validity of Proposals w.r.t change of registered office by A Ltd. in the light of the **section 12** of the Companies Act, 2013:

(i) In the first case, where the Registered office is shifted from Thane to Dadar (one District to another District) falling under jurisdiction of same ROC i.e. Registrar of Mumbai.
As per Section 12 (5) of the Act which deals with the change in registered office outside the local limit from one town or city to another in the same state, may take place by virtue of a **special resolution** passed by the company. **No approval of regional director** is required as both the places are falling within the jurisdiction of the Registrar of Mumbai. Accordingly, said proposal is **valid**.

(ii) **Section 12** talks about shifting of Registered office only, In the second case the corporate office is being shifted from Pune to Mumbai under the **authority of Board resolution**. Shifting of corporate office under the board resolution is **valid**.

(iii) In the third case, change of registered office within the local limits of the same city. Said proposal is **valid** in terms it has been passed under the **authority of Board resolution**.

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Question 16

Vintage security equipment's limited is a manufacturer of CCTV cameras. It has raised Rs. 100 crores through public issue of its equity shares for starting one more unit of CCTV camera manufacturing. It has utilized 10 crores rupees and then it realized that its existing business has no potential for expansion because government has reduced customs duty on import of CCTV camera hence imported cameras from China are cheaper than its own manufacturing. Now it wants to utilize remaining amount in mobile app development business by adding a new object in its memorandum of association.
Does the Companies Act, 2013 allow such change of object. If not then what advise will you give to company. If yes, then give steps to be followed.

[RTP Nov 2019, ICAI Module]

Answer

According to section 13 of the Companies Act, 2013 a company, which has raised money from public through prospectus and still has any unutilized amount out of the money so raised, shall not change its objects for which it raised the money through prospectus unless a special resolution is passed by the company and:

(i) the details in respect of such resolution shall also be published in the newspapers (one in English and one in vernacular language) which is in circulation at the place where the registered office of the company is situated and shall also be placed on the website of the company, if any, indicating therein the justification for such change;

(ii) the dissenting shareholders shall be given an opportunity to exit by the promoters and shareholders having control in accordance with SEBI regulations.

Company will have to file copy of special resolution with ROC and he will certify the registration within a period of thirty days. Alteration will be effective only after this certificate by ROC.

Question 17

The object clause of the Memorandum of Vivek Industries Limited., empowers it to carry on real-estate business and any other business that is allied to it. Due to a downward trend in real-estate business, the management of the company has decided to take up the business of Food processing activity. The company wants to alter its Memorandum, so as to include the Food Processing Business in its objects clause. Examine whether the company can make such change as per the provisions of the Companies Act, 2013?

[ICAI Module]

Answer

Relevant provision

The Companies Act, 2013 has made alteration of the memorandum simpler and more flexible. Under section 13(1) of the Act, a company may, by a special resolution after complying with the procedure specified in this section, alter the provisions of its Memorandum.

In the case of alteration to the objects clause, section 13(6) requires the filing of the Special Resolution by the company with the Registrar. Section 13 (9) states that the Registrar shall register any alteration to the Memorandum with respect to the objects of the company and certify the registration within a period of thirty days from the date of filing of the special resolution by the company.

Section 13 (10) further stipulates that no alteration in the Memorandum shall take effect unless it has been registered with the Registrar as above.

Hence, the Companies Act, 2013 permits any alteration to the objects clause with ease. Vivek Industries Limited can make the required changes in the object clause of its Memorandum of Association.

Question 18

Manglu and friends got registered a company in the name of Taxmann Advisory private limited. Taxmann is a registered trademark. After 5 years when the owner of trademark came to know about the same, it filed an application with relevant authority. Can the company be compelled to change its name by the owner of trademark? Can the owner of registered trademark request the company and then company changes its name at its discretion?

[ICAI Module, RTP May'23, Jan'25 - 5 marks]

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Answer

Relevant provision

According to section 16 of the Companies Act, 2013 if a company is registered by a name which—

(i) in the opinion of the Central Government, is identical with the name by which a company had been previously registered, it may direct the company to change its name. Then the company shall by passing an ordinary resolution change its name within 3 months.

(ii) is identical with a registered trade mark and owner of that trade mark apply to the Central Government within three years of incorporation of registration of the company, it may direct the company to change its name. Then the company shall change its name by passing an ordinary resolution within 3 months.

Company shall give notice to ROC along with the order of Central Government within 15 days of change.

In the given case, owner of registered trade- mark is filing objection after 5 years of registration of company with a wrong name. While it should have filed the same within 3 years. Therefore, the company cannot be compelled to change its name.

As per section 13, company can anytime change its name by passing a special resolution and taking approval of Central Government. Therefore, if owner of registered trademark request the company for change of its name and the company accepts the same then it can change its name voluntarily by following the provisions of sec 13.

Question 19

The Board of Directors of Sindhu Limited wants to make some changes and to alter some Clauses of the Articles of Association which are to be urgently carried out, which include the increase in Authorized Capital of the company, issue of shares, increase in borrowing limits and increase in the number of directors. Discuss about the provisions of the Companies Act, 2013 to be followed for alteration of Articles of Association.

[RTP Nov 2018]

Answer

Alteration in Articles of Association: Section 14 of the Companies Act, 2013, vests companies with power to alter or add to its articles. The law with respect to alteration of articles is as follows:

(i) Alteration by special resolution: Subject to the provisions of this Act and the conditions contained in its memorandum, if any, a company may, by a special resolution alter its articles.

(ii) Filing of alteration with the registrar: Every alteration of the articles and a copy of the order of the Tribunal approving the alteration, shall be filed with the Registrar, together with a printed copy of the altered articles, within 15 days in such manner as may be prescribed, who shall register the same.

(iii) Any alteration made shall be valid: Any alteration of the articles registered as above shall, subject to the provisions of this Act, be valid as if it were originally contained in the articles.

(iv) Alteration noted in every copy: Every alteration made in articles of a company shall be noted in every copy of the articles, as the case may be. If a company makes any default in complying with the stated provisions, the company and every officer who is in default shall be liable to a penalty of one thousand rupees for every copy of the articles issued without such alteration. [Section 15]

Question 20

Naveen incorporated a "One Person Company" making his sister Navita as the nominee. Navita is leaving India permanently due to her marriage abroad. Due to this fact, she is withdrawing her consent of nomination in the said One Person Company. Taking into considerations the provisions of the Companies Act, 2013 answer the questions given below:

(i) If Navita is leaving India permanently, is it mandatory for her to withdraw her nomination in the said One Person Company?

(ii) If Navita maintained the status of Resident of India after her marriage, then can she continue her nomination in the said One Person Company?

[Nov 19, RTP May 2021, RTP Sept 2024]

@teamxalpha

Answer

As per the Companies (Incorporation) Rules, 2014:

Only a natural person who is an Indian citizen whether resident in India or otherwise shall be eligible to incorporate a One Person Company or shall be a nominee for the sole member of a One Person Company.

In line with the above provision:

(i) No, it is not mandatory for Navita to withdraw her nomination in the said OPC as she is leaving India permanently as residential status is not relevant. A natural person who is an Indian citizen whether resident in India or otherwise can be a nominee in OPC.

(ii) Navita can continue her nomination in the said OPC irrespective of her residential status as she is a natural person with Indian citizenship.

Question 21

S Ltd. is a company in which H Ltd. is holding 60% of its paid up share capital. One of the shareholder of H Ltd. made a charitable trust and donated his 10% shares in H Ltd. And 50 crores to the trust. He appoints S Ltd. as the trustee. All the assets of the trust are held in the name of S Ltd. Can a subsidiary hold shares in its holding company in this way?

[RTP N'19, ICAI Mod, MTP N'22, MTP M'23, MTP N'23, MTP Sept'25, MTP Jan'26 - 5 marks]

OR

Explain in the light of the provisions of the Companies Act, 2013, the circumstances under which a subsidiary company can become a member of its holding company

[ICAI Module]

Answer

Relevant Provisions

According to section 19 of the Companies Act, 2013 a company shall not hold any shares in its holding company either by itself or through its nominees. Also, holding company shall not allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.

Following are the exceptions to the above rule—

(i) where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or

(ii) where the subsidiary company holds such shares as a trustee; or

(iii) where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company but in this case it will not have a right to vote in the meeting of holding company.

Conclusion

In the given case one of the shareholders of holding company has transferred his shares in the holding company to a trust where the shares will be held by subsidiary company. It means now subsidiary will hold shares in the holding company. But it will hold shares in the capacity of a trustee. Therefore, we can conclude that in the given situation S Ltd. can hold shares in H Ltd.

Question 22

Kavya Ltd. has a paid up share-capital of Rs. 80 crores. Anjali Ltd. holds a total of Rs. 50 crores of Kavya Ltd. Now, Kavya ltd. is making huge profits and wants to expand its business and is aiming at investing in Anjali Ltd. Kavya Ltd. has approached you to analyze whether as per the provisions of the Companies Act, 2013, they can hold 1/10th of the share capital of Anjali Ltd.

[MTP March 2021 - 5 marks]

@teamxalpha

Answer

Relevant provision

In terms of section 2 (87) of the Companies Act 2013 "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Since, Anjali ltd. is holding more than one half (50 crores out of 80 crores) of the total voting power of Kavya Ltd., it (Anjali Ltd.) is holding of Kavya Ltd.

Further, as per the provisions of section 19 of the Companies Act, 2013, no company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void:

Provided that nothing in this sub-section shall apply to a case—

(i) where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or

(ii) where the subsidiary company holds such shares as a trustee; or

(iii) where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company

In the given question, Kavya ltd. cannot acquire the shares of Anjali Ltd. as the acquisition of shares does not fall within the ambit of any of the exceptions provided in section 19.

Question 23

AB Limited issued equity shares of Rs. 1,00,000 (10000 shares of Rs. 10 each) on 01.04.2020 which have been fully subscribed whereby XY Limited holds 4000 shares and PQ Limited holds 2000 shares in AB Limited. AB Limited is also holding 20% equity shares of RS Limited before the date of issue of equity shares stated above. RS Limited controls the composition of Board of Directors of XY Limited and PQ Limited from 01.08.2020. Examine with relevant provisions of the Companies Act, 2013:

(i) Whether AB Limited is a subsidiary of RS Limited?

(ii) Whether AB Limited can hold shares of RS Limited?

(iii) Whether AB Limited can vote at Annual General Meeting of RS Limited held on 30.09.2020?

[RTP Nov 2021, May 2019, Nov'23 - 5 marks]

Answer

This given problem is based on Section 2(87) read with section 19 of the Companies Act, 2013.

As per sub-clause (87) of Section 2 of the Companies Act, 2013 "subsidiary company" or "subsidiary", in relation to any other company (i.e., the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

For the purposes of this clause, Explanation is given providing that a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in point (i) or point (ii) above, is of another subsidiary company of the holding company.

Whereas Section 19 provides that, no company shall, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.

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Provided that nothing in this sub-section shall apply to a case where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company.

Here in the instant case, AB Ltd. issued 10,000 equity shares on 1.4.2020 whereby XY Ltd. & PQ Ltd. holds 4000 & 2000 shares respectively in AB Ltd., Considering 1 share = 1 vote, XY Ltd. and PQ Ltd. together holds more than one-half (50%) of the total voting power. Therefore, AB Ltd. will be subsidiary to XY Ltd. & PQ Ltd. from 1.4.2020.
Whereas AB Ltd. is already holding 20% equity shares of RS Ltd. before the date of issue of equity shares i.e., 1.4.2020.

Further, RS Ltd. controls the composition of Board of Directors of XY Ltd. and PQ Ltd. from 01.08.2020. In the light of sub-clause (87) of Clause 2, RS Ltd. is a holding company of XY Ltd. and PQ Ltd.

Following are the answers to the questions:

(i) Yes. In this case AB Ltd. shall be deemed to be a subsidiary company of the holding company (RS Ltd.) as RS Ltd. controls the composition of subsidiary companies XY Ltd. & PQ Ltd. as per explanation to sub-clause (87) of Clause 2.

(ii) Yes. In this case AB Limited is a subsidiary of RS Limited as AB Ltd. was holding 20% of equity shares of RS Ltd. even before it became a subsidiary company of the RS Ltd. (i.e. on 01 08.2020), according to the exception to section 19.

(iii) No. The subsidiary company shall have a right to vote at a meeting of the holding company only in respect of the shares held by it as a legal representative or as a trustee but not where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company. Therefore, AB Ltd. cannot vote at AGM of RS Ltd. held on 30.9.2020.

Question 24 [Not well drafted question, student may ignore this question comfortably]

Give answer in the following cases as per the Companies Act, 2013:

~~(i) X Ltd., already holds 20 lacs shares in ABZ Ltd. Thereafter, in 2017, ABZ Ltd. controls the composition of the Board of directors of X Ltd. and transfers certain shares to it. State whether such transfer of shares by ABZ Ltd. to X Ltd. is valid.~~

(ii) In continuation of above facts, Mr. R, is a member of the ABZ Ltd. He met an accident. Mr. N (son of Mr. R), is one of the directors of the X Ltd. He was also a nominee of shares held by Mr. R. Being a legal representative and nominee, Mr. N gets transferred the shares of Mr. R. State on the validity of the transfer of such shares to Mr. N of X Ltd.

[MTP Oct 2018 - 7 marks]

Answer

Relevant provisions

As per section 2(87) of the Companies Act, 2013, X Ltd. is a subsidiary company of ABZ Ltd. as ABZ Ltd. controls the composition of the Board of Directors of X Ltd.

Further, section 19 of the companies Act provides that no company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.

Provided that this sub-section shall not apply-

a) where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or
b) where the subsidiary company holds such shares as a trustee; or
c) where subsidiary co. is a shareholder even before it became a subsidiary company of the holding co.

Conclusion

On the basis of the above provisions, following are the answers:

~~(i) In the given case, X ltd. already holds shares in ABZ Ltd. before becoming its subsidiary. The given situations falls within the purview of the exceptions when such transfer of shares by holding company to its subsidiary is permissible. So, this transfer of shares by ABZ Ltd. to X Ltd. is valid.~~

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(ii) This situation falls within the purview of exemption stating that such subsidiary company who holds such shares as the legal representative of a deceased member of the holding company, are entitled to hold the shares of the holding company. So, Mr. N being the legal representative of the deceased member of the Holding company, was entitled for the holding of shares of ABZ Ltd.

Question 25

S Ltd acquired 10% paid up share capital of H Ltd on 15th March 2017. H Ltd acquired 55% paid up share capital of S Ltd on 10th March 2018. H Ltd. on 25th September, 2020 decided to issue bonus shares in the ratio of 1:1 to the existing shareholders. Accordingly, bonus shares were allotted to S Ltd. Examine under the provisions of the Companies Act, 2013 and decide

(i) the validity of holding of shares by S Ltd. in H Ltd.
(ii) allotment of Bonus shares by H Ltd. to S Ltd.

[Nov'20]

Answer

As per Section 19 of the Companies Act, 2013, no company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.

However, this shall not apply where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company.

In the given case, H Ltd. has acquired 55% paid up share capital of S Ltd. on 10th March 2018. Whereas, S Ltd. has been holding 10% paid up share capital of H Ltd. since 15th March, 2017. The said instance as asked in the question falls under the exception stated above.

Therefore -

(i) Holding of shares by S Ltd. in H Ltd. is valid in view of the proviso (c) to sub-section (1) of section 19 of the Act, which states that the restrictions of provisions of section 19(1) will not be applicable where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company.
(ii) Allotment of bonus shares by H Ltd. to S Ltd. is also valid in view of the above proviso.

Question 26

Repeated question. Hence, merged with other question

Question 27

Vijay, a member of Mayur Electricals Ltd. gave in writing to the company that the notice for any general meeting be sent to him only by registered post at his residential address at Kanpur for which he deposited sufficient money. The company sent notice to him by ordinary mail under certificate of posting. Vijay did not receive this notice and could not attend the meeting and contended that the notice was improper.

Decide:

(i) Whether the contention of Vijay is valid.
(ii) Will your answer be the same if Vijay remains in London for two months during the notice of the meeting and the meeting held?

[RTP Nov 2020, ICAI Module]

Answer

According to section 20(2) of the Companies Act, 2013, a document may be served on Registrar or any member by sending it to him by post or by registered post or by speed post or by courier or by delivering at his office or address, or by such electronic or other mode as may be prescribed.

Provided that a member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting.

Thus, if a member wants the notice to be served on him only by registered post at his residential address at Kanpur for which he has deposited sufficient money, the notice must be served accordingly, otherwise service will not be deemed to have been effected.

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Accordingly, the questions as asked may be answered as under:

(i) The contention of Vijay shall be tenable, for the reason that the notice was not properly served.

(ii) In the given circumstances, the company is bound to serve a valid notice to Vijay by registered post at his residential address at Kanpur and not outside India.

Question 28

Explain the provisions of the Companies Act, 2013 relating to the 'Service of Documents' on a company and the members of the company.

[MTP Mar'21, ICAI Mod, MTP N'22, MTP N'23, MTP M'24, MTP M'25, MTP Jan'26 - 5 marks]

Answer

Under section 20 of the Companies Act, 2013 a document may be served on a company or an officer thereof by sending it to the company or the officer at the registered office of the company by registered post or by speed post or by courier service or by leaving it at its registered office or by means of such electronic or other mode as may be prescribed.

However, in case where securities are held with a depository, the records of the beneficial ownership may be served by such depository on the company by means of electronic or other mode.

Under section 20 (2), save as provided in the Act or the rule thereunder for filing of documents with the registrar in electronic mode, a document may be served on Registrar or any member by sending it to him by post or by registered post or by speed post or by courier or by delivering at his office or address, or by such electronic or other mode as may be prescribed.

However, a member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting.

Question 29

Parag Constructions Limited is a leading infrastructure company. One of the directors of the company Mr. Parag has been signing all construction contracts on behalf of company for many years. All the parties who ever deal with the company know Mr. Parag very well. Company has got a very important construction contract from a renowned software company. Parag constructions will do construction for this site in partnership with a local contractor Firozbhai. Mr. Parag signed partnership deed with Firozbhai on behalf of company because he has an implied authority. Later in a dispute company denied to accept liability as a partner. Can the company deny its liability as a partner?

[ICAI Module]

Answer

As per section 22 of the Companies Act, 2013 a company may authorize any person as its attorney to execute deeds on its behalf in any place either in or outside India. But common seal should be affixed on his authority letter or the authority letter should be signed by 2 directors of the company or it should be signed by 1 director and secretary. This authority may be either general for any deeds or it may be for any specific deed.

A deed signed by such an attorney on behalf of the company and under his seal shall bind the company as if it were made under its common seal.

Conclusion

In the present case company has not neither given any written authority not affixed common seal of the authority letter. It means that Mr. Parag is not legally entitled to execute deeds on behalf of the company. Therefore, deeds executed by him are not binding on the company. Therefore, company can deny its liability as a partner.

Question 30:

Sapphire Private Limited has registered its articles along with memorandum as on 1st July 2021. The directors of the company seeks your advice regarding the effect of registration of the company on the company itself and on its members.

[May 2022 - 3 marks]

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Answer

As per Section 9 and 10 of the Companies Act, 2013 following shall be the effect of registration of a company:

(1) From the date of incorporation, the subscribers to the memorandum and all members of the company, shall become a body corporate.

(2) Such a registered company shall be capable of exercising all the functions of an incorporated company with the perpetual succession with power to acquire, hold and dispose of property, and to contract and to sue and be sued.

(3) The memorandum and articles shall, when registered, bind the company and the members thereof to the same extent as if they respectively had been signed by the company and by each member, and contained covenants on its and his part to observe all the provisions of memorandum and of the articles.

(4) All monies payable by any member to the company under the memorandum or articles shall be a debt due from him to the company.

Question 31

Mr. Aditya had incorporated a one person company on 07.07.2021. Mr. Yash was named as a nominee in the memorandum of the said one person company. Now, Mr. Aditya, considering the perpetual nature of company form of business, desires to appoint ABC Private Limited as a nominee instead of Mr. Yash. Examine with reference to the Companies Act, 2013, whether the proposal of Mr. Aditya to appoint ABC Private Limited as a nominee is valid?

[RTP Nov 2022]

Answer

As per the provisions of Rule 3(1) of the Companies (Incorporation) Rules, 2014, only a natural person who is an Indian citizen whether resident in India or otherwise-

(a) shall be eligible to incorporate a One Person Company (OPC);

(b) shall be a nominee for the sole member of a One Person Company (OPC).

By taking into account the above provisions, ABC Private Ltd. cannot be appointed as nominee in one person company as only natural persons can be appointed as a nominee. Hence, the proposal of Mr. Aditya to appoint ABC Private Ltd. as a nominee is not valid.

Question 32

The Article of Association (AOA) of AB Ltd. provides that documents may be served upon the company only through Speed Post. Suresh dispatches some documents to the company by courier, under certificate of posting. The company did not accept it on the ground that it is in violation of the AOA. As a result, Suresh suffered from loss. Explain with reference to the provisions of the Companies Act, 2013:

(i) Whether refusal of document by the company is valid?

(ii) Whether Suresh can claim damages for it?

[Nov 22 – 5 marks]

Answer

Serving of document to Company

In terms of Section 20(1) of the Companies Act, 2013, a document may be served on a company or an officer thereof by sending it to the company or the officer at the registered office of the company by-

- registered post, or
- speed post, or
- courier service, or
- leaving it at its registered office, or
- means of such electronic or other mode as may be prescribed.

In the instant case, Suresh dispatches some document to AB Ltd. by courier whereas the AOA of said company provides that documents may be served upon the company only through Speed Post. AB Ltd. did not accept the documents on the ground that it is in violation of the AOA.

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Taking into account the above provision,

(i) Refusal of documents by AB Ltd. is not valid as sending of documents by courier to AB Ltd. is complying with the provisions given under section 20(1) of the Act.

(ii) Since, the AB Ltd. is at fault by not accepting the documents sent by Suresh, YES, he can claim the damages for any loss occurred to him.

Question 33

Amrish after completing his post-graduate degree in mechanical engineering from the United Kingdom returned back to India. Although he got a good placement in a UK-based company, but he thought to build his own business empire in India. Amrish belongs to Barmer district (Rajasthan) where his parents have agricultural land of 20 acres. He planned to manufacture commercial drones for the use of agricultural harvesting and assist in supply chain process. For this purpose, he planned to incorporate a private limited company having the following persons as the first subscribers to the Memorandum and Articles of Association:

(i) Amrish (himself)

(ii) Robert (He is a college friend of Amrish. He is a Citizen of UK. He has technical expertise and in order to incorporate the company visited India on a valid Business Visa).

(iii) Eliza (She is college friend of Amrish. She is a Citizen of Netherlands and has good business contacts in European Countries which will be immensely useful in marketing of the company's products).

(iv) Goma Devi (Mother of Amrish, who is illiterate. She has recently sold part of her agricultural land and has received ₹15 crores, out of which she agreed to subscribe ₹5 crores in the share capital of the proposed company).

(v) Goodwork Technologies LLP (A Limited Liability Partnership having the expertise in the field of remote sensing devices).

(vi) Mohit Electronics Private Ltd. (A Private Limited Company having expertise in the field of providing Electronics and Electricals).

Amrish planned to have the Registered Office of the proposed company at Jaipur while the factory and works office shall be at the Barmer. For incorporation of a company, an application for registration is to be filed with the Registrar. In the given case, the initial subscribers to the company consists of one illiterate person, two foreign nationals, one LLP and one Private Limited Company.

Discuss the procedure, how these persons shall subscribe to the Memorandum of Association and Articles of Association.

[May'25 - 5 marks]

Answer

Procedure as to how the persons shall subscribe to the Memorandum of Association and Articles of Association

In terms of Section 7(1)(a) of the Companies Act, 2013 (the Act), an application for registration shall be filed with the Registrar of Companies, within whose jurisdiction the registered office of the company is proposed to be situated in Form SPICE+ (Simplified Proforma for incorporating company electronically) plus INC 32 along with the fee as provided under the Companies (Registration Offices and Fees) Rules, 2014 and Memorandum (e-MOU in Form No. INC-33) and Articles (e-AoA in Form No. INC-34) of the company duly signed by all the subscribers to the Memorandum as prescribed under Rule 13 of the Companies (Incorporation) Rules, 2014.

S. No.	Particulars (In the case of):	Legal Provision
1	Amrish	In terms of Rule 13(a), each subscriber (in the given case, Amrish) shall add his name, address, description & occupation, if any, in the presence of at least one witness who shall attest the signature, shall sign and add his name, address, description and occupation, if any.

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2	Robert	In terms of Rule 13(f), where subscriber to the Memorandum is a Foreign National residing outside India and visited India and intended to incorporate a company, in such case the incorporation shall be allowed if he/she is having a valid Business Visa.
3	Eliza	In terms of Rule 13(e), where the subscriber to the memorandum is a foreign national residing outside India, their signature and address on the Memorandum and Articles of Association and proof of identity shall be notarized by a Notary (Public) with a certificate. Since Eliza is a foreign national residing outside India, her signature and address on the Memorandum and Articles of Association and proof of identity shall be notarized by a Notary (Public) with a Certificate. Rule 13(e) further provides that if a person resides in a country outside the Commonwealth or which is not a party to the Hague Apostille Convention, 1961, the certificate of the Notary (Public) shall be authenticated by a Diplomatic or Consular Officer. Note: In the given case, Netherlands is a country outside the Commonwealth; hence, the certificate of the Notary (Public) shall be authenticated by a Diplomatic or Consular Officer.
4	Goma Devi	In terms of Rule 13(b), since Goma Devi is an illiterate person, she shall affix her thumb impression or mark which shall be described as such by the person writing for her, who shall place the name of the subscriber against or below the mark and authenticate it by his own signature. He shall also write against the name of the subscriber the number of shares taken by her.
5	Goodwork Technologies LLP	In terms of Rule 13(d), where the subscriber is a Limited Liability Partnership, it shall be signed by a partner of the Limited Liability Partnership duly authorized by a resolution approved by all the partners of the LLP.
6	Mohit Electronics Private Limited	In terms of Rule 13(c), where the subscriber is a body corporate, the Memorandum and Articles of Association shall be signed by a director, officer or employee of the body corporate duly authorized in this behalf by a resolution of the Board of Directors.

Question 34

A group of five professionals decided to start a private limited company in the anti-drone solutions sector under the name Ddrone Pvt. Ltd. in April 2025. The company wants to have its registered office in Mumbai. On April 2, 2025, it applied for name reservation through RUN (Reserve Unique Name) and received approval on April 6, 2025. On May 15, 2025, due to a delay in documentation, the SPICe+ (Simplified Proforma for Incorporating Company Electronically) Plus (INC-32) form for incorporation was filed after 39 days from the date of name reservation.

The company proposed two directors, one Indian resident and one foreign national residing in the U.S. The foreign director did not have a DIN, and his passport was notarized but not apostilled. The company's registered office address was not finalized at the time of filing INC-32.

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The Memorandum of Association (MoA) and Articles of Association (AoA) were signed electronically, but one subscriber used a digital signature of a third party (his consultant), with verbal consent.

Based on the above facts and applicable provisions of the Companies Act, 2013, answer the following questions:

1. Was the name Ddrone Pvt. Ltd. still valid when INC-32 was filed on May 15, 2025?
2. Is it mandatory to provide the company's registered office address at the time of incorporation? What is the time limit to furnish it otherwise?
3. What are the consequences if the company fails to file the declaration for commencement of business within the prescribed time, and fails to carry on any business or operations?

[Jan'26 – 5 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

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3 Prospectus and Allotment of Securities

Question 1

Examine the validity of this allotment in the light of the provisions of the Companies Act, 2013:
The Board of Directors of Reckless Investments Ltd. have allotted shares to the investors of the company without issuing a prospectus with the concerned Registrar of Companies. Explain the remedy available to the investors in this regard.

[MTP Aug 2018]

Answer

According to Section 23 of the Companies Act, 2013, a public company can issue securities to the public only by issuing a prospectus. Section 26 (1) lays down the matters required to be disclosed and included in a prospectus and requires the registration of the prospectus with the Registrar before its issue.

In the given case, the company has violated with the above provisions of the Act and hence the allotment made is void. The company will have to refund the entire moneys received and will also be punishable under section 26 of the Act.

Question 2

The Board of Directors of Chandra Ltd. proposes to issue the prospectus inviting offers from the public for subscribing the shares of the Company. State the reports which shall be included in the prospectus for the purposes of providing financial information under the provisions of the Companies Act, 2013.

[Nov 2019, RTP Nov 2020, RTP May 2022, ICAI Module - 4 marks]

Answer

Relevant Provision:

As per section 26(1) of the Companies Act, 2013, every prospectus issued by or on behalf of a public company either with reference to its formation or subsequently, or by or on behalf of any person who is or has been engaged or interested in the formation of a public company, shall be dated and signed and shall state such information and set out such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government:

Provided that until the Securities and Exchange Board specifies the information and reports on financial information under this sub-section, the regulations made by the Securities and Exchange Board under the Securities and Exchange Board of India Act, 1992, in respect of such financial information or reports on financial information shall apply.

Prospectus issued make a declaration about the compliance of the provisions of this Act and a statement to the effect that nothing in the prospectus is contrary to the provisions of this Act, the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992 and the rules and regulations made thereunder.

Conclusion:

Accordingly, the Board of Directors of Chandra Ltd. who proposes to issue the prospectus shall provide such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government in compliance with the above stated provision and make a declaration about the compliance of the above stated provisions.

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Question 3

Keya Limited decides to issue 1,00,000 securities of the company. The company decides to publish an advertisement of the prospectus. Enumerate to the company about necessary contents of its memorandum to be specified therein.

[RTP May 2021]

Answer

According to Section 30, where an advertisement of any prospectus of a company is published in any manner, it shall be necessary to specify therein the contents of its memorandum as regards the following:

(i) the objects,
(ii) the liability of members and the amount of share capital of the company,
(iii) the names of the signatories to the memorandum,
(iv) the number of shares subscribed for by the signatories, and
(v) the capital structure of the company.

Question 4

Prakhar Ltd. intends to raise share capital by issuing Equity Shares in different stages over a certain period of time. However, the company does not wish to issue prospectus each and every time of issue of shares. Considering the provisions of the Companies Act, 2013, discuss what formalities Prakhar Ltd. should follow to avoid repeated issuance of prospectus?

[RTP- Nov 2018, MTP Sept'25, MTP Jan'26 - 5 Marks]

OR

What is a Shelf-Prospectus? State the important provisions relating to the issuance of Shelf-Prospectus under the provisions of Companies Act,2013.

[Nov 2018, ICAI Module]

Answer

Shelf prospectus means a prospectus in respect of which securities or class of securities included therein are issued for subscription in one or more issues over a certain period without issue of a further prospectus

According to Section 31 of the Company Act, 2013 any class or classes of companies, as the Securities and Exchange Board may provide by regulations in this behalf, may file a shelf prospectus with the Registrar at the stage:

(i) of the first offer of securities included therein which shall indicate a period not exceeding one year as the period of validity of such prospectus which shall commence from the date of opening of the first offer of securities under that prospectus, and
(ii) in respect of a second or subsequent offer of such securities issued during the period of validity of that prospectus, no further prospectus is required.

The other formalities related to such repeated/subsequent issue of shares-

A company filing a shelf prospectus shall be required to file an information memorandum containing all material facts relating to new charges created, changes in the financial position of the company as have occurred between the first or previous offer of securities and the succeeding offer of securities and such other changes as may be prescribed, with the Registrar within the prescribed time, prior to the issue of a second or subsequent offer of securities under the shelf prospectus.

Thus, Prakhar Ltd. can follow the above provisions and can issue a shelf prospectus.

Question 5

ABC Limited proposes to issue series of debentures frequently within a period of one year to raise the funds without undergoing the complicated exercise of issuing the prospectus every time of issuing a new series of debentures. Examine the feasibility of the proposal of ABC Limited having taken into account the concept of deemed prospectus dealt with under the provisions of the Companies Act, 2013.

[July'21]

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Answer

Information Memorandum together with Shelf Prospectus is deemed Prospectus. The expression "shelf prospectus" means a prospectus in respect of which the securities or class of securities included therein are issued for subscription in one or more issues over a certain period without the issue of a further prospectus. [Explanation to Section 31]

Any class or classes of companies, as the Securities and Exchange Board may provide by regulations in this behalf, may file a shelf prospectus with the Registrar at the stage:

(i) of the first offer of securities included therein which shall indicate a period not exceeding one year as the period of validity of such prospectus which shall commence from the date of opening of the first offer of securities under that prospectus, and

(ii) in respect of a second or subsequent offer of such securities issued during the period of validity of that prospectus,

No further prospectus is required for issue of securities. [Sub-section (1)]

Hence, the proposal of ABC Limited to take into account the concept of deemed prospectus is correct.

Author's Note:
ICAI has casually used word "Deemed Prospectus" in its question to confuse students. Student will have to understand that this question is based on concept of shelf prospectus and not related to sec 25.

Question 6

What is meant by "Abridged Prospectus"? Under what circumstances an abridged prospectus need not accompany the detailed information regarding prospectus along with the application form? What are the penalties in case of default in complying with the provisions related to issue of abridged prospectus?

[MTP- March 2019, MTP Oct 2021]

Answer

Meaning of Abridged Prospectus: According to Section 2(1) of the Companies Act, 2013, an abridged prospectus means a memorandum containing such salient features of a prospectus as may be specified by the Securities and Exchange Board by making regulations in this behalf.

Circumstances under which the abridged prospectus need not accompany the application forms:

Section 33 (1) of the Companies Act, 2013 states that no application form for the purchase of any of the securities of a company can be issued unless such form is accompanied by an abridged prospectus. In terms of the Proviso to section 33 (1) an abridged prospectus need not accompany the application form if it is shown that the form of application was issued:

- In connection with a bona fide invitation to a person to enter into an underwriting agreement with respect to such securities; or
- Where the securities are not offered to the public.

Conclusion:

If a company makes any default in complying with the provisions of this section, it shall be liable to a penalty of fifty thousand rupees for each default.

Question 7

An allottee of shares in a Company brought action against a Director in respect of false statements in prospectus. The director contended that the statements were prepared by the promoters and he has relied on them. Is the Director liable under the circumstances? Decide referring to the provisions of the Companies Act, 2013

[MTP- March 2018, MTP Oct 19, MTP March 21 - 6 marks]

@teamxalpha

Answer

Yes, the Director shall be held liable for the false statements in the prospectus under sections 34 and 35 of the Companies Act, 2013. Whereas section 34 imposes a criminal punishment on every person who authorises the issue of such prospectus, section 35 more particularly includes a director of the company in the imposition of liability for such misstatements.

The only situations when a director will not incur liability for misstatements in a prospectus are as under:
No criminal liability under section 34 shall apply to a person if he proves that such statement or omission was immaterial or that he had reasonable grounds to believe, and did up to the time of issue of the prospectus believe, that the statement was true or the inclusion or omission was necessary.

No civil liability for any mis statement under section 35 shall apply to a person if he proves that:

(i) Having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or
(ii) The prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.

Conclusion:
Therefore, in the present case the director cannot hide behind the excuse that he had relied on the promoters for making correct statements in the prospectus. He will be liable for mis statements in the prospectus.

Question 8

With a view to issue shares to the general public a prospectus containing some false information was issued by a company. Mr. X received copy of the prospectus from the company, but did not apply for allotment of any shares. The allotment of shares to the general public was completed by the company within the stipulated period. A few months later, Mr. X bought 2000 shares through the stock exchange at a higher price which later on fell sharply. X sold these shares at a heavy loss. Mr. X claims damages from the company for the loss suffered on the ground the prospectus issued by the company contained a false statement. Referring to the provisions of the Companies Act, 2013 examine whether X's claim for damages is justified.
[MTP March 2018 – 6 marks]

Answer

Under section 2 (70) of the Companies Act, 2013, "prospectus" means any document described or issued as a prospectus and includes a red herring prospectus referred to in section 32 or shelf prospectus referred to in section 31 or any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate.

A prospectus is a document inviting offers from the public. The prospectus and any statement therein has no legal binding either on the company or its directors, promoters or experts to a person who has not purchased securities in response to it. Since, X purchased shares through the stock exchange (open market) which cannot be said to have bought shares on the basis of prospectus. X cannot bring action for deceit against the directors.

Hence, X will not succeed. It was also held in the case of Peek Vs. Gurney that the above-mentioned remedy by way of damage will not be available to a person if he has not purchased the shares on the basis of prospectus.

Question 9

Spark Services Limited issued a prospectus inviting public offer of securities on 18th June, 2024. The prospectus mentioned that Mr. T is one of the Directors of the Company. Mr. T is a famous social worker who helps in educating the poor children in Rajasthan. The prospectus also mentioned that a certain percentage of funds raised will be utilized towards that community service.

@teamxalpha

Mr. C was impressed by these statements and subscribed to the shares of the company. He was allotted 1000 shares of the company. He subsequently sold 250 shares to Mr. D. On 15 December, 2024, he came to know that Mr. T was not a director and the company never had any intention of doing community service.
Mr. C and Mr. D want to rescind the contract. Referring to the provisions of the Companies Act, 2013, examine whether Mr. C and Mr. D can rescind the contract.

[May'25 - 5 marks]

OR

RD Ltd. issued a prospectus. All the statements contained therein were literally true. It also stated that company had paid dividends for a number of years but did not disclose the fact that the dividends were not paid out of trading profits but out of capital profits. An allotee of shares claims to avoid the contract on the ground that the prospectus was false in material particulars. Decide that the argument of shareholder, as per the provision of the Companies Act, 2013, is correct or not?

[Dec'21 - 3 marks]

Answer

As per Section 34 of the Companies Act 2013, where a prospectus, issued, circulated or distributed, includes any statement which is untrue or misleading in form or context in which it is included or where any inclusion or omission of any matter is likely to mislead, every person who authorizes the issue of such prospectus shall be liable under section 447 of the Companies Act, 2013.

Right of Rescission

A person who has purchased shares from the company on the basis of the prospectus containing untrue and misleading statement of material facts is entitled to apply to the court for the rescission of the contract, under the relevant provisions of the Indian Contract Act 1872.

Exceptions - When right of rescission is not available?

As per the Contract Act, 1872, right to rescind allotment of shares will not be available to the subsequent purchasers of shares from the market.

In the given question, Mr. C subscribed to 1,000 shares of Spark Services Limited (on the basis of a prospectus which provided false statements related to Mr. T being one of the directors and that the company intended to utilize certain raised funds towards community service). Mr. D purchased 250 shares from Mr. C (i.e. he did not purchase shares on the basis of the prospectus containing untrue and misleading statement).

In the light of the above provisions Mr. C can rescind the contract as he purchased shares on the basis of the false statements in prospectus. However, Mr. D cannot rescind the contract.

Question 10

Sudarshan Exports Ltd. was dealing in export of rubber to specified foreign countries. The company was willing to purchase rubber trees in Andhra Pradesh. The prospectus issued by the company contained some important extracts of the expert report and number of trees in Andhra Pradesh. The report was found untrue. Mr. Alok purchased the shares of Sudarshan Exports Ltd. on the basis of the expert report published in the prospectus. Will Mr. Alok have any remedy against the company? State also the circumstances where an expert is not liable under the Companies Act, 2013.

[RTP and MTP May 2020, MTP Sept'25 - 5 marks]

Answer

Under section 35 (1) of the Companies Act 2013, where a person has subscribed for securities of a company acting on any statement included in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, the company and every person including an expert shall, be liable to pay compensation to the person who has sustained such loss or damage.

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In the present case, Mr. Alok purchased the shares of Sudarshan Exports Ltd. on the basis of the expert report published in the prospectus. Mr. Alok can claim compensation for any loss or damage that he might sustained from the purchase of shares, which has not been mentioned in the given case.

Hence, Mr. Alok will have no remedy against the company.

Circumstances when an expert is not liable: An expert will not be liable for any mis- statements in the prospectus under the following situations:

- Under section 26 (5), that having given his consent, but withdrew it in writing before delivery of the copy of prospectus for registration, or
- Under section 35 (2), that the prospectus was issued without his knowledge / consent and that on becoming aware of it, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent;
- An expert will not be liable in respect of any statement not made by him in the capacity of an expert and included in the prospectus as such
- Under Section 35 (2) (c) of the Act:
  It states that, as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, the report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that the person making the statement was competent to make it and that the said person had given the consent required by Section 26(5) of the Act to the issue of the prospectus and had not withdrawn that consent before filing of a copy of the prospectus with the Registrar or, to the defendant's knowledge, before allotment thereunder.

Question 11

State in what way does the Companies Act, 2013 regulate and restrict the following in respect of a company going for public issue of shares:

(i) Minimum Subscription, and
(ii) Application Money payable on shares being issued

[MTP- Oct 2018, April 2019, April 2021, ICAI Module - 6 marks]

Answer

The Companies Act, 2013 by virtue of provisions as contained in Section 39 (1) and (2) regulates and restricts the minimum subscription and the application money payable in a public issue of shares as under:

Minimum subscription [Section 39 (1)]: No Allotment shall be made of any securities of a company offered to the public for subscription; unless; -

(i) the amount stated in the prospectus as the minimum amount has been subscribed; and
(ii) the sums payable on application for such amount has been paid to and received by the company-

Application money: Section 39 (2) provides that the amount payable on application on each security shall not be less than 5% of the nominal amount of such security or such amount as SEBI may prescribe by making any regulations in this behalf.

Further section 39 (3) provides that if the stated minimum amount is not received by the company within 30 days of the date of issue of the prospectus or such time as prescribed by SEBI, the company will be required to refund the application money received within such time and manner as may be prescribed.

In case of any default under sub-section, the company and its officer who is in default shall be liable to a penalty, for each default, of one thousand rupees for each day during which such default continues or one lakh rupees, whichever is less.

Section 40 (3) provides that all moneys received on application from the public for subscription to the securities shall be kept in a separate bank account maintained with a scheduled bank.

@teamxalpha

Question 12

A Ltd. issued 1,00,000 equity shares of Rs. 100 each at par to the public by issuing a prospectus. The prospectus discloses the minimum subscription amount of Rs. 15,00,000 required to be received on application of shares and share application money shall be payable at Rs. 20 per share. The prospectus further reveals that A Ltd. has applied for listing of shares in 3 recognized stock exchanges of which 1 application has been rejected. The issue was fully subscribed and A Ltd. received an amount of Rs. 20,00,000 on share application. A Ltd., then proceeded for allotment of shares.

Examine the three disclosures in the above case study which are the deciding factors in an allotment of shares and the consequences for violation, if any under the provisions of the Companies Act, 2013.

[Jan 2021, MTP 2 May'23, Jan'26 - 5 marks]

Answer

Relevant Provision:

As per the requirement of the question, disclosures which are the deciding factors in an allotment of shares are laid down in section 39 of the Companies Act, 2013.

According to Section 39(1), no allotment of any securities of a company offered to the public for subscription shall be made unless-

(i) the amount stated in the prospectus as the minimum amount has been subscribed, and

(ii) the sums payable on application for the amount so stated have been paid to, and received by the company by cheque or other instrument.

The amount payable on application on every security shall not be less than five per cent of the nominal amount of the security or such other percentage or amount, as may be specified by the Securities and Exchange Board by making regulations in this behalf.

Given Case and Analysis:

In the question, A Ltd. issued shares to public by issuing of prospectus, disclosing minimum subscription, sum payable on application for the amount; and the amount received on share application is more than 5% of the nominal amount of the security.

Further, it revealed that A Ltd. has applied for listing of shares in 3 recognized stock exchanges of which one application was rejected.

In the given instance, there is compliance to section 23, as nothing is talked about matters required to be included in the prospectus under section 26 (1) and about filing with the registrar; assuming that the said requirements have been complied with, requirement of section 39 as regards obtaining of minimum subscription and the minimum amount receivable on application (not less than 5% of the nominal value of the securities offered) are fulfilled.

The provisions of section 40 of the Companies Act, 2013 states that every company making public offer shall, before making such offer, make an application to one or more recognized stock exchange or exchanges and obtain permission for the securities to be dealt with in such stock exchange or exchanges.

The above provision is very clear that not only the company has to apply for listing of the securities at a recognized stock exchange, but also obtain permission thereof from all the stock exchanges where it has applied, before making the public offer.

Since one of the three recognized stock exchanges, where the company has applied for enlisting, has rejected the application and the company has proceeded with making the offer of shares, it has violated the provisions of section 40. Therefore, this shall be deemed to be irregular allotment of shares.

Conclusion:

Consequently, A Ltd. shall be required to refund the application money to the applicants in the prescribed manner within the stipulated time frame.

@teamvidhya

Question 13

Kapoor Builders Limited decides to pay 2.5 percent of the value of debentures as underwriting commission to the underwriters but the Articles of the company authorize only 2.0 percent underwriting commission on debentures. The company further decides to pay the underwriting commission in the form of flats. Examine the validity of the above arrangements under the provisions of the Companies Act,2013.

[RTP May 2018, ICAI Module]

Answer

Relevant Provision:

Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to a number of conditions which are prescribed under Companies (Prospectus and Allotment of Securities) Rules, 2014. In relation to the case given, the conditions applicable under the above Rules are as under:

(i) The payment of such commission shall be authorized in the company's articles of association;
(ii) The commission may be paid out of proceeds of the issue or the profit of the company or both;
(iii) The rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent (2.5 %) of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;

Conclusion:

Thus, the Underwriting commission is limited to 5% of issue price in case of shares and 2.5% in case of debentures subject to the rates in articles of association.

In view of the above, the decision of Kapoor Builders Ltd. to pay underwriting commission exceeding 2% as prescribed in the Articles is invalid.

The company may pay the underwriting commission in the form of flats as both the Companies Act and the Rules do not impose any restriction on the mode of payment though the source has been restricted to either the proceeds of the issue or profits of the company.

Question 14

Examine the validity of the following statement referring to the provisions of the Companies Act, 2013 and/or Rules: "The Articles of Association of X Ltd. contained a provision that upto 4% of issue price of the shares may be paid as underwriting commission to the underwriters. The Board of Directors of X Ltd. decided to pay 5% underwriting commission.

[MTP April 2019, ICAI Module - 5 marks]

OR

Modern Jewellery Ltd decides to pay 5% issue price of shares as underwriting commission to the underwriter, but the articles of the company authorize only 4% underwriting commission on shares. Examine the validity of the above decision under the provision of the Companies Act, 2013.

[May 2019 - 2 marks]

Answer

Relevant Provision:

Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to the number of conditions which are prescribed under Companies (Prospectus and Allotment of Securities) Rules, 2014.

Under the Companies (Prospectus and Allotment of Securities) Rules, 2014 the rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less.

@teamxalpha

In the given problem, the articles of X Ltd. have prescribed 4% underwriting commission but the directors decided to pay 5% underwriting commission.

Conclusion:
Therefore, the decision of the Board of Directors to pay 5% commission to the underwriters is invalid.

Question 15

Explain various instances which make the allotment of securities as irregular allotment under the Companies Act, 2013.

[May 2019, ICAI Module - 4 marks]

Answer

Irregular allotment: The Companies Act, 2013 does not specifically provide for the term "Irregular Allotment" of securities. Hence, we have to examine the requirements of a proper issue of securities and consider the consequences of non- fulfilment of those requirements.

In broad terms an allotment of shares is deemed to be irregular when it has been made by a company in violation of Sections 23, 26, 39 or 40. Irregular allotment therefore arises in the following instances:

(i) Where a company does not issue a prospectus in a public issue as required by section 23; or
(ii) Where the prospectus issued by the company does not include any of the matters required to be included therein under section 26 (1), or the information given is misleading, faulty and incorrect; or
(iii) Where the prospectus has not been filed with the Registrar for registration under section 26 (4); or
(iv) The minimum subscription as specified in prospectus has not been received in terms of section 39; or
(v) The minimum amount receivable on application is less than 5% of the nominal value of the securities offered or lower than the amount prescribed by SEBI in this behalf; or
(vi) In case of a public issue, approval for listing has not been obtained from one or more of the recognized stock exchanges under section 40 of the Companies Act, 2013.

Question 16

TDL Ltd., a public company is planning to bring a public issue of equity shares in June, 2018. The company has appointed underwriters for getting its shares subscribed. As a Chartered Accountant of the company appraise the Board of TDL Ltd. about the provisions of payment of underwriter's commission as per Companies Act, 2013.

[May 2018]

Answer

The provisions of Companies Act, 2013 regarding the payment of underwriter's commission are as follows:

Payment of commission: A company may pay commission to any person in connection with the subscription to its securities, whether absolute or conditional, subject to such conditions as given in Rule 13 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.
Conditions for the payment of commission:

a) the payment of such commission shall be authorized in the company's articles of association;
b) the commission may be paid out of proceeds of the issue or the profit of the company or both;

Rate of commission: The rate of commission paid or agreed to be paid shall not exceed, in case of shares, 5% of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent of the price at which the debentures are issued, or as specified in the company's articles, whichever is less.

Disclosure of particulars: the prospectus of the company shall disclose the following particulars -

a) the name of the underwriters;
b) the rate and amount of the commission payable to the underwriter; and
c) number of securities which is to be underwritten or subscribed by underwriter absolutely.

@teamnovelnha

No commission to be paid: There shall not be paid commission to any underwriter on securities which are not offered to the public for subscription;

Copy of contract of payment of commission to be delivered to registrar: a copy of contract for the payment of commission is delivered to the Registrar at the time of delivery of the prospectus for registration.

Question 17

Prakash Limited wants to raise funds for its upcoming project. Accordingly, it has issued private placement offer letters for issuing equity shares to 55 persons, of which four are qualified institutional buyers and remaining are individuals. Before the completion of allotment of equity shares under this offer letter, company issued another private placement offer letter to another 155 persons in their individual names for issue of its debentures.

Being a public company is it possible for Prakash Limited to issue securities under a private placement offer? By doing so, whether the company is in compliance with provisions relating to private placement or should these offers be treated as public offers? What if the offer for debentures is given after allotment of equity shares but within the same financial year?

[Dec'21, MTP Mar'21, MTP M'22, MTP N'22, MTP N'23, MTP M'25, ICAI Mod., RTP Jan'26- 5 marks]

OR

Devarshi Ltd. made a private placement of its securities during F.Y. 2023-24, by offering it, as follows:

Type of Security	Number of persons to whom securities offered	Remarks
Equity Shares	210	Out of such 160 persons, 20 persons are offered shares under employees' stock option.
Debentures	50	Such debentures were secured against an immovable property of the company for which the charge-holders registered the charge on payment of fees to the Registrar.

As per the provisions of the Companies Act, 2013, determine the maximum number of persons to whom Devarshi Ltd. could have offered its securities under private placement during the financial year 2023-24.

[RTP Jan'26]

Answer

According to section 42 of the Companies Act, 2013 any private or public company may make private placement through issue of a private placement offer letter.

However, the offer shall be made to the persons not exceeding fifty or such higher number as may be prescribed, in a financial year. For counting number of persons, Qualified Institutional Buyers (QIBs) and employees of the company being offered securities under a scheme of employees' stock option will not be considered.

Further, Rule 14 (2) of the Companies (Prospectus and Allotment of Securities) Rules, 2014 prescribes maximum of 200 persons who can be offered securities under the private placement in a financial year, though this limit should be counted separately for each type of security.

It is to be noted that if a company makes an offer or invitation to more than the prescribed number of persons, it shall be deemed to be an offer to the public and accordingly, it shall be governed by the provisions relating to prospectus.

Also, a company is not permitted to make fresh offer under this section if the allotment with respect to any offer made earlier has not been completed or otherwise, that offer has been withdrawn or abandoned by the company. This provision is applicable even if the issue is of different kind of security.

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Any offer or invitation not in compliance with the provisions of this section shall be treated as a public offer and all provisions will apply accordingly.

In the given case Prakash Limited, though a public company but the private placement provisions allow even a public company to raise funds through this route. The company has given offer to 55 persons out of which 4 are qualified institutional buyers and hence, the offer is given effectively to only 51 persons which is well within the limit of 200 persons. From this point of view, the company complies the private placement provisions.

However, as per the question, the company has given another private placement offer of debentures before completing the allotment in respect of first offer and therefore, the second offer does not comply with the provisions of section 42.

Hence, the offers given by the company will be treated as public offer. In case the company gives offer for debentures in the same financial year after allotment of equity shares is complete then both the offers can well be treated as private placement offers.

Question 18

XYZ Limited issued a prospectus to raise funds for a new manufacturing project. After successfully raising the funds, the company identified an investment opportunity in a different industry six months later, requiring a significant portion of the funds. The proposed investment involved trading in equity shares of other listed companies.
The board of directors suggested varying the original objectives for which the funds were raised to allow this new investment and recommended passing a special resolution in the company's general meeting. While the promoters and controlling shareholders supported this change, some shareholders expressed concerns, particularly regarding the deviation from the initially stated purpose of the funds.

Based on the provisions of the Companies Act, 2013, advise on the validity of the proposal to redirect the funds toward this new investment.

[RTP Jan'25]

Answer

According to section 27(1) of the Companies Act, 2013, the terms of a contract referred to in the prospectus or objects for which the prospectus has been issued can be varied, but only with the authority of the company given by it in general meeting by way of special resolution.

The second proviso to sub-section (1) prescribes that such company is not to use any amount raised by it through the prospectus for buying, trading or otherwise dealing in equity shares of any other listed company.

In the given question, XYZ Limited, is planning to use the amount initially raised for investing in a different industry, which also involves trading in equity shares of other listed companies.

Though XYZ Limited has passed a special resolution for the said proposal but it cannot use any amount raised by it through the prospectus for buying, trading or otherwise dealing in equity shares of any other listed company. Hence, the said proposal for new investment is not valid.

Question 19

CDS Ltd. is planning to make a private placement of securities. The Managing Director arranged to obtain a brief note from some source explaining the salient features of the issue of private placement that the Board of Directors shall keep in mind while approving the proposal on this subject. The brief note includes, inter alia, the information / suggestions on the following points:

(i) A private placement shall be made only to a select group of identified persons not exceeding 200 in a financial year.
The aforesaid ceiling of identified persons shall not apply to the offer made to the qualified institutional buyers but is applicable to the employees of the Company who will be covered under the Company's Employees Stock Option Scheme.

@teamxalpha

(ii) The offer on private placement basis shall be made only once in a financial year for any number of identified persons not exceeding 200.

The Company solicits your remarks on the points referred above as to whether they are valid or not? Reasoned remarks should be given in accordance with the provisions of the Companies Act, 2013.

[Jan 2021, MTP Jan'26 - 5 marks]

Answer

Relevant Provision:

As per the provisions of sub-section (2) of section 42 of the Companies Act, 2013, private placement shall be made only to a select group of persons who have been identified by the Board (herein referred to as "identified persons"), whose number shall not exceed 50 or such higher number as may be prescribed, in a financial year subject to such conditions as may be prescribed.

It is also provided that any offer or invitation made to qualified institutional buyers, or to employees of the company under a scheme of employees' stock option as per provisions of section 62(1)(b) shall not be considered while calculating the limit of two hundred persons.

According to Rule 14 (2) of the Companies (Prospectus and Allotment of Securities) Rules, 2014, an offer or invitation to subscribe securities under private placement shall not be made to persons more than two hundred in the aggregate in a financial year.

As per Explanation given in this Rule, it is clarified that the restrictions aforesaid would be reckoned individually for each kind of security that is equity share, preference share or debenture.

Referring to the above-mentioned provisions of sub-section (2) of section 42 of the Companies Act, 2013 and Rule 14 the Companies (Prospectus and Allotment of Securities) Rules, 2014, we can conclude as follows:

(i) The company is correct in proposing that private placement shall be made only to a select group of identified persons not exceeding 200 in a financial year. This part of the proposal is correct.

The company is also correct in proposing that the aforesaid ceiling of identified persons shall not apply to offer made to the qualified institutional buyers, but the company is not correct in saying that the said ceiling is applicable to employees covered under the Company's Employee Stock Option Scheme. Hence, the second part of the proposal is only partially correct.

(ii) The Companies (Prospectus and Allotment of Securities) Rules, 2014 provides that an offer or invitation to subscribe securities under private placement shall not be made to persons more than 200 in aggregate in a financial year.

Keeping the ceiling of 200 persons in aggregate during a financial year, offer of private placement can be made more than once in a financial year. Therefore, the second statement is not fully correct.

Question 20:

The Board of Directors of P Limited are proposing to raise funds from the public through issue of equity shares. However, due to volatile financial markets, the price per share and the number of shares to be issued are left open and to be decided post closure of the issue. As a financial advisor of the company, what would you suggest to the Board in this regard as per the provisions of the Companies Act, 2013?

[May 2022, MTP Sept'25]

Answer

As a financial consultant the Board of Directors of ABC Limited would be advised to issue a Red Herring Prospectus. The expression "red herring prospectus" means a prospectus which does not include complete particulars of the quantum or price of the securities included therein. [Explanation to Section 32] Thus, ABC Limited may raise funds from public through red herring prospectus whereby the price per security and number of securities are left open to be decided post closure of the issue.

The company may follow the provisions of section 32 in issuing a red herring prospectus:

(1) Red Herring Prospectus is issued prior to issue of Prospectus: A company proposing to make an offer of securities may issue a red herring prospectus prior to the issue of a prospectus.

@teamxalpha

(2) Filing with the registrar: A company proposing to issue a red herring prospectus shall file it with the Registrar at least three days prior to the opening of the subscription list and the offer.

(3) Obligations under Red Herring Prospectus vis-à-vis Prospectus: A red herring prospectus shall carry the same obligations as are applicable to a prospectus and any variation between the red herring prospectus and a prospectus shall be highlighted as variations in the prospectus.

(4) Filing of Prospectus with Registrar and SEBI upon closing of Offer: Upon the closing of the offer of securities under this section, the prospectus stating therein the total capital raised, whether by way of debt or share capital, and the closing price of the securities and any other details as are not included in the red herring prospectus shall be filed with the Registrar and the SEBI.

Question 21

The Board of Directors of 'A Limited' made a private placement offer to a group of 150 persons to subscribe for 100 equity shares @ ₹100 each on 1st April, 2022 after passing a special resolution in this regard. The company received application money from the members on 15thApril, 2022 but did not make an allotment of shares till 31stJuly, 2022 Instead, during this interim period, the Company opted to utilize the application money for the payment of dividend that had been declared by the company. Some of the members raised an objection that as the allotment was not done by the Company within the prescribed time limit, the company is liable to repay the application money with interest @ 15% p.a. for such non-compliance. Examine the validity of the objection raised by the members with reference to the Companies Act, 2013, and also decide whether application money can be used for the payment of dividends by the company.

[Nov'23 - 5 marks]

Answer

As per section 42(6) of the Companies Act, 2013, a company making an offer or invitation under private placement shall allot its securities within 60 days from the date of receipt of the application money for such securities and if the company is not able to allot the securities within that period, it shall repay the application money to the subscribers within 15 days from the expiry of 60 days and if the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of 12% per annum from the expiry of the 60th day.

It is provided that the monies received on application under this section shall be kept in a separate bank account in a scheduled bank and shall not be utilised for any purpose other than:
(1) for adjustment against allotment of securities; or
(2) for the repayment of monies where the company is unable to allot securities.

In the instant case, application money from the members was received on 15th April, 2022 and company did not make an allotment of shares till 31st July, 2022 i.e. after expiry of the period of 60 days. Hence, the company is liable to repay that money with interest at the rate of 12% per annum from the expiry of the 60th day.

Therefore, the objection raised by the members for non-allotment of shares/non-refund of share application money within the statutory time limit is valid. However, their claim to pay interest @ 15% is not valid.
Also, the application money cannot be used for the payment of dividends by the company.

Question 22

Referring to the provisions of the Companies Act, 2013, answer the following queries:
(i) What is the type of resolution to be passed and maximum number of persons to whom an offer by private placement in a financial year be made?
(ii) Explain the consequences of non-allotment of shares within the stipulated timeline.
(iii) In case the shares were allotted within the requisite allowed time, when can the company start utilizing the funds received by it from such private placement?

[May 24 - 5 marks]

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Answer

(i) Rule 14(1) of the Companies (Prospectus and Allotment of Securities) Rules, 2014, requires prior approval of the shareholders of the company, by a special resolution for each of the private placement offers or invitations.

Provided further that this sub-rule shall not apply in case of offer or invitation for non-convertible debentures, where the proposed amount to be raised through such offer or invitation does not exceed the limit as specified in clause (c) of sub-section (1) of section 180 in such cases relevant Board resolution under clause (c) of sub-section (3) of section 179 would be adequate.

Provided also that in case of offer or invitation for non-convertible debentures, where the proposed amount to be raised through such offer or invitation exceeds the limit as specified in clause (c) of sub-section (1) of section 180, it shall be sufficient if the company passes a previous special resolution only once in a year for all the offers or invitations for such debentures during the year.
Thus, based on above, the resolution will be passed.

As per section 42 (2) of the Companies Act, 2013, a private placement shall be made only to a select group of persons who have been identified by the Board, whose number shall not exceed 50 or such higher number as may be prescribed, in a financial year.

Rule 14 (2) of the Companies (Prospectus and Allotment of Securities) Rules, 2014 has prescribed 'an offer or invitation to subscribe securities under private placement shall not be made to persons more than two hundred (200) in the aggregate in a financial year'.

Provided that any offer or invitation made to Qualified Institutional Buyers and Employees of the company being offered under a scheme of ESOP under section 62(1)(b) shall not be considered while calculating the limit of two hundred persons.

As per rule 14(7), NBFCs which are registered with the RBI and Housing Finance Companies which are registered with the National Housing Bank; if they are complying with any regulations made by the RBI or National Housing Bank in respect of offer or invitation to be issued on private placement basis, then need not to comply with the rule 14(2) above.
Thus, based on above, the maximum number of persons to whom an offer by private placement in a financial year will be determined.

(ii) As per section 42(6) of the Companies Act, 2013 provides that a company making an offer or invitation under private placement shall allot its securities within sixty days from the date of receipt of the application money.

If company fails to make allotment within 60 days, then repayment of the application money to the subscribers shall be made within fifteen days from the expiry of sixty days and if the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve per cent per annum from the expiry of the sixtieth day.

(iii) Company shall not utilise monies raised through private placement unless allotment is made and the return of allotment is filed with the Registrar in accordance with section 42(8). The return of allotment shall be filed with the Registrar within 15 days from the date of the allotment under section 42.
Hence, it can utilize the money thus received once the return has been filled with the Registrar.

Question 23

1,00,000 Equity shares of ₹ 100 each were issued at a premium of ₹ 2 per share by PQR Limited after offer for the same was received from the shareholders in terms of the prospectus issued by the Company on 1st April, 2022. The prospectus specified that the amount received from the issue will be exclusively used for manufacturing and distributing some life-saving drugs. In August 2024, the Company after proper market survey found that there is ample demand for Artificial Intelligence based software and therefore decided to go forward for development of such type of software. They also wanted to divert a small amount for

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investment in the equity shares of a large successful company. Since there was surplus money from the above issue of equity shares, the Board of Directors passed two resolutions for the above purpose; the first for investing ₹ 60,00,000 for development of Artificial Intelligence based software and the second for investing ₹ 5,00,000 in the Equity Shares in X Limited, which is a listed company.

In order to avoid any unwarranted situation from the shareholders, the Directors called for an extra ordinary general meeting in which votes cast in favour of the proposal was in excess of the votes cast against it. Some shareholders objected to the above action of the Board on the following grounds:

(i) that the resolution passed in the extra-ordinary general meeting was not proper since the required majority did not approve the same.

(ii) that the prescribed details of the notice which was given to the shareholders should also have been published in newspapers (one in English and one in vernacular language) circulating in the city where the registered office of the Company is situated indicating clearly the justification for such variation in the use of the funds; and

(iii) that the resolution passed for investing ₹ 5,00,000 in the Equity Shares in X Limited is illegal.

Referring to the applicable provisions of the Companies Act, 2013, decide, whether the contentions of the shareholders are tenable.

[Jan'25 - 5 marks]

Answer

According to section 27(1) of the Companies Act, 2013 (the Act), the terms of a contract referred to in the prospectus or objects for which the prospectus has been issued can be varied, but only with the authority of the company given by it in a general meeting by way of a special resolution passed through Postal Ballot.

The first proviso to sub-section (1) requires that prescribed details of the notice which has been given to the shareholders are to be published in newspapers (one in English and one in vernacular language) circulating in the city where the registered office of the company is situated indicating clearly the justification for such variation.

The second proviso to sub-section (1) also prescribes that such company is not to use any amount raised by it through prospectus for buying, trading or otherwise dealing in equity shares of any other listed company.

Section 27(2) of the Act provides that the dissenting shareholders (i.e. those who did not agree to the variation) are to be given an exit offer by promoters or controlling shareholders at such exit price and in such manner and conditions as may be specified by SEBI by making regulations for this purpose.

In the given question, PQR Limited has raised amount through issue of equity shares. It was specified that the amount so received will be used exclusively for manufacturing and distributing some life saving drugs. However, now the company wants to use the surplus money left from the mentioned issue of shares, for development of Artificial Intelligence software and for investing in Equity Shares of X Limited (a listed company).

As per facts of the question and the provisions of the Act:
The company called an extraordinary general meeting for the above proposals of using the surplus amount.
In this meeting, votes cast in favor were in excess of votes cast against.
Section 27(1) requires that a special resolution be passed in case of variation of terms of objects for which the prospectus has been issued can be varied.

In view of the above provisions, the contentions of the shareholders are discussed as below:

(i) In terms of the provisions of sub-section (1) of section 27 stated above, the first contention of the shareholders is tenable since the resolution passed in the extra ordinary general meeting was not proper as it was not passed by the required majority.

(ii) In terms of the first proviso to sub-section (1) of section 27 stated above, the second contention of the shareholders is also tenable since the required publication was not made in the newspapers as mentioned in the above referred proviso.

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(iii) In terms of the second proviso to sub-section (1) of section 27 stated above, the third contention of the shareholders is also **tenable** since the Act **prohibits** the company to use any amount raised by it through the prospectus for buying, trading or otherwise dealing in equity shares of any other listed company.

In the given case, X Ltd., is a listed company, hence PQR Ltd., **cannot invest** in the equity shares of X Ltd. Hence, the resolution passed for investing ₹ 5,00,000 in the equity shares in X Limited is **not valid.**

Question 24

Grab Ltd., an unlisted company, intends to make a public offer of securities. However, they are not sure about the compliance requirements for issuing securities in dematerialised form. You being an expert, guide Grab Ltd, on the relevant provisions of the Companies Act, 2013 and whether Grab Ltd. is eligible to issue its securities?

[RTP May'25]

Answer

The given issue is based on **section 29** of the Companies Act, 2013 read with the relevant 9A (Issue of securities in dematerialised form by unlisted public companies) of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

Section 29 deals with the **Public Offer of Securities to be in dematerialized form.** It provides that every company making a public offer and such other class or classes of companies as may be prescribed, have to issue their securities only in dematerialised form by complying with the provisions of the Depositories Act, 1996 and regulations made under it.

Sub-section 1A provides that in case of prescribed class/classes of unlisted companies, the securities shall be held or transferred only in dematerialised form by complying with the **provisions of the Depositories Act, 1996** and regulations made under it.

Accordingly, in the given case, Grab Ltd., an unlisted company, if it falls in the prescribed classes of companies, have to comply with the **provisions given under section 29(1A) and the relevant Rule 9A of Companies (Prospectus and Allotment of Securities) Rules, 2014.** Grab Ltd. must ensure that its securities are issued and transferred in dematerialised form in compliance with the Depositories Act, 1996.

Question 25

Comment on the following:

(i) Disclosure required to be made on the face of the Prospectus.
(ii) Conditions in regard to Experts' Statement.
(iii) Date of publication of prospectus.

[May'25 - 5 marks]

Answer

(i) Disclosure on the face of Prospectus [Section 26(6)]

The prospectus issued as per **Section 26(1)** of the Companies Act, 2013 (the Act) shall, on the face of it, state/specify:

a) That a **copy** has been **delivered** for filing **to the Registrar**
b) **Documents required** by this section to be **attached** to the copy so delivered or **refer to statements** included in the prospectus **which specify these documents.**

(ii) Conditions in regard to Experts' Statement [Section 26(5)]

A prospectus issued under **Section 26(1)** of the Act shall not include a statement purporting to be made by an expert, if any of following condition met:

a) If he is **engaged or interested** in the **formation or promotion or management of the company**, or
b) If the expert has **not given written consent** to the issue of the prospectus, or
c) If he has **withdrawn the consent before** the **delivery** of a copy **of the prospectus to the Registrar** for filing.

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A **statement to that effect** (non-existence of conditions, if expert's statement is included) shall also be **included in the prospectus.**

(iii) Date of Publication of Prospectus [Explanation to Sub-Section 3]
The **date indicated in the prospectus** shall be **deemed** to be the **date of its publication.**

Question 26

Sridha Bookmarks Ltd. a public limited company engaged in the publication of books related to labour and industrial laws is planning to raise ₹ 10 Crore from the public, to fund its upcoming projects.
Sridha Bookmarks Ltd. has assigned two different merchant bankers namely ZFG & Associates and Bull Investments Ltd. to act as intermediaries for 60% of the above fund and the rest to be directly issued to Mr. Kuber an investment banker who intends to offer the shares for sale (OFS) to the public through inviting bids above the floor price at the stock exchange platform.
ZFG & Associates is a partnership firm and were allotted equity shares worth ₹ 4 Crore on 01.04.2024 to be sold by them to retail investors.

Bull Investments Ltd. a company by incorporation were allotted equity shares of ₹ 2 Crore for the above purpose as well on the same date.

The offer documents were issued by ZFG & Associates and Bull Investments Ltd. on 10.10.2024 and 25.09.2024 respectively. The offer document in case of Bull Investments Ltd. was signed by only one director of such company. Both the intermediaries have paid off the full consideration to Sridha Bookmarks Ltd. till date of offer to the public.

Mr. Kuber to whom 40% of the balance shares were issued, further offered to the public shares through an offer document. The Board of Directors of Sridha Bookmarks Ltd. have opposed such offer document claiming that the same does not contain the name of the person or persons or entity bearing the cost of making such offer of sale.

In view of provisions of the Companies Act, 2013:
(i) Whether the offer for sale made by the intermediaries namely ZFG & Associates and Bull Investments Ltd. is valid at law?
(ii) Whether the objection made by the Board of Directors about defect in the offer document issued by Mr. Kuber sustain?

[Sept'25 - 5 marks]

Answer

(i) As per the provision of **section 25(1)** of the Companies Act, 2013, where a company allots or agrees to allot any securities of the company with a view to all or any of those securities being **offered for sale to the public**, any document by which the offer for sale to the public is made shall, for all purposes, be **deemed to be a prospectus** issued by the company.

As per the provision of section 25(2), for the purposes of this Act, it shall, unless the contrary is proved, it shall be **evidence** that an allotment of, or an agreement to allot, securities was made with a view to the securities being offered for **sale to the public** if it is shown:

(a) that an offer of the securities or of any of them for sale to the public was made **within six months** after the allotment or agreement to allot; or

(b) that at the date when the offer was made, the **whole consideration** to be received by the company in respect of the securities had **not been received** by it.

As per the provision of section 25(4), where a person making an offer to which this section relates is a company or a firm, it shall be **sufficient** if the document referred to in sub-section (1) is **signed** on behalf of the company or firm by **two directors** of the company or by **not less than one-half of the partners** in the firm, as the case may be.

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Let us examine the situation in terms of the provision of Section 25(2) and Section 25(4).

Here, ZFG & Associates and Bull Investments Ltd., the two merchant bankers were allotted shares by Sridha Bookmarks Ltd. On the same day, i.e. 01.04.2024. Whereas ZFG & Associates issued the offer documents on 10.10.2024, i.e. beyond the period of six months after the allotment, Bull Investments Ltd. issued the offer documents on 25.09.2024, i.e. within the stipulated period of six months after the allotment.

Both the intermediaries have paid off the whole consideration to Sridha Bookmarks Ltd. till date of offer to the public.

The offer document was signed by only one director of Bull Investments Ltd., whereas at least two directors were required to sign the same.

Offer of sale made by the intermediary (of Sridha Bookmarks Ltd.), ZFG & Associates is not in compliance with the requirements of section 25(2) since it issued the offer documents on 10.10.2024, i.e. beyond the period of six months after the allotment and therefore is invalid.

Whereas offer of sale made by the intermediary (of Sridha Bookmarks Ltd.) Bull Investments Ltd. is also invalid due to absence of signature of at least 2 directors thus not meeting the requirements mentioned above in the section 25(4).

(ii) Rule 8 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 deals with the offer of Sale by Members.

As per sub-rule (2) of the above Rule, the prospectus issued under section 28 shall disclose the name of the person or persons or entity bearing the cost of making the offer of sale along with reasons.

Since the offer document issued by Kuber did not contain the name of the person or persons or entity bearing the cost of making such offer for sale, the offer document will be treated as defective and therefore the objection raised by the Board of Directors in this regard will be valid.

Question 27 [Sec 447 - CA Final Q for practice]

Rudraksha Ayurveda Ltd. is engaged in the business of producing and selling of ayurvedic medicines. Its purchase department is headed by Jagriti. The purchase department of the company is responsible for purchasing various ingredients which are used for manufacturing of the ayurvedic medicines. Some of the ingredients like Swarna Bhasma, Rajat Bhasma involves heavy costs.

Jagriti was delegated purchasing power of ingredients up to one lakh rupees individually for one lot and ten lakh rupees to committee. The committee consists of Head of Purchase department Head of Marketing department, Head of Finance and Accounts department and the Managing Director.

Suppliers of the Swarna Bhasma and Rajat Bhasma raised their invoices and the amount due from the company was somewhere between 18 to 20 lakhs. Jagriti always negotiates with the suppliers to inflate the price by 10% of the actual price and pass on this 10% as commission to Jagriti. This practice was being in vogue since Jagriti was promoted to the Head of Purchase department i.e., from January 2019. The bills of suppliers were sent to the Finance and Accounts department only after recommendation for payment by Jagriti. Jagriti takes the commission of 10% upfront before recommending the invoices for payment. The management of the company was having some doubt on the integrity of Jagriti, so it entrusted the forensic audit since January 2019 to till date of the invoices recommended by her.

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The forensic auditor carried detailed investigation, market price prevailing of Swarna Bhasma and Rajat Bhasma on different times. The auditor also sent a bogus supplier to Jagriti for supply of the Swarna Bhasma and Rajat Bhasma. The bogus supplier was also told the same commission sharing story.
The forensic auditor submitted the report to the Managing Director and narrated that by inflating the invoices by 10% the company since January 2019 has incurred a total loss of Rs 25 lakh rupees. The turnover of the company for the year ended on 31st March 2021 was 50 crore rupees.

Based on the captioned facts, answer the following questions:

(i) What punishment for fraud has been provided in the Companies Act, 2013?

(ii) What would have been your answer, if the amount involved in the fraud done by Jagriti comes to Rs.9 lakh only.

(iii) If the fraud in question would have been of public interest, what would be the term of imprisonment?

[CA Final - RTP May 22]

Answer

(i) Section 447 of the Companies Act, 2013 provides that without prejudice to any liability including repayment of any debt under this Act or any other law for the time being in force, any person who is found to be guilty of fraud involving an amount of at least ten lakh rupees or one per cent of the turnover of the company, whichever is lower shall be punishable with imprisonment for a term which shall not be less than six months, but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud.

Provided that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

In the given case:

The amount involved in fraud: Rs 25 lakh; 1% of Turnover of Rs 50 crores = Rs 50 lakhs; Whichever is less, means Rs 25 lakh

Imprisonment - Minimum of 6 months Maximum of 10 years AND Fine: Minimum: Rs 25 lakh and maximum 3 times of fraud amount i.e., Rs 75 lakhs.

(ii) The second proviso to Section 447 provides that where the fraud involves an amount less than ten lakh rupees or one per cent. Of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to fifty lakh rupees or with both.

If fraud amount is Rs 9 lakh; 1% of Turnover of Rs 50 crores = Rs 50 lakh; Whichever is lower i.e., Rs 9 lakh

Imprisonment: May extend to 5 years OR Fine: May extend to Rs 50 lakh OR with BOTH.

(iii) The first proviso to section 447 provides that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

In the given case, only the company has suffered loss and public interest has not been involved.

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4 Share Capital and Debentures

Question 1

To prevent excessive concentration of control among a group of shareholders, describe with the help of an example how the Companies Act, 2013, imposes limits and regulates the voting power of shares with differential rights (equity shares)?

[MTP May'25 - 5 marks]

OR

Can equity share with differential voting rights be issued? If yes, state the conditions under which such shares may be issued?

[May 2018]

Answer

The Companies Act, 2013, allows companies to issue equity shares with differential voting rights (DVRs), which provide different voting power compared to ordinary equity shares. However, to prevent excessive concentration of control in the hands of a few shareholders, the Act places **specific restrictions** on the total voting power that can be assigned to DVR shares.

Conditions to issue shares with differential rights

1. The company should have **filed annual returns and financial statements for the last 3 financial years.**
2. The company must obtain shareholder approval through a **ordinary resolution.**
3. The company must have a **consistent track record of profitability.**
4. There should be **no default in the payment of dividends, interest, or repayment of loans.**

According to Equity Shares with Differential Rights [Rule 4 of the Companies (Share capital and Debenture) Rules, 2014], a company can issue shares with differential voting rights, but the total voting power of such shares **cannot exceed 74% of the total voting rights** at any point in time. This ensures that at least 26% of the total voting power remains with ordinary equity shareholders, thereby maintaining a balance in decision-making.

Example to understand the above rule:

Hind Ltd. has 2,000 total shareholders, including:
Regular Equity Shareholders (with normal voting rights)
DVR Shareholders (with differential voting rights)

Step 1: Understanding Voting Power Distribution

Let's assume Hind Ltd. issues DVR shares where each shareholder has twice the voting power compared to regular equity shareholders.
Regular Equity Shareholders = 600 shareholders → 600 votes
DVR Shareholders = 400 shareholders → Each holding 2 votes → 800 votes
Total Voting Power in the Company = 600 + 800 = 1,400 votes

Step 2: Applying the 74% Rule

74% of 1,400 total votes = 1,036 votes

The DVR shareholders collectively hold 800 votes, which is below 1,036 votes. Hence this provision strikes a balance by allowing companies to issue differential voting rights shares and **restrict the over concentration of power with dominating few group** of peoples. By capping DVR voting power at 74%, the company ensures that the control is not excessively prejudiced in favor of DVR shareholders.

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Question 2:

Mr. A was having 500 equity shares of Open Sky Aircrafts Limited. Mr. B acquired these shares of the company from Mr. A but the signature of Mr. A, the transferor on the transfer deed was forged. The company registered the shares in the name of Mr. B by issuing share certificate. Mr. B sold 100 equity shares to Mr. C on the basis of share certificate issued by Open Sky Aircrafts Ltd. Mr. B and Mr. C are not having the knowledge of forgery. State the rights of Mr. A, Mr. B and Mr. C under the Companies Act, 2013.

[MTP May 2020, RTP Nov 2021 – 5 marks]

Answer

According to Section 46(1) of the Companies Act, 2013, a share certificate once issued under the common seal, if any, of the company or signed by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary", specifying the shares held by any person, shall be prima facie evidence of the title of the person to such shares. Therefore, in the normal course the person named in the share certificate is for all practical purposes the legal owner of the shares therein and the company cannot deny his title to the shares.

However, a forged transfer is a nullity. It does not give the transferee (Mr. B) any title to the shares. Similarly any transfer made by Mr. B (to Mr. C) will also not give a good title to the shares as the title of the buyer is only as good as that of the seller.

Therefore, if the company acts on a forged transfer and removes the name of the real owner (Mr. A) from the Register of Members, then the company is bound to restore the name of Mr. A as the holder of the shares and to pay him any dividends which he ought to have received *(Barton v. North Staffordshire Railway Co.)*.

In the above case, 'therefore, Mr. A has the right against the company to get the shares recorded in his name. However, neither Mr. B nor Mr. C have any rights against the company even though they are bona fide purchasers.

However, since Mr. A seems to be the perpetrator of the forgery, he will be liable both criminally and for compensation to Mr. B and Mr. C

Author's Note – ICAI has assumed in the answer that Mr. A is the perpetrator in this forgery. Student may choose to assume otherwise i.e.; student may write that – Any person who is the perpetrator of the forgery will be liable both criminally and for compensation to Mr. B and Mr. C

Question 3:

MNO Limited has the following equity share capital –

Class-1: Equity Share Capital – 3,00,000 equity shares of Rs,10 each (1 voting right for every 1 share)	Rs. 30,00,000
Class-2: Equity Share Capital – 50,000 equity shares of Rs,10 each (1 voting right for every 5 shares)	Rs. 5,00,000

At the time of issue, the company had fulfilled all the conditions related to the issue of equity share capital. The company wants to vary the voting rights of class 2 equity share capital – 1 voting right for every 5 shares to 1 voting right for every 10 shares.

The company's Memorandum and Articles of Association have given the company the power to make the variation. The holders of 40,000 equity shares have given their consent in writing for this variation.

Out of dissenting shareholders, the holders of 4,500 equity shares want to apply to the Tribunal against the company's action.

Examine, with reference to the relevant provisions of the Companies Act, 2013 –

(i) Whether a company can change the rights of its shareholders?

(ii) Whether the dissenting shareholders can apply to the Tribunal?

[May 24 – 5 marks]

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OR

Moringa Ltd. initially issued preference shares with a fixed 10% dividend. Later, the company decided to reduce the dividend rate to 8%, as the company's profit margins declined in the last two quarters. Some preference shareholders opposed this change, arguing that their rights were being altered unfairly. The company, however, claimed that the change was valid under its Articles of Association. Will Moringa Ltd. be able to proceed with the change. What legal provisions under the Companies Act, 2013, govern such variations in shareholders' rights, and what procedural requirements must be followed?

[RTP Nov 2018, MTP May 25 - 5 marks]

Answer

Section 48 of the Companies Act, 2013, allows the variation of shareholders' rights, if three conditions have been met.

First - There should be a provision in the memorandum or articles of the company entitling it to vary such class rights, in absence of same; the terms of issue of the shares of that class not prohibiting such a variation.

Second - The holders of at-least 75% of the issued shares of that class must have given their consent in writing or pass a special resolution sanctioning the variation at a separate class meeting.
Proviso to sub-section 1, provides if variation by one class of shareholders affects the rights of any other class of shareholders, the consent of three-fourths of such other class of shareholders shall also be obtained and the provisions of this section shall apply to such variation.

Third - Where the holders of not less than 10 per cent of the issued shares of a class did not consent to such variation or vote in favour of the special resolution for the variation, they may apply to the Tribunal to have the variation cancelled and where any such application is made the variation shall not have effect unless and until it is confirmed by the Tribunal.

(i) In the given question, 40,000 equity shareholders of Class 2 have given their consent in writing for the variation. Since, 80% (40,000/ 50,000) of the shareholders have given the consent, the company can change the rights of Class 2 shareholders provided such change in the rights of Class 2 shareholders is not affecting the rights of any other class of shareholders i.e. Class 1 shareholders in this case.

(ii) Total number of dissenting shareholders= 50,000- 40,000 = 10,000. Minimum number of shareholders who may apply to the Tribunal and then variation shall not take effect unless and until it is confirmed by the Tribunal = 10% of 50,000 = 5,000.

In the given question, since less than 5,000 (here 4,500) shareholders are intending to apply to Tribunal, hence, they cannot apply.

Question 4:

Walnut Limited has an authorized share capital of 1,00,000 equity shares of Rs. 100 per share and an amount of Rs. 3 crores in its Share Premium Account as on 31-3-2018. The Board of Directors seeks your advice about the application of share premium account for its business purposes. Please give your advice

[RTP May 2019, ICAI Module, MTP May 2019, MTP Sept,25 - 5 marks]

OR

MNP Tech Ltd., a fast-growing start-up in Bangalore, recently issued equity shares at a premium of ₹200 per share, raising a Securities Premium balance of ₹10 crore.

The CFO proposes the following uses of the Securities Premium Account to manage the company's financial commitments and investor expectations:

1. To write off advertisement expenses of ₹50 lakhs incurred during the product launch.
2. To issue fully paid bonus shares worth ₹2 crore to the existing shareholders, as a gesture of goodwill.

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3. To provide ₹1.5 crore for the premium payable on redemption of preference shares.
4. To distribute ₹1 crore as interim dividend since the company has not yet earned adequate profits.

As a legal advisor to the company, examine the validity of each proposed use with reference to the Companies Act, 2013.

[Jan'26 - 5 Marks]

Answer

According to section 52 of the Companies Act, 2013, where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a "securities premium account" and the provisions of this Act relating to reduction of share capital of a company shall, except as provided in this section, apply as if the securities premium account were the paid-up share capital of the company.

The securities premium account may be applied by the company—

a) towards the issue of unissued shares of the company to members of company as fully paid bonus shares;
b) in writing off the preliminary expenses of the company;
c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;
d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or
e) for the purchase of its own shares or other securities under section 68

The securities premium account may be applied by such class of companies, as may be prescribed and whose financial statement comply with accounting standards prescribed for such class of companies u/s 133

a) in paying up unissued equity shares of the company to be issued to members of the company as fully paid bonus shares; or
b) in writing off the expenses of or the commission paid or discount allowed on any issue of equity shares of the company; or
c) for the purchase of its own shares or other securities under section 68.

Keeping the above points in view Walnut Foods Limited should proceed to utilise the amount of SPA.

Question 5:

State the reasons for the issue of shares at premium or discount. Also write in brief the purposes for which the securities premium account can be utilized?

[Jan 2021, MTP 1 May'23 - 6 marks]

Answer

When a company issues shares at a price higher than their face value, the shares are said to be issued at premium and the differential amount is termed as premium. On the other hand, when a company issues shares at a price lower than their face value, the shares are said to be issued at discount and the differential amount is termed as discount. However, as per the provisions of section 53 of the Companies Act, 2013, a company is prohibited to issue shares at a discount except in the case of an issue of sweat equity shares given under section 54 of the Companies Act, 2013.

As per the provisions of section 52(1) of the Companies Act, 2013, where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a "securities premium account".

Application of Securities Premium Account: Same as mentioned in previous question

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Question 6

ABC Limited is a public company incorporated in New Delhi. The Board of Directors (BOD) of the company wants to bring a public issue of 100000 equity shares of Rs. 10 each. The BOD has appointed an underwriter for this issue for ensuring the minimum subscription of the issue. The underwriter advised the BOD that due to current economic situation of the Country it would be better if the company offers these shares at a discount of Rs. 1 per share to ensure full subscription of this public issue. The Board of Directors agreed to the suggestion of underwriter and offered the shares at a discount of Rs. 1 per share. The issue was fully subscribed, and the shares were allotted to the applicants in due course.

(1) Decide whether issue of shares as mentioned above is valid or not as per Sec 53 of Companies Act 2013.

(2) What would be your answer in above case if the shares are issued to employees as Sweat equity shares?

[Nov 2020, MTP Nov'22, MTP 2 Nov'23 - 5 marks]

Answer

According to **section 53** of the Companies Act, 2013, except as provided in section 54, a company shall **not** issue shares at a **discount**. Any share issued by a company at a discount shall be **void**.

According to **section 54** of the Companies Act, 2013, notwithstanding anything contained in section 53, a co. may issue sweat equity shares of a class of shares already issued, if prescribed conditions are fulfilled.

(1) In terms of above provisions, issue of shares by ABC Limited at a discount of Rs. 1 is **not valid**.

(2) In case the above shares have been issued to employees as Sweat equity shares, then the issue of shares at discount is **valid**. [Section 54(1) of the Companies Act, 2013]

Question 7

Trisha Data Security Limited was incorporated on 1st August, 2019 with a paid- up share capital of Rs. 200 crores. Within such a small period of about one year in operation, it has earned sizeable profits and has topped the charts for its high employee-friendly environment. The company wants to issue sweat equity to its employees. A close friend of the CEO of the company has told him that the company cannot issue sweat equity shares as minimum 2 years have not elapsed since the time company commenced its business. The CEO of the company has approached you to advise about the essential conditions to be fulfilled before the issue of sweat equity shares especially since their company is just about a year old.

[ICAI Module, MTP May 2019, May 2020, RTP May 2019 - 6 marks]

Answer

Sweat equity shares of a class of shares already issued.

According to **section 54** of the Companies Act, 2013, a company **may issue** sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:

(i) the issue is authorised by a **special resolution** passed by the company;

(ii) the resolution **specifies** the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(iii) where the equity shares of the company are **listed** on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the **Securities and Exchange Board** in this behalf and if they are **not so listed**, the sweat equity shares are issued in accordance with **such rules** as prescribed under Rule 8 of the Companies (Share and Debentures) Rules, 2014

The **rights, limitations, restrictions** and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under Section 54 and the holders of such shares shall **rank pari passu** with **other equity shareholders**.

Given case and analysis:

Trisha Data Security Limited can issue Sweat equity shares by following the conditions as mentioned above. It **does not make a difference that the company is just about a year old** because no such minimum time limit of 2 years in operations is specified under Section 54.

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Question 8:

SAB Health Products Limited issued equity shares worth ₹5,00,00,000 (5,00,000 equity shares of ₹100 each) and it was fully subscribed and partly paid at ₹50 each. The company made a call to all its subscribers to pay a sum of ₹30 for each share held by them. Mr. GH, a subscriber to the shares of the company, holding 10,000 shares, paid all the money due on the shares held by him in advance. Later, Mr. GH claimed interest on the money advanced by him and also dividend in respect of the advance money paid. Is his claim justified? Another shareholder, Mr. LK, holding 15,000 shares, did not pay the first call. So, the directors called upon him to pay the entire amount due by him in respect of the shares held by him. Referring to the provisions of the Companies Act, 2013 and the Rules made thereunder, examine whether the directors of SAB Health Products Limited are permitted to do so?

[Sept 24 - 5 marks]

Answer

As per section 50 of the Companies Act, 2013, (the Act) a company may, if so authorized by its Articles, accept from any member the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up.

As per section 51 of the Act, a company may, if so authorized by its Articles, pay dividends in proportion to the amount paid-up on each share. The Board of Directors of a company may decide to pay dividends on pro-rata basis if all the equity shares of the company are not equally paid-up.

Interest can be paid on such advance, if permitted by Articles. Here it is worth noting that, where the rate of interest is permitted by the Articles on such advance payment, same could be varied by shareholders in general meeting.

Further, section 49 of the Act, specifies that calls shall be made on a uniform basis on all shares that are falling under the same class. A shareholder on whom a regular call for payment has been served may choose to pay only a part of the sum due.

Hence, in the light of the stated provisions, SAB Health Products Limited is permitted to do the following acts:

Is Mr. GH's claim justified?

Mr. GH is entitled to claim interest on money advanced by him and also dividend in proportion to the amount paid-up on each share, if so authorized by the Articles of the company.

In the matter of Mr. LK

Whereas, with respect to Mr. LK, calls shall be made on a uniform basis by the directors, on all shares that are falling under the same class as per section 49 of the Act. A call cannot be made on some of the members only, unless they constitute a separate class of shareholders.

Therefore, the action of the Board of Directors of SAB Health Products Limited towards Mr. LK for calling to pay the entire amount due by him in respect of the shares held by Mr. LK is invalid and not permissible.

Question 9:

Due to insufficient profits, Silver Robotics Limited is unable to redeem its existing preference shares amounting to Rs. 10,00,000 (10,000 preference shares of Rs. 100 each) though as per the terms of issue they need to be redeemed within next two months. It did not, however, default in payment of dividend as and when it became due. What is the remedy available to the company in respect of outstanding preference shares as per the Companies Act, 2013?

[ICAI Module]

OR

SKS Limited issued 8% ₹ 1,50,000; Redeemable Preference Shares of ₹ 100 each in the month of May, 2010, which are liable to be redeemed within a period of 10 years. Due to the Covid-19 pandemic, the Company is neither in a position to redeem the preference shares nor to pay dividend in accordance with

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the terms of issue. The Company with the consent of Redeemable Preference Shareholders of 70% in value, made a petition to the Tribunal [NCLT] to accord approval to issue further redeemable preference shares equal to the amount due. Will the petition be approved by the Tribunal in the light of the provisions of the Companies Act, 2013? Can the company include the dividend unpaid in the above issue of redeemable preference shares?

[May 2022 - 3 marks]

Answer

According to Section 55(3) of the Companies Act, 2013, where a company is not in a position to redeem any preference shares or to pay dividend, if any, on such shares in accordance with the terms of issue (such shares hereinafter referred to as unredeemed preference shares), it may:

- with the consent of the holders of three-fourths in value of such preference shares, and
- with the approval of the Tribunal on a petition made by it in this behalf,

issue further redeemable preference shares equal to the amount due, including the dividend thereon, in respect of the unredeemed preference shares, and on the issue of such further redeemable preference shares, the unredeemed preference shares shall be deemed to have been redeemed.
Provided that the Tribunal shall, while giving approval under this sub-section, order the redemption forthwith of preference shares held by such persons who have not consented to the issue of further redeemable preference shares.

Given case and conclusion:

In view of the provisions of Section 55 (3), Silver Robotics Limited can initiate steps for the issue of further redeemable preference shares equal to the amount due i.e., Rs. 10,00,000. For this purpose, it shall obtain the consent of the holders of three-fourths in value of such preference shares and also seek approval of the Tribunal by making a petition.

In case, there are certain preference shareholders who have not accorded their consent for the proposal of issuing further redeemable preference shares, the Tribunal may order the company to redeem forthwith such preference shares.

Accordingly, Silver Robotics Limited must be ready with sufficient funds for the redemption of preference shares held by those who have not consented. On the issue of such further redeemable preference shares by the company, the unredeemed preference shares shall be deemed to have been redeemed.

Question 10:

Ramesh, a resident of New Delhi, sent a transfer deed duly signed by him as transferee and his brother Suresh as transferor, for registration of transfer of shares to Ryan Entertainment Private Limited at its Registered Office in Mumbai. He did not receive the transferred shares certificates even after the expiry of four months from the date of dispatch of transfer deed. He lodged a criminal complaint in the Court at New Delhi. Decide, under the provisions of the Companies Act, 2013, whether the Court at New Delhi is competent to act in the said matter? Moreover, is there any liability of company and officer in default in the said matter?

[ICAI Module]

Answer

According to Section 56 (4) of the Companies Act, 2013 every company, unless prohibited by any provision of law or of any order of court, Tribunal or other authority, shall deliver the certificates of all shares transferred within a period of one month from the date of receipt by the company of the instrument of transfer.

Further, as per Section 56 (6), where any default is made in complying with the provisions of sub-sections (1) to (5), the company and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.

In this case, the jurisdiction binding on the company is that of the State in which the registered office of the company is situated i.e., Mumbai. Hence, the Court at Delhi is not competent to act in the matter.

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Question 11:

Mr. Nilesh has transferred 1000 equity shares of Perfect Vision Private Limited to his sister Ms. Mukta. The company did not register the transfer of shares and also did not send a notice of refusal to Mr. Nilesh or Ms. Mukta within the prescribed period. Discuss as per the provisions of the Companies Act, 2013, whether aggrieved party has any right(s) against the company?

OR

Harsh purchased 1000 shares of Singhania Ltd. from Pratik and sent those shares to the company for transfer in his name. The company neither transferred the shares nor sent any notice of refusal of transfer to any party within the period stipulated in the Companies Act, 2013. What is the time frame in which the company is supposed to reply to transferee? Does Harsh, the transferee have any remedies against the company for not sending any intimation in relation to transfer of shares to him?

[ICAI Module, MTP March, 2019, RTP May 2018, MTP May 2019 - 5 marks]

Answer

The problem given in the question is governed by **Section 58** of the Companies Act, 2013 dealing with the refusal to register transfer and appeal against such refusal.

In the present case, the company has committed the **wrongful act** of not sending the notice of refusal to register the transfer of shares.

Under section 58 (1), if a private company limited by shares **refuses** to register the transfer of, or the transmission by **operation of law** of the right to any securities or interest of a member in the company, then the company shall **send notice of refusal** to the transferor and the transferee or to the person giving **intimation of such transmission**, within a period of **thirty days** from the date on which the instrument of transfer, or the intimation of such transmission, was delivered to the company.

According to Section 58 (3), the transferee **may appeal** to the Tribunal against the refusal within a period of **thirty days** from the date of receipt of the notice or in case **no notice** has been sent by the company, within a period of **sixty days** from the date on which the instrument of transfer or the intimation of transmission, was delivered to the company.

In this case, as the company has **not sent even a notice of refusal**, Ms. Mukta being **transferee can file an appeal** before the Tribunal within a period of **sixty days from the date** on which the instrument of transfer was **delivered** to the company.

Question 12

The Directors of Mars Motors India Ltd. desire to alter Capital Clause of the Memorandum of Association of their company. Advise them about the ways in which the said clause may be altered under the provisions of the Companies Act, 2013.

[ICAI Module]

Answer

Alteration of Capital:

Under **section 61** (1) a limited company having a share capital may, if **authorised by its Articles**, alter its Memorandum in its general meeting to:

(i) **increase** its authorized share capital by such amount as it thinks expedient;

(ii) **consolidate** and divide all or any of its share capital into shares of a larger amount than its existing shares;

However, no consolidation and division which results in changes in the voting percentage of shareholders shall take effect unless it is approved by the Tribunal on an application made in the prescribed manner.

(iii) **convert** all or any of its paid- up shares into stock and reconvert that stock into fully paid shares of any denomination.

(iv) **sub-divide** its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum;

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(v) cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Further, under section 64 where a company alters its share capital in any of the above-mentioned ways, the company shall file a notice in the Form No. SH-7 as per Rule 15 of the Companies (Share Capital and Debentures) Rules, 2014 with the Registrar, along with an altered memorandum within 30 days of alteration

The capital clause of memorandum, if authorised by the articles, shall be altered by passing ordinary resolution as per Section 61 (1) of the Companies Act, 2013.

Question 13:

VRS Company Ltd. is holding 45% of total equity shares in SV Company Ltd. The Board of Directors of SV Company Ltd. (incorporated on January 1, 2019) decided to raise the share capital by issuing further equity shares. The Board of Directors resolved not to offer any shares to VRS Company Ltd., on the ground that it was already holding a high percentage of the total number of shares issued by SV Company Ltd. The Articles of Association of SV Company Ltd. provide that the new shares should first be offered to the existing shareholders of the company. On March 1, 2019 SV Company Ltd. offered new equity shares to all the shareholders except VRS Company Ltd.

Referring to the provisions of the Companies Act, 2013 examine the validity of the decision of the Board of Directors of SV Company Ltd. of not offering any further shares to VRS Company Limited.

[ICAI Module]

Answer

Relevant provision:

The legal issues involved herein are covered under Section 62 (1) of the Companies Act, 2013.

Section 62 (1) (a) of the Companies Act, 2013 provides that if, at any time, a company having a share capital proposes to increase its subscribed capital by issue of further shares, such shares should first be offered to the existing equity shareholders of the company as at the date of the offer, in proportion to the paid-up capital on those shares.

Hence, the company cannot ignore a section of the existing shareholders and must offer the shares to the existing equity shareholders in proportion of their holdings.

As per facts of the case, the Articles of SV Company Ltd. provide that the new shares should first be offered to the existing shareholders. However, the company offered new shares to all shareholders excepting VRS Company Ltd., which held a major portion of its equity shares. It is to be noted that under the Companies Act, 2013, SV Company Ltd. did not have any legal authority to do so.

Analysis and conclusion:

Therefore, in the given case, decision of the Board of Directors of SV Company Ltd. not to offer any further equity shares to VRS Company Ltd. on the ground that VRS Company Ltd. already held a high percentage of shareholding in SV Company Ltd. is not valid. Such a decision violates the provisions of Section 62 (1) (a) as well as Articles of the issuing company.

Question 14:

Shilpi Developers India Limited owed to Sunil Rs. 10,000. On becoming this debt payable, the company offered Sunil 100 shares of Rs. 100 each in full settlement of the debt. The said shares were allotted to Sunil as fully paid-up in lieu of his debt. Examine the validity of this allotment in the light of the provisions of the Companies Act, 2013.

[ICAI Module, MTP 1 May'23]

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Answer

Under Section 62 (1) (c) of the Companies Act, 2013 where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, either for cash or for a consideration other than cash, such shares may be offered to any persons, if it is authorised by a special resolution and if the price of such shares is determined by the valuation report of a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed.

In the present case, Shilpi Developers India Limited's allotment, to be classified as shares issued for consideration other than cash, must be approved by the members by a special resolution. Further, the valuation of the shares must be done by a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed.

Question 15:

X Ltd. issued a notice on 1st Feb, 2018 to its existing shares holders offering to purchase one extra share for every five shares held by them. The last date to accept the offer was 15th Feb, 2018 only. Mr. Kavi has given an application to renounce the shares offered to him in favour of Mr. Ravi, who is not a shareholder of the company. Examine the validity of application of Mr. Kavi under the provisions of the Companies Act, 2013. Would your answer differ if Mr. Ravi is a shareholder of X Ltd.?

[Nov 2019 - 5 marks]

Answer

Relevant provision:

According to section 62 of the Companies Act, 2013, where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer subject to the following conditions, namely:

(i) the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;

(ii) unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement of this right;

(iii) after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not dis-advantageous to the shareholders and the company.

In the instant case, X Ltd. issued a notice on 1st Feb, 2018 to its existing shares holders offering to purchase one extra share for every five shares held by them. The last date to accept the offer was 15th Feb, 2018 only. Mr. Kavi has given an application to renounce the shares offered to him in favour of Mr. Ravi, who is not a shareholder of the company.

Analysis and conclusion:

As nothing is specified related to the Articles of the company, it is assumed offer shall be deemed to include a right of renunciation. Hence, Mr. Kavi can renounce the shares offered to him in favour of Mr. Ravi, who is not a shareholder of the company.

In the second part of the question, even if Mr. Ravi is a shareholder of X Ltd. then also it does not affect the right of renunciation of shares of Mr. Kavi to Mr. Ravi.

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Question 16

Dhyan Dairy Ltd., a dairy products manufacturing company wants to set-up a new processing unit at Udaipur. Due to paucity of funds, the existing shareholders are not willing to fund for expansion. Hence, the Company approached Shayam Ltd. for subscribing to the shares of the Company for expansion purposes. Can Dhyan Dairy Ltd. issue shares only to Shayam Ltd. under the provisions of the Companies Act, 2013? If so, state the conditions.

[MTP March 2018]

OR

Earth Ltd., a Public Company offer the new shares (further issue of shares) to persons other than the existing shareholders of the Company. Explain the conditions when shares can be issued to persons other than existing shareholders. Discuss whether these shares can be offered to the Preference Shareholders?

[RTP Nov 2018]

Answer

Issue of Further Shares:

According to Section 62 (1) of the Companies Act, 2013 if at any time, a company having a share capital proposes to increase its subscribed capital by issue of further shares, such shares should be offered to

(i) the existing equity shareholders of the company as at the date of the offer, in proportion to the capital paid up on those shares.

(ii) employees under a scheme of employees' stock option subject to a special resolution passed by the company and subject to such conditions as may be prescribed.

(iii) to any persons, if it is authorised by a special resolution, whether or not those persons include the persons referred to in clause (i) or clause (ii), either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to such conditions as may be prescribed.

Since, in the given case Dhyan Dairy Ltd. approached Shayam Ltd. for subscribing to the shares of the company for its expansion and Shayam Ltd. is neither an existing equity shareholder of the company nor an employee, Dhyan Dairy Ltd., if it is authorised by a special resolution, may issues shares to Shayam Ltd. either for cash or for a consideration other than cash, subject to the condition that the price of such shares is determined by the valuation report of a registered valuer.

About Preference Shareholders (check the alternative question above):

From the wordings of Section 62 (1) (c), it is quite clear that these shares can be issued to any persons who may be preference shareholders as well, provided such issue is authorized by a special resolution of the company and are issued on such conditions as may be prescribed.

Question 17

ABC Ltd. has following balances in their Balance Sheet as on 31st March, 2018:

		Rs.
(1)	Equity shares capital (3.00 lakhs equity shares of Rs. 10 each)	30.00 lacs
(2)	Free reserves	5.00 lacs
(3)	Securities Premium Account	3.00 lacs
(4)	Capital redemption reserve account	4.00 lacs
(5)	Revaluation Reserve	3.00 lacs

Directors of the company seeks your advice in following cases:

(i) Whether company can give bonus shares in the ratio of 1:3?

(ii) What if company decide to give bonus shares in the ratio of 1:2?

[Nov 2018 - 4 marks]

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Answer

Issue of bonus shares [Section 63]:

As per Section 63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—

a. its free reserves;

b. the securities premium account; or

c. the capital redemption reserve account

Provided that no issue of bonus share shall be made by capitalising reserves created by revaluation of assets.

As per the given facts, ABC Ltd. has total eligible amount of INR 12 lakhs (i.e. 5.00+3.00+4.00) out of which bonus shares can be issued and the total share capital is INR 30.00 lakhs. Accordingly:

(i) For issue of 1:3 bonus shares, there will be a requirement of INR 10 lakhs (i.e., 1/3 x 30.00 lakh) which is well within the limit of available amount of INR 12 lakhs. So, ABC Limited can go ahead with the bonus issue in the ratio of 1:3.

(ii) In case ABC Limited intends to issue bonus shares in the ratio of 1:2, there will be a requirement of INR 15 lakhs (i.e., $\frac{1}{2}$ x 30.00 lakh). Here in this case, the company cannot go ahead with the issue of bonus shares in the ratio of 1:2, since the requirement of INR 15 Lakhs is exceeding the available eligible amount of INR 12 lakhs.

Question 18

YZ Tech Solutions Limited is a growing technology company that has seen significant contributions from its employees and directors in the development of a ground breaking software product. To reward these key contributors, the board proposed issuing sweat equity shares to certain employees and directors. XYZ Tech Solutions Limited already has issued ordinary equity shares but has never issued sweat equity shares before.

The company has a paid up equity share capital ₹ 20 crore. The company has proposed to issue sweat equity shares worth ₹ 4 crore of face value. The company's board has drafted a special resolution outlining the proposed issuance of sweat equity shares and including specific details, such as the number of shares, the current market price, consideration (if any), and the classes of directors and employees eligible to receive the shares.

The company has approached you to advise them about the issue of the said sweat equity shares, in line with the provisions of the Companies Act, 2013.

[RTP Jan'25]

OR

One X Ltd., a technology-based company, has a paid-up equity share capital of ₹ 40 crore. The company previously issued sweat equity shares worth on ₹ 8 crore and now plans to issue an additional ₹ 7 crore this year.

Describe sweat equity shares, and to whom are they issued? What is the overall maximum limit to issue sweat equity share, and does the proposed issuance exceed the limit?

[MTP May'25 - 5 marks]

Answer

According to section 54(1) of the Companies Act, 2013, a company may issue sweat equity shares if all of the following conditions are fulfilled:

a. Share of that class must be already issued

b. Issue is authorised by a special resolution passed by the company;

c. Resolution specifies the details regarding the number of shares, the current market price, consideration, if any, and the class or to be issued;

The special resolution authorising the issue of sweat equity shares shall be valid for making the allotment within a period of not more than 12 months from the date of passing.

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During a year, the maximum amount/limit for which sweat equity shares can be issued is higher of:

a. 15% of the existing paid up equity share capital or
b. Shares of the issue value of ₹5 crore.

The issuance of sweat equity shares (cumulative, including all previous issues, if any) shall not exceed 25% of the paid-up equity capital of the company at any time.

In the given question, the company has proposed to issue sweat equity shares to the tune of ₹ 4 crore. However, the maximum limit to which it can issue such shares is- Higher of:

a. 15% of the issued paid up share capital, i.e. ₹ 3 crore, or
b. 5 crores

Thus, company can issue sweat equity shares to the tune of ₹ 5 crore. However, the company cannot issue such shares more than 25% of the paid-up equity capital= 25% of ₹ 20 crore= ₹ 5 crore.

Hence, the company can issue sweat equity shares of ₹ 4 crore.

Question 19:

The Authorized share capital of SSP Limited is Rs. 5 crores divided into 50 Lakhs equity shares of Rs. 10 each. The Company issued 30 Lakhs equity shares for subscription which was fully subscribed. The Company called so far Rs. 8 per share and it was paid up. Later on the Company proposed to reduce the Nominal Value of equity share from Rs. 10 each to Rs. 8 each and to carry out the following proposals:

(i) Reduction in Authorized Capital from Rs. 5 crore divided into 50 Lakhs equity shares of Rs. 10 each to Rs. 4 crore divided into 50 Lakhs equity shares of Rs. 8 each.
(ii) Conversion of 30 Lakhs partly paid up equity shares of Rs. 8 each to fully paid up equity shares of Rs. 8 each there by relieving the shareholders from making further payment of Rs. 2 per share.

State the procedures to be followed by the Company to carry out the above proposals under the provisions of the Companies Act, 2013.

[Nov 2020 - 5 marks]

Answer

(i) In order to carry out proposals by SSP Limited to reduce the nominal value of the equity share, the company has to comply with the procedure given under section 66 of the Companies Act, 2013 which deals with the Reduction of share capital.

Procedure

1) Reduction of share capital by special resolution: Subject to confirmation by the Tribunal on an application by the company, a company limited by shares or limited by guarantee and having a share capital may, by a special resolution, reduce the share capital in any manner and in particular, may:
   a) extinguish or reduce the liability on any of its shares in respect of the share capital not paid-up; or
   b) either with or without extinguishing or reducing liability on any of its shares—
      (i) cancel any paid-up share capital which is lost or unrepresented by available assets;
      (ii) pay off any paid-up share capital which is in excess of the wants of the company, alter its memorandum by reducing the amount of its share capital and of its shares accordingly.

2) Issue of Notice from the Tribunal: The Tribunal shall give notice of every application made to it to the Central Government, Registrar and the creditors of the company and shall take into consideration the representations, if any, made to it by them within a period of three months from the date of receipt of the notice.

3) Order of tribunal: The Tribunal may, if it is satisfied that the debt or claim of every creditor of the company has been discharged or determined or has been secured or his consent is

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obtained, make an order confirming the reduction of share capital on such terms and conditions as it deems fit.

4) Publishing of order of confirmation of tribunal: The order of confirmation of the reduction of share capital by the Tribunal shall be published by the company in such manner as the Tribunal may direct.

5) Delivery of certified copy of order to the registrar: The company shall deliver a certified copy of the order of the Tribunal and of a minute approved by the Tribunal to the Registrar within thirty days of the receipt of the copy of the order, who shall register the same and issue a certificate to that effect.

(ii) Alteration of Share Capital:

SSP Limited proposes to alter its share capital. The Present authorized share capital Rs. 5 Crore will be altered to Rs. 4 Crore. According to Section 61 of the Companies Act, 2013, a limited company having a share capital may alter its capital part of the memorandum.

A limited company having a share capital may, if so authorized by its articles, alter its memorandum in its general meeting to -

1) Cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled. The cancellation of shares shall not be deemed to be reduction of share capital.

2) A company shall within 30 days of the shares having been consolidated, converted, sub-divided, redeemed, or cancelled or the stock having been reconverted, shall give a notice to the Registrar in the prescribed form along with an altered memorandum [Section 64 of Companies Act, 2013].

The Company has to follow the above procedures to alter its authorized share capital.

Question 20:

Silk Segment Private Ltd. (SSPL) is a wholly owned subsidiary of Silk Block Ltd. (SBL), a listed public limited company. The Board of Directors of Silk Segment Private Ltd. have collectively decided upon the proposal to grant loans of ₹ 15,00,000 and ₹ 20,00,000 to Mr. Sohan and Ms. Subarna respectively for the purchase of fully paid-up shares in Silk Segment Private Ltd.

Mr. Sohan is the Deputy Marketing Manager of Silk Segment Private Ltd. with a monthly salary of ₹ 1,00,000; whereas Ms. Subarna, a qualified Chartered Accountant, is the Chief Financial Officer of Silk Segment Private Ltd. with a monthly salary of ₹ 2,00,000.

In view of provisions of the Companies Act, 2013, decide:

(i) Whether the proposed loans to Mr. Sohan as well as Ms. Subarna can be disbursed by the company keeping in view that Silk Segment is a private limited company?

(ii) Whether the answer would be different in case only 25% shares of SSPL are held by SBL?

[Jan'25 - 5 marks]

OR

OLAF Limited, a subsidiary of PQR Limited, decides to give a loan of Rs. 4,00,000 to its Human Resource Manager Mr. Surya Nayan, who does not fall in the category of Key Managerial Personnel and draws a salary of Rs. 40,000 per month, to buy 500 partly paid-up equity shares of Rs. 1000 each in OLAF Limited. Examine the validity of company's decision under the provisions of the Companies Act, 2013.

[ICAI Module, RTP May 2020, MTP Nov 2020 - 6 marks]

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Answer

According to section 2(71) of the Companies Act, 2013, (the Act) a Public Company means a company which—

(a) is not a Private Company; and

(b) has a minimum paid-up share capital as may be prescribed:

Provided that, a company which is a subsidiary of a company, not being a private company, shall be deemed to be a public company for the purposes of this Act even where such subsidiary company continues to be a private company in its Articles.

As per section 2(51) of the Act, Key Managerial Personnel (KMP), in relation to a company, includes the Chief Financial Officer.

According to section 67(2) of the Companies Act, 2013, Public Company shall not give any financial assistance:

1. Whether directly or indirectly and whether by means of a loan, guarantee, the provision of security or otherwise.
2. For the purpose of, or in connection with, a purchase or subscription made or to be made, by any person of or for any shares in the company or in its holding company.

As per section 67(3) of the Act, a company may provide the financial assistance, in case of lending money by a company to its employees (other than its directors or key managerial personnel), not exceeding six-month salary of the employees to enable them to buy or subscribe fully paid shares in the company or its holding company and to hold them by way of beneficial ownership.

In the given question, Silk Segment Private Ltd. (SSPL) is a wholly owned subsidiary of Silk Block Ltd. (SBL). Thus, SSPL will also be deemed as a public company [by virtue of Section 2(71)].

Hence, considering the above provisions we can answer the following to the questions asked:

(i) Mr. Sohan is the Deputy Marketing Manager of SSPL; hence loan may be provided to him upto the limit of his 6 months' salary i.e. ₹ 6,00,000. Thus, proposal to grant loan of ₹ 15,00,000 to Mr. Sohan for purchase of shares in SBL is not valid.
Ms. Subarna is a KMP (being the Chief Financial Officer of SSPL), hence, proposal to grant loan to her for purchase of shares in SBL is not valid.

(ii) Section 67 of the Act shall not apply to private companies in whose share capital no other body corporate has invested any money. In case where Silk Block Ltd. (SBL) held only 25% shares of Silk Segment Private Ltd. (SSPL), the latter would not be termed as a subsidiary of the former and hence would not be a deemed public company. It will still be regarded as a private limited company. Further, SBL is holding shares in SSPL, thus SSPL will not fall in the exempted class of private companies and accordingly, the provision of section 67(3) of the Companies Act, 2013 shall apply.
In view of the above provisions, the answer would remain the same in case only 25% shares of SSPL are held by SBL.

Question 21

Natraj Limited is engaged in the manufacturing of glass products. It wants to provide financial assistance to its employees to enable them to subscribe for fully paid shares of the company. Advise whether it amount to purchase of its own shares. If, in the instant case, the company itself purchasing to redeem its preference shares, does it amount to acquisition of its own shares?

[MTP April 2021 - 5 marks]

Answer

Yes, the financial assistance to its employees by the company to enable them to subscribe for the shares of the company will amount to the company purchasing its own shares. However, section 67(3) of the Companies Act, 2013, permits a company to the give loans to its employees other than its directors or key

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managerial personnel, for an amount not exceeding their salary or wages for a period of six months with a view to enabling them to purchase or subscribe for fully paid -up shares in the company or its holding company to be held by them by way of beneficial ownership.

Section 68 of the Companies Act, 2013 however, allows a company to buy back its own shares under certain circumstances and subject to fulfilment of prescribed conditions.

Purchasing in order to redeem its preference shares, does amount to acquisition or purchase of its own shares. But this is allowed in terms of section 68 of the Companies Act, 2013 subject to the fulfilment of prescribed conditions, and upto specified limits and only after following the prescribed procedure.

Question 22

Heavy Metals Limited wants to provide financial assistance to its employees, to enable them to subscribe for certain number of fully paid shares. Considering the provision of the Companies Act, 2013, what advice would you give to the company in this regard?

[RTP Nov 2018]

Answers

Under section 67 (2) of the Companies Act, 2013 no public company is allowed to give, directly or indirectly and whether by means of a loan, guarantee, or security, any financial assistance for the purpose of, or in connection with, a purchase or subscription, by any person of any shares in it or in its holding company.

However, section 67 (3) makes an exception by allowing companies to give loans to their employees other than its directors or key managerial personnel, for an amount not exceeding their salary or wages for a period of six months with a view to enabling them to purchase or subscribe for fully paid-up shares in the company or its holding company to be held by them by way of beneficial ownership.

It is further provided that disclosures in respect of voting rights not exercised directly by the employees in respect of shares to which the scheme relates shall be made in the Board's report in such manner as may be prescribed.

Hence, Heavy Metals Ltd can provide financial assistance up to the specified limit to its employees to enable them to subscribe for the shares in the company provided the shares are purchased by the employees to be held for beneficial ownership by them. However, the directors or key managerial personnel will not be eligible for such assistance.

Question 23

State the legal provisions in respect of 'Declaration of Solvency', which an unlisted public company needs to adhere to while taking steps to buy-back its own shares.

[ICAI Module]

Answer

According to Section 68 (6), where an unlisted public company has passed a special resolution under Section 68 or the Board has passed a resolution under item (ii) of the proviso to Section 68 (2) (b) to buy-back its own shares, it shall, before making such buy-back, file with RoC a 'Declaration of Solvency' in Form SH-9. The declaration shall be verified by an affidavit to the effect that the Board has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one year from the date of declaration of solvency adopted by the Board.

The declaration shall be signed by at least two directors of the company, one of whom shall be the managing director, if any.

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Question 24

Kavish Ltd., desirous of buying back of all its equity shares from the existing shareholders of the company, seeks your advice. Examining the provisions of the Companies Act, 2013 discuss whether above buy back of equity shares by company is possible. Also, state sources out of which buy-back of shares can be financed?

[RTP May 2018]

Answer

In terms of section 68 (2) (c) of the Companies Act, 2013 a company is allowed to buy back a maximum of 25% of the aggregate of its paid- up capital and free reserves. Hence, the company in the given case is not allowed to buy back its entire equity shares.
Moreover, in case of buyback of equity shares, the limit is of 25% of paid-up equity share capital.

Section 68 (1) of the Companies Act, 2013 specifies sources of funding buy back as under:

(a) Free reserves or
(b) Security Premium account or
(c) Proceeds of the issue of any shares or other specified securities

However, under the proviso to section 68 (1) no buy back of shares or any specified securities can be made out of the proceeds of an earlier issue of the same kind of shares or same kind of specified securities.

Question 25

London Limited, at a general meeting of members of the company, passed an ordinary resolution to buy-back 30 percent of its equity share capital. The articles of the company empower the company for buy-back of shares. Explaining the provisions of the Companies Act, 2013, examine:

A. Whether company's proposal is in order?
B. Would your answer be still the same in case the company instead of 30 percent, decides to buy-back only 20 per cent of its equity share capital?

[Jan 2021 - 3 marks]

Answer

According to the provisions of section 68 (2) of the Companies Act, 2013, no company shall purchase its own shares or other specified securities under sub- section (1), unless—

(a) the buy-back is authorised by its articles;
(b) a special resolution has been passed at a general meeting of the company authorising the buy-back:
Provided that nothing contained in this clause shall apply to a case where—
(i) the buy-back is, ten per cent or less of the total paid-up equity capital and free reserves of the company; and
(ii) such buy-back has been authorised by the Board by means of a resolution passed at its meeting;
(c) the buy-back is 25% or less of the aggregate of paid-up capital and free reserves of the company:
Provided that in respect of the buy-back of equity shares in any financial year, the reference to twenty-five per cent in this clause shall be construed with respect to its total paid-up equity capital in that FY.

In the instant case, London Limited, at a general meeting of members of the company, passed an ordinary resolution to buy back 30% of its equity share capital. The articles of the company empower the company for buy back of shares.

Conclusion

A. the Company's proposal is not in order, since a special resolution as required by the above provision has not been passed, rather an ordinary resolution has only been passed.

Author's Note: ICAI's answer seems to be incorrect. Even if SR was passed instead of OR, still 30% buy back exceeds the limit of 25% and hence is not allowed u/s 68.

B. if the company instead of 30%, decides to buy back only 20% (even if it is within the specified limit of 25%) of its equity share capital, then also special resolution is required. Hence, our answer will not change. This proposal of the company will also be not in order.

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Question 26:

Xgen Limited has a paid-up equity capital and free reserves to the extent of Rs. 50,00,000. The company is planning to buy-back shares to the extent of Rs. 4,50,000. The company approaches you for advice with regard to the following:

(a) Is special resolution required to be passed?
(b) What is the time limit for completion of buy-back?
(c) What should be ratio of aggregate debts to the paid-up capital-and free reserves after buy-back?

[May 2018]

Answer

According to the provisions of section 68 (2) of the Companies Act, 2013, no company shall purchase its own shares or other specified securities under sub- section (1), unless—

(1) the buy-back is authorised by its articles;
(2) a special resolution has been passed at a general meeting of the company authorising the buy-back:
Provided that nothing contained in this clause shall apply to a case where—
(i) the buy-back is, ten per cent or less of the total paid-up equity capital and free reserves of the company; and
(ii) such buy-back has been authorised by the Board by means of a resolution passed at its meeting;

Time limit for Completion of Buy Back: As per section 68(4), every buy-back shall be completed within a period of one year from the date of passing of the special resolution, or as the case may be, the resolution passed by the Board under sub-section (2).

Ratio of aggregate debts: Provision also specifies that ratio of the aggregate debts (secured and unsecured) owed by the company after buy back is not more than twice the paid-up capital and its free reserves. However, Central Government may prescribe higher ratio of the debt for a class or classes of companies. As per the stated facts, Xgen Ltd. has a paid up equity capital and free reserves to the extent of Rs. 50,00,000. The company planned to buy back shares to the extent of Rs. 4,50,000.

Referring to the above provisions, the answers will be as follows:

(a) No, special resolution will not be required as the buyback is less than 10% of the total paid-up equity capital and free reserves (50,00,000x10/100= 5,00,000) of the company, but such buy back must be authorized by the Board by means of a resolution passed at its meeting.
(b) Time limit for completion of buy back will be- within a period of one year from the date of passing of the resolution by the Board.
(c) The ratio of the aggregate debts (secured and unsecured) owed by the company after buy back should not be more than twice the paid up capital and its free reserves.

The above buy-back is possible when backed by the authorization by the articles of the company.

Question 27

"The offer of buy-back of its own shares by a company shall not be made within a period of six months from the date of the closure of the preceding offer of buy-back, if any and cooling period to make further issue of same kind of shares including allotment of further shares shall be a period of one year from the completion of buy back subject to certain exceptions." Examine the validity of this statement by explaining the provisions of the Companies Act, 2013 in this regard.

[July 2021, MTP May 2024 - 5 marks]

Answer

According to proviso to section 68(2) of the Companies Act, 2013, no offer of buy- back, shall be made within a period of one year from the date of the closure of the preceding offer of buy-back, if any.

Section 68 (8) casts an obligation that where a company completes a buy-back of its shares or other specified securities under this section, it shall not make further issue of same kind of shares including allotment of further shares under section 62 (1) (a) or other specified securities within a period of six months except by way of bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares.

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Keeping in view of the above provisions, the statement "the offer of buy-back of its own shares by a company shall not be made within a period of six months from the date of the closure of the preceding offer of buy back, if any and cooling period to make further issue of same kind of shares including allotment of further shares shall be a period of one year from the completion of buy back subject to certain exceptions" is not valid.

Question 28

Which fund may be utilized by a public limited company for purchasing (buy back) its own shares? Also explain the provisions of the Companies Act, 2013 regarding the circumstances in which a company is prohibited to buy back its own shares.

[May 2019 - 5 marks]

Answers

Funds utilized for purchase of its own securities: Section 68 of the Companies Act, 2013 states that a company may purchase its own securities out of:

(i) its free reserves; or
(ii) the securities premium account; or
(iii) the proceeds of the issue of any shares or other specified securities.

However, buy-back of any kind of shares or other specified securities cannot be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

Prohibition for buy-back in certain circumstances [Section 70]

(1) The provision says that no company shall directly or indirectly purchase its own shares or other specified securities-
   (a) through any subsidiary company including its own subsidiary companies; or
   (b) through any investment company or group of investment companies; or
   (c) if a default is made by the company in repayment of deposits or interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder or repayment of term loan or interest thereon, to any financial institutions or banking company;
   But where the default is remedied and a period of three years has lapsed after such default ceased to subsist, then such buy-back is not prohibited.

(2) No company shall directly or indirectly purchase its own shares or other specified securities in case such company has not complied with provisions of Sections 92 (Annual Report), 123 (Declaration of dividend), 127 (Punishment for failure to distribute dividends), and section 129 (Financial Statements).

Question 29

Apirock Limited is a public company that has been performing well 5 financially and has accumulated a substantial amount of cash reserves. The company's management has decided to buy-back some of its shares to improve earnings per share (EPS), return on equity (ROE), and enhance shareholder value.

Below are the financial details of Apirock Limited:

Paid up Share Capital	₹ 50 crores
Free Reserves	₹ 100 crores
Secured Loans	₹ 30 crores
Unsecured Loans	₹ 20 crores
Current Market Price of Shares	₹ 500 per share
Total Number of Shares Outstanding	1 crore

The company's management wants to buy-back 10% of its total shares at the market price of ₹ 500 per share. The company's articles have authorized the same. They have also passed an ordinary resolution, and its board has authorized the buy-back of shares. They plan to use free reserves to fund the buy-back.

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(i) Whether the company can buy-back 10% of its shares as per the provisions of the Companies Act, 2013 under the given circumstances?

(ii) What is the maximum eligible amount allowed to be used by Apirock Limited as per Section 68 of the Companies Act, 2013, to buy-back its shares as per the financial data provided?

[Sept'25 - 5 marks]

OR

XYZ unlisted company passed a special resolution in a general meeting on January 5th, 2019 to buy back 30% of its own equity shares. The Articles of Association empowers the company to buy back its own shares. Earlier the company has also passed a special resolution to buy back its own shares on January 15th, 2018. The company further decided that the payment for buyback be made out of the proceeds of the company's earlier issue of equity share. In the light of the provisions of the Companies Act, 2013,

(i) Decide, whether the company's proposal is in order.

(ii) What will be your answer if buy back offer date is revised from January 5th, 2019 to January 25th 2019 and percentage of buyback is reduced from 30% to 25% keeping the source of purchase as above?

[Nov 2019 - 5 marks]

Answer

(i) As per the provision of section 68(1) of the Companies Act, 2013, subject to the provisions of sub-section (2), a company may purchase its own shares or other specified securities (hereinafter referred to as buy-back) out of:

(a) its free reserves;
(b) the securities premium account; or
(c) the proceeds of the issue of any shares or other specified securities:

As per the provision of section 68(2), no company shall purchase its own shares or other specified securities under sub-section (1), unless:

(a) the buy-back is authorised by its articles;
(b) a special resolution has been passed at a general meeting of the company authorising the buy-back:

Provided that nothing contained in this clause shall apply to a case where:

- the buy-back is 10% or less of the total paid-up equity capital and free reserves of the company;
- such buy-back has been authorised by the Board by means of a resolution passed at its meeting;

Analysing the above provisions we can conclude that Apirock Limited can buy-back 10% of its shares under the given circumstances since it is well within the stipulated limit of 10% of its the total paid-up equity capital and free reserves, which has been authorised by the Board by means of a resolution passed at its meeting and here passing of a special resolution is not required in terms of the proviso to section 68(2).

(ii) As per the provision of section 68(2)(c) of the Companies Act, 2013, no company shall purchase its own shares or other specified securities under sub-section (1), unless the buy-back is 25% or less of the aggregate of paid-up capital and free reserves of the company.

Provided that in respect of the buy-back of equity shares in any financial year, the reference to twenty-five per cent in this clause shall be construed with respect to its total paid-up equity capital in that financial year.

In terms of the above provisions, the maximum eligible amount allowed to be used by Apirock Limited for buy-back of shares is: 25% of ₹ (50+ 100) crore = ₹ 37.5 crore subject to passing of a special resolution.

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Note for (ii)-

Assumption 1 - Only ordinary resolution has been passed.
In this case, authorisation by a resolution passed at a meeting of the Board of Directors authorising the same is sufficient when the buyback amounts are up to 10% of the total paid-up equity capital and free reserves of the company, then the answer will be 10% of paid-up equity share capital and free reserves i.e., 10% of ₹ (50+100) crore i.e. ₹15 crore.

Assumption 2- A special resolution has been passed.
In this case, the maximum amount of buyback shall be 25% of the paid- up equity share and free reserves, i.e., 25% of ₹ (50+100) crore i.e. ₹37.5 crore.

Assumption 3- When the buy-back is of only equity shares.
If all the shares in the question are assumed to be equity shares, the maximum amount of buyback shall be 25% of the paid-up equity share, i.e., 25% of ₹ 50 crore i.e. ₹ 12.5 crore in that financial year.

Question 30:

What are the provisions of the Companies Act, 2013 relating to the appointment of 'Debenture Trustee' by a company? Whether the following can be appointed as 'Debenture Trustee':
(i) A shareholder who has no beneficial interest.
(ii) A creditor whom the company owes Rs. 499 only.
(iii) A person who has given a guarantee for repayment of amount of debentures issued by the company?

[ICAI Module, Nov 2016, RTP Nov'22, MTP Jan'26 - 5 Marks]

Answer

Appointment of Debenture Trustee: Under section 71 (5) of the Companies Act, 2013, no company shall issue a prospectus or make an offer or invitation to the public or to its members exceeding five hundred for the subscription of its debentures, unless the company has, before such issue or offer, appointed one or more debenture trustees and the conditions governing the appointment of such trustees shall be such as may be prescribed.

Rule 18 (2) of the Companies (Share Capital and Debentures) Rules, 2014, framed under the Companies Act for the issue of secured debentures provide that before the appointment of debenture trustee or trustees, a written consent shall be obtained from such debenture trustee or trustees proposed to be appointed and a statement to that effect shall appear in the letter of offer issued for inviting the subscription of the debentures.

Further according to the rules, no person shall be appointed as a debenture trustee, if he-
(i) beneficially holds shares in the company;
(ii) is promoter, director or key managerial personnel or any other officer or an employee of the company or its holding, subsidiary or associate company;
(iii) is beneficially entitled to moneys which are to be paid by the company otherwise than as remuneration payable to the debenture trustee;
(iv) is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;
(v) has furnished any guarantee in respect of principal debts secured by debentures or interest thereon;
(vi) Has any pecuniary relationship with the company amounting to two percent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;
(vii) is a relative of any promoter or any person who is in the employment of the company as director or key managerial personnel;

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Thus, based on the above provisions answers to the given questions are as follows:

(i) A shareholder who has no beneficial interest, can be appointed as a debenture trustee.

(ii) A creditor whom company owes Rs. 499 cannot be appointed as a debenture trustee. The amount owed is immaterial.

(iii) A person who has given guarantee for repayment of principal and interest thereon in respect of debentures also cannot be appointed as a debenture trustee.

Question 31:

As per the financial statement as at 31.03.2021, the Authorized and Issued share capital of Manorama Travels Private Limited (the Company) is of ₹ 100 Lakh divided into 10 Lakh equity shares of ₹ 10 each. The subscribed and paid-up share capital on that date is ₹ 80 Lakh divided into 8 Lakh equity shares of ₹ 10 each. The Company has reduced its share capital by cancelling 2 Lakh issued but unsubscribed equity shares during the financial year 2021-22, without obtaining the confirmation from the National Company Law Tribunal (the Tribunal). It is noted that the Company has amended its Memorandum of Association by passing the requisite resolution at the duly convened meeting for the above purpose. While filing the relevant e-form the Practicing Company Secretary refused to certify the form for the reason that the action of the Company reducing the share capital without confirmation of the Tribunal is invalid.

In light of above facts & in accordance with the provisions of Companies Act, 2013, you are requested to

(i) Examine the validity of the decision of Company and contention of the practicing Company Secretary

(ii) State, the type of resolution required to be passed for amending the capital clause of the MoA.

[May 2022 – 5 marks]

Answer

According to section 61 of the Companies Act, 2013, a limited company having a share capital is empowered to alter its capital clause of the Memorandum of Association. The provisions are as under:

(1) According to the section, a limited company having a share capital may, if so authorised by its articles, alter its memorandum in its general meeting to cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

(2) It provides that the cancellation of shares shall not be deemed to be a reduction of share capital.

According to the given facts, in the said question, the company reduced its share capital without obtaining the confirmation from the NCLT. The Company amended its memorandum by passing the requisite resolution at the duly convened meeting. However, Company Secretary refused to certify stating that action of company reducing the share capital without confirmation of the Tribunal, is invalid.

Accordingly, in the light of the stated facts, following shall be the answers:

(i) Decision of the company is valid, as for alteration of share capital by cancellation of shares and diminishing of amount of share capital by the amount of the shares so cancelled, does not require confirmation of the Tribunal. As per the law, passing of the resolution in that behalf at the duly convened meeting by amending Memorandum of Association, is the sufficient compliance. Therefore, contention of practicing Company Secretary is not valid.

(ii) According to section 13, save as provided in section 61 of the Companies Act, 2013, company may alter the provisions of its memorandum with the approval of the members by a ordinary resolution.

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Question 32:

Following is the extract of the Balance sheet ABC Ltd. as on 31st March, 2022:

Particulars		Amount (₹)
Equity & Liabilities		
(1) Shareholder's Fund		
(a) Share Capital:		
Authorized Capital:		
10,000, 12% Preference Shares of ₹ 10 each	1,00,000	
1,00,000 equity shares of ₹ 10 each	10,00,000	11,00,000
Issued & Subscribed Capital:		
8000,12% Preference Shares of ₹ 10 each fully paid up		80,000
90,000 equity shares of ₹ 10 each, ₹ 8 paid up		7,20,000
(b) Reserve and Surplus		
General Reserve	1,20,000	
Capital Reserve	75,000	
Securities Premium	25,000	
Surplus in statement of P& L	2,00,000	4,20,000
(2) Non-Current Liabilities:		
Long-term borrowings:		
Secured Loan: 12% partly convertible		
Debenture @ ₹ 100 each		5,00,000

On 1st April 2022 the company has made final call at ₹ 2 each on 90,000 Equity Shares. The call money was received by 25th April 2022. Thereafter, the company decided to capitalize it's reserves by way of bonus @ 1 share for every 4 shares to existing shareholders.

Answer the following questions according to the Companies Act, 2013, in above case:

(a) Which of the above-mentioned sources can be used by company to issue bonus shares?

(b) Calculate the amount to be capitalized from free reserves to issue bonus shares?

[MTP Nov 22, MTP -1 Nov'23 - 5 marks]

OR

"A Bonus share is a distribution of capitalized undivided profit having an identity and value capable of being bought and sold." In reference to the above line elaborate the pre-requisites for issue of bonus shares as enlisted in the Companies Act, 2013.

[May 24 - 5 marks]

Answer

Issue of Bonus Shares

According to section 63 (1) of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—

(i) its free reserves;
(ii) the securities premium account; or
(iii) the capital redemption reserve account.

However, no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Section 63 (2) provides that the company can issue bonus shares only when the partly paid -up shares, if any outstanding on the date of allotment, are made fully paid-up.

(a) The following sources can be used by the company to issue bonus shares:

1. General Reserve
2. Securities Premium
3. Surplus in statement of P&L

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(b)

Particulars	Amount
Amount of bonus shares to be issued	90,000 shares x 1/4 = 22,500 shares
Amount that ought to be capitalized for issue of bonus shares	22,500 x ₹ 10 per share = ₹ 2,25,000
Total amount available to be capitalized from free reserves to issue bonus shares	= 1,20,000+ 25,000+ 2,00,000 = ₹ 3,45,000
Hence, the amount to be capitalized from free reserves to issue bonus shares will be	₹ 2,25,000

Question 33

The Board of Directors of SRD Limited, an unlisted public company, engaged in the business of manufacturing of two wheelers; intend to issue debentures in order to finance its project of electric scooter manufacturing. The company seeks your advice regarding the maximum amount of debentures it can issue to raise the desired funds. The company has provided the following abstracts from its financial statements ended on 31st March 2022:

Authorised Share Capital: 1,00,000 Nos. of Equity Shares of ₹100 each	1,00,00,000
Subscribed and Paid-up Share Capital: 40,000 Nos. of Equity Shares of ₹ 100 each, fully paid-up.	40,00,000
Share Premium Reserve	50,00,000
General Reserve	30,00,000
Balance in Profit and Loss Account	20,00,000
Capital Reserve (profit on sale of Fixed Assets)	30,00,000
8% Non-Convertible Debentures	30,00,000
9.5% Term Loan from XYZ Bank Limited for purchase of Plant and Machinery (Repayment starts after 1 year moratorium period)	20,00,000
Short-term Cash Credit Loan from XYZ Bank Limited (On hypothecation of stock and receivables of the Company, repayable on demand)	50,00,000

Referring to and analysing the relevant provisions of the Companies Act, 2013, advise the company presenting the necessary calculations:

(i) The amount that can be raised by the company by issuing debentures and the resolution, if any, is required to be passed in the General Meeting of the Company in respect of the same?

(ii) What will be your answer in case the above company desired to issue debentures with an option to convert such debentures into shares?

[Nov 22 – 6 marks]

Answer

(i) The amount that can be raised by the Company by issuing Debentures:

Section 71 of the Companies Act, 2013 (the Act), deals with the manner in which a company may issue debentures. Before the issue of debentures, the Board of Directors of the Company in compliance with Section 180(1)(c) of the Act, shall obtain approval of the shareholders through special resolution if the borrowings by issuing debentures together with the amount already borrowed exceed the aggregate of company's paid-up share capital, free reserves and securities premium amount.

Temporary loans obtained from the company's bankers in the ordinary course of business are not to be included in the borrowings.

The Amount that can be raised by the Company by issuing Debentures:

In view of the above provisions, SRD Limited can raise money to the extent of the following amounts without the approval of the shareholders through a special resolution:

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Particulars	Amount
Paid up Equity Share Capital	40,00,000
Share Premium Reserve	50,00,000
General Reserve*	30,00,000
Balance in Profit and Loss Account*	20,00,000
Aggregate of its paid-up share capital, free reserves and securities premium amount (A)	1,40,00,000

*General Reserve and Balance in Profit and Loss Account is in the capacity of Free Reserve.

Since in the question, no pre-condition, is provided for issue of debenture with an option to convert such debentures into shares, so accordingly, the amount that can be raised by the company by issuing debentures will be:

Particulars	Amount
8% Non- Convertible Debentures	30,00,000
9.5% Term Loan for Purchase of Plant and Machinery	20,00,000
Amount already Borrowed (B)	50,00,000

Here, Short- term Cash Credit loan from XYZ Bank Ltd. is a 'Temporary Loan' obtained from the company's bankers.

Debentures that can be issued by the Board of Directors in the Board Meeting without obtaining approval of the shareholders through special resolution passed in the General Meeting = (A) - (B) = ₹ 90,00,000.

Further, the Board of Directors of the company shall obtain approval of the shareholders through special resolution if the borrowings by issuing debentures exceed ₹ 90,00,000.

(ii) Issue of Debentures with an Option to Convert into Shares: According to Section 71(1) of the Companies Act, 2013 a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption. It is also provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, shall be approved by a special resolution passed at a general meeting.
Thus, in case SRD Limited desires to issue debentures with an option to convert such debentures into shares, it has to pass the special resolution irrespective of the amount to be raised.

Question 34:

Anika Limited has an Authorized Capital of 10,00,000 equity shares of the face value of ₹100 each. Some of the hides expressed their opinion in the Annual General Meeting that it is very difficult for them to trade in the shares of the company in the mock made and requested the company to reduce the face value of each share to ₹10 and increase the number of shares to 1,00,00,000. Examine, whether the request of the shareholders is considerable and if so, how the company can alter its share capital as per the provisions of the Companies Act 2013?

[Nov 22, RTP Nov'23, RTP May'25 - 6 marks]

Answer

According to Section 61(1)(d) of the Companies Act, 2013 (the Act), a limited company having a share capital may, if so authorised by its articles, alter its memorandum in its general meeting to sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum, so, however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

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Section 64 of the Act states that a company shall, within 30 days of its share capital having been altered in the manner provided in Section 61 (1), give notice to the Registrar in the prescribed form along with an altered memorandum.

In the given situation, shareholders of Anika Limited, in the AGM requested the Company to reduce the face value of each share (from INR 100 to INR 10) and increase the number of shares than fixed by the memorandum (i.e. from 10 Lakh to 1 crore).

According to the above provision, Anika Limited, having authorized capital of 10,00,000 equity shares (face value ₹ 100 each) can reduce the face value of each share to ₹ 10 each and increase the shares to 1,00,00,000 [thereby keeping the total amount of authorized share capital to ₹ 10,00,00,000], if authorised by the articles of association. Hence, the request of the shareholders is considerable.

How the company can alter its Share Capital

The company has to alter its memorandum in its general meeting as per the procedure contained in Section 13 of the Companies Act, 2013 and give notice to the Registrar along with an altered memorandum.

Question 35:

The Board of Directors are proposing to declare a bonus issue of 1 share for every 2 shares held by the existing shareholders. The balance sheet of M/s Frontline Limited showed the following positions as at 31 March 2022:

(i) Authorized Share Capital (Rs. 50,00,000 equity shares of 10 each)
(ii) Issued, subscribed and paid-up Share Capital (20,00,000 equity shares of 10 each, fully paid-up) Rs. 2,00,00,000
(iii) Free Reserves Rs. 50,00,000
(iv) Securities premium account Rs. 25,00,000
(v) Capital Redemption Reserve Rs. 25,00,000

The Board wants to know the conditions of issuing bonus shares under the provision of the Companies Act, 2013. Also explain, whether the company may proceed for a bonus issue.

[May 2023, ICAI Module, MTP Nov 2020, MTP 2 May'23 - 6 marks]

Answer

Conditions for bonus shares:

According to section 63(1) of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of -

(i) its free reserves;
(ii) the securities premium account; or
(iii) the capital redemption reserve account.

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Conditions for issue of Bonus Shares [Section 63(2)]:

No company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares, unless—

(i) it is authorised by its Articles;
(ii) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
(iii) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
(iv) it has not defaulted in respect of payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
(v) the partly paid-up shares, if any, outstanding on the date of allotment, are made fully paid-up;

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(vi) it complies with such conditions as are prescribed by Rule 14 of the Companies (Share Capital and debentures) Rules, 2014 which states that the company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

Further, the company has to ensure that the bonus shares shall not be issued in lieu of dividend.

Issue of bonus shares: For the issue of bonus shares, Frontline Limited will require reserves of Rs. 1,00,00,000 (i.e. half of Rs. 2,00,00,000 being the paid-up share capital) and the available reserves with the company are of same amount i.e. Rs. 1,00,00,000 (Rs. 50,00,000+ Rs. 25,00,000 + Rs. 25,00,000).

Hence, after following the above conditions relating to the issue of bonus shares, the company may proceed for a bonus issue of 1 share for every 2 shares held by the existing shareholders.

Question 36:

Innovative Ltd. a start-up by a few qualified professionals, which was incorporated in 2018. The company is booming and favouring the younger generation to work. The Capital Structure of the Company is as follows:

Particulars	Rs. (Crores)
Authorised Share Capital 100,00,000 Equity Shares of Rs. 10 each	10
Issued, Subscribes and Paid-up Share Capital 50,00,000 Equity Share of Rs. 10 each	5
Share Premium	1
General Reserve	3.52
Profit & Loss Account	1.58

The company decided to issue 30% sweat equity shares to a class of directors and permanent employees to keep them motivated and partner in growth. Lock-in period for sweat equity will be five years. For this purpose, a resolution in General meeting of Company was passed in this manner.

"The Resolution specifies 15 lakh sweat equity shares, Current Market price Rs. 25 per share with a consideration of 5 per share to be issued to a class of directors and employees."

The company seeks your advice with reference to the provision of issue of sweat equity shares company under the Companies Act, 2013.

(i) Whether size of issue of sweat equity shares was appropriate?

(ii) Whether lock-in period was justifiable?

[RTP M'19, MTP Mar'19, May'20, M'23, MTP Nov'23, RTP Sept'25 – 5 marks]

Answer

Issue of Sweat Equity Shares: As per section 53, a company shall not issue shares at a discount, except as provided in section 54.

Section 54 of the Companies Act, 2013 states that sweat equity shares are issued to keep the employees of a company motivated by making them partner in the growth of the company.

Section 54 mentions the provisions which need to be adhered to by a company if it desires to issue sweat equity shares.

Conditions: According to section 54 (1), a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely—

(a) the issue is authorised by a special resolution passed by the company;

(b) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued.

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Limit on issue of Sweat Equity Shares: According to proviso to Rule 8 (4) of the Companies (Share Capital & Debentures) Rules 2014, w.r.t a start-up company, it may issue sweat equity shares not exceeding fifty percent of its paid-up capital up to ten years from the date of its incorporation or registration.

Lock-in Period: Rule 8 (5) of the Companies (Share Capital & Debentures) Rules 2014, states that the sweat equity shares issued to directors or employees shall be locked in/non-transferable for a period of three years from the date of allotment.

Accordingly, in the given instance,

(i) Size of issue of sweat equity shares was appropriate, as the decision of the company to issue 30% sweat equity shares to a class of directors and employees was within the prescribed limit. Resolution containing 15 lakh sweat equity shares was also within the limit of 25 lakh sweat equity shares (i.e.,50% of paid-up capital) with the details as to the current market price and with the consideration to be issued.

(ii) No. as per law, lock-in period will be of three years from the date of allotment. Here, it states five years which is against the law.

Question 37:

Satvikya Private Limited was formed on 25th April, 2020. At the time of formation, it had provided in its articles that the company shall not be permitted to accept or keep advance subscription or call money in advance. However, in the August 2023, the need was felt to amend the articles with respect to retention of calls-in-advance. Decide whether the provision inserted in the articles at the time of formation of the company, can be considered as void?

[RTP Nov 23, MTP Jan'26 - 5 Marks]

Answer

Section 50 of the Companies Act, 2013, deals with acceptance of call money in advance by a company which requires that such acceptance can be made only if the company is authorised by its articles to do so.

According to section 6 of the Companies Act, 2013,
Save as otherwise expressly provided in this Act—

(a) the provisions of this Act shall have effect notwithstanding anything to the contrary contained in the memorandum or articles of a company, or in any agreement executed by it, or in any resolution passed by the company in general meeting or by its Board of Directors, whether the same be registered, executed or passed, as the case may be, before or after the commencement of this Act; and

(b) any provision contained in the memorandum, articles, agreement or resolution shall, to the extent to which it is repugnant (in conflict) to the provisions of this Act, become or be void, as the case may be.

In simple words, the provisions of this Act shall have overriding effect. It is also to be noted that section 6, starts with "Save as otherwise ....". It means that if any other section of the Act says that article is superior then we will treat it accordingly.
Here, in the given case, articles of Satvikya Private Limited provide that the company shall not be permitted to accept or keep advance subscription or call money in advance and accordingly here, such provision contained in the articles of association will prevail and cannot be considered as void.

Question 38

Vardha Ltd., a textile company, had issued 5lakh preference shares of ₹ 100 each in 2015, which are now due for redemption in 2025. The company has retained earnings of ₹3 crore & free reserves of ₹2 crore. Being an expert, you are asked to recommend possible options that the management can avail as regard redemption of shares according to the provisions of the Companies Act, 2013?

[MTP May'25 - 5 marks]

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Answer

The redemption of preference shares is governed by Section 55(2) of the Companies Act, 2013, which outlines specific conditions for redemption and payment of premium on redemption, if any. In the given case, the company can redeem the preference shares out of the following sources:

- Out of profits that would otherwise be available for dividend distribution.
- From the proceeds of a fresh issue of shares, specifically made for the purpose of redemption.

Since the company has retained earnings of ₹ 3 crore and free reserves of ₹ 2 crore, it can opt for redemption from these sources. Alternatively, it can issue new equity shares to raise funds for redemption.

Where such shares are proposed to be redeemed out of the profits of the company, there the sum to be redeemed, shall be transferred to a reserve, called Capital Redemption Reserve (CRR). The Capital Redemption Reserve (CRR) is a mandatory reserve that must be created when preference shares are redeemed using profits or free reserves. The amount to be transferred to CRR should be equal to the nominal value of the shares redeemed.

Accordingly, if the company redeems the shares using retained earnings and free reserves, it must transfer ₹ 5 crore (equal to the nominal value of shares) to the CRR account.

However, if the company issues fresh equity shares to fund the redemption, it is not required to create a CRR since the redemption is backed by new capital inflow. Once created, the CRR is treated with the same sanctity as paid-up share capital.

Hence in the present case, the company has two options, firstly if it redeems shares using profits and reserves, it must transfer ₹5 crore to CRR and secondly if it issues fresh equity shares, it does not need to create CRR.

Question 39

Energy Mills Ltd. has issued equity shares with a face value of ₹10 per share. Mr. Amit and Mr. Burman are both friends. Mr. Amit holds 1,000 fully paid-up shares (₹10 per share paid), while Mr. Burman holds 1,000 partly paid-up shares (₹5 per share paid). When the company declares a 10% dividend, a dispute arises and Mr. Burman expects the same dividend amount as paid to Mr. Amit. However, the company insists on paying dividends based on the actual amount paid-up on the shares as mentioned in AOA.

In the light of the given provisions under the Companies Act, 2013, elucidate the legal position in the following situation:

(i) Whether the company's decision to distribute dividends based on the paid-up amount is legally valid? How does the Companies Act, 2013 regulate dividend distribution in such cases?

(ii) What role does the Articles of Association play in determining this situation?

[MTP May'25 - 5 marks]

Answer

The Companies Act, 2013, under Section 51, provides two possible ways for distributing dividends:

1. Equal Dividend on All Shares
2. Proportional Dividend Based on Paid-up Amount

According to the given scenario

(a) Mr. Amit has 1,000 shares × ₹ 10 (fully paid) = ₹ 10,000
10% of 10,000 = ₹ 1000

(b) Mr. Burman has 1,000 shares × ₹ 5(partially paid) = ₹ 5,000
10% of 5000 = ₹ 500

Hence Mr. Amit receives ₹ 1,000 as he holds fully paid-up shares, whereas Mr. Burman receives ₹ 500, as his shares are partly paid-up (₹ 5 per share instead of ₹ 10).

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Hence following shall be the answer to the questions:

(i) The decision of the company to distribute dividends in proportion to the paid-up amount on shares is legally valid, provided that its Articles of Association (AOA) explicitly permit such a practice. This is in accordance with Section 51 of the Companies Act, 2013. It states that the company if so authorised by article, may be permitted to pay dividends in proportion to the amount paid-up on each share.
The Board of Directors of a company may decide to pay dividends on pro rata basis if all the equity shares of the company are not equally paid-up. However, in the case of preference shares, dividend is always paid at a fixed rate.

(ii) The Articles of Association play a crucial role in deciding how dividends are paid.
(a) If the AOA is silent on the matter, dividends must be paid equally on all shares of the same class.
(b) If the AOA expressly allows, dividends may be paid in proportion to the paid-up value of shares.

Proportional Dividend Based on Paid-up Amount: As in the given case, the AOA allows, dividends can be paid in proportion to the paid-up value of shares.

Question 40

Forward Troopers Ltd. Is a public limited company engaged in the manufacturing of wearable protective gear and accessories including helmets and shields for supply to the armed forces in the country. It is a subsidiary of Security Troopers Ltd. The financial position of Forward Troopers Ltd. as per the latest audited Balance Sheet is as follows:

Fully paid-up Equity Share-capital	₹ 1145 Crore
Reserve & Surplus (Available for payment of dividend)	₹ 1012 Crore
Loan from GHB Pvt. Ltd. Bank	₹ 120 Crore
Sundry Creditors	₹ 14 Crore

The board of directors of Forward Troopers Ltd. have planned upon the following schemes of financial assistance to facilitate the purchase of its shares by its employees:

1) To create an institution in form of a Trust which would be responsible for the purchase of shares of Forward Troopers Ltd. with help of a loan of ₹110 Crore by the aforesaid company itself. The trustee therein would purchase the shares worth the above-mentioned amount on behalf of employees in accordance with an employee share scheme.

2) To provide loan directly to the employee to the maximum of their 5 months' salary to enable them to buy fully paid shares in Security Troopers Ltd.

Mr. Strong one of the directors has although approved the first scheme but have opposed the second one, claiming that the employees can be granted loan for purchase of Forward Troopers Ltd. but not of its holding company.

Considering provisions under the Companies Act, 2013 along with the applicable rules/regulations, answer the following:

(i) The validity of the decision by the Board of directors of Forward Troopers Ltd. to provide a loan worth ₹110 Crore to the trust to aid the employees to buy its shares.

(ii) The validity of the contention of Mr. Strong on grant of loan for purchase of shares of Security Troopers Ltd.

[Sept'25 - 5 marks]

Answer

(i) As per the provision of section 67(2) of the Companies Act, 2013, no public company shall give, whether directly or indirectly and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of, or in connection with, a purchase or subscription made or to be made, by any person of or for any shares in the company or in its holding company.

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But as per the provision of section 67(3)(b), the above provision of section 67(2) shall not apply to the provision by a company of money in accordance with any scheme approved by company through special resolution and in accordance with such requirements as may be prescribed, for the purchase of, or subscription for, fully paid-up shares in the company or its holding company, if the purchase of, or the subscription for, the shares held by trustees for the benefit of the employees or such shares held by the employee of the company.

As per Rule 16 of the Companies (Share Capital and Debentures) Rules, 2014, which deals with the provision of money by company for purchase of its own shares by employees or by trustees for the benefit of employees, states that:

Rule 16 (1)- A company shall not make a provision of money for the purchase of, or subscription for, shares in the company or its holding company, if the purchase of, or the subscription for, the shares by trustees is for the shares to be held by or for the benefit of the employees of the company, unless it complies with some conditions including that the scheme of provision of money for purchase of or subscription for the shares as aforesaid is approved by the members by passing special resolution in a general meeting and the value of shares to be purchased or subscribed in the aggregate shall not exceed five per cent, of the aggregate of paid up capital and free reserves of the company.

In terms of the provisions of section 67(2), section 67(3)(b) read with the Rule 16 (1) as stated above, the value of shares that can be purchased or subscribed in the aggregate shall not exceed ₹107.85 crore, i.e. [5% of (₹1145+ ₹1012) crore]. Therefore, the decision by the Board of Directors of Forward Troopers Limited suggested to provide a loan of ₹ 110 crore to the Trust (responsible for purchase of shares of the Company itself), to aid the employees to buy its shares is not valid as the amount is beyond the maximum permissible limit.

(ii) As per the provision of section 67(3)(c), the above provision of section 67(2) shall not apply to the giving of loans by a company to persons in the employment of the company other than its directors or key managerial personnel, for an amount not exceeding their salary or wages for a period of six months with a view to enabling them to purchase or subscribe for fully paid-up shares in the company or its holding company to be held by them by way of beneficial ownership.
In terms of the above provision, the contention of Mr. Strong opposing the plan of the Board of Directors of Forward Troopers Limited providing loan directly to the employees to the maximum of their 5 months' salary to enable them to buy fully paid shares in its holding company Security Troopers Ltd. is not valid.

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5 Acceptance of Deposit by Company

Question 1:

Ashish Ltd. having a net-worth of ₹ 80 crores and turnover of ₹ 30 crores wants to accept deposits from public other than its members. Referring to the provisions of the Companies Act, 2013, state the conditions and the procedures to be followed by Ashish Ltd. for accepting deposits from public other than its members.

[RTP May'19, MTP Jan'26]

Answer

Acceptance of deposit from public:

Relevant Provisions: According to section 76 of the Companies Act, 2013, a public company, having net worth of not less than 100 crore rupees or turnover of not less than 500 crore rupees, can accept deposits from persons other than its members subject to compliance with the requirements provided in sub-section (2) of section 73 and subject to such rules as the Central Government may, in consultation with the Reserve Bank of India, prescribe.

Provided that such a company shall be required to obtain the rating (including its net-worth, liquidity and ability to pay its deposits on due date) from a recognised credit rating agency for informing the public the rating given to the company at the time of invitation of deposits from the public which ensures adequate safety, and the rating shall be obtained for every year during the tenure of deposits.

Provided further that every company accepting secured deposits from the public shall within thirty days of such acceptance, create a charge on its assets of an amount not less than the amount of deposits accepted in favour of the deposit holders in accordance with such rules as may be prescribed.

Conclusion

Since, Ashish Ltd. has a net worth of ₹ 80 crores and turnover of ₹ 30 crores, which is less than the prescribed limits, hence, it cannot accept deposit from public other than its members. If the company wants to accept deposits from public other than its members, it has to fulfill the eligibility criteria of net worth or Turnover or both and then the other conditions as stated above.

Question 2:

State true or false :

i. XYZ Private Limited may accept the deposits from its members to the extent of ₹ 60.00 Lakh, if the aggregate of its paid-up capital, free reserves and security premium account is ₹ 60.00 Lakh

ii. A Government Company, which is eligible to accept deposits under Section 76 of the Companies Act, 2013 cannot accept deposits from public exceeding 25% of the aggregate of its paid- up capital, free reserves and security premium account.

[RTP Nov'20, May'19, ICAI Module, MTP April 2022]

OR

NIM Private Limited is engaged in the business of manufacturing household plastic goods. The books of accounts of the company provides that aggregate of its paid-up capital, free reserves and security premium account is Rs. 35.00 lacs. The company intends to accept deposits from its members to the extent of Rs. 35.00 lacs. Advise the company whether it can do so. Support your answer as per the provisions of the Companies Act, 2013.

[MTP March 2021 - 4 marks]

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Answer

i. As per the provisions of Section 73 (2) of the Companies Act, 2013 read with Rule 3 of the Companies (Acceptance of Deposits) Rules, 2014, as amended by the Companies (Acceptance of Deposits) Amendment Rules, 2016, a company shall accept any deposit from its members, together with the amount of other deposits outstanding as on the date of acceptance of such deposits not exceeding 35% of the aggregate of the Paid-up share capital, free Reserves and securities premium account of the company.

Provided that a private company may accept from its members monies not exceeding one hundred per cent of aggregate of the paid up share capital, free reserves and securities premium account and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified.

Therefore, the given statement of eligibility of XYZ Private Ltd. to accept deposits from its members to the extent of ₹ 60.00 lakh is True.

ii. A Government company is not eligible to accept or renew deposits under section 76, if the amount of such deposits together with the amount of other deposits outstanding as on the date of acceptance or renewal exceeds thirty-five per cent of the aggregate of its Paid-up share capital, free Reserves and securities premium account of the company.

Therefore, the given statement prescribing the limit of 25% to accept deposits is False.

Question 3:

Vrinda Limited is a company manufacturing orange and strawberry candies for kids. Now, the company wants to expand its business and start the manufacturing of 10 more types of candies. The company has raised ₹1crore through the issue of non-convertible debentures not constituting a charge on the assets of the company and listed on a recognised stock exchange as per the applicable regulations made by the Securities and Exchange Board of India. Advise, whether the above amount of ₹ 1 crore will be considered as deposit?

[May-18/May-17-Old]

Answer

As per sub-clause (ixa) of Rule 2 (1) (c) of the Companies (Acceptance of Deposit) Rules, 2014, any amount raised by issue of non-convertible debentures not constituting a charge on the assets of the company and listed on recognised stock exchange as per the applicable regulations made by the Securities and Exchange Board of India, are not considered as deposit.

₹ 1 crore raised by Vrinda Limited will not be considered as deposit in terms of Rule 2 (1) (c) (ixa).

Question 4:

Enumerate the amounts which when received by a company in the ordinary course of business are not to be considered as deposits.

[ICAI Module, MTP 1 May'23 - 4 marks]

Answer

According to Rule 2 (1) (c) (xii), following amounts if received by a company in the course of, or for the purposes of, the business of the company, shall not be considered as deposits:

(i) any amount received as an advance for the supply of goods or provision of services accounted for in any manner whatsoever to be appropriated within a period of 365 days from date of acceptance of such advance:
However, in case any advance is subject matter of any legal proceedings before any court of law, the time limit of three hundred and sixty-five days shall not apply.

(ii) any amount received as advance in connection with consideration for an immovable property under an agreement or arrangement.
However, such advance is required to be adjusted against such property in accordance with the terms of agreement or arrangement;

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(iii) any amount received as security deposit for the performance of the contract for supply of goods or provision of services;
(iv) any amount received as advance under long term projects for supply of capital goods except those covered under item (b) above;
(v) any amount received as an advance towards consideration for providing future services in the form of a warranty or maintenance contract as per written agreement or arrangement, if the period for providing such services does not exceed the period prevalent as per common business practice or five years, from the date of acceptance of such service whichever is less;
(vi) any amount received as an advance and as allowed by any sectoral regulator or in accordance with directions of Central or State Government;
(vii) any amount received as an advance for subscription towards publication, whether in print or in electronic to be adjusted against receipt of such publications;

However, if the amount received under items (a), (b) and (d) above becomes refundable (with or without interest) due to the reasons that the company accepting the money does not have necessary permission or approval, wherever required, to deal in the goods or properties or services for which the money is taken, then the amount received shall be deemed to be a deposit under these rules.

Further, for the purposes of this sub-clause the amount shall be deemed to be deposits on the expiry of fifteen days from the date they become due for refund.

Question 5:

State the procedure to be followed by companies for acceptance of deposits from its members according to the Companies Act, 2013. What are the exemptions available to a private limited company?

[ICAI Module, Nov 2018 – 6 marks]

Answer

Acceptance of deposits by a company from its members:

As per section 73 (2) of the Companies Act, 2013, a company may, subject to the passing of a resolution in general meeting and subject to such rules as may be prescribed in consultation with the Reserve Bank of India, accept deposits from its members on such terms and conditions, including the provision of security, if any, or for the repayment of such deposits with interest, as may be agreed upon between the company and its members, subject to the fulfilment of the following conditions, namely:

(a) Issuance of a circular to its members including therein a statement showing the financial position of the company, the credit rating obtained, the total number of depositors and the amount due towards deposits in respect of any previous deposits accepted by the company and such other particulars in such form and in such manner as may be prescribed;
(b) Filing a copy of the circular along with such statement with the Registrar within 30 days before the date of issue of the circular;
(c) Depositing, on or before the 30th day of April each year, such sum which shall not be less than twenty per cent of the amount of its deposits maturing during the following financial year and kept in a scheduled bank in a separate bank account to be called deposit repayment reserve account;
(d) Omitted
(e) Certifying that the company has not committed any default in the repayment of deposits accepted either before or after the commencement of this Act or payment of interest on such deposits and where a default had occurred, the company made good the default and a period of five years had lapsed since the date of making good the default; and
(f) Providing security, if any for the due repayment of the amount of deposit or the interest thereon including the creation of such charge on the property or assets of the company.

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Every deposit accepted by a company shall be repaid with interest in accordance with the terms and conditions of the agreement. Where a company fails to repay the deposit or part thereof or any interest thereon, the depositor concerned may apply to the Tribunal for an order directing the company to pay the sum due or for any loss or damage incurred by him as a result of such non-payment and for such other orders as the Tribunal may deem fit.

Exemption to certain private companies:

Clauses (a) to (c) and (e) of sub-section (2) of section 73 with respect to issue of circular, filing the copy of such circular with the Registrar, depositing of certain amount and certification as to no default committed, shall not apply to a private company:

(A) which accepts from its members monies not exceeding one hundred per cent of aggregate of the paid-up share capital, free reserves and securities premium account; or

(B) which is a start-up, for five years from the date of its incorporation; or

(C) which fulfils all of the following conditions, namely:

(a) which is not an associate or a subsidiary company of any other company;

(b) if the borrowings of such a company from banks or financial institutions or any body corporate is less than twice of its paid-up share capital or fifty crore rupees, whichever is lower; and

(c) such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under this section.

However, such a company [as referred to in clauses (A), (B) or (C)] shall file the details of monies accepted to the Registrar in the specified manner (i.e., in Form DPT-3).

Question 6:

Explain the provisions for 'Appointment of Trustee for Depositors' under the Companies Act, 2013 read with the 'Acceptance of Deposits' Rules, 2014.

[ICAI Module, May 2018]

Answer

Appointment of Trustee for Depositors: In this respect following provisions are required to be observed as mentioned in Rule 7 of the Companies (Acceptance of Deposits) Rules, 2014:

- One or more trustees for depositors need to be appointed by the company for creating security for deposits.
- A written consent shall be obtained from the trustees before their appointment.
- A statement shall appear in the circular or advertisement with reasonable prominence to the effect that the trustees for depositors have given their consent to the company for such appointment.
- The company shall execute a deposit trust deed in Form DPT-2 at least seven days before issuing the circular or circular in the form of advertisement.

No person (including a company) that is in the business of providing trusteeship services shall be appointed as a trustee for the depositors, if the proposed trustee:

(a) is a director, key managerial personnel or any other officer or an employee of the company or of its holding, subsidiary or associate company or a depositor in the company;

(b) is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;

(c) has any material pecuniary relationship with the company

(d) has entered into any guarantee arrangement in respect of principal debts secured by deposits or interest

(e) is related to any person specified in clause (a) above.

No trustee for depositors shall be removed from office after the issue of circular or advertisement and before the expiry of his term except with the consent of all the directors present at a meeting of the board. In case the company is required to have independent directors, at least one independent director shall be present in such meeting of the Board.

@teamxalpha

Question 7:

What are the provisions relating to 'Credit Rating' which an 'eligible company' must follow if it wants to raise public deposits?

[ICAI Module]

Answer

The provisions relating to obtaining of 'Credit Rating' to be followed by an 'eligible company' are contained in Section 76 (1) of the Companies Act, 2013 and Rule 3 (8) of the Companies (Acceptance of Deposits) Rules, 2014 as amended from time to time.

Accordingly, an 'eligible company' which desires to raise public deposits shall be required to obtain the rating (including its net-worth, liquidity and ability to pay its deposits on due date) from a recognised credit rating agency. The given rating which ensures adequate safety shall be informed to the public at the time of invitation of deposits from the public. Further, the rating shall be obtained every year during the tenure of deposits.

As per Rule 3 (8), copy of the credit rating which is being obtained at least once in a year shall be sent to the Registrar of Companies along with the Return of Deposits in Form DPT-3.

Further, the credit rating shall not be below the minimum investment grade rating or other specified credit rating for fixed deposits. It shall be obtained from any one of the approved credit rating agencies as specified for Non-Banking Financial Companies in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, as amended from time to time.

Question 8: *[Good question]*

Discuss the following situations in the light of 'deposit provisions' as contained in the Companies Act, 2013 and the Companies (Acceptance of Deposits) Rules, 2014, as amended from time to time.

(i) Samit, one of the directors of Zarr Technology Private Limited, a start-up company, requested his close friend Ritesh to lend to the company ₹ 30.00 lacs in a single tranche by way of a convertible note repayable within a period six years from the date of its issue. Advise whether it is a deposit or not.

[Sept'25]

(ii) Polestar Traders Limited received a loan of ₹ 30.00 lacs from Rachna who is one of its directors. Advise whether it is a deposit or not.

[RTP May'24]

(iii) City Bakers Limited failed to repay deposits of ₹ 50.00 crores and interest due thereon even after the extended time granted by the Tribunal. Is the company or Swati, its officer-in-default, liable to any penalty?

(iv) Shringaar Readymade Garments Limited wants to accept deposits of ₹ 50.00 lacs from its members for a tenure which is less than six months. Is it a possibility?

[Sept'25]

(v) Is it in order for the Diamond Housing Finance Limited to accept and renew deposits from the public from time to time?

[ICAI Module, MTP May 20, Dec 2021]

Answer

(i) In terms of Rule 2 (1) (c) (xvii) if a start-up company receives rupees twenty-five lakh or more by way of a convertible note (convertible into equity shares or repayable within a period not exceeding ten years from the date of issue) in a single tranche, from a person, it shall not be treated as deposit.

In the given case, Zarr Technology Private Limited, a start-up company, received ₹ 30 lacs from Ritesh in a single tranche by way of a convertible note which is repayable within a period of six years from the date of its issue. In view of Rule 2 (1) (c) (xvii) which requires a convertible note to be repayable within a period of ten years from the date of its issue, the amount of ₹ 30 lacs shall not be considered as deposit.

@teamxalpha

(ii) In terms of Rule 2 (1) (c) (viii), any amount received from a person who is director of the company at the time of giving loan to the company shall not be treated as deposit if such director furnishes to the company at the time of giving money, a written declaration to the effect that the amount is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others and further, the company shall disclose the details of money so accepted in the Board's report.

In the given case, it is assumed that Rachna was one of the directors of Polestar Traders Limited when the company received a loan of ₹ 30 lacs from her. Further, it is assumed that she had furnished to the company at time of giving money, a written declaration to the effect that the amount was not being given out of funds acquired by her by borrowing or accepting loans or deposits from others and in addition, the company had disclosed the details of money so accepted in the appropriate Board's report. If these conditions are satisfied ₹ 30.00 lacs shall not be treated as deposit.

(iii) By not repaying the deposit of ₹ 50.00 crores and the interest due thereon even after the extended time granted by the Tribunal, City Bakers Limited has contravened the conditions prescribed under Section 73 of the Act. Accordingly, following penalty is leviable:

- Punishment for the company: City Bakers Limited shall, in addition to the payment of the amount of deposit and the interest due thereon, be punishable with fine which shall not be less than rupees one crore or twice the amount of deposit accepted by the company, whichever is lower but which may extend to rupees ten crores.

- Punishment for officer-in-default: Swati, being the officer-in-default, shall be punishable with imprisonment which may extend to seven years and with fine which shall not be less than rupees twenty-five lakhs but which may extend to rupees two crores.

Further, if it is proved that Swati had contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or depositors or creditors or tax authorities, she will be liable for action under section 447 (Punishment for fraud).

(iv) According to Rule 3 (1), a company is not permitted to accept or renew deposits (whether secured or unsecured) which is repayable on demand or in less than six months. Further, the maximum period of acceptance of deposit cannot exceed thirty-six months.

However, as an exception to this rule, for the purpose of meeting any of its short-term requirements of funds, a company is permitted to accept or renew deposits for repayment earlier than six months subject to the conditions that:

(a) such deposits shall not exceed ten per cent of the aggregate of the paid-up share capital, free reserves and securities premium account of the company; and
(b) such deposits are repayable only on or after three months from date of such deposits or renewal.

In the given case of Shringaar Readymade Garments Limited, it wants to accept deposits of Rs 50 lacs from its members for a tenure which is less than six months. It can do so if it justifies that the deposits are required for the purpose of meeting any of its short-term requirements of funds but in no case such deposits shall exceed 10% ten per cent of the aggregate of its paid-up share capital, free reserves and securities premium account and further, such deposits shall be repayable only on or after three months from the date of such deposits.

(v) According to section 73 (1) of the Act, no company can accept or renewal of deposits from public unless it follows the manner provided under Chapter V of the Act (contains provisions regarding acceptance of deposits by companies) for acceptance or renewal of deposits from public.

@teamxalpha

However, Proviso to Section 73 (1) states that such prohibition with respect to the acceptance or renewal of deposit from public, inter-alia, shall not apply to a housing finance company registered with the National Housing Bank established under the National Housing Bank Act, 1987.

In the given case, it is assumed that Diamond Housing Finance Limited is registered with the National Housing Bank and therefore the prohibition contained in section 73 (1) of the Act with respect to the acceptance renewal of deposit from public shall not apply to it. In other words, it being an exempted company, can accept deposits from public from time to time without following the prescribed manner.

Question 9:

ABC Limited having a net worth of ₹ 120 crores wants to accept deposit from its members. The directors of the company have approached you to advise them as to what special care has to be taken while accepting such deposit from the members in case their company falls within the category of an 'eligible company'.

[ICAI Module, Jan 2021, May 24, MTP Jan'26]

Answer

According to section 76 (1) of the Act, an "eligible company" means a public company, having a net worth of not less than one hundred crore rupees or a turnover of not less than five hundred crore rupees and which has obtained the prior consent of the company in general meeting by means of a special resolution and also filed the said resolution with the Registrar of Companies before making any invitation to the public for acceptance of deposits.

However, an 'eligible company', which is accepting deposits within the limits specified under section 180(1)(c), may accept deposits by means of an ordinary resolution.

According to Rule 4 (a), an 'eligible company' shall accept or renew any deposit from its members, if the amount of such deposit together with the amount of deposits outstanding as on the date of acceptance or renewal of such deposits from members does not exceed ten per cent of the aggregate of the paid-up share capital, free reserves and securities premium account of the company.

ABC Limited is having a net worth of 120 crore rupees. Hence, it falls in the category of 'eligible company'. Thus, ABC Limited has to ensure that acceptance of deposits from its members together with the amount of deposits outstanding as on the date of acceptance or renewal of such deposits from the members, in no case, exceeds 10% of the aggregate of the paid-up share capital, free reserves and securities premium account of the company.

Question 10:

Define the term 'deposit' under provisions of the Companies Act, 2013 and comment quoting relevant provisions whether the following amounts received by a company will be considered as deposits or not:

(i) ₹ 5,00,000 raised by Rishi Confectionaries Limited through issue of non-convertible debentures not constituting a charge on the assets of the company and listed on a recognised stock exchange as per the applicable regulations made by the Securities and Exchange Board of India.

[May'25]

(ii) ₹ 2,00,000 received by Raja Yarns Limited from its employee Mr. T, who draws an annual salary of ₹ 1,50,000, as a non-interest bearing security deposit under a contract of employment.

[May'23, MTP May'24 - 5 marks]

(iii) ₹ 3,00,000 received by a private company from one of the relatives of a Director. The said relative has furnished a declaration that the amount was received by him from his mother as a gift.

[ICAI Module, Nov 19, May 2022, MTP-1 Nov 23 - 4 marks]

Answer

Deposit: According to Section 2 (31) of the Companies Act, 2013, the term 'deposit' includes any receipt of money by way of deposit or loan or in any other form, by a company, but does not include such categories of amount as may be prescribed in consultation with the Reserve bank of India.

@teamvalpha

Rule 2 (1) (c) of the Companies (Acceptance of Deposit) Rules, 2014 states various amounts received by a company which will not be considered as deposits. In terms of this Rule the answers to the given situations shall be as under:

(i) ₹ 5,00,000 raised by Rishi Confectionaries Limited through issue of non-convertible debentures not constituting a charge on the assets of the company and listed on recognised stock exchange as per the applicable regulations made by the SEBI, will not be considered as deposit in terms of sub-clause (ixa) of Rule 2 (1) (c).

(ii) ₹ 2,00,000 received by Raja Yarns Limited from its employee Mr. T, who draws an annual salary of ₹ 1,50,000, as a non-interest bearing security deposit under a contract of employment will be considered as deposit in terms of sub-clause (x) of Rule 2 (1) (c), for the amount received is more than his annual salary of ₹ 1,50,000.

(iii) ₹ 3,00,000 received by a private company from one of the relatives of a Director. When the relative furnishes a declaration that the said amount was received by him from his mother as a gift, then it will not be considered as deposit in terms of sub-clause (viii) of Rule 2 (1) (c).

In fact, the preceding sub-clause requires that any amount given by a relative of a director of a private company shall not be considered as deposit if the relative furnishes a declaration in writing to the effect that the amount is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others.

Thus, the amount given to the private company out of gifted money by one of the relatives of a director is not a 'deposit'. As an additional requirement, the company shall disclose details of money so accepted in Board's report.

Question 11:

The Promoters of Green Limited contributed in the form of unsecured loan to the company in fulfilment of the margin money requirements stipulated by State Industries Development Corporation Ltd. (SIDCL) for granting loan. In the light of the provisions of the Companies Act, 2013 and Rules made thereunder whether the unsecured loan will be regarded as Deposit or not?

[MTP March 2022, July 2021, MTP May 24, May'25, MTP Sept'25]

Answer

According to Rule 2 (1) (c) of the Companies (Acceptance of Deposits) Rules, 2014, the following amount is not considered as deposit:

Any amount brought in by the promoters of the company by way of unsecured loan in pursuance of the stipulation of any lending financial institution or a bank subject to the fulfilment of following conditions:

a) the loan is brought because of the stipulation imposed by the lending institutions on the promoters to contribute such finance;
b) the loan is provided by the promoters themselves or by their relatives or by both; and
c) such exemption shall be available only till the loans of financial institution or bank are repaid and not thereafter.

Hence, in the instant case, the unsecured loan contributed by promoters of Green Limited will not be regarded as deposit as the unsecured loan is brought because of the stipulation imposed by the SIDCL and the loan is provided by the promoters themselves.

Question 12:

Viki Limited engaged in the business of consumer durables. It is managed by a team of professional managers. The Company has not made default in payment of statutory dues, and repayment of debenture/ Institutional loan with interest. The Company advertised a circular in the newspaper dated 20th September 2020 inviting the deposits from the members and public for the first time.

@teamxalpha

The latest audited financial statement of the Company revealed the following data, as on 31.3.2020:

Paid up share capital	Rs. 70 Crores
Securities Premium	Rs. 20 Crores
Free Reserves	Rs. 20 Crores,
Long-term borrowings	Rs. 50 Crores

The Company in the advertisement invited public deposit for a period of 4 Months Plan A & Plan B for 36 Months.

(i) Explain the term 'eligible company' and calculate the Maximum amount of Deposit that can be accepted from Public (Non-Member) for Plan A and Plan B based on latest audited Financial Statement under the provisions of the Companies Act, 2013.

(ii) Calculate the maximum amount of deposit Viki Limited can accept from the public under Plan B in case it is a wholly owned Government Company under the provisions of the said Act

[Nov 2020, Jan'25, MTP Sept'25 - 5 marks]

OR

NOP Limited, since its incorporation in 2002, is engaged in the production of premium quality glass bottles. According to financial results of the company as on 31.3.2023 net worth of the company was Rs. 90 crore and turnover for the year 2022-23 was Rs. 510 crore. The company proposed to accept the deposits as on 1st February, 2024, which would be due for repayment on 30th September, 2028 from the public for expansion and redevelopment programs of company. Furthermore, the company has accepted a loan of Rs. 1.5 crore from Mr. P Kishore (Director) and the loan was to be repaid after 24 months. Company in its books of account, records the receipt as a loan under non-current liabilities. At the time of advancing loan, Mr. P Kishore affirms in writing that such amount is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others and complete details of such loan transaction is furnished in the boards' report. On the basis of above facts answer the following questions:

(i) Whether company was eligible to accept deposit from public? What is the criteria for acceptance of deposit and tenure for which deposit can be accepted? Whether the tenure decided by company was in accordance with provisions of the Companies Act, 2013?

(ii) With reference to the loan advanced by Mr. P Kishore to company, state whether the same is to be classified as a deposit or not?

[RTP May 24]

Answer

(i) According to Rule 2(1)(e) of the Companies (Acceptance of Deposits) Rules, 2014 "eligible company" means a public company as referred to in sub-section (1) of section 76 of the Companies Act, 2013, having a net worth of not less than one hundred crore rupees or a turnover of not less than five hundred crore rupees and which has obtained the prior consent of the company in general meeting by means of a special resolution and also filed the said resolution with the Registrar of Companies before making any invitation to the Public for acceptance of deposits. Provided that an eligible company, which is accepting deposits within the limits specified under clause (c) of sub-section (1) of section 180, may accept deposits by means of an ordinary resolution.

Net worth of Viki Limited as per section 2(57) of the Companies Act, 2013 can be calculated as follows:

Paid up share capital:	Rs. 70 crores
Free Reserves:	Rs. 20 crores
Securities premium:	Rs. 20 crores
Total:	Rs. 110 crores

Hence, Viki Limited is an eligible company, since its Net worth is in excess of Rs. 100 crores.

Tenure for which Deposits can be Accepted: As per Rule 3(1)(a) of the Companies (Acceptance of Deposits) Rules, 2014, a company is not permitted to accept or renew deposits (whether secured or unsecured) which is repayable on demand or in less than six months. Further, the maximum period of acceptance of deposit cannot exceed thirty six months

@teamxalpha

Exception to the rule of tenure of six months: As per the proviso to the above rule, for the purpose of meeting any of its short-term requirements of funds, a company may accept or renew deposits for repayment earlier than six months subject to the condition that such deposits shall not exceed ten per cent of the aggregate of the paid-up share capital, free reserves and securities premium account of the company. As per Rule 3(1)(b) of the Companies (Acceptance of Deposits) Rules, 2014, such deposits are repayable not earlier than three months from the date of such deposits or renewal thereof.

Maximum Amount of Deposits: As per Rule 3(4)(b) of the Companies (Acceptance of Deposits) Rules, 2014, an eligible company is permitted to accept or renew deposits from persons other than its members. As per the law the amount of such deposit together with the amount of outstanding deposits (excluding deposits from members) on the date of acceptance or renewal can be maximum twenty-five per cent. of the aggregate of its paid-up share capital, free reserves and securities premium account of the company.

For Plan A: Since the maximum period of deposits is 4 months, the maximum amount of deposits shall not exceed ten per cent. of the aggregate of the paid-up share capital, free reserves and securities premium account of the company. Maximum amount of deposits: 10% of 110 crores (70 + 20 + 20) = 11 crores.

For Plan B: Maximum amount of deposits: 25% of 110 crores (70 + 20 + 20) -11 crores (outstanding deposit under plan A) = 16.5 crores.

(ii) In terms of Rule 3(5) of the Companies (Acceptance of Deposits) Rules, 2014, in case Viki Limited is a wholly owned Government Company, so it can accept deposit together with the amount of other outstanding deposits as on the date of acceptance or renewal maximum up to thirty-five per cent of the aggregate of its paid-up share capital, free reserves and securities premium account. For Plan B: Maximum amount of deposits: 35% of 110 crores (70 + 20 + 20) = 38.5 crores.

Question 13:

RS Ltd. received share application money of Rs. 50 Lakh on 01.06.2019 but failed to allot shares within the prescribed time limit. The share application money of Rs. 5 Lakh received from Mr. Khanna, a customer of the Company, was refunded by way of book adjustment towards the dues payable by him to the company on 30.07.2019. The Company Secretary of RS Ltd. reported to the Board that the entire amount of Rs. 50 Lakh shall be deemed to be 'Deposits' as on 31.07.2019 and the Company is required to comply with the provisions of the Companies Act, 2013 applicable to acceptance of deposits in relation to this amount. You are required to examine the validity of the reporting of the Company Secretary in the light of the relevant provisions of the Companies Act, 2013.

[Jan 2021, MTP Nov'22, MTP-2 Nov 23, May'25]

Answer

According to Rule 2(1)(c) of the Companies (Acceptance of Deposits) Rules, 2014, the following category of receipt is not considered as deposit:

Any amount received and held pursuant to an offer made in accordance with the provisions of the Companies Act, 2013 towards subscription to any securities, including share application money or advance towards allotment of securities, pending allotment, so long as such amount is appropriated only against the amount due on allotment of the securities applied for;

It is clarified by way of Explanation that if the securities for which application money or advance for such securities was received cannot be allotted within 60 days from the date of receipt of the application money or advance for such securities and such application money or advance is not refunded to the subscribers within 15 days from the date of completion of 60 days, such amount shall be treated as a deposit under these rules.

Further, it is clarified that any adjustment of amount for any other purpose shall not be treated as refund.

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In the given question, RS Limited has received Rs. 50 Lakhs as share application money on 01.06.2019. It failed to allot shares within the prescribed limit. Further, on 30.07.2019 the company adjusted the amount of Rs. 5 Lakhs received from Mr. Khanna (a customer of the company), by way of book adjustment towards the dues payable by him to the company.

In the light of the facts of the question and provisions of Law:

(1) If such application money or advance is not refunded to the subscribers within 15 days from the date of completion of 60 days, such amount shall be treated as a deposit.
In the question, the prescribed limit of 60 days will end on 31.07.2019 and the company has 15 more days to refund such application money to the subscribers. Otherwise, after lapse of such 15 days, the amount not so refunded will be treated as deposit.

Hence, the Company Secretary of RS Limited is not correct in treating the entire amount of Rs. 50 Lac as 'Deposits' on 31.07.2019.

(2) Any adjustment of the amount for any other purpose shall not be treated as refund. Thus, the amount of Rs. 5 Lakhs adjusted against payment due to be received from Mr. Khanna, cannot be treated as refund.

Question 14:

Answer the following citing relevant provisions of the Companies Act, 2013:

(a) Wire Electricals Limited having paid-up capital of ₹ 1.00 crore availed a term loan of ₹ 10,00,000 from ABC Bank Limited to purchase electrical items. Mr. Taar, one of the directors of the company, is of the opinion that it shall be considered as 'deposit'. Is his contention correct?

(b) A Government Company, which is eligible to accept deposits under Section 76 of the Companies Act, 2013, cannot accept deposits from public exceeding 25% of the aggregate of its paid-up capital, free reserves and security premium account. Is this correct?

[ICAI Module, RTP May 23, MTP Jan'26 - 4 Marks]

Answer

(a) In terms of Rule 2 (1) (c) (iii) of the Companies (Acceptance of Deposits) Rules, 2014, any amount received as a loan or facility from any banking company shall not be considered as 'deposit'.

In view of the above, the contention of Mr. Taar that the term loan of ₹ 10,00,000 availed by the company from ABC Bank Limited shall be considered as 'deposit' is not correct.

(b) As per Rule 3 (5) of the Companies (Acceptance of Deposits) Rules 2014, a Government Company is not eligible to accept or renew deposits under section 76, if the amount of such deposits together with the amount of other deposits outstanding as on the date of acceptance or renewal exceeds thirty five per cent of the aggregate of its paid-up share capital, free reserves and securities premium account.

Therefore, the given statement where the limit of 25% has been stated for acceptance of deposits is not correct.

Question 15:

Perfect Limited Company raised the secured deposit of ₹100 crores an 30th June, 2021 from the public on interest @ 12% p.a. repayable after 3 years. The charges has been created within prescribed time in favour of trustee of depositors against the deposit taking following assets of the company as security:

Land and Building	Rs. 60 crores
Plant and Machinery	Rs. 20 crores
Factory Shed	Rs. 20 crores
Trade Mark	Rs. 20 crores
Goodwill	Rs. 25 crores

Explain the validity of charges created with reference to Companies (Acceptance of Deposit) Rules, 2014.

[Nov 22, Nov 23, RTP Sept'25]

@teamxalpha

Answer

As per second proviso to Section 76(1) of the Companies Act, 2013, every company which accepts secured deposits from the public shall within 30 days of such acceptance, create a charge on its assets. The amount of charge shall not be less than the amount of deposits accepted. The charge shall be created in favour of the deposit holders in accordance with the prescribed rules.

In respect of creation of security, Rule 6 of the Companies (Acceptance of Deposit) Rule, 2014, states that the company accepting secured deposits shall create security by way of charge on its tangible assets only.

The other notable points are:

- The company cannot create charge on intangible assets (i.e., goodwill, trade-marks, etc.).
- Total value of security should not be less than amount of deposits accepted & interest payable thereon.
- The market value of assets subject to charge shall be assessed by a registered valuer.
- Security shall be created in favour of a depositors trustee

In the given question,

Particulars	Amount (in ₹)
Total value of security (value of assets on which charge can be created)	60+20+20 [Land and Building, Plant & machinery and Factory Shed] = 100 crore
Total deposits accepted and interest payable thereon	100+ [(100*12%)*3 years] = 136 crore

Since, the total value of security is less than the amount of deposits accepted and interest payable thereon, hence the charge is not validly created.

Question 16:

Samay Publishing Limited facing acute cash crunch wants to utilise a portion of 'Deposit Repayment Reserve Account' to pay off its short-term creditors who are pressing hard for repayment of ₹ 20,00,000. Is it justified to use funds lying in 'Deposit Repayment Reserve Account' in this manner? Give your answer as per the provisions of the Companies Act, 2013.

[MTP Jan'25, MTP Sept'25 - 5 marks]

Answer

Rule 13 of the Companies (Acceptance of Deposits) Rules, 2014, states that the amount deposited in the 'Deposit Repayment Reserve Account' shall not be used by a company for any purpose other than repayment of deposits.

In the given question, Samay Publishing Limited wants to utilise a portion of 'Deposit Repayment Reserve Account' to pay off its short-term creditors. Since there is a prohibition, Samay Publishing Limited is not permitted to utilise its 'Deposit Repayment Reserve Account' to pay off its short-term creditors.

Question 17

Excel Pvt. Ltd. received ₹50 lakh from Mr. Giver. Mr. Giver was a director of the company at the time of the transaction. However, Mr. Giver did not submit any written declaration stating that the amount was not given out of borrowed funds. The company utilized the said funds for business expansion and disclosed the receipt of money in the Board's report.

Considering the provisions of the Companies Act, 2013, assess the following situations:

1. Was Excel Pvt. Ltd. compliant with the requirements w.r.t acceptance of the money from Mr. Giver?
2. If Mr. Giver had given the money out of funds borrowed from another person, whether this amount will considered as deposit?

[RTP May'25]

@teamxalpha

Answer

According to Rule 2(1)(c) of the Companies (Acceptance of Deposit) Rules, 2014, following categories of amounts, inter alia, are not considered as deposit:

Any amount received from a person who, at the time of the receipt of the amount, was a director of the company or a relative of the director of the private company;

However, the director of the company or relative of the director of the private company, as the case may be, from whom money is received, is required to furnish to the company at the time of giving the money, a declaration in writing to the effect that the amount is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others and the company shall disclose the details of money so accepted in the Board's report.

Accordingly,

1. Excel Pvt. Ltd. failed to obtain a written declaration from Mr. Giver at the time of receiving the amount. The declaration is mandatory to confirm that the funds are not borrowed or sourced from loans or deposits from others. Therefore, Excel Pvt. Ltd. was not in compliance with the requirements w.r.t acceptance of the money from Mr. Giver.
2. If Mr. Giver had given the money out of funds borrowed from another person, the transaction would not be eligible under an exempted category under the Companies Act, 2013. Consequently, Excel Pvt. Ltd. would treat such an amount as a deposit.

Question 18

Sanjiv is a shareholder in Utsah Textiles Private Limited holding 10,000 shares of Rs 10 each. His wife Sneha and his three sons Aayush, Pranav and Himanshu are also shareholders in the company holding 1,000 shares each. In response to the invitation from the company inviting deposits from its members, Sanjiv wants to deposit Rs. 1,00,000 for 36 months jointly with his wife and three sons. Whether Utsah Textiles Private Limited can accede to the request of Sanjiv and accept deposit jointly in five names since all the depositors are shareholders of the company.

[ICAI Module]

Answer

Rule 3 (2) of the Companies (Acceptance of Deposits) Rules, 2014, provides that where depositors so desire, deposits may be accepted in joint names not exceeding three.

In view of this provision, Sanjiv can deposit Rs. 1,00,000 with Utsah Textiles Private Limited jointly with two other persons only irrespective of the fact that all the five persons are members of the company.

Question 19

Shubhra Chemicals Private Limited (not a start-up company) is desirous of accepting 'deposits' from its members amounting to two hundred percent of aggregate of its paid-up share capital, free reserves and securities premium account. What are the conditions it must fulfill before such acceptance?

[ICAI Module]

Answer

According to first proviso to Rule 3(3), a private company may accept from its members monies not exceeding 100% of aggregate of the paid-up share capital, free reserves and securities premium account.

According to second proviso to Rule 3(3), the maximum limit in respect of deposits to be accepted from members shall not apply to the classes of private company which fulfils all of the following conditions, namely:

(a) which is not an associate or a subsidiary company of any other company;

(b) the borrowings of such a company from banks or financial institutions or any body-corporate is less than twice of its paid-up share capital or fifty crore rupees, whichever is less; and

@teamxalpha

(c) such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under section 73;

According to third proviso all the companies accepting deposits shall file the details of monies so accepted with the Registrar in Form DPT-3.

In case Shubhra Chemicals Private Limited is not an associate or a subsidiary company of any other company and its borrowings from banks, etc. is less than twice of its paid-up share capital or fifty crore rupees, whichever is less and also it has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits, then it can accept 'deposits' from its members amounting to two hundred percent of aggregate of its paid-up share capital, free reserves and securities premium account.

Further, it shall file the details of monies so accepted with the Registrar in Form DPT-3.

Question 20

PRT Ltd. is an eligible public company. The following details are available from its audited balance sheet as on 31st March 2024:

- Paid-up Share Capital: ₹20 crore
- Free Reserves: ₹8 crore
- Securities Premium Account: ₹2 crore
- Existing deposits from members: ₹2 crore
- Existing deposits from public (excluding members): ₹5 crore

The company now proposes to accept further deposits during the year 2024-25:

1. ₹3 crore from its members, and
2. ₹2 crore from persons other than members (general public).

You are required to examine, with reference to the relevant provisions of the Companies Act, 2013, whether the above proposal is valid. If not, calculate the maximum permissible deposits in each category.

[Jan'26 – 5 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

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6 Registration of Charges

Question 1:
How will a copy of an instrument evidencing creation of charge and required to be filed with the Registrar be verified?

[ICAI Module]

Answer
A copy of every instrument evidencing any creation or modification of charge and required to be filed with the Registrar shall be verified as follows:

a) in case property is situated outside India: where the instrument or deed relates solely to the property situated outside India, the copy shall be verified by a certificate issued either under the seal, if any, of the company, or under the hand of any director or company secretary of the company or an authorised officer of the charge holder or under the hand of some person other than the company who is interested in the mortgage or charge;

b) in case property is situated in India (whether wholly or partly): where the instrument or deed relates to the property situated in India (whether wholly or partly), the copy shall be verified by a certificate issued under the hand of any director or company secretary of the company or an authorised officer of the charge holder.

Question 2:
Briefly explain the provisions enforced by the Companies (Amendment) Second Ordinance, 2019 when a charge created before 02-11-2018 is not registered within the prescribed period of thirty days as provided in Section 77 (1).

[ICAI Module]

Answer
As per section 77(1) of the companies Act, 2013 every company creating a charge:
a) within or outside India,
b) on its property or assets or any of its undertakings,
c) whether tangible or otherwise, and
d) situated in or outside India,
is required to register the particular of the charge with the registrar within thirty days of its creation.

In case the charge was created before 02-11-2018 and it was not registered within the prescribed period of thirty of its creation, clause (a) of the first Proviso to Section 77 (1) states that the Registrar may, on an application by the company, allow such registration to be made within a period of 300 days of such creation.

Question 3:
Define the term "charge" and also explain what is the punishment for default with respect to registration of charge as per the provisions of the Companies Act, 2013.

[ICAI Module, MTP May 2019]

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Answer

The term charge has been defined in section 2 (16) of the Companies Act, 2013 as an interest or lien created on the property or assets of a company or any of its undertakings or both as security and includes a mortgage.

According to section 86 of the Companies Act, 2013, if any company is in default in complying with any of the provisions of this Chapter, the company shall be liable to a penalty of five lakh rupees and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.

Further, if any person willfully furnishes any false or incorrect information or knowingly suppresses any material information which is required to be registered under section 77, he shall be liable for action under section 447 (punishment for fraud).

Question 4:

Adhar Ltd. and Mittal Ltd. both took loans from different banks and provided security against them. Adhar Ltd. mortgaged its factory building and machinery, while Mittal Ltd. pledged its stock-in-trade, raw materials, and accounts receivable.

Specify the type of charges created in both cases. Justify your answer in light with the relevant provisions under the Companies Act, 2013. Also, analyze what would happen if both companies fail to repay their loans.

[MTP May'25 – 5 marks]

Answer

A charge may be either fixed or floating. A 'Fixed Charge' is a charge on specific assets of the borrowing company. These assets are of permanent nature like land and building, machinery, office premises, etc. Further, these assets are identified at the time of creation of charge. A fixed charge is usually created by way of mortgage or by deposit of title deeds.

When a charge is created on such assets, the charge remains 'fixed' and the borrowing company is not permitted to sell such assets during the period of charge though it may use them.

Assets under fixed charge can be sold only with the permission or consent of the charge-holder.

Floating Charge

A 'Floating Charge' is created on assets or a class of assets which are of fluctuating or changing in nature like raw material, stock-in-trade, debtors, etc. It is a charge upon assets both present and future. The assets under floating charge keep on changing because the borrowing company is permitted to use them for trading or producing final goods for sale.

In the given scenario, following nature of charges are created w.r.t the following companies:

Fixed Charge (Adhar Ltd.):

The company mortgaged its factory building and machinery, which are permanent, identifiable assets. Since these assets do not change frequently, the bank created a fixed charge over them. The company cannot sell these assets without the bank's approval during the loan tenure. In case the company fails to repay the loan, the bank can take possession of the factory and machinery to recover its dues.

Floating Charge (Mittal Ltd.):

The company pledged stock-in-trade, raw materials, and accounts receivable, which are changing in nature. The bank created a floating charge, allowing Mittal Ltd. to use, sell, and replenish these assets in the normal course of business. In case if the company repays the loan, the floating charge automatically ceases. However, if the company fails to repay, the floating charge crystallizes, meaning:

- The bank converts the floating charge into a fixed charge.
- Mittal Ltd. loses control over its assets.
- The bank can seize and sell the assets to recover its loan amount.

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Hence in the above case, Adhar Ltd., loan is secured by a fixed charge, limiting its ability to dispose of the secured assets where as in the case of Mittal Ltd., loan is secured by a floating charge, allowing normal business operations unless a default occurs. If both companies default, the bank can take control of the respective assets and sell them to recover the loans.

Question 5:

Whether this statement is true or false: ROC is not bound to issue notice to the holder of charge, if the company gives intimation of satisfaction of charge in the specified form and signed by the holder of charge.

[May 2019]

Answer

According to the proviso to section 82(2) of the Companies Act, 2013, no notice shall be required to be sent, in case the intimation to the Registrar in this regard is in the specified form and signed by the holder of charge. Hence, the given statement is True.

Question 6:

Mr Antriksh entered into an agreement for purchasing a commercial property in Delhi belonging to NRT Ltd. At the time of registration, Mr Antriksh comes to know that the title deed of the company is not free and the company expresses its inability to get the title deed transferred in the name of Mr Antriksh saying that he ought to have had the knowledge of charge created on the property of the company. Explain with the help of 'Notice of a charge', whether the contention of NRT LTD. is correct?

[ICAI Module, MTP Nov 2019, MTP Sept'25 - 5 marks]

Answer

Notice of Charge: According to section 80 of the Companies Act, 2013, where any charge on any property or assets of a company or any of its undertakings is registered under section 77 of the Companies Act, 2013, any person acquiring such property, assets, undertakings or part thereof or any share or interest therein shall be deemed to have notice of the charge from the date of such registration.

Thus, the section clarifies that if any person acquires a property, assets or undertaking for which a charge is already registered, it would be deemed that he has complete knowledge of charge from the date the charge is registered.

Thus, the contention of NRT Ltd. is correct.

Question 7:

DN Limited hypothecated its plant to a Nationalised Bank and availed a term loan. The Company registered the charge with the Registrar of Companies. The Company settled the term loan in full, The Company requested the Bank to issue a letter confirming the settlement of the term loan. The Bank did not respond to the request. State the relevant provisions of the Companies Act, 2013 to register the satisfaction of charge in the above circumstance. State the time frame up to which the Registrar of Companies may allow the Company to intimate satisfaction of charges.

[Nov 19, Nov 22 - 5 marks]

Answer

Intimation regarding Satisfaction of Charge

Section 82 of the Companies Act, 2013, requires a company to give intimation of payment or satisfaction in full of any charge earlier registered, to the Registrar in the prescribed form. The intimation needs to be given within a period of 30 days from the date of such payment or satisfaction.

Extended period of intimation: Proviso to Section 82 (1) extends the period of intimation from thirty days to three hundred days. Accordingly, it is provided that the Registrar may, on an application by the company or the charge holder, allow such intimation of payment or satisfaction to be made within a period of 300 days of such payment or satisfaction on payment of prescribed additional fees.

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Question 8:

What are the powers of Registrar to make entries of satisfaction and release of charges in absence of intimation from company? Discuss as per the provisions of the Companies Act, 2013

[ICAI Module, RTP Nov 19]

OR

Ranjit acquired a property from ABC Limited which was mortgaged to OK Bank. He settled the dues to Ok Bank in full and the same was registered with the sub-registrar who has noted that the mortgage has been settled. But neither the company nor OK Bank has filed particulars of satisfaction of charge with the Registrar of Companies. Can Mr. Ranjit approach the Registrar and seek any relief in this regard? Discuss this matter in the light of the provisions of the Companies Act, 2013.

[ICAI Module, MTP Nov 20, MTP Nov'22, MTP-1 Nov 23- 5 marks]

Answer

Section 83 of the Companies Act, 2013 provides powers to the registrar to make entries with respect to the satisfaction and release of charges where no intimation has been received by him from the company.

Accordingly, with respect to any registered charge if an evidence is shown to the satisfaction of Registrar that the debt secured by charge has been paid or satisfied in whole or in part or that the part of the property or undertaking charged has been released from the charge or has ceased to form part of the company's property or undertaking, then he may enter in the register of charges a memorandum of satisfaction that:

- the debt has been satisfied in whole or in part; or
- the part of the property or undertaking has been released from the charge or has ceased to form part of the company's property or undertaking.

This power can be exercised by the Registrar despite the fact that no intimation has been received by him from the company.

Information to affected parties: The Registrar shall inform the affected parties within 30 days of making the entry in the register of charges.

Issue of certificate: As per rule 8 (2), in case the registrar enters a memorandum of satisfaction of charge in full, he shall issue a certificate of registration of satisfaction of charge in form no. CHG-5.

Therefore, Mr. Ranjit can approach the Registrar and show evidence to his satisfaction that the charge has been duly settled and satisfied and request the Registrar to enter a memorandum of satisfaction noting the release of charge.

Question 9:

ABC Limited created a charge in favour of OK Bank. The charge was duly registered. Later, the Bank enhanced the facility by another Rs 20 crores. Due to inadvertence, this modification in the original charge was not registered. Advise the company as to the course of action to be pursued in this regard.

[MTP Nov 20, ICAI Module - 5 marks]

Answer

The company is advised to immediately file an application for rectification of the Register of Charges in Form No. CHG- 8 to the Central Government under Section 87 of the Companies Act, 2013.

Section 87 of the Act of 2013 and Rule 12 empowers the Central Government to order rectification of Register of Charges in the following cases of default:

a. when there was omission in giving intimation to the Registrar with respect to payment or satisfaction of charge within the specified time;
b. when there was omission or mis-statement of any particulars in any filing previously made to the Registrar.

Such filing may relate to any charge or any modification of charge or with respect to any memorandum of satisfaction or other entry made under Section 82 (Company to report satisfaction of charge) or Section 83 (Power of Registrar to make entries of satisfaction and release).

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Question 10:

Beauty Limited obtained a working capital loan from a Nationalized Bank against the hypothecation of Stocks & Accounts receivable of the Company. An instrument creating the charge was duly signed by the Company and the Bank. The Company is not willing to register the charges with the Registrar of Companies. In the light of the provisions, if the Companies Act, 2013, discuss:

(1) Is there any provision empowering the Nationalized Bank (charge holder) to get the charges registered?

(2) When can the Registrar refuse to register the charges the present scenario?

[May 2022 - 4 marks]

Answer

(1) Registration by charge holder: Section 78 of the Companies Act, 2013, empowers the holder of charge to get the charge registered in case the company creating the charge on its property fails to do so. Accordingly, if a charge is created, the company is primarily responsible for registering the charge however it fails to do so within the prescribed period of 30 days [as provided in section 77 (1)], the person in whose favour the charge is created (i.e. charge-holder) may apply to the Registrar for registration of the charge along with the instrument of charge within the prescribed time, form and manner. In light of above provisions, the Nationalized Bank can get the charges registered.

(2) Registrars refuse to register the charges: However, the Registrar shall not allow such registration by the charge-holder if the company itself registers the charge or shows sufficient cause why such charge should not be registered.

Question 11:

Krish (Private) Limited on 7th May 2022 obtained ₹ 25 lakhs working capital loan by offering its Stock and Accounts Receivables as security and ₹ 5 Lakhs adhoc overdraft on the personal guarantee of a Director of Krish (Private) Limited, from a financial institution. Is the company required to create charge for working capital loan and adhoc overdraft in accordance with the provisions of the Companies Act, 2013?

[MTP Nov 22, MTP-2 Nov 23, MTP May'25, RTP Jan'26 - 5 marks]

Answer

As per the provisions of section 2(16) of the Companies Act, 2013, "charge" means an interest or lien created on the property or assets of a company or any of its undertakings or both as security and includes mortgage.

Whenever a company borrows money by way of loans including term loans or working capital loans from financial institutions or banks or any other persons, by offering its property or assets, as security a charge is created on such property or assets in favour of the lender. Such a charge is compulsorily registrable under the provisions of the Companies Act, 2013 in accordance with Chapter VI and the rules made in this regard.

Thus, when Krish (Private) Limited obtains working capital loans from financial institutions by offering stock and Accounts Receivables as security, it is required to create a charge on such property or assets in favour of the lender.

Hence, for Rs. 25 Lakh working capital loan, it is required to create a charge on it. Krish (Private) Limited is not required to create a charge for Rs. 5 Lakh adhoc overdraft on the personal guarantee of a director. Since, charge is always created on the property or assets of a company and personal guarantee of director is not a property or asset of company.

Question 12:

Bows Limited is required to create a charge on one of its assets. However, the above charge could not be registered within the required period of 30 days. State the provisions related to extension of time and procedure for registration of charges, in case when the charge was not registered within 30 days of its creation.

[MTP Nov 22, MTP-2 Nov 23, RTP Jan'26 - 5 marks]

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Answer

As per the provisions of Section 77 of the Companies Act, 2013, in case the charge was not registered within 30 days of creation of the charge, the Registrar may, on an application by the company, allow such registration to be made within a period of 60 days of such creation (i.e. another 30 days are granted after the expiry of original 30 days), on payment of additional fees as prescribed.

Procedure for Extension of Time Limit: For seeking extension of time, the company is required to make an application to the Registrar in the prescribed form. It should be supported by a declaration from the company signed by its company secretary or a director that such belated filing shall not adversely affect the rights of any other intervening creditors of the company.

The application so made must satisfy the Registrar that the company had sufficient cause for not filing the particulars and the instrument of charge, if any, within the original period of thirty days. Only then he will allow registration of charge within the extended period. Further, requisite additional fee or advalorem fee, as applicable, must also be paid.

Question 13

Vital Pharmacy Limited is engaged in the manufacturing of medicines to cure skin diseases. It has established a unit in Germany. It registered few patents in Germany and raised funds by creating a charge on its stock in Germany and the patent rights. The company registered the charge created on its stock but did not register the charge created on the patent rights.

The Company received a notice from the Registrar of Companies for not filing the particulars of charge created by the Company on the property or assets situated outside India. The Company wants to defend the notice on the ground that it shall not be the duty of the company to register the particulars of the charge created on the patents obtained outside India and also as they are intangible in nature.
Referring to the provision of Companies Act, 2013, Examine the validity of the company's claim.

[May'25 - 5 marks]

OR

Star Ltd. is having its establishment in Canada. It obtained a loan there creating a charge on the assets of the foreign establishment. The company received a notice from the Registrar of Companies for not filing the particulars of charge created by the company on the property or assets situated outside India. The company wants to defend the notice on the ground that it shall not be the duty of the company to register the particulars of the charge created on the assets not located in India. Do you agree with the stand taken by the Star Ltd.? Give your answer with respect to the provisions of the Companies Act, 2013.

[MTP May'23 - 5 marks]

Answer

Registration by the Company creating a Charge

According to Section 77 of the Companies Act, 2013, it shall be the duty of every company creating a charge within or outside India, on its property or assets or any of its undertakings, whether tangible or otherwise, and situated in or outside India, to register the particulars of the charge signed by the company and the charge-holder together with the instruments, if any, creating such charge in such form, on payment of such fees and in such manner as may be prescribed, with the Registrar within thirty days of its creation.

In the given question, Vital Pharmacy has raised funds by creating charge on its stock and patent rights in Germany. As per the provisions of the Companies Act, 2013, the company is required to register charge on its tangible as well as intangible assets, and situated in or outside India. However, in the given question, the company has registered charge on its stock but not on the patents (being outside India and intangible in nature).

In the light of the provisions of the Act and facts of the question, the contention of the company is incorrect, as it is the duty of the company to register the charge on its tangible as well as intangible assets, and situated in or outside India.

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Question 14

Explain the provisions of the Companies Act, 2013, in respect of 'Inspection of Register of Charges and Instrument of Charges'.

[MTP May'24 - 3 marks]

Answer

Inspection of Register of Charges and Instrument of Charges

As regards inspection, section 85 (2) of the Companies Act, 2013, states that the register of charges and the instrument of charges shall be open for inspection during business hours:

(1) by any member or creditor without any payment of fees; or

(2) by any other person on payment of prescribed fees, subject to such reasonable restrictions as the company may, by its articles, impose.

Question 15:

City Bakers Limited obtained a term loan of 1,00,00,000 from DNB Bank Ltd. The loan was granted by the bank by creating a charge on one of its office buildings and the charge was duly registered within 20 days from the date of creation of charge. Will such registration of charge be deemed to be a notice of charge to any person who wishes to lend money to the company against the security of such property? Also explain the extension of time limit of its registration with the provisions under the Companies Act, 2013.

[May 2023]

Answer

Registration of Charge to act as Constructive Notice (Section 80 of the Companies Act, 2013):

Section 80 provides that where any charge is registered under section 77, any person acquiring such property, assets, undertakings or part thereof or any share or interest therein shall be deemed to have notice of the charge from the date of such registration.

Thus, every person proposing to deal with a company, should verify whether the asset has any charge by going through the record of charges maintained at the office of registrar of companies before entering into the transaction.

Yes, in compliance to stated law, such registration of charge be deemed to be notice of charge to any person who wishes to lend money to the company against the security of such property.

Extension of Time Limit: The original period within which a charge needs to be registered is 30 days from the date of creation of charge.

In the given case, City Bakers Limited obtained a term loan from DNB Bank Ltd. by creating a charge on its office building which was duly registered within 20 days from date of creation of charge.

Extension of time may be granted where registration of charge was not effected within the original period of 30 days. In such case, the Registrar may, on an application by the company, allow such registration to be made within a period of 60 days of such creation (i.e. a grace period of another 30 days is granted after the expiry of the original 30 days), on payment of additional fees as prescribed.

If the charge is not registered within the extended period also, then the company shall make an application and the Registrar is empowered to allow such registration to be made within a further period of sixty days after payment of prescribed ad valorem fees.

Alternate Answer to this part of question (Extension of Time Limit)

Extension of Time Limit: The original period within which a charge needs to be registered is 30 days from the date of creation of charge. Provisions relating to extension of time limit as under:

In such a case, the Registrar may, on an application by the company, allow such registration to be made within a period of 60 days of such creation (i.e. a grace period of another 30 days is granted after the expiry of the original 30 days), on payment of additional fees as prescribed.

If the charge is not registered within the extended period as above, the company shall make an application and the Registrar is empowered to allow such registration to be made within a further period of sixty days after payment of prescribed ad valorem fees.

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Question 16

What is 'Floating Charge'? When does it get crystallised?

[MTP May 24, May'25; ICAI Module - 5 marks]

Answer

A 'Floating Charge' is a type of charge that is created on assets or a class of assets which are of fluctuating or changing in nature. The assets which are under floating charge may include raw material, stock-in-trade, debtors, etc. It is a charge created upon a class of assets both present and future. The assets under floating charge keep on changing because borrowing company is permitted to use them in the ordinary course of business. Buyers of assets covered under floating charge will get them free of charge.

Crystallization of a Floating Charge

In the following events, a floating charge will get crystallised or fixed:

(i) When the creditor enforces security due to the breach of terms and conditions of floating charge like there is non-payment of interest or default in repayment of instalments as per the terms of agreement.

(ii) When the company ceases to continue its business.

(iii) When the borrowing company goes into liquidation.

A floating charge remains dormant until it becomes fixed or crystallised. On crystallisation, the security (i.e. raw material, stock-in-trade, etc.) becomes fixed & is available for realization.

Question 17

Naveen Tools Ltd (NTL) mortgaged its factory land and building (by equitable mortgage) on 1st March, 2023 to Goodwill Bank and availed a credit limit of ₹200 lakh. Although the credit limit was sanctioned by the Bank, but the NTL actually availed such credit facility only in the month of August, 2023, when it issued a cheque in favour of a creditor towards the payment of raw material purchased from it.

During the course of statutory audit, the auditor pointed out before the management of the NTL about the non-compliance of registration of charge with the Registrar within the stipulated time. The company officials informed that although the mortgaged-backed credit limit was sanctioned in March 2023, the company had not availed the facility till the month of August, 2023.

So, the liability of registration of charge arises from the date of availment only when the company issued a cheque from the mortgaged-backed credit limit account and not when the loan was sanctioned and credit limit was assigned.

Further, the company management pleaded that it is the responsibility of the financier i.e. Goodwill Bank to get the charges registered with the Registrar since the registration of charge is to be effected in favour of the Bank and for Bank's own benefit, so the NTL is in no way responsible for getting registration or for delayed registration.

In the light of above facts, referring to the provisions of the Companies Act, 2013, discuss:

(i) When trigger point for the registration of charge shall arise,
   (a) at the time of credit limit sanctioned by the Bank; or
   (b) at the time of availing of credit limit when cheque was issued by the company?

(ii) What are the consequences for non-registration of charge on the Naveen Tools Ltd?

[Sept 24, ICAI Module - 5 marks]

Answer

(i) According to section 77(1) of the Companies Act, 2013, it shall be the duty of a company creating a charge to register it with the Registrar of Companies within 30 days from the date of creation of the charge. The obligation to register a charge arises not merely at the time of sanctioning the credit limit but when the charge is created.

Whenever a company borrows money by way of loans including term loans or working capital loans from financial institutions or banks or any other persons, by offering its property or assets, as security a charge is created on such property or assets in favor of the lender.

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The Trigger point for registration of charge arises when the Bank has sanctioned the mortgaged backed credit limit, documentation was done, papers of the property for creation of the mortgage was tendered by the company for creation of fixation of the credit limits.

Here, the words 'creating a charge' refers to the accepting of the property papers for the purpose of creation of charge. Thus, it is the date when the credit limits were sanctioned as assigned to the company and not the date when the company had actually drawn a cheque from such credit limit.

(ii) Consequence of non-registration of charge [Section 77 (3) & (4)]

No charge created by a company shall be taken into account by the liquidator appointed under the Companies Act, 2013 or the Insolvency and Bankruptcy Code, 2016 or any other creditor unless it is duly registered and a certificate of registration of such charge is given by the Registrar.

This means that the charge will become void against the liquidator and other creditors of the company. That is to say, at the time of winding up, the creditor whose charge has not been registered will be reduced to the level of an unsecured creditor. Neither the liquidator nor any other creditor will give legal recognition to a charge that is not registered.

Another important consequence of non-registration is that the charge-holder loses priority. Any subsequent registration of a charge (i.e. even if it is registered within the extended period instead of original 30 days) shall not prejudice any right acquired in respect of any property before the charge is actually registered.

Question 18

PQR Limited, a manufacturing company, is in the process of expanding its operations. To support this expansion, PQR Limited has acquired a plot of land along with the buildings on it from ABC Limited, another company in the same industry. The property, however, is subject to an existing charge, created in favor of a bank as security for a loan taken by ABC Limited. This charge had been registered by ABC Limited at that time. The directors of PQR Limited are of the opinion that as the charge for the property was already created, there is no further obligation to be fulfilled from the side of PQR Limited.

After negotiations, the bank, as the charge holder, consents to the sale and transfer of the property to PQR Limited with the condition that PQR Limited must register a new charge over the acquired property as security for its own loan obligations.

Advise whether the contention of directors of PQR Limited is correct. Give your answer in terms of the provisions of the Companies Act, 2013.

[RTP Jan'25]

Answer

The provisions of relating to registration of charges shall, so section 77 far as may be, apply to:

(a) a company acquiring any property subject to a charge within the meaning of that section; or
(b) any modification in the terms or conditions or the extent or operation of any charge registered under that section.

According to section 79(a) of the Companies Act, 2013, in case of a property where charge is already registered and if it is sold with the permission of the holder of charge, it shall be the duty of the company acquiring it to get the charge registered in accordance with section 77.

According to the provisions of section 77, when a company acquires property that is subject to an existing charge, it is the duty of the acquiring company (PQR Limited in this case) to register the charge as its own. This means that PQR Limited must create a fresh charge over the acquired property and register it with the Registrar of Companies (RoC) as per section 77.

Now upon acquisition, it is PQR Limited's responsibility to ensure that the previous charge is effectively discharged and that the new charge is registered in its name, reflecting PQR Limited as the current owner and debtor of the charge. Hence, the contention of directors of PQR Limited that since the charge for the property was already created, there is no further obligation on part of PQR Limited, is not correct.

Question 19

DNC Hydro Limited, obtained a loan of Rs. 3,000 crores from SPM Bank in April, 2021 to finance its hydropower generation project. To secure the loan, the company created a charge on its assets including land, plant and machinery. The charge was registered with the ROC in form CHG-1. In September, 2024, DNC Hydro Limited fully repaid the loan and SPM Bank issued no dues certificate to the company.

However, due to internal compliance oversight, DNC Hydro Limited failed to file form CHG-4 within the 30 days prescribed limit under Section 82 of the Companies Act, 2013.
In January 2025. RTS Bank approved a loan for Rs. 1,000 crores to DNC Hydro Limited for acquiring new plant and machinery.
During the due diligence, RTS Bank discovered that the old charge was still active in the ROC records, thereby creating problems for the disbursement of the new loan.

As a Financial Advisor of the company, advise what are the legal and procedural steps DNO Hydro Limited should follow to remove the old charge from ROC records.

[May'25 – 5 marks]

Answer

1. Intimation regarding Satisfaction of Charge:
   Section 82 of the Companies Act, 2013, requires a company to give intimation of payment or satisfaction in full of any charge earlier registered, to the Registrar in the prescribed form. The intimation needs to be given within a period of 30 days from the date of such payment or satisfaction.

   Extended Period of intimation: Proviso to Section 82(1) extends the period of intimation from 30 days to 300 days. Accordingly, it is provided that the Registrar may, on an application by the company or the charge holder, allow such intimation of payment or satisfaction to be made within a period of three hundred days of such payment or satisfaction on payment of prescribed additional fees.

2. Notice to the Holder of Charge by the Registrar:
   On receipt of intimation, the Registrar shall cause a notice to be sent to the holder of the charge calling upon him to show cause within such time as specified in the notice but not exceeding 14 days, as to why payment or satisfaction in full should not be recorded.
   If no cause is shown by the charge-holder, the Registrar shall order entering of a memorandum of satisfaction in the register of charges kept by him and accordingly, he shall inform the company of having done so.
   However, no notice is required to be sent, in case the intimation to the Registrar in this regard is in the specified form [CHG - 4] and signed by the holder of charge.
   If any cause is shown by the charge-holder, the Registrar shall record a note to that effect in the register of charges and inform the company.

3. Issue of Certificate:
   As per Rule 8 (2) of the Companies (Registration of Charges) Rules, 2014, in case the Registrar enters a memorandum of satisfaction of charge in full, he shall issue a certificate of registration of satisfaction of charge in Form No. CHG-5.
   In the instant case, DNC Hydro Limited has to follow the above legal and procedural steps to remove the old charge from ROC records.

Alternate Conclusion:
As the SPM bank has already issued a no dues certificate, DNC Hydro Limited should file the form CHG-4 within the extended period of limitation i.e. within 30 to 300 days. Accordingly, the Registrar may, on an application by the company allow such intimation of payment or satisfaction to be made within a period of three hundred days of such payment or satisfaction on payment of prescribed fees. The Registrar shall not cause any notice to be sent to SPM Bank in this case as NOC has been issued by it and just register the satisfaction after payment of prescribed fees.

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Question 20

A company is required to keep a Register of Charges at its Registered Office'. Considering this statement, mention the provisions of the Companies Act, 2013 in respect of keeping of Register of Charges by the companies.

[ICAI Module]

Answer

In respect of keeping of Register of Charges by a company, Section 85 of the Companies Act, 2013 and Rules 10 as well as 11 of the Companies (Registration of Charges) Rules, 2014 are relevant.

(i) According to section 85 (1):

- Every company shall keep a Register of Charges in the prescribed form and manner at its registered office.

  Note: Rule 10 (1) specifies Form CHG-7 in which the Register of Charges shall be maintained.
- The Register shall include all charges and floating charges affecting any property or assets of the company or any of its undertakings, indicating in each case the prescribed particulars.

(ii) According to Proviso to section 85 (1):

- A copy of the instrument creating the charge shall also be kept at the registered office along with the Register of Charges.

(iii) Provisions of Rule 10 are as under:

- Entry of Particulars of all Charges: According to Rule 10 (1), the company shall enter in the Register particulars of all the charges registered with the Registrar on any of its property, assets or undertakings and the particulars of any property acquired subject to a charge as well as particulars of any modification of a charge and satisfaction of charge.
- When to make Entries: According to Rule 10 (2), the entries in the Register shall be made forthwith after the creation, modification or satisfaction of charge, as the case may be.
- Who can authenticate Entries: According to Rule 10 (3), the entries in the Register shall be authenticated by a director or the secretary of the company or any other person authorised by the Board for the purpose.

Question 21

LMN Ltd. created a charge on one of its plant and machinery in favour of a financial institution. The company secretary was on leave when the charge was created. To avoid delay, the accounts officer of the company entered the particulars of the charge in the Register of Charges without any authorisation of the Board.

Later, a dispute arose between two creditors regarding priority of charges. One creditor challenged the validity of the Register entries, claiming that the entries were unauthorised and not duly authenticated as per law.

Based on the Companies (Registration of Charges) Rules, 2014, examine whether the entry made in the Register of Charges by the accounts officer is legally valid, and what consequences may follow in case of non-authentication.

[Jan'26 - 5 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

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7 Management and Administration

Question 1

Nutty Buddy Limited is manufacturing premium quality milk based ice cream in two flavors- first chocolate and second butter scotch. The company called its Annual General Meeting (AGM) in order to lay down the financial statements for Shareholders' approval. However, due to want of quorum, the meeting was cancelled. Also, the Directors of the company did not file the Annual Return with the Registrar. The directors were of the idea that the time for filing of returns within 60 days from the date of AGM would not apply, as AGM was cancelled. Has the company contravened the provisions of Companies Act, 2013? If the company has contravened the provisions of the Act, how will it be penalized?

[RTP Nov 21, Nov 23, May 2018, MTP Oct 2020 – 4 marks]

OR

Enumerate the provisions of the Companies Act, 2013 in respect to the following:
(i) Time limit for filing of annual return when Annual General Meeting is held.
(ii) Time limit for filing of annual return when Annual General Meeting is not held.

[MTP Sept 24 - 5 marks]

Answer

According to section 92(4) of the Companies Act, 2013, every company shall file with the Registrar a copy of the annual return, within sixty days from the date on which the annual general meeting is held or where no annual general meeting is held in any year within sixty days from the date on which the annual general meeting should have been held together with the statement specifying the reasons for not holding the annual general meeting.

Section 92(5) also states that if any company fails to file its annual return under sub-section (4), before the expiry of the period specified therein, such company and its every officer who is in default shall be liable to a penalty of ten thousand rupees and in case of continuing failure, with further penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of two lakh rupees in case of a company and fifty thousand rupees in case of an officer who is in default.

In the instant case, the idea of the directors that since the AGM was cancelled, the provisions requiring the company to file annual returns within 60 days from the date of AGM would not apply, is incorrect.

In the above case, the annual general meeting of Nutty Buddy Limited should have been held within a period of six months, from the date of closing of the financial year but it did not take place. Thus, the company has contravened the provisions of section 92 of the Companies Act, 2013 for not filing the annual return and shall attract the penal provisions along with every officer of the company who is in default as specified in Section 92(5) of the Act.

Question 2

M/s. Techno Ltd. maintains its Register of Members at its registered office in Mumbai. A group of members residing in Kolkata want to keep the register of members at Kolkata.

i. Explain with provisions of Companies Act, 2013, whether the company can keep the Registers and Returns at Kolkata.
ii. Does Mr. Ranjit, Director (but not a shareholder) of the company have the right to inspect the Register of Members?

[May 2018, MTP Sept'25 – 5 marks]

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OR

Mr. Bheem is holding 500 shares (of ZYZ Limited) of total worth Rs. 5000 only. Advise, whether he has the right to inspect the Register of Members?

[MTP Mar 19 - 3 marks]

Answer

i. Maintenance of the Register of Members etc.:

As per **section 94(1)** of the Companies Act, 2013, the registers required to be kept and maintained by a company under section 88 and copies of the annual return filed under section 92 shall be kept at the **registered office** of the company.

Provided that such registers or copies of return may also be **kept at any other place** in India in which **more than one-tenth of the total number of members** entered in the register of members reside, if approved by a **special resolution** passed at a general meeting of the company.

So, Techno Ltd. can also keep the registers and returns at Kolkata **after compliance** with the above provisions, provided more than one-tenth of the total number of members entered in the register of members reside in Kolkata.

ii. Inspection of Register of Members: As per section 94(2) of the Companies Act, the inspection of the records, i.e., registers and indices, and annual return can be done by members, debenture- holders, other security holders or beneficial owners of the company **without payment of any fees** and by any **other person** on payment of such fees as may be prescribed.

Accordingly, a **director** Mr. Ranjit, who is not a shareholder of the company, **has no right** to inspect the Register of Members of company, as per the provisions of this section.

Author's Note: As per **Sec 94(2)**, it is clear that person other than shareholders also may inspect such registers but it can be **done only after payment of prescribed fees**. Here, ICAI has mentioned that the director has NO right. The answer seems to be unclear. Still, please **stick to ICAI's** answer unless we come across any similar question in future.

Question 3

As per the provisions of the Companies Act, 2013, every company is required to file with the Registrar of Companies, the Annual Return as prescribed in section 92, in Form MGT -7. Explain the particulars required to be contained in it.

[May 2018 - 6 marks]

Answer

Every company is required to file with the Registrar of Companies, the annual return as prescribed in section 92, in Form **MGT - 7** as per Rule 11(1) of the Companies (Management & Administration) Rules, 2014.

The particulars contained in an annual return, to be filed by every company are as follows-

1. Its **registered office**, principal **business activities**, particulars of its holding, subsidiary and associate companies;
2. Its shares, debentures and other securities and **shareholding pattern**
3. Its **indebtedness**
4. Its **members** and debenture-holders along with the changes therein since the close of the previous financial year;
5. Its **promoters**, directors, key managerial personnel along with changes therein since the close of the previous financial year;
6. **Meetings** of members or a class thereof, Board and its various committees along with attendance details;
7. **Remuneration** of directors and key managerial personnel;

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8. Penalty or punishment imposed on the company, its directors or officers and details of compounding of offences and appeals made against such penalty or punishment;
9. Matters relating to certification of compliances, disclosures;
10. Details in respect of shares held by or on behalf of the Foreign Institutional Investors including their names, addresses, countries of incorporation, registration and percentage of shareholding held by them;
11. Such other matters as may be prescribed.

Question 4

Shambhu Limited was incorporated on 1.4.2018. The company did not have much to report to its shareholders, so no general meeting of the company has been held till 30.4.2020. The company has recently appointed a new accountant. The new accountant has pointed out that the company required to hold the Annual General Meeting. The company has approached you a senior Chartered Accountant. Please advise the company regarding the time limit for holding the first annual general meeting of the Company and the power of the Registrar to grant extension of time for the First Annual General Meeting.

[MTP March 21, MTP May 24 - 5 marks]

Answer

According to Section 96 of the Companies Act, 2013, every company shall be required to hold its first annual general meeting within a period of 9 months from the date of closing of its first financial year.

The first financial year of Shambhu Ltd is for the period 1st April 2018 to 31st March 2019, the first annual general meeting (AGM) of the company should be held on or before 31st December 2019.

The section further provides that the Registrar may, for any special reason, extend the time within which any annual general meeting, other than the first annual general meeting, shall be held, by a period not exceeding three months.

Thus, the first AGM should have been held on or before 31st December, 2019. Further, the Registrar does not have the power to grant extension to time limit for the first AGM of the company.

Question 5

Rijwan Limited, a listed company, is in the business of garment manufacturing and has its registered office at 123, N Tower, Commercial Beta Complex, Biwadi, Rajasthan. The company has called its 6th Annual General Meeting at 3 PM on 22nd August, 2019 at Ansal Plaza, Biwadi. Some of the members of the company have opposed to calling of the meeting at Ansal Plaza. The company has approached you to advise them in this regard. Suppose, Rijwan Limited is an unlisted company and wants to call their 6th AGM at Jaipur, will your answer differ.

[RTP Nov 19]

Answer

According to section 96(2) of the Companies Act, 2013, every annual general meeting shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situate.

Provided that annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance.

Thus, in the first case, the company is rightful in calling the Annual General meeting at Ansal Plaza.

In the second scenario, in case of an unlisted company, annual general meeting may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance.

Hence, if consent is given in writing or by electronic mode by all the members in advance, the AGM can be called at Jaipur, otherwise not.

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Question 6

Examine the validity of the following statements in respect of Annual General Meeting (AGM) as per the provisions of the Companies Act, 2013:

(i) The first AGM of a company shall be held within a period of six months from the date of closing of the first financial year.

(ii) The Registrar may, for any special reason, extend the time within which the first AGM shall be held.

(iii) Subsequent (second onwards) AGMs should be held within 6 months from closing of the financial year.

(iv) There shall be a maximum interval of 15 months between two AGMs.

[July 2021 – 4 marks]

Answer

(i) According to section 96 of the Companies Act, 2013, first annual general meeting of the company should be held within 9 months from the closing of the first financial year.
Hence, the statement that the first AGM of a company shall be held within a period of six months from the date of closing of the first financial year is incorrect.

(ii) According to proviso to section 96(1), the Registrar may, for any special reason, extend the time within which any annual general meeting, other than the first annual general meeting, shall be held, by a period not exceeding three months.
Thus, the Registrar cannot extend (for any reason) the time period within which the first AGM shall be held. Given statement is incorrect.

(iii) According to section 96, subsequent AGM (i.e. second AGM onwards) of the company should be held within 6 months from the closing of the financial year.
Hence, the given statement is correct.

(iv) According to section 96, the gap between two AGMs should not exceed 15 months.
Hence, the given statement is correct - There shall be a maximum interval of 15m between 2 AGMs.

Question 7:

Primal Limited is a company incorporated in India. It owns two subsidiaries- Privy Limited (in which it holds 75% shares) and Malvy Limited (a wholly owned subsidiary). Both the subsidiaries are incorporated outside India. The Board of Directors of Primal Limited intends to call an Extraordinary General Meeting (EGM) of Primal Limited on urgent basis. Advise the Board of Directors on the following:

(i) EGM be held in India

(ii) EGM be held in Netherlands

[RTP May 19]

Answer

According to section 100 of the Companies Act, 2013, the Board may, whenever it deems fit, call an extraordinary general meeting of the company.

Provided that an extraordinary general meeting of the company, other than of the wholly owned subsidiary of a company incorporated outside India, shall be held at a place within India.

In the light of the above provisions:

(i) The Board of Directors can call the EGM in India.

(ii) The Board of Directors cannot call the EGM of Primal Limited outside India as it is a company incorporated in India.

Question 8

Madurai Ltd. issued a notice for holding of its Annual general meeting on 7th Nov 2018. The notice was posted to the members on 16th October 2018. Some members of the company allege that the company had not complied with the provisions of the Companies Act, 2013 with regard to the period of notice and as such the meeting was valid. Referring to the provisions of the Act, decide:

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a. Whether the meeting has been validly called?
b. If there is a shortfall, state and explain by how many days does the notice fall short of the statutory requirement?
c. Can the delay in giving notice be condoned?

[May 19, RTP Nov 20, ICAI Module - 6 marks]

OR

Best Limited has decided to conduct its Annual General Meeting on 28th September 2021. They have sent the notice of the meeting on 9th September 2021 (for which they have taken consent from 90% of the members entitled to vote thereat). Comment on the Validity of the notice of the Annual General Meeting as per the Companies Act, 2013

Answer

According to section 101(1) of the Companies Act, 2013, a general meeting of a company may be called by giving not less than clear twenty-one days' notice either in writing or through electronic mode in such manner as may be prescribed.

Also, it is to be noted that 21 clear days mean that the date on which notice is served and the date of meeting are excluded for sending the notice.

Further, Rule 35(6) of the Companies (Incorporation) Rules, 2014, provides that in case of delivery by post, such service shall be deemed to have been effected - in the case of a notice of a meeting, at the expiration of forty eight hours after the letter containing the same is posted.

Hence, in the given question:

(i) A 21 days' clear notice must be given. In the given question, only 19 clear days' notice is served (after excluding 48 hours from the time of its posting and the day of sending and date of meeting). Therefore, the meeting was not validly called.
(ii) As explained in (i) above, notice falls short by 2 days.
(iii) The Companies Act, 2013 does not provide anything specific regarding the condonation of delay in giving of notice. Hence, the delay in giving the notice calling the meeting cannot be condoned.

Question 9

Om Limited served a notice of General Meeting upon its members. The notice stated that the following resolutions will be considered at such meeting:

(i) Resolution to increase the Authorised share capital of the company.
(ii) Appointment and fixation of the remuneration of Mr. Prateek as the auditor.

A shareholder complained that the amount of the proposed increase and the remuneration was not specified in the notice. Is the notice valid under the provisions of the Companies Act, 2013.

[Nov 19, RTP Sept 2024, ICAI Module - 4 marks]

Answer

Under section 102(2)(b) of the Companies Act, 2013, in the case of any meeting other than an Annual General Meeting, all business transacted thereat shall be deemed to be special business.

Further, under section 102(1), an explanatory a statement setting out the following material facts concerning each item of special business to be transacted at a general meeting, shall be annexed to the notice calling such meeting., namely:-

(a) the nature of concern or interest, financial or otherwise, if any, in respect of each items, of:
  (i) every director and the manager, if any;
  (ii) every other key managerial personnel; and
  (iii) relatives of the persons mentioned in sub-clauses (i) and (ii);

(b) any other information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decision thereon.

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The information about the amount is also a material fact that may enable members to understand the meaning and implication of items of business to be transacted and to take decision thereon.
Section 102 also prescribes ordinary businesses for which explanatory statement is not required.

Part (i) of the question relating to increase in the Authorized Capital falls under special business and hence in the absence of amount of proposed increase of share capital, the notice will be treated as invalid.

Part(ii) is an ordinary business and hence explanatory statement is not required. However, considering the two resolutions mentioned in the question are to be passed in the same meeting, notice of the meeting is invalid.

Thus, the objection of the shareholder is valid since the details on the item to be considered are lacking. The information about the amount is a material fact with reference to the proposed increase of authorized share capital and remuneration of Mr. Prateek as the auditor.

The notice is, therefore, not a valid notice under Section 102 of the Companies Act, 2013.

Question 10

P Limited had called its Annual General Meeting on 30th August 2019. Mr. Pawan has filed a complaint against the company, that he could not attend the meeting as the company did not serve the notice to him for attending the annual general meeting. The company, in turn, provided the proof that they had sent the notice, by way of an email to Mr. Pawan, inviting him to attend the annual general meeting of the company. Mr. Pawan alleged that he never received the email.
In the light of the provisions of the Companies Act, 2013, advise the whether the company has erred in serving the notice of Annual General Meeting to Mr. Pawan.

[MTP Apr 21]

Answer

As per Rule 18 of the Companies (Management & Administration) Rules, 2014, sending of notices through electronic mode has been statutorily recognized. A notice may be sent through e-mail as a text or as an attachment to e-mail or as a notification providing electronic link or Uniform Resource Locator for accessing such notice. The e-mail shall be addressed to the person entitled to receive such e-mail as per the records of the company as provided by the depository. Also, the company shall provide an advance opportunity at least once in a financial year, to the member to register his e-mail address and the changes therein and such request may be made by only those members who have not got their email id recorded or to update a fresh email id and not from the members whose email id s are already registered.

In the light of the above provisions of the Act, the company's obligation shall be satisfied when it transmits the e-mail, and the company shall not be held responsible for a failure in transmission beyond its control. Also, if the member entitled to receive the notice fails to provide or update relevant e-mail address to the company, or to the depository participant as the case may be, the company shall not be in default for not delivering notice via e-mail.

Hence, the company has not erred in serving notice of Annual General Meeting to Mr. Pawan.

Question 11

Kurt Limited is a company engaged in the business of manufacturing papers. The company has approached you to explain them the following as per the provisions of the Companies Act, 2013:

(a) Quorum for the general meeting if the company has 800 members.
(b) Quorum for the general meeting if the company has 6500 members.
(c) Quorum for the general meeting if the company has 5500 members. The articles of association has prescribed the quorum for the meeting to be 50.

[MTP April 2022, MTP Jan'26 - 5 marks]

OR

@teamxalpha

Samayak Limited is a company engaged in the business of manufacturing papers. Kindly explain the provisions related to quorum in meeting as per the provisions of the Companies Act, 2013.

[MTP May 24 - 5 marks]

Answer

According to section 103(1) of the Companies Act, 2013, unless the articles of the company provide for a larger number, in case of a public company:

(1) 5 members personally present if number of members as on the date of meeting is not more than 1,000,
(2) fifteen members personally present if the number of members as on the date of meeting is more than one thousand but up to five thousand,
(3) 30 members personally present if number of members as on the date of the meeting exceeds 5,000.

The term 'members personally present' as mentioned above refers to the members entitled to vote in respect of the items of business on the agenda of the meeting.

Thus,

(a) If the company has 800 members, quorum shall be 5 members personally present.
(b) If the company has 6500 members, quorum shall be 30 members personally present.
(c) If the company has 5500 members, quorum shall be 30 members personally present. However, since the articles of association has prescribed the quorum for the meeting to be 50, the quorum shall be 50.

Question 12

(i) The Articles of Association of DJA Ltd. require the personal presence of 7 members to constitute quorum of General Meetings. The company has 965 members as on the date of meeting. The following persons were present in the extra-ordinary meeting to consider appointment of Managing Director:
   (1) A, the representative of Governor of Uttar Pradesh.
   (2) D, representing Y Ltd. and Z Ltd.
   (3) E, F, G and H as proxies of shareholders.
   Determine whether the quorum was present in the meeting?

(ii) Sirhj, a shareholder, gives a notice for inspecting proxies, five days before the meeting is scheduled and approaches the company two days before the scheduled meeting for inspecting the same. What is the legal position relating to his actions (as per the provisions of the Companies Act, 2013)?

[MTP Aug 2018, RTP May 20, ICAI Module]

OR

The Articles of Association of ABC Limited require the personal presence of 7 members to constitute quorum of General Meetings. The company has 870 members as on the date of meeting. The following persons were present in the extra-ordinary meeting to consider the appointment of Managing Director:

(i) A, the representative of Governor of Karnataka.
(ii) B and C, shareholders of preference shares,
(iii) D, representing Green Limited and Blue Limited
(iv) E, F, G and H as proxies of shareholders.

Can it be said that the quorum was present in the meeting?

[MTP Nov 22, MTP-1 Nov 23, MTP Jan'26- 5 marks]

Answer

(i) According to section 103 of the Companies Act, 2013, unless the articles of the company provide for a larger number in case of a public company, five members personally present if the number of members as on the date of meeting is not more than one thousand, shall be the quorum.

In this case the quorum for holding a general meeting is 7 members to be personally present (higher of 5 or 7). For the purpose of quorum, only those members are counted who are entitled to vote on resolution proposed to be passed in the meeting.

Again, only members present in person and not by proxy are to be counted. Hence, proxies whether they are members or not will have to be excluded for the purposes of quorum.

@teamxalpha

If a company is a member of another company, it may authorize a person by resolution to act as its representative at a meeting of the latter company, then such a person shall be deemed to be a member present in person and counted for the purpose of quorum.

Where two or more companies which are members of another company, appoint a single person as their representative then each such company will be counted as quorum at a meeting of the latter company.

Further the President of India or Governor of a State, if he is a member of a company, may appoint such a person as he thinks fit, to act as his representative at any meeting of the company. A person so appointed shall be deemed to be a member of such a company and thus considered as member personally present.

In view of the above there are only three members personally present. 'A' will be included for the purpose of quorum. D will have two votes for the purpose of quorum as he represents two companies 'Y Ltd.' and 'Z Ltd.' E, F, G and H are not to be included as they are not members but representing as proxies for the members.

Thus, it can be said that the requirements of quorum has not been met and it shall not constitute a valid quorum for the meeting.

(ii) Under section 105 (8) of the Companies Act, 2013 every member entitled to vote at a meeting of the company, or on any resolution to be moved thereat, shall be entitled during the period beginning twenty-four hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting, to inspect the proxies lodged, at any time during the business hours of the company, provided not less than three days' notice in writing of the intention so to inspect is given to the company.

In the given case, Sirhj has given proper notice. However, such inspection can be undertaken only during the period beginning 24 hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting.

So, Sirhj can undertake the inspection only during the above mentioned period and not two days prior to the meeting.

Question 13

The Board of Directors of Shrey Ltd. called an extraordinary general meeting upon the requisition of members. However, the meeting was adjourned on the ground that the quorum was not present at the meeting. Advise the company.

[RTP Nov 18, MTP Mar 19, April 21, ICAI Module]

Answer

According to section 100 (2) of the Companies Act 2013, the Board of directors must convene a general meeting upon requisition by the stipulated minimum number of members.

As per Section 103 (2) (b) of the Companies Act, 2013, if the quorum is not present within half an hour from the appointed time for holding a meeting of the company, the meeting, if called on the requisition of members, shall stand cancelled. Therefore, the meeting stands cancelled and the stand taken by the Board of Directors to adjourn it, is not proper.

Question 14

KMN Ltd. scheduled its annual general meeting to be held on 11th September, 2018 at 11:00 A.M. The company has 900 members. On 11th September, 2018 following persons were present by 11:30 A.M.

- P1, P2 & P3 shareholders
- P4 representing ABC Ltd.

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- P5 representing DEF Ltd.
- P6 & P7 as proxies of the shareholders

(1) Examine whether quorum was present in the meeting.
(2) What will be your answer if P4 representing ABC Ltd., reached in the meeting after 11:30 A.M.?
(3) In case lack of Quorum, discuss the provisions as applicable for an adjourned meeting in terms of date, time & place.
(4) What happens if there is no Quorum in the Adjourned meeting?

[Nov 18, MTP Nov 21, ICAI Module - 4 marks]

Answer

According to section 103 of the Companies Act, 2013, unless the articles of the company provide for a larger number, the quorum for the meeting of a Public Limited Company shall be 5 members personally present, if number of members is not more than 1000.

- P1, P2 and P3 will be counted as three members.
- If a company is a member of another company, it may authorize a person by resolution to act as its representative at a meeting of the latter company, then such a person shall be deemed to be a member present in person and counted for the purpose of quorum. Hence, P4 and P5 representing ABC Ltd. and DEF Ltd. respectively will be counted as two members.
- Only members present in person and not by proxy are to be counted. Hence, proxies whether they are members or not will have to be excluded for the purposes of quorum. Thus, P6 and P7 shall not be counted in quorum.

1) In the light of the provision of the Act and the facts of the question, it can be concluded that the quorum for Annual General Meeting of KMN Ltd. is 5 members personally present. Total 5 members (P1, P2, P3, P4 and P5) were present. Hence, the requirement of quorum is fulfilled.

2) The section further states that, if the required quorum is not present within half an hour, the meeting shall stand adjourned for the next week at the same time and place or such other time and place as decided by the Board of Directors.

   Since, P4 is an essential part for meeting the quorum requirement, and he reaches after 11:30 AM (i.e. half an hour after the starting of the meeting), the meeting will be adjourned as provided above.

3) In case of lack of quorum, the meeting will be adjourned as provided in section 103. In case of the adjourned meeting or change of day, time or place of meeting, the company shall give not less than 3 days' notice to the members either individually or by publishing an advertisement in the newspaper.

4) Where quorum is not present in the adjourned meeting also within half an hour, then the members present shall form the quorum.

Question 15

PQ Limited is a public company having its registered office in Mumbai. It has 3680 members. The company sent notice to all its members for its Annual general Meeting to be held on 2nd September 2019 (Monday) at 11 :00 AM at its registered office. On the day of meeting there were only 12 members personally present upto 11:30 AM. The Chairman adjourned the meeting to same day in next week at the same time and place.

On the day of adjourned meeting only 10 members were personally present. The Chairman initiated the meeting after 11:30 AM and passed the resolutions after discussion as per the agenda of the meeting given in the notice. Comment whether the AGM conducted after adjournment is valid or not as per the provisions of section 103 of Companies Act 2013 by explaining the relevant provisions in this regard.

What would be your answer in the above case, if PQ Limited is a Private company?

[Nov 20, MTP May'25 - 5 marks]

@teamvelpha

Answer

According to section 103 of the Companies Act, 2013, unless the articles of the company provide for a larger number, in case of a public company, fifteen members personally present may fulfil the requirement of quorum, if the number of members as on the date of meeting is more than one thousand but up to five thousand.

If the specified quorum is not present within half-an-hour from the time appointed for holding a meeting of the company, the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other date and such other time and place as the Board may determine.

If at the adjourned meeting also, a quorum is not present within half-an-hour from the time appointed for holding meeting, the members present shall be the quorum.

In the instant case, there were only 12 members personally present on the day of meeting of PQ Limited upto 11:30 AM. This was not in compliance with the required quorum as per the law. In the adjourned meeting also, the required quorum was not present but in the adjourned meeting, the members present shall be considered as quorum in line with the provisions of section 103.

Hence, the AGM conducted by PQ Limited after adjournment is valid.

As per the provisions of section 103(1)(b), in case of a private company, two members personally present, shall be quorum for the meeting of a company. Therefore, in case, PQ Limited is a private company, then only two members personally present shall be the quorum for AGM and there was no need for adjournment.

Question 16

A General Meeting was scheduled to be held on 15th April, 2019 at 3.00 P.M. As per the notice the members who are unable to attend a meeting in person can appoint a proxy and the proxy forms duly filled should be sent to the company so as to reach at least 48 hours before the meeting. Mr. X, a member of the company appoints Mr. Y as his proxy and the proxy form dated 10-04-2019 was deposited by Mr. Y with the company at its registered Office on 11-04-2019. Similarly, another member Mr. W also gives two separate proxies to two individuals named Mr. M and Mr. N. In the case of Mr. M, the proxy dated 12-04-2019 was deposited with the company on the same day and the proxy form in case of Mr. N was deposited on 14-04-2019. All the proxies viz., Y, M and N were present before the meeting.
According to the provisions of the Companies Act, 2013, who would be the persons allowed to represent as proxies for members X and W respectively?

[May'23, MTP Oct 18, April 19, RTP May 21, ICAI Module - 4 marks]

Answer

A Proxy form is an instrument in writing executed by a shareholder authorizing another person to attend a meeting and to vote thereat on his behalf and in his absence. As per the provisions of Section 105 of the Companies Act, 2013, every shareholder who is entitled to attend and vote has a statutory right to appoint another person as his proxy.

It is not necessary that the proxy be a member of the company. Further, any provision in the articles of association of the company requiring instrument of proxy to be lodged with the company more than 48 hours before a meeting shall have effect as if 48 hours had been specified therein. The members have a right to revoke the proxy's authority by voting himself before the proxy has voted but once the proxy has voted the member cannot retract his authority.

Where two proxy instruments by the same shareholder are lodged of in such a manner that one is lodged before and the other after the expiry of the date fixed for lodging proxies, the former will be counted.

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Thus, in case of member X, the proxy Y will be permitted to vote on his behalf as form for appointing proxy was submitted within the permitted time.

However in the case of Member W, the proxy M (and not Proxy N) will be permitted to vote as the proxy authorizing N to vote was deposited in less than 48 hours before the meeting.

Question 17

Explain the provisions of the Companies Act, 2013 relating to quorum for general meeting of a public company having total 30 members, of which, two members are bodies corporate and one member is the President of India.

OR

Whether the representatives appointed by body corporate and President of India to participate in the general meeting shall be counted for quorum and can such representatives cast vote at that general meeting?

[May 2019 - 3 marks]

Answer

According to section 103 (1)(a)(i) of the Companies Act, 2013, unless the articles of the company provide for a larger number, in case of public company, if the number of members as on the date of meeting is not more than one thousand, five members personally present shall be the quorum for a meeting of the company.

In the instant case, the quorum for the public company will be 5 members personally present.

In the said company, two members are bodies corporate and one member is the President of India.

Only members present in person and not by proxy are to be counted. Hence, proxies whether they are members or not will have to be excluded for the purposes of quorum.

As per section 113 of the Companies Act, 2013, if a company is a member of another company, it may authorize a person by resolution to act as its representative at a meeting of the latter company, then such a person shall be deemed to be a member present in person and counted for the purpose of quorum and shall be entitled to vote.

As per section 112 of the Companies Act, 2013, the President of India, if he is a member of a company, may appoint such a person as he thinks fit, to act as his representative at any meeting of the company. A person so appointed shall be deemed to be a member of such a company and thus considered as member personally present and shall be entitled to vote.

Question 18

A company received a proxy form 54 hours before the time fixed for the start of the meeting. The company refused to accept the proxy form on the ground that the Articles of the company provided that a proxy form must be filed 60 hours before the start of the meeting. Define proxy and decide under the provisions of the Companies Act, 2013, whether the proxy holder can compel the company to admit the proxy in this case?

[Jan 2021, MTP 1 May'23 - 4 marks]

Answer

Section 105 of the Companies Act, 2013 deals with the provisions of proxy for meetings.

Section 105(1) of the Act provides that any member of a company entitled to attend and vote at a meeting of the company shall be entitled to appoint another person as a proxy to attend and vote at the meeting on his behalf.

Further, Section 105(4) of the Act provides that a proxy form received 48 hours before the meeting will be valid even if the articles provide for a longer period.

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In the given case, the company received a proxy form 54 hours before the time fixed for start of the meeting. The Company refused to accept proxy on the ground that articles of the company provides filing of proxy before 60 hours of the meeting. In the said case, in line with requirement of the above stated legal provision, a proxy received 48 hours before the meeting will be valid even if the articles provide for a longer period. Accordingly, the proxy holder can compel the company to admit the proxy.

Question 19

Examine the validity of the following decisions of the Board of Directors with reference of the provisions of the Companies Act, 2013.

(i) In an Annual General Meeting of Vrinda Ltd. having share capital, 80 members present in person or by proxy holding more than 1/10th of the total voting power, demanded for poll. The chairman of the meeting rejected the request on the ground that only the members present in person can demand for poll.

(ii) In an annual general meeting, during the process of poll, the members who earlier demanded for poll want to withdraw it. The chairman of the meeting rejected the request on the ground that once poll started, it cannot be withdrawn.

[MTP Mar 18, May 20, RTP Nov 18, ICAI Module]

Answer

Section 109 of the Companies Act, 2013 provides for the demand of poll before or on the declaration of the result of the voting on any resolution on show of hands. Accordingly law says that:-

Order of demand for poll by the chairman of meeting:

Before or on the declaration of the result of the voting on any resolution on show of hands, a poll may be ordered to be taken by the Chairman of the meeting on his own motion, and shall be ordered to be taken by him on a demand made in that behalf:

(a) In the case a company having a share capital, by the members present in person or by proxy, where allowed, and having not less than one-tenth of the total voting power or holding shares on which an aggregate sum of not less than five lakh rupees or such higher amount as may be prescribed has been paid-up; and

(b) in the case of any other company, by any member or members present in person or by proxy, where allowed, and having not less than one tenth of the total voting power.

Withdrawal of the demand: The demand for a poll may be withdrawn at any time by the persons who made the demand.

Hence, on the basis on the above provisions of the Companies Act, 2013:

(i) The chairman cannot reject the demand for poll as poll can be demanded by the members present in person or by proxy. Subject to provision in the articles of company.

(ii) The chairman cannot reject the request of the members for withdrawing the demand of the Poll.

Question 20

Repeated question. Hence, merged with other question.

Question 21

'X' a member of LKM Ltd. is holding 250 shares, which are partly paid. The company held its general meeting where voting right was denied to 'X' claiming he has not paid the calls on the shares held by him. Examine the validity of company's denial to 'X' with reference to the relevant provisions of the Companies Act, 2013, assuming that Articles of association of the Company do not restrict the voting right of such members.

[Nov 18]

OR

Mr. Pink held 100 partly paid up shares of Red Limited. The company asked him to pay the final call money on the shares. Due to some unavoidable circumstances, he was unable to pay the amount of call money to the company. At a general meeting of the shareholders, the chairman disallowed him to cast his vote on the ground that the articles do not permit a shareholder to vote if he has not paid the calls on the shares

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held by him. Mr. Pink contested the decision of the Chairman. Referring to the provisions of the Companies Act, 2013 decide whether the contention of Mr. Pink is valid.

[RTP Nov 19]

Answer

Restriction on voting rights [Section 106 of the Companies Act, 2013] According to the said Section:

(1) Notwithstanding anything contained in this Act, the articles of a company may provide that no member shall exercise any voting right in respect of any shares registered in his name on which any calls or other sums are presently payable by him have not been paid, or in regard to which the company has exercised any right of lien.

(2) A company shall not, except on the grounds specified in sub-section (1), prohibit any member from exercising his voting right on any other ground.

In the given question, Mr. X (member) holding 250 shares of LKM Ltd. has not paid certain calls on the shares. The company has denied his voting rights in the general meeting though the Articles of association of the company does not contain any restriction in the voting rights of such members.

On examination of the above provisions of the Act and the facts of the case, LKM Ltd.'s denial to 'X' for exercising his voting rights is not valid.

Question 22

If a member of a listed company who has casted his vote through electronic voting can attend general meeting of the company and change his vote subsequently and can he appoint a proxy?

[May 2019]

Answer

According to Rule – 20(4)(iii)(C) of the Companies (Management and Administration) Rules, 2014, the notice of the meeting shall clearly state that the members who have cast their vote by remote e-voting prior to the meeting may also attend the meeting but shall not be entitled to cast their vote again.

In the instant case, a member of a listed company who has casted his vote through electronic voting can attend general meeting of the company but cannot change his vote subsequently and is not permitted to appoint a proxy.

Question 23

Miraj Limited issued a notice with the agenda for nine businesses to be transacted in the Annual General Meeting (two businesses were regarding appointment of Mr. S and Mr. P as directors). The chairman decided to move the resolutions for all the nine businesses together to save the time of the members present. Examine the validity of the resolutions.

[May 18, MTP Oct 18, ICAI Module]

Answer

For the sake of avoiding confusion and mixing up each resolution in the general meeting should be moved separately. However, it would not be illegal if the company decides to move multiple resolutions together.

As per section 162, each director of the Company shall be appointed by a separate resolution. However, where the shareholder agree by the way of unanimous resolution has multiple directors can be appointed by a single resolution.

In the given case, the company proposes to move nine resolutions together, out of which two relates to appointment of directors.

Considering the above provision, the company will have to appoint each director by a separate resolution. Besides the said resolutions, the other seven resolutions can be moved together.

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Question 24

At a General meeting of a XYZ Limited, a matter was to be passed by a special resolution. Out of 40 members present, 20 voted in favour of the resolution, 5 voted against it and 5 votes were found invalid. The remaining 10 members abstained from voting. The Chairman of the meeting declared the resolution as passed. With reference to the provisions of the Companies Act, 2013, examine the validity of the Chairman's declaration.

[MTP Oct 2019, MTP Jan'26 – 5 marks]

OR

In a general meeting of a company, the shareholders passed a special resolution regarding some special matters. There were 30 members present in the meeting. Out of which 15 voted in favour of the resolution, 6 voted against it and 5 votes were found invalid. The remaining 4 members abstained from voting. The chairman of the meeting declared the resolution as passed. With reference to provisions of the Companies Act, 2013 examine the validity of chairman's declaration.

[MTP May'25 – 5 marks]

Answer

Under Section 114(2) of the Companies Act, 2013, for a valid special resolution to be passed at a meeting of members of a company, the following conditions need to be satisfied:

1) The intention to propose the resolution, as a special resolution must have been specified in the notice calling the general meeting or other intimation given to the members;
2) The notice required under the Companies Act must have been duly given of the general meeting;
3) The votes cast in favour of the resolution (whether by show of hands or electronically or on a poll, as the case may be) by members present in person or by proxy or by postal ballot are not less than 3 times the number of votes, if any, cast against the resolution by members so entitled and voting.

Thus, in terms of the requisite majority, votes cast in favour have to be compared with votes cast against the resolution. Abstentions or invalid votes, if any, are not to be taken into account.

Accordingly, in the given problem, the votes cast in favour (20) being more than 3 times of the votes cast against (5), and presuming other conditions of Section 114(2) are satisfied, the decision of the Chairman is in order.

Answer to part (ii) of the question in OR part (In a General Meeting) :

Accordingly, in the given problem, the votes cast in favour (15) being not more than 3 times of the votes cast against (6), therefore the decision of the chairman is not in order.

Question 25

Members of ZA Ltd. holding less than 1% of total voting power want the company to give a special notice to move a resolution for appointment of an auditor other than retiring auditor. Explain whether members have complied with relevant provisions of the Companies Act, 2013 in making their request.

[Nov 18]

Answer

Section 115 of the Companies Act, 2013 states that where any provision of this Act specifically requires or Articles of Association of a company so require that a special notice is required for passing any resolution, then the notice of the intention to move such resolution shall be given to the company by such number of members holding not less than 1% of the total voting power, or holding shares on which such aggregate sum of not less than Rs. 5,00,000/- has been paid-up.

In such a case, the company shall give its members notice of the resolution in the manner as prescribed in Rule 22 of the Companies (Management & Administration) Rules, 2014. Further, Section 115 of the Act specifies that special notice is required to appoint as auditor a person other than a retiring auditor under Section 140 of the Act.

According to the given facts in the question, there is non-compliance of requirement of section 115 as stated above i.e., the notice of the intention to move such resolution as to appointment of auditor other than retiring auditor was given by members of ZA Ltd. holding less than 1% of the total voting power.

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Question 26

Give the points of distinction between ordinary resolution and special resolution.

[May 2019 - 5 marks]

Answer

Difference between ordinary resolution and Special resolution Ordinary Resolution:

Section 114(1) of the Companies Act, 2013 states that a resolution shall be ordinary resolution, if the notice required under this Act has been duly given and it is required to be passed by the votes cast, whether on a show of hands, or electronically or on a poll, as the case may be, in favour of the resolution, including the casting vote of the Chairman, if any, of the Chairman, by members, who, being entitled so to do, vote in person, or where proxies are allowed, by proxy or by postal ballot, exceed the votes, if any cast against the resolution by members, so entitled and voting.

Simply put, the votes cast in the favour of the resolution, by any mode of voting should exceed the votes cast against it.

Special Resolution:

As per Section 114(2) of the Act, a resolution shall be a special resolution, when-

(a) The intention to propose the resolution as a special resolution has been duly specified in the notice calling the general meeting or other intimation given to the members of the resolution;
(b) The notice required under this Act has been duly given; and
(c) The votes cast in favour of the resolution, whether on a show of hands, or electronically or on a poll, as the case may be, in favour of the resolution, including the casting vote of the Chairman, if any, of the Chairman, by members, who, being entitled so to do, vote in person, or where proxies are allowed, by proxy or by postal ballot, are required to be not less than 3 times the number of the votes, if any, cast against the resolution by members so entitled and voting.

Question 27

In a General Meeting of Amit Limited, the Chairman directed to exclude certain matters detrimental to the interest of the company from the minutes. Manoj, a shareholder contended that the minutes must contain fair and correct summary of the proceedings thereat. Decide, whether the contention of Manoj is maintainable under the provisions of the Companies Act, 2013?
Also state the maximum time allowed for entering minutes of proceedings.

[MTP May'24, RTP May 18, MTP Oct, 19, ICAI Module - 5 marks]

Answer

Under Section 118 (5) of the Companies Act, 2013, there shall not be included in the Minutes of a meeting, any matter which, in the opinion of the Chairman of the meeting:

(i) is or could reasonably be regarded as defamatory of any person;
(ii) is irrelevant or immaterial to the proceeding; or
(iii) is detrimental to the interests of the company;

Further, under section 118(6) the chairman shall exercise absolute discretion in regard to the inclusion or non-inclusion of any matter in the Minutes on the grounds specified in sub- section (5) above.
Hence, in view of the above, the contention of Manoj, a shareholder of Amit Limited is not valid because the Chairman has absolute discretion on the inclusion or exclusion of any matter in the minutes for aforesaid reasons.

Maximum time allowed for entering minutes of proceedings: The minutes of proceedings of each meeting shall be entered in the books maintained for that purpose along with the date of such entry within 30 days of the conclusion of the meeting.

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Question 28

Veena Ltd. held its Annual General Meeting on September 15, 2018. The meeting was presided over by Mr. Mohan Rao, the Chairman of the Company's Board of Directors. On September 17, 2018, Mr. Mohan Rao, the Chairman, without signing the minutes of the meeting, left India to look after his father who fell sick in London. Referring to the provisions of the Companies Act, 2013, state the manner in which the minutes of the above meeting are to be signed in the absence of Mr. Mohan Rao and by whom?

[MTP Oct 18, April 19, Jan 21, MTP 2 May'23, MTP Sept'25, ICAI Module - 5 marks]

Answer

Section 118 of the Companies Act, 2013 provides that every company shall prepare, sign and keep minutes of proceedings of every general meeting, including the meeting called by the requisitionists and all proceedings of meeting of any class of shareholders or creditors or Board of Directors or committee of the Board and also resolution passed by postal ballot within thirty days of the conclusion of every such meeting concerned. Minutes kept shall be evidence of the proceedings recorded in a meeting.

By virtue of Rule 25 of the Companies (Management and Administration) Rules, 2014 read with section 118 of the Companies Act, 2013, each page of every such book shall be initialled or signed and the last page of the record of proceedings of each meeting or each report in such books shall be dated and signed by, in the case of minutes of proceedings of a general meeting, by the chairman of the same meeting within the aforesaid period of thirty days or in the event of the death or inability of that chairman within that period, by a director duly authorized by the Board for the purpose.

Therefore, the minutes of the meeting referred to in the case of Veena Ltd. can be signed in the absence of Mr. Mohan Rao, by any director, authorized by the Board in this respect.

Question 29

Mr. Laurel, a shareholder in Hardly Limited, a listed company, desires to inspect the minutes book of General Meetings and to have copy of some resolutions. In the light of the provisions of the Companies Act, 2013 answer the following:

(i) Whether he can inspect the minutes book and to have copies of the minutes at free of cost?

(ii) Whether he can authorize his friend to inspect the minutes book on behalf of him by signing a power of authority?

[July 21 - 5 marks]

OR

Mr. Ram, a shareholder of PQR Ltd., has made a request to the company for providing a copy of minutes book of general meeting. Whether the shareholder of a company is entitled to receive a copy of minutes book? Explain, provisions of the Companies Act, 2013.

[May 2022, MTP-2 May'23]

Answer

As per section 119 of the Companies Act, 2013, the books containing the minutes of the proceedings of any general meeting of a company shall be open for inspection, during business hours, by any member, without charge, subject to such reasonable restrictions as specified in the articles of the company or as imposed in the general meeting.

Any member shall be entitled to be furnished, within seven working days after he has made a request in that behalf to the company, and on payment of such fees as may be prescribed, with a copy of any minutes Accordingly, following are the answers:

(i) As in given case, Mr. Laurel, in requirement with law, he can inspect the minutes book and so to have soft copies of the same up to last three years.

(ii) As provision does not specify anything on authorizing anyone else to inspect the minutes book. Therefore, Mr. Laurel cannot authorize his friend to inspect the minutes book on behalf of him.

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Question 30

Pristine Limited, a listed public company, conducted its Annual General Meeting on 31st August, 2020. However, 10 days have passed since 31st August 2020, but it has still not filed report on Annual General Meeting. The accountant of the company has approached you to advise them whether Pristine Limited is required to file report on Annual General Meeting?

[RTP May 21, MTP 2 May'23 - 4 marks]

Answer

According to Section 121, every listed public company shall prepare a report on each annual general meeting including the confirmation to the effect that the meeting was convened held and conducted as per the provisions of the Act and the rules made thereunder.

A copy of the report is to be filed with the Registrar in Form No. MGT. 15 within thirty days of the conclusion of AGM along with the prescribed fee. If the company does not file such report on Annual General Meeting within 30 days of the conclusion of the Annual General Meeting then the company and defaulting officers are liable for prescribed penalties.
Since, Pristine Ltd. is a listed company, hence it has to file a copy of Annual Report with the Registrar within 30 days from 31st August, 2020.

Question 31

State with reason whether the following statement is correct or incorrect:

(i) An annual general meeting can be held on a national holiday.

(ii) A company should file its annual return within six months of the closing of the financial year

[MTP April 21]

OR

Prateek Limited, an unlisted company, registered in the State of Arunachal Pradesh with 42 shareholders, wants to organize the Annual General Meeting of the company on 13th August 2024 which happens to be Raksha Bandhan, a day declared as a holiday by the Government of Arunachal Pradesh.
Advise the company on the feasibility of the above with reference to the provisions of the Companies Act, 2013.

[MTP Sept 24 - 5 marks]

Answer

(i) An annual general meeting cannot be held on a national holiday. Under section 96 (2) of the Companies Act, 2013 every annual general meeting shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday.

A national holiday has been defined in the explanation to section 96 as a day declared as National Holiday by the Central Government.
Thus, the statement 'An annual general meeting can be held on a national holiday' is incorrect.

(ii) The statement is incorrect in terms of section 92 (4) of the Companies Act, 2013.
Section 92 (4) states that every company shall file with the Registrar a copy of the annual return, within sixty days from the date on which the annual general meeting is held or where no annual general meeting is held in any year within sixty days from the date on which the annual general meeting should have been held together with the statement specifying the reasons for not holding the annual general meeting, with such fees or additional fees as may be prescribed.

Question 32:

ABC Limited is an unlisted company, having its registered office at Kolkata. The Annual General Meeting was held at Goa on 1st July 2021 at 3.00 PM and concluded at 8.00 PM. Consent of all the members to conduct AGM at Goa were received by 24th June 2021 by Email.

(i) Examine the validity of the meeting as per the provisions of the Companies Act, 2013.

(ii) State, the consequences if a resolution has passed in such meeting, without sufficient disclosure regarding interest of a director.

[May 2022 - 4 marks]

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Answer

(i) Section 96(2) of the Companies Act, 2013, states that every annual general meeting shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated.

Provided that annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance.

In the given question, ABC Limited is an unlisted company and consent of all members to conduct the AGM at Goa has been received in advance (24th June, 2021). Also, the meeting was started well within the prescribed time i.e. at 3.00 PM. Hence, the meeting was validly called.

(ii) Section 102 of the Companies Act, 2013 mentions that where any special business is to be transacted at the company's general meeting, then an 'Explanatory Statement' should be annexed to the notice calling such general meeting, which must specify, the nature of concern or interest, financial or otherwise, if any, in respect of each item of every director and the manager, if any.

Effect of non-disclosure: As per section 102(4), if as a result non-disclosure or insufficient disclosure in explanatory statement, any benefit accrues to a director such director shall hold such benefit in trust for the company, and shall be liable to compensate the company to the extent of the benefit received by him. If any default is made in complying with the provisions of this section, every such director who is in default, shall be liable for such contravention with penalty [Section 102(5)].

Question 33

'A' and his wife 'B' has joint Demat Account in Vrinda Limited. The company's Annual General Meeting is to be held on 28.08.2022. In such a case, who will cast the vote in the Annual General Meeting? Give your answer as per the provisions of the Companies Act, 2013.

[RTP Nov 22, May 24]

Answer

The voting in case of joint shareholders is done in the order of seniority, which is determined on the basis of the order in which their names appear in the register of members/ shareholders. The joint- holders have a right to instruct the company as to the order in which their names are to appear in the register.

As per Rule 21 of the Companies (Management and Administration) Rules, 2014, the Scrutinizers shall arrange for Polling papers and distribute them to the members and proxies present at the meeting; in case of joint shareholders, the polling paper shall be given to the first named holder or in his absence to the joint holder attending the meeting as appearing in the chronological order in the folio.

Thus, in the given case, 'A' or his wife 'B', whosoever names appears first in chronological order in the register of members/ shareholders shall be entitled to vote.

Question 34

Prabhas Limited is a company having its shares listed on a recognised stock exchange. The company has 5,000 members. The Annual General Meeting of the company is to be held on 07-09-2022. As per the provisions of the Companies Act, 2013, advise the company, the remote e- voting period and the time of closing of remote e-voting.

[RTP Nov 22]

Answer

Rule 20 of the Companies (Management & Administration) Rules, 2014, provides that:

Every company which has listed its equity shares on a recognised stock exchange and company having not less than one thousand members shall provide to its members facility to exercise their right to vote on resolutions proposed to be considered at a general meeting by electronic means.

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The facility for remote e-voting shall remain open for not less than three days and shall close at 5.00 p.m. on the date preceding the date of the general meeting.

In the question, Prabhas Limited has its shares listed on recognised stock exchange and has 5,000 members, hence, it has to provide to its members facility to exercise their right to vote on resolutions proposed to be considered at a general meeting by electronic means. Thus, if the Annual General Meeting of Prabhas Limited is going to be held on 7.9.2022, the facility for remote e- voting shall open on 4.9.2022 and close at 5.00 p.m. on 6.9.2022.

Question 35

With a view to transact some urgent business, Ratna, Rimpi and Ratnesh, the three directors of Shilpkaar Constructions Limited are desirous of calling a general meeting of shareholders by giving shorter notice than 21 days' clear notice. The fourth director, Nilesh is of the opinion that such an action will attract penalty provisions since there is contravention. The paid-up share capital of the company is ₹ 30 crores divided into 3 crores shares of ₹ 10 each. Keeping in view the applicable provisions of the Companies Act, 2013, discuss the possibility of calling a general meeting by giving shorter notice.

[MTP-1 May 23, ICAI Module - 6 marks]

Answer

Normally, general meetings are to be called by giving at least 21 clear days' notice as required by section 101 (1) of the Companies Act, 2013.

As an exception, first proviso to Section 101 (1) states that a general meeting may be called after giving shorter notice than that specified in sub-section (1) of section 101, if consent, in writing or by electronic mode, is accorded thereto in the case of any other general meeting (i.e. other than annual general meeting), by members of the company—

(a) holding, if the company has a share capital, majority in number of members entitled to vote and who represent not less than ninety-five per cent of such part of the paid-up share capital of the company as gives a right to vote at the meeting; or

(b) having, if the company has no share capital, not less than ninety-five per cent of the total voting power exercisable at that meeting.

Second proviso to section 101 (1) clarifies that where any member of a company is entitled to vote only on some resolution or resolutions to be moved at a meeting and not on the others, those members shall be taken into account for the purposes of sub section (1) of section 101 in respect of the former resolution or resolutions and not in respect of the latter.

In view of the above provisions, Shilpkaar Constructions Limited is permitted to call the requisite general meeting by giving a shorter notice. However, the members holding at least ninety-five per cent of the paid-up share capital of the company which gives them a right to vote at the meeting must consent to the shorter notice.

Thus, if the meeting is called after obtaining the consent from members holding at least ninety- five per cent of the paid-up share capital of the company, the meeting can be validly called at shorter notice.

Question 36

Autumn and Spring Ltd. is a public limited company engaged in the business of manufacturing traditional designer garments for men and women for various festivities and occasions. The company was incorporated in the year 2023 and has a paid-up capital base of ₹200.56 Crores and revaluation reserve of ₹75.45 Crores for the financial year 2023-24. Members holding share capital worth ₹36.52 Crores have jointly applied for calling of an extra-ordinary general meeting for transacting some urgent matters of special business. In this connection a requisition by the above members were validly presented to the board of directors on 01.07.2024. The Directors did not pay heed to the above request till 24.07.2024 hence the requisitionists decided to go ahead with calling the meeting by themselves.

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The requisitionists provided a notice signed by only one of them being duly authorized by others, of the said meeting through an email, but did not attach an explanatory statement as required under the act towards the special business to be transacted although reasons for the same were mentioned in the notice itself.

Sohan Lal, one of the shareholders who became member of the company on 10.07.2024 raised issue regarding the legality of the meeting as its notice was not mailed to him.

Referring to the relevant rules and provisions of the Companies Act, 2013 decide on the following:

(i) Whether the above requisition by the members was adequate towards calling an extra-ordinary general meeting by the requisitionists themselves?

(ii) Whether signing on the notice by only one of the requisitionists and non-attachment of the explanatory statement as mandated under section 102 of the act have any effect on the validity of the aforesaid notice? Further whether the contention of Sohan Lal not receiving the notice is correct?

[Sept'25 - 5 marks]

OR

TST Limited has Equity Share Capital of 10000 shares @ ₹10 each. The Company has received a requisition from Mr. A & Mr. B each holding 1500 equity shares to call an Extraordinary General Meeting to remove Managing Director of the company who has been found to be involved in some malpractices. The company failed to call the said meeting. The requisitionists desires to call the meeting by themselves to pass the resolution to remove the Managing Director. Explain the validity of such resolution passed in the said meeting referring the provisions of the Companies Act, 2013.

[Nov 22, MTP Sept'25 - 5 marks]

Answer

(i) As per the provision of section 100(2) of the Companies Act, 2013, in the case of a company having a share capital, the Board shall, at the requisition made by such number of members who hold, on the date of the receipt of the requisition, not less than one-tenth of such of the paid-up share capital of the company as on that date carries the right of voting, call an Extra Ordinary General Meeting (EGM) of the company within the specified period.

As per the provision of section 100(4), if the Board does not, within 21 days from the date of receipt of a valid requisition in regard to any matter, proceed to call a meeting for the consideration of that matter on a day not later than 45 days from the date of receipt of such requisition, the meeting may be called and held by the requisitionists themselves within a period of three months from the date of the requisition.

The requisition for calling of EGM was placed by members holding share capital worth ₹ 36.52 crore, which is more than 1/10th of paid-up share capital of Autumn and Spring Limited, i.e. [(1/10th of ₹ 200.56 crore)] = ₹ 20.056 crore. Therefore, the required number of members have validly presented the requisition for calling of EGM on 1.7.2024. The Board of Directors must start the process of calling the EGM within 21 days from 1.7.2024 i.e. by 22.7.2024. Since, the directors did not pay heed to call the EGM by 24.7.2024, the requisitionists were correct in calling the EGM on their own.

(ii) Rule 17 of the Companies (Management and Administration) Rules, 2014 deals with the provision relating to Calling of Extraordinary general meeting by requistionists.

As per sub rule (4) of the above Rule, the notice (if given by requisitionists) shall be signed by all the requistionists or by a requistionist duly authorised in writing by all other requistionists on their behalf or by sending an electronic request attaching therewith a scanned copy of such duly signed requisition.

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As per sub rule (5) of the above Rule, no explanatory statement as required under section 102 need be annexed to the notice of an extraordinary general meeting convened by the requistionists and the requistionists may disclose the reasons for the resolution(s) which they propose to move at the meeting.

As per sub rule (6) of the above Rule, the notice of the meeting shall be given to those members whose names appear in the Register of members of the company within three days on which the requistionists deposit with the company a valid requisition for calling an extraordinary general meeting.

Hence, signing on the notice by only one requisitionist (duly authorised by all requisitionists via email) and non- attachment of the explanatory statement will not have any effect on the validity of the above notice.

Also, since Sohan Lal became a member of the company on 10.7.2024 and the requisition was presented to the Board on 1.7.2024, the contention of Sohan Lal raising the issue of legality of the meeting on the ground that the notice was not mailed to him, is not correct.

Question 37

Upkaar Nidhi Ltd., was about to hold an AGM on 25th August, 2022, for which the notice of AGM along with relevant documents, as prescribed, was sent to all its members including the following:-

Sr. No.	Particulars
1	A member individually holding shares with face value of ₹ 800 which amounted to 0.16% of the total paid-up share capital.
2	Two members jointly holding shares with face value of ₹ 1,600 which amounted to 0.32% of the total paid-up share capital.
3	Forty-two members each holding individually shares with face value of ₹ 600 which amounted to holding 0.12% of the total paid-up share capital for each such member.
4	All the remaining members holding individually more than 1.2% of the total paid- up share capital of the company.

In the AGM held on 25th August, 2022, the members were not provided with the facility to vote by electronic means.
In the context of aforesaid case-scenario, please answer whether Upkaar Nidhi Ltd. was required to send the notice of AGM along with relevant documents to all its members as aforesaid?

[RTP May 23]

Answer

In case of Nidhi company:

Section 20 of the Companies Act, 2013, shall apply, subject to the modification that, in the case of members who do not individually or jointly hold shares of more than one thousand rupees in face value or more than one per cent, of the total paid-up share capital, whichever is less, it shall be sufficient compliance with the provisions of the section if an intimation is sent by public notice in newspaper circulated in the district in which the Registered Office of the company is situated stating the date, time and venue of AGM and the financial statement with its enclosures can be inspected at the registered office of the company and the financial statement with enclosures are affixed in the notice board of the company and a member is entitled to vote either in person or through proxy.

Here, Upkaar Nidhi Ltd. was only required to send such notice of AGM and other relevant documents to members who individually or jointly hold shares of more than ₹ 1,000 in face value or more than 1%, of the total paid-up share capital, whichever is less. Accordingly, Upkaar Nidhi Ltd. would have send notice and other relevant documents to only following category of members:-

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(i) Two members jointly holding shares with face value of ₹ 1,600 which amounted to 0.32% of the total paid-up share capital
(ii) All the remaining members holding individually more than 1.2% of the total paid -up share capital of the company.

For the category of members mentioned in Sr. no. 1 & 3, of the aforesaid table given in case scenario, it would have been sufficient compliance if an intimation for the AGM was sent in the newspaper as per the provisions, as aforesaid, and there was no need to send the notice of AGM along with relevant documents to such category of members personally.

Question 38

The paid-up share capital of Golden Shoes Limited is Rs. 25,00,000 divided into 2,50,000 equity shares of Rs. 10 each. Some of the shareholders holding 2,500 equity shares are residents of London for whom a foreign register of shareholders is opened thereat on November 1, 2022. Advise Golden Shoes Limited, within how much time after opening of 'foreign register', it is required to file with the Registrar of Companies, a notice of situation of the London office.

[RTP Nov 2023]

Answer

Section 88 (4) of the Companies Act, 2013, permits a company to keep in any country outside India, a part of the register of members, called 'foreign register', containing the names and particulars of the members, debenture-holders, other security holders or beneficial owners residing outside India.

Rule 7 of the Companies (Management and Administration) Rules, 2014 requires that the company shall, within 30 days from the date of the opening of any foreign register, file with the Registrar notice of the situation of the office along with the fee where such Register is kept.

Accordingly, Golden Shoes Limited is required to file with the jurisdictional Registrar of Companies a notice of situation of the London office within 30 days from November 1, 2022 (i.e. the date on which the 'foreign register' is opened) along with requisite fee.

Question 39

Prakash and some of his friends are members of Focus Limited, a company with a paid-up share capital of Rs. 1 crore. They all intend to propose a resolution at the forthcoming General Meeting of the company which is going to be held in CP, New Delhi i.e. the place where Registered Office of Focus Limited is situated.

(i) Kindly provide guidance to Prakash and his friends on the requisite minimum paid-up share capital they should hold to initiate a members' resolution.
(ii) What are the other requirements that Prakash and his friends need to keep in mind for moving a members' resolution.

[RTP May 2024]

Answer

(i) In terms of section 111 of the Companies Act, 2013, the members of a company are given a statutory right to propose resolutions for consideration at the general meetings. According to sub-section (1), the number of members required to make a requisition for moving resolution shall be same as required to requisition a general meeting as per section 100 (2). The requirement is as under:

"In case of a company having share capital, such number of members who hold minimum 1/10th of the paid-up share capital that carries right of voting shall be eligible to make a requisition for moving a resolution at the general meeting."

Accordingly, Prakash and his friends must hold minimum 1/10th of paid-up share capital (i.e. Rs.10 lakh worth of share capital carrying right to vote) of Focus Limited in order to be eligible for moving a resolution at the general meeting.

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(ii) The other requirements as per section 111 for making a requisition to move a resolution at the general meeting which Prakash and his friends should keep in mind are as under:

(a) Two or more copies of the requisition are required to contain signatures of all the requisitionists i.e. Prakash and friends.

(b) The requisition must be deposited by them at CP where the registered office of Focus Limited is situated.

(c) In the case of a requisition requiring notice of a resolution, it needs to be deposited by them not less than six weeks before the meeting.

(d) In case of any other resolution, the same is to be deposited by them not less than two weeks before the meeting.

(e) A sum reasonably sufficient to meet the expenses to be incurred by Focus Limited in giving effect to proposing the resolution shall also be deposited by Prakash and his friends along with the requisition.

Question 40

ABC Pvt. Ltd. is a One Person Company (OPC) incorporated in 2024. The company has not appointed a company secretary due to its small scale of operations. At the end of the financial year 2024-25, the company needs to file its annual return. The director in state of dilemma, consulted the company law expert whether they need to submit a full fledged annual return or an abridged version and who should sign the document.

Based on the provisions of the Companies Act, 2013, advise on the following:

(i) What form should ABC Pvt. Ltd. use to file its annual return?

(ii) Who is authorized to sign the annual return?

[RTP May'25, MTP Jan'26 - 5 Marks]

OR

Explain the following as per the provisions of the Companies Act, 2013:

(i) Abridged Form of Annual Return

(ii) Signing of Annual Return

[MTP May'24 - 5 marks]

Answer

According to section 92(1) of the Companies Act, 2013, every company shall prepare a return (referred to as the Annual Return) in the prescribed form containing the specified particulars as they stood on the close of the financial year. In terms of Second Proviso to section 91 (1), the Central Government may prescribe abridged form of annual return for One Person Company, small company and such other class or classes of companies as may be prescribed. Accordingly, as per Rule 11 (1), One Person Company and small company shall file the annual return from the financial year 2020-2021 onwards in Form No. MGT-7A. However, in relation to One Person Company and small company, the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company.

Accordingly, following are the advise given by the expert:

(i) As per Section 92 and Rule 11(1), since ABC Pvt. Ltd. is a One Person Company (OPC), it should file its annual return in Form MGT-7A (abridged form) for the financial year 2024-25.

(ii) In the absence of a company secretary, the annual return should be signed by the sole director of the company as per the provisions applicable to One Person Companies.

Question 41

L k J Ltd. is a company having paid up share capital of Rs 12.50 crores with total number of members being 3500. The board of directors have called a general meeting (the meeting) to be conducted on 06.05.2023 at 2.00 pm. On the date of the meeting the required quorum was not present within half an hour and hence was adjourned to the next week on 13.05.2023 on same day at same venue. In reference to the above scenario in light of the relevant provisions of the Companies Act,2013 elucidate upon the following queries of the company:

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(i) What will be the fate of the meeting in case two members, in person, were present at the adjourned meeting held on 13.05.2023?

(ii) In case on 06.05.2023 a total of 16 members were present but the chairman owing to the unruly behaviour of some members during the meeting had adjourned the same to 13.05.2023 and at the adjourned meeting only 3 members, in person, are present. What will be fate of such adjourned meeting?

(iii) In case, where such meeting was called by the requisitionists under Section 100 of the Act and at such meeting the quorum was not present, what will be the fate of such meeting?

[May 24, RTP Sept'25 - 5 marks]

Answer

(i) According to section 103 of the Companies Act, 2013, in case of a public company, unless the articles of the company provide for a larger number, if the number of members is more than 1000 but upto 5000, then the quorum shall be 15 members personally present.

If the quorum is not present within half-an-hour from the time appointed for holding a meeting of the company:

(a) the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other date and such other time and place as the Board may determine; or

(b) the meeting, if called by requisitionists under section 100, shall stand cancelled

Provided that in case of an adjourned meeting or of a change of day, time or place of meeting under clause (a), the company shall give not less than three days' notice to the members either individually or by publishing an advertisement in the newspapers (one in English and one in vernacular language) which is in circulation at the place where the registered office of the company is situated.

Quorum not present at the adjourned meeting also: Where quorum is not present in the adjourned meeting also within half an hour, then the members present shall form the quorum.
In the given question, the quorum for the given company having 3500 members shall be 15 members personally present.
Where quorum is not present in the adjourned meeting (i.e. 13.05.2023) also within half an hour, then the two members present shall form the quorum.

(ii) The meeting held on 6.05.2023 had 16 members present. Hence, the quorum was present. However, the meeting was adjourned due to unruly behaviour of some members and not for want of quorum. In the said meeting (13.05.2023), only 3 members in person were present. In such a case, these 3 members shall not constitute the quorum and hence, shall stand further adjourned.

(iii) If the quorum is not present within half-an-hour from the time appointed for holding a meeting of the company, the meeting, if called by requisitionists under section 100, shall stand cancelled.

Question 42

Enumerate the persons who are entitled to receive the Notice of the General Meeting, as per the provisions of the Companies Act, 2013.

[MTP Sept 24- 5 marks]

Answer

Persons entitled to receive the Notice of the General Meeting

According to section 101(3) of the Companies Act, 2013, the notice of every meeting of the company shall be given to:

(1) every member of the company, legal representative of any deceased member or the assignee of insolvent member;

(2) the auditor or auditors of the company;

(3) every director of the company.

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Question 43

Top Spinners Foundation is a company registered under section 8 of the Companies Act, 2013 with a view to promote young and talented people towards becoming world-class cricketers. The foundation selects young boys and girls from different parts of the country via talent hunt competitions and other references from its members, thereby giving them proper training with residential facilities at the designated clubs opened for the purpose. The Foundation had been incorporated as a charitable institution in 2016. Currently, it is having 1200 members. The Annual General Meeting of the company is usually held at the club cum registered office of the company at Jaipur.

The members in one of the general meetings have strongly suggested that the next Annual General Meeting of the company be held at a hotel in the vicinity of the Registered Office at Jaipur instead of the Club as the same has a congested sitting area.

It was also decided by the foundation itself that a 15 days' notice prior to the Annual General Meeting be given with the facility of only physical voting and no E-Voting to be provided to the members.

Referring to the relevant rules and provisions of the Companies Act, 2013, decide on the following:

(i) Whether it is compelling upon the board to consider the directions regarding shift of the venue for the meeting?

(ii) Whether a 15 days' prior notice is valid and as per the law?

(iii) Whether the decision to provide the facility of only physical voting and not E-Voting is valid?

[Jan'25 - 5 marks]

Answer

(i) In the case of section 8 company, in pursuance of the second proviso to section 96(2) of the Companies Act, 2013, the time, date and place of each Annual General Meeting is required to be decided upon before-hand by the board of directors having regard to the directions, if any, given in this regard by the company in its general meeting. [Notification G.S.R. 466(E) issued by the Ministry of Corporate Affairs on the 5th June, 2015].

Hence, the directors are bound to consider the directions regarding shifting of venue for the next Annual General Meeting.

Alternate Answer to Part (i)

As per the facts of the question, the members, in one of the general meetings, have strongly suggested that the next AGM of the company be held near the vicinity of the Registered Office at Jaipur instead of the club as the same has congested sitting area.

Since only suggestions have been given in one of the general meetings, the same cannot be construed as a compulsion on the part of the Board to act thereon. A mere suggestion will not tantamount to be a binding direction. In other words, a suggestion is just an idea or an opinion that someone proposes which need be compulsorily acted upon, while a direction is a set of instructions for where to go or what to do. So, the suggestion by the shareholders is non-binding on the Board.

(ii) Notification G.S.R. 466(E) issued by the Ministry of Corporate Affairs dated 5th June, 2015 provides that section 8 company can hold a meeting with minimum of 14 days' notice as against 21 days' notice otherwise applicable under section 101 (1) of the Companies Act, 2013.

Hence, the director can validly issue a 15 days' notice being greater than 14 days as provided in the notification and the notice is as per the law.

(iii) Yes, as per the provision of section 108 of the Companies Act, 2013 read with Rule 20 of the Companies (Management and Administration) Rules, 2014, section 8 company, having a number of members of 1000 or more, is required to provide e- voting facility to its members at a general meeting. Hence, the decision of the foundation, to provide the facility of only physical voting and not E-voting, is not valid as section 8 Company is having 1200 members.

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Question 44

ABHI Ltd. is holding its Annual General Meeting (AGM) to pass a crucial resolution regarding the expansion of its business operations. However, many shareholders are unable to attend the meeting in person due to their prior commitments and engagements. Despite their absence, they still wish to express their views and participate in the decision-making process.

Considering the provisions of the Companies Act, 2013, how can these shareholders delegate their voting rights and ensure their participation in the meeting without being physically present? What mechanisms are available under the Act to facilitate their involvement?

[MTP May'25 – 5 marks]

Answer

In company management, shareholder participation is essential for decision-making. However, all the shareholders may not always be able to attend meetings physically. The Companies Act, 2013, ensures that their rights are not diminished due to their absence. It facilitates the shareholders to delegate their voting power and remain actively involved in key decisions by appointing a proxy. Section 105 of the Companies Act, 2013 and Rule 19 of the Companies (Management & Administration) Rules, 2014 contain provisions relating to the proxies.

A proxy is a person appointed by a shareholder to attend and vote on their behalf at a general meeting. Every member entitled to vote at a meeting can appoint a proxy. A proxy can be any person, not necessarily a shareholder. The appointment of proxy shall be in Form No. MGT-11. [Rule 19(3)]

The proxy form must be submitted 48 hours before the meeting. The instrument appointing a proxy shall be in writing and signed by the appointer or his attorney duly authorised in writing. If the appointer is a body corporate, the instrument shall be under its seal or be signed by an officer or an attorney duly authorised by the body corporate.

As a compliance requirement, in every notice calling a meeting of a company which has a share capital, or the articles of which provide for voting by proxy at the meeting, should include a statement that a member is entitled to appoint a proxy. Hence the Act ensures the shareholders participation in the meeting, keeps decisions comprehensive with fair corporate governance.

Question 45

Blue Limited passed two resolutions by means of postal ballot. Keeping in view the relevant provisions of the Companies Act, 2013, you are required to advise the directors of the company regarding the provisions applicable for making entries in the minutes book including the time limit within which the entries must be made.

[MTP Sept'25, ICAI Module – 5 marks]

Answer

Section 118 of the Companies Act, 2013 requires a company to make entries of resolutions passed by means of postal ballot in the minutes book.

Rule 25 of the Companies (Management and Administration) Rules, 2014 states that in case of every resolution passed by postal ballot, a brief report on the postal ballot conducted including the resolution proposed, the result of the voting thereon and the summary of the scrutinizer's report shall be entered in the minutes book of general meetings along with the date of such entry within thirty days from the date of passing of resolution.

Accordingly, the directors of Blue Limited are advised to keep following points under consideration while entering resolutions passed by means of postal ballot in the minutes book of general meetings:

(i) there should be entered a brief report on the postal ballot conducted including the resolution proposed.
(ii) there should be entered the result of the voting made by the shareholders in respect of resolution.
(iii) there should be entered the summary of the scrutinizer's report.

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(iv) there should be entered the date of making entry.

Further, the directors must ensure that the entries in respect of resolutions are made within thirty days from the date of passing of resolution by means of postal ballot.

Question 46

There are certain entities to which the Companies (Significant Beneficial Owners) Rules, 2018 are not applicable. List them.

[ICAI Module]

Answer

Rule 8 of the Companies (Significant Beneficial Owners) Rules, 2018 states that the 'SBO' Rules shall not be made applicable to the extent the shares of the Reporting Company are held by following entities:

(a) the Investor Education and Protection Fund Authority [constituted under section 125 (5)];
(b) its holding reporting company provided that the details of such holding reporting company shall be reported in Form No. BEN-2;
(c) the Central Government, State Government or any local authority;
(d) (i) a reporting company; or
    (ii) a body corporate; or
    (iii) an entity,
(e) controlled wholly or partly by the Central Government and/ or State Government(s);
(f) Securities and Exchange Board of India (SEBI) registered Investment Vehicles such as mutual funds, alternative investment funds (AIFs), Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InVITs) regulated by SEBI;
(g) Investment Vehicles regulated by Reserve Bank of India, or Insurance Regulatory and Development Authority of India, or Pension Fund Regulatory and Development Authority.

Question 47

What do you mean by Proxy? Explain the provisions relating to appointment of proxy under the Companies Act, 2013.

[ICAI Module]

Answer

A proxy is an instrument in writing executed by a shareholder authorising another person to attend a meeting and to vote thereat on his behalf in his absence. The term also applies to the person so appointed and in such case a proxy is a person appointed by a member of a company, to attend the general meeting of the company and vote thereat on his behalf.

The various provisions relating to the appointment of a proxy are contained in section 105 of the Companies Act, 2013. They are as under:

1) Under section 105 (1) any member of a company entitled to attend and vote at a meeting of the company shall be entitled to appoint another person as a proxy to attend and vote at the meeting on his behalf.

2) A proxy shall not have the right to speak at such meeting and shall not be entitled to vote except on a poll. This means that a proxy cannot vote on a resolution by show of hands.

3) The Central Government may prescribe a class or classes of companies whose members shall not be entitled to appoint another person as a proxy.

4) Under section 105 (6) the instrument appointing a proxy shall be in writing; and be signed by the appointer or his attorney duly authorised in writing or, if the appointer is a body corporate, be under its seal or be signed by an officer or an attorney duly authorised by it.

5) Under section 105 (7) an instrument appointing a proxy, if in the form as may be prescribed, shall not be questioned on the ground that it fails to comply with any special requirements specified for such instrument by the articles of a company.

@teamvalpha

Question 48

As a matter of fact, the usual time allowed for making entries in the register of members or register of debenture-holders or register of other security holders is seven days after the Board of Directors or its committee grants its approval. There are certain events, on the happening of which the entries can be made even after seven days. Which are those events?

[ICAI Module]

Answer

In this respect Rules 5 (7) and 5 (8) of the Companies (Management and Administration) Rules, 2014 are relevant.

Rule 5 (7) specifies that in case of companies whose securities are listed on a stock exchange in or outside India, the particulars of any pledge, charge, lien or hypothecation created by the promoters in respect of any securities of the company held by the promoter including the names of pledgee/pawnee and any revocation therein shall be entered in the register within fifteen days from such an event.

According to Rule 5 (8), if promoters of any listed company, which has formed a joint venture company with another company, have pledged or hypothecated or created charge or lien in respect of any security of the listed company in connection with such joint venture company, the particulars of such pledge, hypothecation, charge and lien shall be entered in the register members of the listed company within fifteen days from such an event.

Thus, in the above two cases, it is permitted for the listed companies to make entries relating to pledge, charge, lien or hypothecation in the registers within fifteen days from the happening of such an event.

Question 49

The paid-up share capital of Disha Home Appliances Limited is Rs. 8 crore divided into 80 lakh shares of Rs. 10 each. The directors of the company would like to know the circumstances under which the Annual Return of the company shall be required to be certified by a company secretary in practice.

[ICAI Module]

Answer

In respect of certification of Annual Return by a company secretary in practice, the directors of Disha Home Appliances Limited are advised to refer Section 92 (2) of the Companies Act, 2013 and also Rule 11(2) of the Companies (Management and Administration) Rules, 2014 which state that the Annual Returns of following companies shall be certified by a company secretary in practice:

1) a listed company; or
2) a company having paid-up share capital of Rs. 10 crore or more or turnover of Rs. 50 crore or more.

Accordingly, if Disha Home Appliances Limited gets listed or in case its paid-up share capital is increased to Rs.10 crore or more or its turnover becomes Rs.50 crore or more, it shall be required to get its Annual Return certified by a company secretary in practice. The certificate given by the company secretary in practice shall be in Form No. MGT-8. The certificate, inter-alia, shall state that the Annual Return discloses the facts correctly and adequately and that the company has complied with all the provisions of the Companies Act, 2013.

Question 50

Prince Auto-parts Limited, a listed company, has recently concluded its Annual General Meeting. As a statutory requirement, it is obligatory on its part to file with the jurisdictional Registrar of Companies a copy of the Report on its AGM.

(i) State within how much time it is required to file the said Report

(ii) In case Prince Auto-parts Limited fails to file the Report on its AGM within the specified time, state the penalty to which the company and also its every officer who is in default shall be liable for such failure.

[ICAI Module]

@teamxalpha

Answer

(i) In terms of Section 121 (2) of the Companies Act, 2013, Prince Auto- parts Limited is required to file with the jurisdictional Registrar of Companies a copy of the Report maximum within thirty days of the conclusion of its Annual General Meeting.

(ii) In terms of Section 121 (3) of the Companies Act, 2013, every listed company, which fails to file with the jurisdictional Registrar of Companies a copy of the Report on its Annual General Meeting within the specified time limit, shall be liable to the following penalty:

- Company: ₹ 1 lakh and in case of continuing failure, with a further penalty of ₹ 500 for each day after the first during which such failure continues subject to a maximum of ₹ 5lakhs.
- Every officer who is in default: Minimum ₹ 25,000 and in case of continuing failure, with a further penalty of ₹ 500 for each day after the first during which such failure continues subject to a maximum of ₹ 1lakh.

Accordingly, if Prince Auto-parts Limited fails to file a copy of the report on its Annual General Meeting within the specified time limit of thirty days, it shall be liable to the above stated penalty which may go maximum up to ₹ 5 lakh in case of continuing default. In addition, its every officer who is in default shall also liable to the penalty maximum of which will be ₹ 1 lakh in case of continuing failure.

Question 51

Fabulous Fabricators and Mechanics Ltd. is a listed public limited company incorporated in the year 2023 with the object to manufacture and engage in the construction of iron-ore based infrastructure for various industries on a contractual basis. The company is having a paid-up share capital of ₹ 200.30 Crore divided in 865 members holding rights to vote in meeting.

The Annual General Meeting of the company was due to be held on 12.12.2023 at the registered office of the company in Raipur, Chhattisgarh. The Board of directors decided to provide the facility of E-Voting to its members in addition to other modes despite of the disagreement shown by Ms. Riddhi one of the directors who was of the view that in case of the above company, it was not mandatory to provide the facility of E-Voting.

On the day of the meeting Mr. Mohan, one of the members who had opted for E-Voting, could not exercise his option hence was physically present at the meeting to vote. The Chairman of the meeting did not allow him to physically cast his vote on the pretext that he had opted for E- Voting and now he cannot change his option and thus had to vote through E-Voting despite of being present.

Further a matter regarding appointment of Mr. Keshav as a small shareholders director was also to be discussed in the meeting therein, to which the legal team suggested that the same can only be undertaken by voting through postal ballot and not otherwise.

Referring to the provisions of the Companies Act, 2013 elaborate:

(i) Whether the contention of Ms. Riddhi was correct as to the provision of E-Voting facility being optional in case of Fabulous Fabricators and Mechanics Ltd.?

(ii) Can the Chairman stop Mr. Mohan to physically vote at the meeting?

(iii) Is the suggestion of the legal team regarding appointment of Mr. Keshav by voting through postal ballot valid at law?

[Sept'25 - 5 marks]

@teamxalpha

Answer

(i) As per sub-rule (2) of Rule 20 of the Companies (Management and Administration) Rules, 2014, (w.e.f. 19.03.2015), every company which has listed its equity shares on a recognised stock exchange and every company having not less than one thousand members shall provide to its members facility to exercise their right to vote on resolutions proposed to be considered at a general meeting by electronic means.
The conditions stated above are disjunctive, not cumulative.

Applying the above rule, since its shares are listed on stock exchange, Fabulous Fabricators and Mechanics Ltd. will have to mandatorily provide option of E-Voting to its members although it is having less than 1,000 members. Therefore, the contention of Ms. Riddhi was not correct.

(ii) As per sub-rule (4)(iii)(B) of Rule 20 of the Companies (Management and Administration) Rules, 2014, the notice of the meeting shall clearly state- that the facility for voting, either through electronic voting system or ballot or polling paper shall also be made available at the meeting and members attending the meeting who have not already cast their vote by remote e-voting shall be able to exercise their right at the meeting.
Also as per sub-rule (4)(xi), the Chairman shall, at the general meeting, at the end of discussion on the resolutions on which voting is to be held, allow voting, with the assistance of scrutinisers, by use of ballot or polling paper or by using an electronic voting system for all those members who are present at the general meeting but have not cast their votes by availing the remote e-voting facility.

In the given question, since Mr. Mohan could not exercise his option of e-voting, he can physically vote at the meeting. Thus, as per the circumstances given in the question, the Chairman cannot deprive Mr. Mohan from physically voting at the meeting as he has not cast his vote by remote e-voting earlier.

(iii) As per section 110(1)(a) of the Companies Act, 2013, a company shall, in respect of such items of business as the Central Government may, by notification, declare to be transacted only by means of postal ballot.
As per section 110(1)(b) a company may, in respect of any item of business, other than ordinary business and any business in respect of which directors or auditors have a right to be heard at any meeting, transact by means of postal ballot,

Pursuant to Rule 22(16)(h) of the Companies (Management and Administration) Rules, 2014, election of a director under section 151 of the Act (i.e. appointment of a director elected by small shareholders) shall be transacted only by means of voting through a postal ballot.
As per section 2(65) of the Companies Act, 2013, "postal ballot" means voting by post or through any electronic mode.

Considering the above provisions, we can conclude that the suggestion of the legal team that appointment of Mr. Keshav as a small shareholders director can only be undertaken by voting through postal ballot is valid.

Question 52

Arch-Support Ltd. is a public limited company incorporated in 2018 having its registered office in Nashik, Maharashtra and engaged in the manufacture of sports shoes and related accessories. It has the following breakup of equity and preference share-capital:
1,20,000 Equity Shares of ₹ 100 each;
1,50,000 10% Preference Shares of ₹ 10 each.

@teamxalpha

Ms. Martha, one of the elite members from Jaipur holds in her name equity shares worth ₹ 6,50,000 of the company as on date and also has beneficial interest in equity shares worth ₹ 3,00,000, is concerned about declaration to be made by her as mandated by the Companies (Significant Beneficial Owner) Amendment Rules, 2018(SBO Rules).

She consulted CA Ms. Marina, her friend on the above issue who advised that since she has significant beneficial ownership directly and indirectly in the company, she is required to file the declaration as mandated by the above rules.

Referring to the provisions of the Companies Act, 2013 and SBO Rules, decide on the following:
(i) Whether the advice given by CA Ms. Marina, her friend on the above issue is in line with SBO Rules?
(ii) SBO Rules are applicable in every case. Comment and mention the instances if any, where these rules are not applicable.

[Sept'25 - 5 marks]

Answer

(i) As per section 90(1) of the Companies Act, 2013, every individual, who acting alone or together, or through one or more persons or trust, including a trust and persons resident outside India, holds beneficial interests, of not less than 25% or such other percentage as may be prescribed, in shares of a company or the right to exercise, or the actual exercising of significant influence or control as defined in clause (27) of section 2, over the company (herein referred to as "significant beneficial owner"), shall make a declaration to the company, specifying the nature of his interest and other particulars, in such manner and within such period of acquisition of the beneficial interest or rights and any change thereof, as may be prescribed.

As per Rule 2(1)(h) of the Companies (Significant Beneficial Owners) Rules, 2018, "Significant Beneficial Owner" means an individual, referred to in sub-section (1) of section 90 of the Act, who, acting alone or together, or through one or more persons or trust, satisfies one or more of the following:

- holds, indirectly, or together with any direct holdings, not less than 10% of the shares of the reporting company;
- holds, indirectly or together with any direct holdings, not less than 10% of the voting rights in the shares of the reporting company;
- has right to receive or participate in not less than 10% of the total distributable dividend or any other distribution payable in a financial year, through indirect holdings alone or together with any direct holdings;
- has right to exercise, or actually exercises, significant influence or control, in any manner other than through direct holdings alone.

In the question given, Ms. Martha is holding equity shares amounting ₹ 6,50,000 in her name (directly) and amounting ₹ 3,00,000 (having beneficial interest). Thus, her total holding considering both direct and indirect holding of shares amounts to ₹ 9,50,000, which is less than the stipulated amount of 10% of (1,20,000 shares of ₹ 100 each) i.e. 10% of Rs 1,20,00,000, i.e. ₹ 12,00,000. Therefore, she is not required to file the declaration as mentioned by CA. Ms. Marina.

(ii) Rule 8 of the Companies (Significant Beneficial Owner) Amendment Rules, 2018 states that the 'SBO' Rules shall not be made applicable to the extent the share of the Reporting Company is held by:

(a) The Investor Education and Protection Fund Authority [constituted under section 125 (5)];
(b) its holding reporting company provided that the details of such holding reporting company shall be reported in Form No. BEN-2;
(c) the Central Government, State Government or any local authority;

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(d) (i) a reporting company or (ii) a body corporate or (iii) an entity, controlled wholly or partly by the Central Government and/ or State Government(s);

(e) investment vehicles such as mutual funds, alternative investment funds (AIFs), Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InVITs) registered with and regulated by the Securities and Exchange Board of India; and investment vehicles regulated by Reserve Bank of India, Insurance Regulatory and Development Authority of India or Pension Fund Regulatory and Development Authority.

Question 53

Monika Solutions Pvt. Ltd. is registered as a One Person Company (OPC) under the Companies Act, 2013. Mr. Gautam Kumar is the sole member and director of the company. With the financial year ending on 31st March 2025, the company is preparing to comply with its annual filing and disclosure requirements.

Mr. Gautam Kumar is uncertain whether his company is required to hold an Annual General Meeting (AGM) or there are any other alternative procedures that his company can follow. As a financial advisor, please advise Mr. Gautam Kumar on this matter.

[Jan'26 - 3 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

Question 54

What is the difference between a motion and a resolution?

[Jan'26 - 2 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

Question 55

(i) Saras Ventures Ltd., a public limited company incorporated under the Companies Act, 2013, has a Board comprising seven directors. A group of shareholders holding 1.2% of the total voting power has expressed dissatisfaction with one of the directors, Mr. Ankur Chabra, and has proposed his removal under Section 169 of the Companies Act, 2013.

The company's Annual General Meeting (AGM) is scheduled for 25th August 2025. On 1st August 2025, the company received a special notice under Section 115, proposing an ordinary resolution for the removal of Mr. Ankur Chabra at the upcoming AGM. However, the company subsequently failed to notify its members of the special notice.

With reference to the applicable provisions of the Companies Act, 2013, examine the validity of the special notice

(ii) What are the consequences of failure to notify the members about the special notice?

[Jan'26 - 5 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

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8 Declaration and Payment of Dividend

Question 1

(i) YZ Medical Instruments Limited is a manufacturing company & has proposed a dividend @ 10% for the year 2018-19 out of the profits of current year. The company has earned a profit of Rs. 910 crores during 2018-19. The company does not intend to transfer any amount to the general reserves out of the profits. Is YZ Medical Instruments Limited allowed to do so? Comment.

[MTP-2 Nov'23- 3 marks]

(ii) Karan, holder of 5,000 equity shares of Rs. 100 each of M/s. Rachit Leather Shoes Limited did not pay final call of Rs. 10 per share. M/s. Rachit Leather Shoes Limited declared dividend of 10%. Examine with reference to relevant provisions of the Companies Act, 2013, the amount of dividend Karan should receive.

[ICAI Module, RTP May 21, MTP Oct 20, MTP Oct 19, Nov 18, RTP Nov'22, MTP Sept'25 - 5 marks]

OR

ABC Ltd. has declared dividend of ₹ 2/- per equity share in the general meeting. Mr. Suresh is holding 5000 equity shares of ₹ 10 face value each, on which ₹ 10,000 towards call money is due. Whether the dividend amount payable to him be adjusted against such dues as per the provisions of the Companies Act, 2013? Give reasons for your answer.

[May 2022 - 2 marks]

Answer

(i) According to section 123 of the Companies Act, 2013 a company may, before the declaration of any dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company. Such transfer is not mandatory and the percentage to be transferred to reserves is at the discretion of the company.

As per the given facts, YZ Medical Instruments Limited has earned a profit of Rs. 910 crores for the financial year 2018-19. It has proposed a dividend @ 10%. However, it does not intend to transfer any amount to the reserves of the company out of the profits of current year.

As per the provisions stated above, the amount to be transferred to reserves out of profits for any financial year is at the discretion of the company acting through its Board of Directors.

Therefore, at its discretion, if YZ Medical Instruments Limited decides not to transfer any profit to reserves before the declaration of dividend at 10%, it is legally allowed to do so.

(ii) As per the proviso to section 127 of the Companies Act, 2013, no offence will be deemed to have been committed by a director for adjusting the calls in arrears remaining unpaid or any other sum due from a member against the dividend declared by the company.

Thus, as per the given facts, M/s. Rachit Leather Shoes Limited can adjust the unpaid call money of Rs. 50,000 against the declared dividend of 10%, i.e., 5,00,000 x 10/100 = 50,000.

Hence, call money of Rs. 50,000 not paid by Karan can be adjusted fully from the entitled dividend amount of Rs. 50,000 payable to him.

@teamvalpha

Question 2

MNP Ltd. has a paid-up share capital of Rs. 10 crore and free reserves of Rs. 50 crore, as on 31st March, 2019. The company made a loss of Rs. 40 lakh after providing for depreciation for the year ended 31st March, 2019 and as a result, the company was not in a position to declare any dividend for the said year out of profits. However, the Board of directors of the company announced the declaration of dividend of 20% on the equity shares payable out of free reserves. The average dividend declared by the company in the last three years is 25%. Referring to the provisions of the Companies Act, 2013, examine the validity of declaration of dividend.

[ICAI Module]

OR

Whether a Company can declare dividend for the financial year in which it incurred loss.

[Nov 19]

Answer

As per Second Proviso to Section 123 (1), in the event of inadequacy or absence of profits in any financial year, a company may declare dividend out of the accumulated profits of previous years which have been transferred to the free reserves.

However, such declaration shall be subject to the following conditions as per Rule 3 of Companies (Declaration and Payment of Dividend) Rules, 2014

(i) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the immediately preceding three years.

As per facts of the question the present rate of dividend is 20% and average dividend declared in the last three years is 25%. So, this condition is fulfilled.

(ii) The total amount to be drawn from free reserves shall not exceed one-tenth i.e., 10% of its paid-up share capital and free reserves as per the latest audited financial statement.

Amount of dividend proposed: Rs. 2 Crores (20% of Rs. 10 Crore i.e., on paid up capital)
10% of paid up share capital and free reserves: 10% of (10 crore + 50 crore) = Rs. 6 Crore.

This condition is fulfilled as amount of dividend is not exceeding 10% of its paid-up share capital and free reserves.

(iii) The amount so drawn shall first be utilized to set off the losses incurred in the financial year in which dividend is declared and only thereafter, any dividend in respect of equity shares shall be declared.

(iv) After such withdrawal from free reserves, the residual reserves shall not fall below 15% of its paid-up share capital as per the latest audited financial statement.

Balance of reserves after payment of dividend: Rs. 48 crore (50 crore - 2 crore) 15% of paid up share capital: 1.5 crore (15% of 10 crore) This condition is fulfilled.

Taking into account all the conditions, it can be said that declaration of dividend by MNP Limited is valid.

Question 3

Alex limited is facing loss in business during the financial year 2018-2019. In the immediately preceding three financial years, the company had declared dividend at the rate of 7%, 11% and 12% respectively. The Board of Directors has decided to declare 12% interim dividend for the current financial year at least to be in par with the immediately preceding year. Is the act of the Board of Directors valid?

[ICAI Mod, MTP M'18, MTP M'19, MTP M'20 and MTP M'22, MTP April 21, M'19, M'18- 6 marks]

@teamxalpha

Answer

As per Section 123(3) of the Companies Act, 2013, the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared.

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

Conclusion:

According to the given facts, Alex Ltd. is facing loss in business during the financial year 2018-2019. In the immediately preceding three financial years, the company declared dividend at the rate of 7%, 11% and 12% respectively.

Accordingly, the rate of dividend declared shall not exceed 10%, the average of the rates (7+11+12= 10%) at which dividend was declared by it during the immediately preceding three financial years.

Therefore, the act of the Board of Directors as to declaration of interim dividend at the rate of 12% during the F.Y 2018-2019 is not valid.

Question 4

Referring to the provisions of the Companies Act, 2013, examine the validity of the following:
The Board of Directors of ABC Tractors Limited proposes to declare dividend at the rate of 20% to the equity shareholders, despite the fact that the company has defaulted in repayment of public deposits accepted before the commencement of this Act

[ICAI Module, Nov 19]

Answer

Section 123(6) of the Companies Act, 2013, specifically provides that a company which fails to comply with the provisions of section 73 (Prohibition of acceptance of deposits from public) and section 74 (Repayment of deposits, etc., accepted before the commencement of this Act) shall not, so long as such failure continues, declare any dividend on its equity shares.

Conclusion:

In the given instance, the Board of Directors of ABC Tractors Limited proposes to declare dividend at the rate of 20% to the equity shareholders, in spite of the fact that the company has defaulted in repayment of public deposits accepted before the commencement of the Companies Act, 2013.

Hence, according to the above provision, declaration of dividend by the ABC Tractors Limited is not valid.

Question 5

The Board of Directors of Future Fashions Limited at its meeting recommended a dividend on its paid-up equity share capital which was later on approved by the shareholders at the Annual General Meeting. Thereafter, the directors at another meeting of the Board passed a board resolution for diverting the total dividend to be paid to the shareholders for purchase of certain short-term investments in the name of the company. As a result, dividend was paid to shareholders after 45 days.

Examining the provisions of the Companies Act, 2013, state whether the act of directors is in violation of the provisions of the Act and if so, state the consequences that shall follow for the above violative act.

[ICAI Module, RTP Nov 21, MTP Nov 21, Dec 21 - 6 marks]

@teamvalpha

Answer

According to section 124 of the Companies Act, 2013, where a dividend has been declared by a company but has not been paid or claimed within 30 days from the date of the declaration, the company shall, within 7 days from the date of expiry of the said period of 30 days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in any scheduled bank to be called the Unpaid Dividend Account.

Further, according to section 127 of the Companies Act, 2013, where a dividend has been declared by a company but has not been paid or the warrant in respect thereof has not been posted within 30 days from the date of declaration to any entitled shareholder, every director of the company shall, if he is knowingly a party to the default, be liable for punishment.

In the present case, the Board of Directors of Future Fashions Limited at its meeting recommended a dividend on its paid-up equity share capital which was later on approved by the shareholders at the Annual General Meeting.

Thereafter, the directors at another meeting of the Board decided by passing a board resolution for diverting the total dividend to be paid to the shareholders for purchase of certain short-term investments in the name of the company. As a result, dividend was paid to shareholders after 45 days.

1. Since, declared dividend has not been paid within 30 days from the date of the declaration to any shareholder entitled to the payment of dividend, the company shall, within 7 days from the date of expiry of the said period of 30 days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in any scheduled bank to be called the Unpaid Dividend Account.

2. The Board of Directors of Future Fashions Limited has violated section 127 of the Companies Act, 2013 as it failed to pay dividend to shareholders within 30 days due to its decision to divert the total dividend to be paid to shareholders for purchase of certain short-term investments in the name of the company.

Consequences: The following are the consequences for violation of the above provisions-

a) Every director of the company shall, if he is knowingly a party to the default, be punishable with maximum imprisonment of two years and shall also be liable for a minimum fine rupees one thousand for every day during which such default continues.
b) The company shall also be liable to pay simple interest at the rate of 18% p.a. during the period for which such default continues.

Question 6

RST Ltd. declared dividend at the rate of 20% for the financial year 2017-2018 in the AGM scheduled on 15th June 2018. As RST Ltd. is left with certain unpaid and unclaimed dividend, it transferred amount of unpaid and unclaimed dividend to UDA (unpaid dividend account). After remaining unpaid and unclaimed for more than 2 years in the UDA, some of the entitled shareholders made RST Ltd. liable for noncompliance of section 124, and claimed for their unpaid dividend amount. RST Ltd. denies saying that there were certain legal issues on the entitlement of the dividend amount to the respective shareholders.

[RTP May 2019]

Answer

As per section 124 of the Companies Act, 2013, where a dividend has been declared by a company but has not been paid/claimed to/by shareholder within 30 days from the date of the declaration, the company shall, within 7 days from the date of expiry of the said period of 30 days, transfer the total amount of dividend which remains unpaid/unclaimed to the Unpaid Dividend Account.

@teamxalpha

The company shall, within a period of 90 days of making any transfer of an amount, prepare a statement containing the names, their last known addresses and the unpaid dividend to be paid to each person and place it on the web-site of the company, if any, and also on any other web-site approved by the Central Government for this purpose, in such form, manner and other particulars as may be prescribed.
Accordingly, in the given situation, RST Ltd. failed to give statement of Unpaid/unclaimed dividend and so liable for the said noncompliance of section 124 of the Companies Act, 2013.

Any person claiming to be entitled to any money transferred under section 124(1) to the Unpaid Dividend Account of the company may apply to the company for payment of the money claimed.
Since RST Ltd. failed to comply with the requirements of this section as to the preparing of a statement of unpaid dividend, so such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with a further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of ten lakh rupees and every officer of the company who is in default shall be liable to a penalty of twenty-five thousand rupees and in case of continuing failure, with a further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of two lakh rupees.

Question 7

Green Ltd., a power generating company, attracted numerous investors due to its strong growth potential. Mr. Arju, one of the investor purchased a significant number of shares in Green Ltd., expecting regular returns in the form of dividends. Over the years, Green Ltd. performed well and consistently declared dividends. However, in 2023-2024, despite reporting profits, the board of directors decided not to distribute dividends, citing the need to reinvest earnings for future expansion.
Seeing this, Mr. Arju argued that as a shareholder, he had an absolute right to receive dividends. He believed that since the company was in profitable state, dividends should be mandatorily distributed. He raised his concerns at the Annual General Meeting (AGM), questioning the board's decision. Looking at the given scenario, assess the argument of Mr. Arju in the light and support of the relevant legislation.

[MTP May'25 - 5 marks]

Answer

Section 2(35) of the Companies Act, 2013, defines the term "dividend" as any distribution of profits by a company to its shareholders, whether in cash or in kind, out of free reserves available for the purpose.
The above statement implies that shareholders don't have an inherent or guaranteed right to receive dividends from a company.

The decision to declare dividends lies with the board of directors, subject to shareholder approval & legal provisions under the Companies Act, 2013. The board of directors has the authority to recommend dividends. If they believe distributing dividends is not in the best interest of the company, they may choose not to declare them, even if the company has sufficient profits. Shareholders can't force the company to declare dividends.

A company can declare dividends only out of:

a. Current year's profits after providing for depreciation.
b. Previous years profits transferred to reserves.
c. Money provided by the government (in case of guaranteed companies).

Before declaring a dividend, the company must set aside a specified percentage of profits in reserves if required.
Shareholders can approve the dividend recommended by the board at the Annual General Meeting (AGM), but they cannot demand a higher dividend.

The board may declare an interim dividend before the final accounts are prepared if they find it appropriate. If dividends remain unpaid for 30 days, the company must transfer them to a separate Unpaid Dividend Account.

@teamxalpha

Thereby, the distribution of dividends is subject to multiple considerations, including the company's profitability, legal compliance, and the board's discretion. The Companies Act, 2013, ensures that dividends are declared in a financially responsible manner, protecting both the company and its investors. Since shareholders cannot demand dividends as a matter of right, it is evident that dividends are not an absolute right but a discretionary benefit provided when the company deems it appropriate.

Validity of the Argument:

As per the stated facts, Mr. Arju argued that as a shareholder, he had an absolute right to receive dividends. He believed that since the company was in profitable state, dividends should be mandatorily distributed. His expectation of dividends was based on his investment, but the law does not guarantee an absolute right to dividends. The board has the authority to withhold dividends if it deems reinvestment necessary for the company's long-term growth. Therefore, while shareholders have a reasonable expectation of returns, they do not possess an unconditional entitlement to dividends.

Therefore, the argument of Mr. Arju is invalid in the light of the legal provision given in section 123 of the Companies Act, 2013.

Question 8

Star Computers Limited declared and paid dividend in time to all its equity holders for the financial year 2018-19, except in the following two cases:

i. Mrs. Sheela Bhatt, holding 250 shares had mandated the company to directly deposit the dividend amount in her bank account. The company, accordingly remitted the dividend but the bank returned the payment on the ground that there was difference in surname of the payee in the bank records. The company, however, did not inform Mrs. Sheela Bhatt about this discrepancy.

ii. Dividend amount of Rs. 50,000 was not paid to the successor of Late Mr. Mohan, in view of the court order restraining the payment due to family dispute about succession.

You are required to analyse these cases with reference to provisions of the Companies Act, 2013 regarding failure to distribute dividends.

[ICAI Module, MTP Nov 19]

OR

PQ Ltd. declared and paid 10% dividend to all its shareholders except Mr. Kumar, holding 500 equity shares, who instructed the company to deposit the dividend amount directly in his bank account. The company accordingly remitted the dividend, but the bank returned the payment on the ground that the account number as given by Mr. Kumar doesn't tally with the records of the bank. The company, however, did not inform Mr. Kumar about this discrepancy. Comment on this issue with reference to the provisions of the Companies Act, 2013 regarding failure to distribute dividend.

[ICAI Module, MTP March 21, MTP Oct 19, May 19, MTP Nov 22, MTP-2 Nov'23 -3 marks]

Answer

i. Sec 127 of the Companies Act, 2013 provides for punishment for failure to distribute dividend on time.

One of such situations is where a shareholder has given directions to the company regarding the payment of the dividend and those directions could not be complied with but the non-compliance was not communicated to him.

In the given situation, the company has failed to communicate to the shareholder Mrs. Sheela Bhatt about non-compliance of her direction regarding payment of dividend. Hence, the penal provisions under section 127 will be applicable.

ii. Section 127, inter-alia, provides that no offence shall be deemed to have been committed where the dividend could not be paid by reason of operation of law.

In the present case, the dividend could not be paid because it was not allowed to be paid by the court until the matter was resolved about succession. Hence, there will not be any liability on the company and its directors, etc.

@teamxalpha

Question 9

The Annual General Meeting of ABC Bakers Limited held on 30th May 2019, declared a dividend at the rate of 30% payable on its paid-up equity share capital as recommended by Board of Directors. However, the Company was unable to post the dividend warrant to Mr. Ranjan, an equity shareholder, up to 25th July 2019. Mr. Ranjan filed a suit against the Company for the payment of dividend along with interest at the rate of 20% per annum for the period of default. Decide in the light of provisions of the Companies Act, 2013, whether Mr. Ranjan would succeed? Also, state the directors' liability in this regard under Act.

[ICAI Mod, MTP M'19, MTP N'19, N'20, RTP N'22, MTP M'23, MTP N'23, MTP Jan'26 - 5 marks]

Answer

Section 127 of the Companies Act, 2013 lays down the penalty for non-payment of dividend within the prescribed time period of 30 days.

According to this section where a dividend has been declared by a company but has not been paid or the warrant in respect thereof has not been posted within 30 days from the date of declaration of dividend to any shareholder entitled to the payment of dividend:

(a) every director of the company shall, if he is knowingly a party to the default, be punishable with imprisonment maximum up to two years and with minimum fine of rupees one thousand for every day during which such default continues; and

(b) the company shall be liable to pay simple interest at the rate of 18% per annum during the period for which such default continues.

Therefore, in the given case Mr. Ranjan will not succeed if he claims interest at 20% interest as the limit under section 127 is 18% per annum.

Question 10

Alpha Herbals, a Section 8 company is planning to declare dividend in the Annual General Meeting for the Financial Year ended 31-03-2019. Mr. Chopra is holding 800 equity shares as on date. State whether the act of the company is according to the provisions of the Companies Act, 2013.

[ICAI Module, RTP May 21, MTP Oct 20,Nov 20, May 19, May 18, MTP Jan'26]

Answer

According to Sec 8(1) of the Companies Act, 2013, the companies licenced under Sec 8 of the Act (Formation of companies with Charitable Objects, etc.) are prohibited from paying any dividend to their members.

Their profits are intended to be applied only in promoting the objects for which they are formed.

Hence, in the instant case, the proposed act of Alpha Herbals, a company licenced under Section 8 of the Companies Act, 2013, which is planning to declare dividend, is not according to the provisions of the Companies Act, 2013.

Question 11

The Director of Happy Limited proposed dividend at 12% on equity shares for the financial year 2016-17. The same was approved in the annual general meeting of the company held on 20th September, 2017. The Directors declared the approved dividends.

Analysing the provisions of the Companies Act, 2013, give your opinion on the following matters:

(i) Mr. A, holding equity shares of face value of Rs. 10 lakhs has not paid an amount of 1 lakh towards call money on shares. Can the same be adjusted against the dividend amount payable to him?

(ii) Ms. N was the holder of 1,000 equity shares on 31st March, 2017, but she has transferred the shares to Mr. R, whose name has been registered on 20th May, 2017. Who will be entitled to the above dividend?

[RTP May 2018, MTP Oct 21, MTP Nov 18, May 19]

@teamxalpha

Answer

i. The given problem is based on the proviso provided in the section 127 (d) of the Companies Act, 2013.

As per the law where the dividend is declared by a company and there remains calls in arrears and any other sum due from a member, in such case no offence shall be deemed to have been committed where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder.

As per the facts given in the question, Mr. A is holding equity shares of face value of 10 Lakhs and has not paid an amount of 1 lakh towards call money on shares.

Referring to the above provision, Mr. A is eligible to get Rs. 1.20 lakh towards dividend, out of which an amount of 1 lakh can be adjusted towards call money due on his shares. Rs. 20,000 can be paid to him in cash or by cheque or in any electronic mode.

According to the above mentioned provision, company can adjust sum of Rs. 1 lakh due towards call money on shares against the dividend amount payable to Mr. A.

ii. According to section 123(5), dividend shall be payable only to the registered shareholder of the share or to his order or to his banker.

Facts in the given case state that Ms. N, the holder of equity shares transferred the shares to Mr. R whose name has been registered on 20th May 2017.

Since, he became the registered shareholder before the declaration of the dividend in the Annual general meeting of the company held on 20th September 2017, so, Mr. R will be entitled to the dividend.

Question 12

Sun Light Limited was incorporated on 22nd January 2019 with the objects of providing software services. The Company adopted its first financial year as from 22nd January 2019 to 31st March 2020. The financial statement for the said period, after providing for depreciation in accordance with Schedule II of the Companies Act, 2013 revealed net profit. The Board of Directors declared 20% interim dividend at their meeting held on 7th July 2020, before holding its first Annual General Meeting. In the light of the provisions of the Companies Act, 2013 and Rules made thereunder:
Whether the Company has complied due diligence in declaring interim dividend?

[Nov 2020, MTP Jan'26]

Answer

According to section 123(3) of the Companies Act, 2013, the Board of Directors of a company may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the annual general meeting out of the surplus in the profit and loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend.

In the instant case, Sun Light Limited has complied due diligence in declaring interim dividend as the Interim Dividend was declared by Board of Directors at their meeting held on 7th July, 2020 before holding its first Annual General Meeting.
Also, the financial statement revealed net profit so the interim dividend can be paid out of profits of the financial year ending 31st March, 2020.

Question 13

ASR Limited declared dividend at its Annual General Meeting held on 31-12-2020. The dividend warrant to Mr. A, a shareholder was posted on 22nd January, 2021. Due to postal delay Mr. A received the warrant on 5th February, 2021 and encashed it subsequently. Can Mr. A initiate action against the company for failure to distribute the dividend within 30 days of declaration under provisions of Companies Act, 2013?

[July 2021, MTP May 24 - 2 marks]

@teamxalpha

Answer

Section 127 of the Companies Act, 2013, requires that the declared dividend must be paid to the entitled shareholders within the prescribed time limit of thirty days from the date of declaration of dividend. In case dividend is paid by issuing dividend warrants, such warrants must be posted at the registered addresses within the prescribed time.

Once posted, it is immaterial whether the same are received within thirty days by the shareholders or not. In the given question, the dividend was declared on 31.12.2020 and the dividend warrant was posted within 30 days from date of declaration of dividend (posted on 22nd January, 2021).
It is immaterial if Mr. A has received it on 5th February 2021 (i.e., post 30 days from 31.12.2020). Hence, Mr. A cannot initiate action against the company for failure to distribute the dividend within 30 days of declaration.

Question 14

Mr. R, holder of 1000 equity shares of Rs. 10 each of AB Ltd. approached the Company in the last week of September, 2019 with a claim for the payment of dividend of Rs. 2000 declared @ 20% by the Company at its Annual General Meeting held on 31.08.2011 with respect to the financial year 2010-11. The Company refused to accept the request of R and informed him that his shares on which dividend has not been claimed till date, have also been transferred to the Investor Education And Protection Fund. Examine, in the light of the provisions of the Companies Act, 2013, the validity of the decision of the Company and suggest the remedy, if available, to him for obtaining the unclaimed amount of dividend and re-transfer of corresponding shares in his name.

[Jan 2021, MTP 2 May'23 - 6 marks]

OR

Manish, a shareholder of a company, has not claimed his dividends from the company for the last 10 years due to different reasons. He wants to know whether he will be able to recover the dividends declared by the company for all these years. Explain to him the relevant legal provisions.

[Jan'25 - 5 marks]

Answer

According to section 124 of the Companies Act, 2013:

(1) Unpaid or Unclaimed Dividend to be transferred to the Unpaid Dividend Account - Where a dividend has been declared by a company but has not been paid or claimed within thirty (30) days from the date of declaration, the company shall, within seven (7) days from the expiry of the said period of 30 days, transfer the total amount of unpaid or unclaimed dividend to a special account called the Unpaid Dividend Account (UDA). The UDA shall be opened by the company in any scheduled bank.

(2) Transfer of Unclaimed Amount to Investor Education and Protection Fund (IEPF) - Any money transferred to the Unpaid Dividend Account which remains unpaid or unclaimed for a period of seven (7) years from the date of such transfer shall be transferred by the company along with interest accrued thereon to the Investor Education and Protection Fund.

(3) Transfer of Shares to IEPF- All shares in respect of which dividend has not been paid or claimed for 7 consecutive years or more shall be transferred by the company in the name of Investor Education and Protection Fund along with a statement containing the prescribed details.

(4) Right of Owner of 'transferred shares' to Reclaim - Any claimant of shares so transferred to IEPF shall be entitled to reclaim the 'transferred shares' from Investor Education and Protection Fund in accordance with the prescribed procedure and on submission of prescribed documents.

As per the provisions of section 125(3) of the Companies Act, 2013, read with rule 7 of Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016, any person, whose unclaimed dividends have been transferred to the Fund, may apply for refund, to the Authority, by submitting an online application.

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In the given question, Mr. R did not claim the payment of dividend on his shares for a period of more than 7 years (i.e., expiry of 30 days from 31.08.2011 to last week of September 2019).

As a result, his unclaimed dividend (Rs. 2,000) along with such shares (1,000 equity shares) must have been transferred to Investor Education and Protection Fund Account.

Therefore, the company is justified in refusing to accept the request of Mr. R for the payment of dividend of Rs. 2,000 (declared in Annual General Meeting on 31.8.2011).
In terms of the above stated provisions, Mr. R should be advised as under:
(i) If Mr. R wants to reclaim the transferred shares, he should apply to IEPF authorities along with the necessary documents in accordance with the prescribed procedure.
(ii) He is also entitled to get refund of the dividend amount, which was transferred to the above fund; in accordance with the prescribed rules.

Question 15

AB Limited is a public company having its registered office in Coimbatore. The company has incurred a net loss of Rs. 20 lakhs in the Financial Year (FY) 2019-20. The Board of Directors (BOD) wants to declare dividend for the FY 2019-20. The balances of the company as per the latest audited financial statements are as follows:
1. Equity Share Capital (Rs. 10 each) - 100 lakhs
2. General Reserve - 150 lakhs
3. Debenture redemption Reserve - 50 lakhs
The company has not declared any dividend in the preceding three financial years. Decide whether AB Limited is allowed to declare dividend or not for the FY 2019-20 by explaining the relevant provisions of the Companies Act in this regard. If allowed to declare dividend then state the maximum amount of dividend that can be paid by AB Limited as per the Section 123 of Companies Act 2013.

[Nov 20 – 4 marks]

Answer

In the given case, AB Limited has not made adequate profits during the current year ending on 31st March, 2020, but it still wants to declare dividend. Therefore, Rule 3 of the Companies (Declaration and Payment of Dividend) Rules, 2014 will be applied.

According to the said rule, the required conditions are:

Condition I: The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the three years immediately preceding that year.

Since the company has not declared any dividend in the preceding three financial years, hence condition I is not applicable in this case.

Condition II: The total amount to be drawn from such accumulated profits shall not exceed 10% of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

Paid-up capital + Free reserves = Rs. (100+150) Lakhs (General reserves are free reserves) = Rs. 250 Lakhs
10% thereof = Rs. 25 Lakhs

Condition III: The amount so drawn shall first be utilized to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

The amount drawn as stated above = Rs. 25 Lakhs Less: loss for the FY 2019-2020 = Rs. 20 Lakhs
Amount available = Rs. 5 Lakhs. Hence, the quantum of dividend is further restricted to Rs. 5 lakhs.

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Condition IV: The balance of reserves after such withdrawal shall not fall below 15% of its paid up share capital as appearing in the latest audited financial statement.

Accumulated Reserves Rs. 150 Lakhs
Proposed withdrawal declaration of dividend Rs. 5 Lakhs
Balance of Reserves Rs. 145 Lakhs.
This is more than 15% of paid-up capital (i.e. 15% of Rs. 100 Lakhs) i.e. Rs. 15 lakhs.
Thus, the company can declare a dividend of Rs. 5 lakhs.

Hence, by following above provisions, AB Limited is allowed to declare dividend for the FY 2019-2020 and the maximum amount of dividend that can be paid is Rs. 5 Lakhs

Question 16

X-Sale Ltd. declared a dividend in 2015, but some shareholders did not claim it. As per the Companies Act, 2013, the unclaimed dividend was transferred to the Unpaid Dividend Account. After 2022, the unclaimed amount was transferred to the Investor Education and Protection Fund (IEPF).
On the basis of above given facts answer the following question-
(i) Define IEPF and write what amounts are credited to the IEPF?
(ii) How is the IEPF utilized?
(iii) What steps should Mr. Victor, the shareholder take to reclaim his dividend?

[MTP May'25 - 5 marks]

Answer

(i) The Investor Education and Protection Fund (IEPF) is a fund established by the Central Government under Section 125 of the Companies Act, 2013. It is meant to collect and utilize unclaimed or unpaid amounts related to investments, such as dividends, matured deposits, and debentures, and to promote investor awareness and protection.

The following amounts *inter alia* are credited to the IEPF:

- Unpaid dividends that remain unclaimed for seven years.
- Matured deposits and debentures unclaimed for seven years.
- Proceeds from fractional shares due to mergers or bonus issues.
- Application money for securities that were never allotted and remained unclaimed.
- Interest accrued on unclaimed deposits and debentures.
- Donations, grants, and income from investments of the fund.

(ii) IEPF is utilized in the following manner:

- The IEPF safeguards investor interests by holding unclaimed dividends, matured deposits, and debentures.
- It allows investors to reclaim their money after proper verification.
- The fund is also used for investor education, awareness programs, and legal reimbursements for class action suits.
- It prevents companies from misusing unclaimed funds and ensures they remain accessible to rightful owners.

(iii) Mr. Victor can recover his unclaimed dividend by following the proper procedure.

Mr. Victor must visit the IEPF portal and download Form IEPF-5. He should fill in all the required details in the Form. After submission, the company will verify and forwards the claim to the IEPF Authority. Upon successful verification the IEPF Authority will process the refund, and Mr. Victor will receive his unclaimed dividend.

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Question 17

A company has accumulated Free Reserves of ₹75 lakhs during last five years. It has not declared any dividend during these years. Now, the company proposes to appropriate a part of this amount for making payment of dividend for current year in which it has earned a profit of ₹ 12 lakhs. The Board proposes a payment of dividend of ₹30 lakhs i.e. 30% of the paid up capital. Examine, as per the provisions of the Companies Act, 2013, whether, the proposal of the company is valid?

[Nov 22 - 6 marks]

Answer

In the given question, the company is intending to declare dividend out of current year profits and past year's profits. As per provisions of Section 123 of the Companies Act, 2013, where in any year, there are no adequate profits for declaring dividend, the company may declare dividend out of the profits of any previous year transferred by it to the free reserves only in accordance with the procedure laid down in Rule 3 of the Companies (Declaration and Payment of Dividend) Rules, 2014.

Conditions of Rule 3:

- Condition 1: The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the immediately preceding three years.
- Condition 2: The total amount to be drawn from such accumulated profits shall not exceed 10% of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
- Condition 3: The balance of reserves after such withdrawal shall not fall below 15% of its paid up share capital as appearing in the latest audited financial statement.

Calculations For Each Condition

- Condition 1: This condition shall not apply if the company has not declared any dividend in each of the three preceding financial year. Thus, condition 1 shall not be applicable on the company in question as it has not declared dividend in last 5 years.
- Condition 2: As per the facts, the Board proposes a payment of dividend of ₹ 30 lakhs i.e., 30% on the paid up capital.
  So, the Paid up Share Capital of the company = Paid-up Capital + Free Reserves
  = 100+ 75 = ₹ 175 Lakh 10% thereof
  = ₹ 17.5 Lakh

  Hence the dividend to be declared is to be restricted to ₹ 17.5 Lakh.
- Condition 3:
  Here, Free Reserves = ₹ 75 Lakh
  Proposed withdrawal for declaration of dividend ₹ 17.5 Lakh
  Balance of Reserves = ₹75 Lakh- 17.5 Lakh = ₹ 57.5 Lakh
  This (balance of reserve) is more than 15% of paid-up capital (i.e 15% of ₹ 100 Lakh) i.e. ₹ 15 Lakh.
  Thus, the company can declare a dividend of ₹ 17.5 lakh i.e. at a rate of 17.5% on its paid-up capital of ₹ 100 lakh.

  Hence, the proposal of company for payment of dividend of ₹ 30 lakh i.e., 30% on the paid up capital in the current year in which it has earned a profit of ₹ 12 lakh, is invalid.

Author's Note - Max dividend that co. can pay in this case shall be Rs. 29.5 lakhs (Rs. 17.5 lakhs from free reserve and Rs. 12 lakhs from CY profits)

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Question 18

ESPN Heavy Engineering Ltd. is a listed entity engaged in the business of providing engineering solutions to clients across the country. The company followed consistent growth over the years. Rate of Declaration of dividend in immediately preceding three financial years were 15%, 20%, and 25%.
Unfortunately, due to obsolescence of a special part of machinery, company incurred losses in current financial year.

Even though, during the FY 2021-22, the company declared interim dividend of 10% on the equity shares.

The Board of Directors of the company approved the financial result for the FY 2021-22 in its meeting held on 5 August, 2022, and recommended a final dividend of 15% in this board meeting.

The general meeting of the shareholders was convened on 31 August, 2022. The shareholders of the company demanded that since interim dividend 10% was declared by the company, so the final dividend should not be less than 20%, It was also submitted that Rate of Declaration of dividend in immediately preceding three years were 15%, 20%, and 25% But the Company Secretary emphasised that final dividend cannot be increased.

(i) Whether company can declare interim dividend, if company incurred losses during the current financial year? What should be correct rate of interim dividend?
(ii) Do you think decision of company secretary is correct? What should be correct rate of final dividend?

Justify your answer with reference to provisions of the Companies Act 2013.

[May 2023 - 6 marks]

Answer

Interim dividend: As per section 123(3) of the Companies Act, 2013, the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared.
Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

Final dividend: The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board. [Clause 80 of Table F in Schedule I]

Accordingly, following shall be the answers:

(i) Interim dividend: According to the given facts, ESPN Heavy Engineering Ltd. incurred losses in current financial year 2021-2022. In the immediately preceding three financial years, the company declared dividend at the rate of 15%, 20% and 25% respectively.
Accordingly, the rate of dividend declared shall not exceed 20%, the average of the rates (15+20+25=60/3) at which dividend was declared by it during the immediately preceding three financial years.

Yes, as per law company can declare interim dividend, even if company incurred losses during current financial year. Dividend to be declared shall be given at the rate not exceeding 20%

(ii) Final dividend: Board of Directors of the Company recommended a final dividend @15% for financial year 2021-2022 in the meeting held on 5th August 2022. It was approved in the general meeting. However, shareholders demanded that since Interim dividend was at the rate of 10%, so final dividend should not be less than 20%. The general meeting cannot declare the dividend at a rate higher than the rate of dividend recommended by the Board.

Yes, the decision of Company Secretary that final dividend cannot be increased beyond the rate of 15% as recommended in the Board Meeting, is correct.

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Question 19

The dividend amounts received or receivable on equity shares held by Mr. Vaibhav for the financial year 2021-22 was as follows:

Name of the Company	Dividend Declaration Date	Dividend Amount	Remarks
Suvaas Limited	25.08.2022	800	Dividend was paid on 23.10.2022.
Bhandol Nidhi Limited	04.09.2022	100	Dividend was not paid within the stipulated time period.

Also, Mr. Vaibhav holds 100 cumulative preference shares of face value Rs. 1,00,000, in aggregate, of Jipanti Limited on which dividend payable is at the rate of 8% p.a. However, during financial year 2021-22, Jipanti Limited did not earn any profits.

In the context of aforesaid case-scenario, please answer to the following question(s):-

a. What could be the punishment to the company(ies) aforesaid in the table, with respect to delayed payment of dividend amount(s)?
b. Whether Jipanti Ltd. is required to pay dividend on cumulative preference shares for financial year 2021-22?

[RTP Nov'23]

Answer

(a) <u>According to Section 127 of the Companies Act, 2013</u>

In case a company fails to pay declared dividends or fails to post dividend warrants within 30 days of declaration, then the company shall be liable to pay simple interest at the rate of 18% p.a. during the period for which such default continues.

Further, in terms of Notification No. GSR 465 (E), dated 05-06-2015, section 127 dealing with punishment shall apply to the Nidhis, subject to the following modification:

In case the dividend payable to a member is Rs. 100 or less, it shall be sufficient compliance of the provisions of section 127, if the declaration of the dividend is announced in the local language in one local newspaper of wide circulation and announcement of the said declaration is also displayed on the notice board of the Nidhi company for at least 3 months.

(i) <u>In case of Suvaas Limited</u>

Dividend was declared on 25.08.2022 but was paid on 23.10.2022 to Mr. Vaibhav, its share-holder. The dividend declared should have been paid or dividend warrants should have been posted, to each of its share-holder, within 30 days of dividend declaration i.e. by 24.09.2022.

Accordingly, the interest payable by Suvaas Limited would be calculated as follows:

Dividend Amount	Dividend Declaration Date	Interest @ 18% to be calculated from 25.09.2022 to 23.10.2022	Interest
800	25.08.2022	800×18%×29/365	11

(ii) <u>In case of Bhandol Nidhi Limited</u>

Here, Bhandol Nidhi Limited is a Nidhi company and the dividend payable to Mr. Vaibhav was Rs.100. So, in such a case, it would have been sufficient compliance of the provisions of section 127, if the dividend declared was announced by the company in local language in one local newspaper of wide circulation and announcement of the said declaration was also displayed on the notice board of the company for at least 3 months i.e. till 04.12.2022 (3 months from 04.09.2022).

Accordingly, if the aforesaid compliances have been made by Bhandol Nidhi Limited then no punishment could be imposed upon it, otherwise, it would be liable for punishment.

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(b) A cumulative preference share is one in respect of which dividend gets accumulated and any arrears of such dividend arising due to insufficiency of profits during the current year is payable from the profits earned in the later years.

Until and unless dividend on cumulative preference shares is paid in full, including arrears, if any, no dividend is payable on equity shares.

Here, it is given that during financial year 2021-22, Jipanti Limited did not earn any profits and accordingly, in such case the company may accumulate such dividend for financial year 2021-22 to be carried forward to following financial year(s) and such arrears of dividend would be payable from the following financial year(s) profits.

Question 20

Long Boots Ltd. A listed company is engaged in the manufacturing of shoes and related accessories. The Business is set on a recovery mode by the induction of the new production Manager Mr. A. The Board of Directors of the company has recommended the declaration of a dividend of Rs. 50 lakhs after a gap of eight years during which profits were inadequate to distribute the same.
The dividend thus proposed is to met partially out of the current year profit of Rs. 16 lakhs. Accumulated profits during the past eight years were Rs 170 lakhs which is 25% of the total share capital of the company. Referring to the provisions of the Companies Act, 2013 decide, whether the conditions with regard to declaration of dividend in case of inadequate profit are met? You are requested to support your answer with requisite calculations.

[May 24, RTP Sept'25 - 5 marks]

Answer

According to second proviso to section 123, where in any year there are no adequate profits for declaring dividend, the company may declare dividend out of the accumulated profits earned by it in previous years and transferred by it to the free reserves only in accordance with the procedure laid down in Rule 3 of the Companies (Declaration and Payment of Dividend) Rules, 2014.
Free Reserves means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend.

Under Rule 3 such declaration shall be subject to the following conditions:

Condition I
The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the immediately preceding three years.
However, this condition shall not apply if the company has not declared any dividend in each of the three preceding financial year.

Condition II
The total amount to be drawn from such accumulated profits shall not exceed 10% of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

Condition III
The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared and only thereafter, any dividend in respect of equity shares shall be declared.

Condition IV
The balance of reserves after such withdrawal shall not fall below 15% of its paid- up share capital as appearing in the latest audited financial statement.

In the given question, since Long Boots Ltd. current year profits of Rs. 16 lakh are insufficient to meet the dividend requirement of Rs. 50 lakh, hence the company has to fulfil the conditions as prescribed under Rule 3 (mentioned above).

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Particulars	Amount (in Rs.)
Amount of dividend declared (A)	50 lakh
Current year profits (B)	16 lakh
Amount to be withdrawn accumulated profits [(A)- (B)]	34 lakh
Accumulated profits during the past 8 years	170 lakh
Total share capital of the company [170/25%]	680 lakh

Fulfilment of Conditions mentioned in Rule 3

Conditions	Calculation		Met/ Not Met
I	This condition is not applicable the company has not declared any dividend in each of the three preceding financial year.		-
II	Paid-up share capital and free reserves	680+ 170	Met
		= 850 lakh (C)	
III	10% of (C)	85 lakh	Met
	Amount to be withdrawn accumulated profits i.e. 34 lakhs is less than (C)		
	The company has since made profit in the financial year in which dividend is declared.		
IV	Free Reserves (D)	170 lakh	Met
	Amount drawn for payment of dividend (E)	34 lakh	
	Balance of reserves after such withdrawal (F) =(D)- (E)	136 lakh	
	15% of its paid up share capital (G)	102 lakh	
	(F) more than (G)		

In the given question, since all the conditions are met, hence Long Boots Ltd. has validly declared dividend.

Question 21

Zeeta Polymers (P) Ltd. has earned profits for the first two quarters of the financial year 01.04.2024 to 31.03.2025. The Company has calculated, declared and paid interim dividends based on profits earned in the first two quarters after providing for full-year depreciation. The Company incurred losses in the next two quarters. The Company has incurred overall losses for the financial year ending 31.08.2025, leaving no surplus in its profit and loss account. The Company has not carried-over losses and unabsorbed depreciation. Applying the provisions of the Companies Act, 2013, decide whether the company contravened the provisions of the Companies Act, 2013 by declaring interim dividends despite incurring overall losses for the financial year?

[MTP Sept'25 - 5 marks]

Answer

As per section 123(3) of the Companies Act, 2013, the Board of Directors of a company may declare an interim dividend at any time during the period from the closure of the financial year till the holding of the Annual General Meeting out of the surplus in the profit and loss account or out of profits of the financial year for which the interim dividend is sought to be declared or out of the profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend, provided that in case the

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company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of the interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years. Further, as per the third proviso to section 123(1), the company shall not declare dividends unless the carried over previous losses and depreciation are set off against the profits of the current year.

Accordingly, it may be inferred that while declaring the interim dividend, the company has complied with the provisions of section 123 and rules made thereunder for calculating the amount of interim dividend, then there is no contravention of the provisions of the Act, even if the company incurs losses in the succeeding quarters of its financial year leading to overall losses for the financial year. As the dividend includes interim dividend, it is essential under section 123(2) of the Companies Act, 2013 for a company to provide depreciation for the whole of the year and not proportionately for any fraction of the year before declaring an interim dividend. This is because the provision for depreciation is a condition precedent for the declaration or payment of any dividend, and all provisions which apply to the payment of dividends shall also apply in the case of an interim dividend. Thus, the company has not erred.

Question 22

ABC Ltd., a listed company in the Indian manufacturing sector, has concluded its financial year ended 31st March 2025. The company is now considering declaring a final dividend of ₹3 per equity share, with a face value of ₹10 per share. Before proceeding, the Board of Directors seeks to ensure that the proposed dividend complies with all relevant provisions of the Companies Act, 2013, particularly those related to the permissible sources and conditions for dividend distribution. The summarized financial position of the company for FY 2024-25 is as follows:

- Revenue from operations amounts to ₹10,000 lakhs, and
- Other income contributes an additional ₹1,000 lakhs, bringing the total income to ₹11,000 lakhs.
- The company has incurred expenses (excluding depreciation) of ₹8,000 lakhs, and provided for depreciation of ₹1,200 lakhs, as per Schedule II of the Companies Act.
- The resulting profit before tax (PBT) stands at ₹1,800 lakhs, with a tax provision of ₹450 lakhs, leading to a net profit after tax (PAT) of ₹1,350 lakhs.

In addition to current year earnings, ABC Ltd. has accumulated retained earnings of ₹2,000 lakhs from previous financial years and holds free reserves (excluding any revaluation reserves) of ₹500 lakhs. The company has 100 lakh equity shares, and the total proposed dividend payout amounts to ₹300 lakhs (i.e., ₹3 per share).

Based on the above information, analyse whether ABC Ltd. is eligible to declare dividends under the following scenarios in compliance with the Companies Act, 2013:

1. Out of the current year's profits.
2. Out of the accumulated profits of previous years only.

Support your answer with appropriate provisions and calculations under the Companies Act, 2013.

[Jan'26 - 5 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

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9 Accounts of Companies

Question 1

(i) Ravi Limited maintained its books of accounts under Single Entry System of Accounting. Is it permitted under the provisions of the Companies Act, 2013?

[MTP Jan'26]

(ii) State the person responsible for complying with the provisions regarding maintenance of Books of Accounts of a Company.

[MTP Jan'26]

(iii) Whether a Company can keep books of Accounts in electronic mode accessible only outside India.

[MTP March 21, Oct. 20, Nov 19, MTP Oct 20, RTP Nov'22, ICAI Module]

OR

Green Limited is a company dealing in trading of spices. It has maintained its books of accounts under Single Entry System of Accounting. The company has recently hired a new account. The new accountant, Mr. Dubey, is doubtful that the accounts can be maintained under Single Entry System. Advise the company whether it is allowed to do so?

[MTP March 21, MTP March 2022, RTP Sept 2024]

Answer

(i) According to Section 128(1) of the Companies Act, 2013, every company shall prepare "books of account" and other relevant books and papers and financial statement for every financial year.
These books of accounts should give a true and fair view of the state of the affairs of the company, including that of its branch office(s).
These books must be kept on accrual basis and according to double entry system of accounting.

Hence, maintenance of books of account under Singly Entry System of Accounting by Ravi Limited is not permitted.

(ii) Persons responsible to maintain books
As per Section 128 (6) of the Companies Act, 2013, the person responsible to take all reasonable steps to secure compliance by the company with the requirement of maintenance of books of accounts etc. shall be:

(a) Managing Director,
(b) Whole-Time Director, in charge of finance
(c) Chief Financial Officer
(d) Any other person of company charged by Board with duty of complying with provisions of sec 128.

(iii) A Company have the option of keeping such books of account or other relevant papers in electronic mode as per Rule 3 of the Companies (Accounts) Rules, 2014. According to such Rule,

(a) such books of accounts or other relevant books or papers maintained in electronic mode shall remain accessible in India so as to be usable for subsequent reference at any time.
(b) There shall be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law.
(c) The back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a daily basis.

Hence, a company cannot keep books of Account in electronic mode accessible only outside India.

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Question 1A

Adil is a student of CA Intermediate. His friend (who is also in CA Intermediate) has approached him to explain to him the provisions of the Companies Act, 2013, on the following:

(i) Inspection of books of account and other books and papers of the company.

(ii) Period of preservation of books of accounts

[MTP April 2022 - 6 marks]

OR

Sanjana joined a company named as Designers Cloths (I) Ltd. as an Independent Director. In order to know more about the company, she wanted to inspect the books of account and minutes books of the Board Meetings held during the previous three years.

The company is keeping the books of account and other records at its Registered Office, which is at Mumbai whereas Sanjana resides in Kolkata. Therefore, through power of attorney, Sanjana authorised her friend Avantika, who is a Chartered Accountant and does practice in Mumbai, to make an inspection of the books of accounts and minutes books of the meetings of the Board.

Giving the relevant provisions of the Companies Act, 2013 and its Rules, examine whether Avantika can make inspection on behalf of Sanjana.

[Sept'24 - 5 marks]

Answer

(i) Inspection by Directors

As per Section 128(3) of the Companies Act, 2013, any director can inspect the books of account and other books and papers of the company during business hours. Such inspection may be done by any type of director - nominee, independent, promoter or whole time.

The proviso to sub-section 3 provides that a person can inspect the books of account of the subsidiary, only on authorisation by way of the resolution of Board of Directors.

Assistance by officers and Employees

As per Section 128(4), where an inspection is made under sub-section (3), the officers and other employees of the company shall give to the person making such inspection all assistance in connection with the inspection which the company may reasonably be expected to give.

(ii) Period for preservation of books

According to section 128(5) of the Companies Act, 2013, the books of accounts, together with vouchers relevant to any entry in such books, are required to be preserved in good order by the company for a period of not less than eight years immediately preceding the relevant financial year.

In case of a company incorporated less than eight years before the financial year, the books of accounts for the entire period preceding the financial year together with the vouchers shall be so preserved.

As per proviso to sub-section 5, where an investigation has been ordered in respect of a company under Chapter XIV of the Act related to inspection, inquiry or investigation, the Central Government may direct that the books of account may be kept for such period longer than 8 years, as it may deem fit and give directions to that effect.

Question 2:

The Income Tax Authorities in the current financial year 2019-20 observed, during the assessment proceedings, a need to re-open the accounts of Chetan Ltd. for the financial year 2008-09 and, therefore, filed an application before the National Company Law Tribunal (NCLT) to issue the order to Chetan Ltd. for re-opening of its accounts and recasting the financial statements for the financial year 2008-09. Examine the validity of the application filed by the Income Tax Authorities to NCLT.

[May'23, May 19, MTP Oct 20, MTP 2 May'23, ICAI Module - 3 marks]

OR

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The Tribunal has ordered the re-opening of the accounts of MIT Ltd. The directors of the company has approached you to explain to them the provisions of the Companies Act, 2013 in respect of the re- opening of accounts on court's or Tribunal's order.

[MTP Oct 2018, May 24]

Answer

As per section 130 of the Companies Act, 2013, a company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board, any other statutory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that:

(i) the relevant earlier accounts were prepared in a fraudulent manner; or
(ii) the affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements.

However, no order shall be made in respect of re-opening of books of account relating to a period earlier than eight financial years immediately preceding the current financial year.
In the given instance, an application was filed for re-opening and re-casting of the financial statements of Chetan Ltd. for the financial year 2008-2009.

Though application filed by the Income Tax Authorities to NCLT is valid, its recommendation for reopening and recasting of financial statements for the period earlier than eight financial years immediately preceding the current financial year i.e. 2019-2020, is invalid.

Question 3

New Sales Pvt. Limited, a company engaged in the business of trading heavy-duty paper tapes used in industrial packaging, has seen consistent growth over the past five years. The company's turnover for the financial year 2024-25 crossed ₹ 130 crore, with a net profit of ₹ 9.2 crore.

During the same financial year, the company's long-serving Chief Financial Officer (CFO), Mr. Ram, retired in December 2024 due to prolonged health issues. Following his retirement, Mr. Shyam, a qualified Chartered Accountant with two decades of experience in financial reporting, was appointed as the new CFO in March 2025.

Upon assuming his duties and reviewing the company's past financial records and statutory filings, Mr. Shyam noted certain material classification errors and omissions in the audited financial statements for the year 2021-22.

Concerned about the potential implications of these discrepancies, Mr. Shyam advised the Board of Directors of New Sales Pvt. Limited to revise the financial statements for FY 2021-22, even though the financial statements had already been adopted by the shareholders and filed with the Registrar of Companies (RoC).

With reference to the relevant provisions of the Companies Act, 2013, examine and advise whether New Sales Pvt. Limited is permitted to revise its financial statements for the financial year 2021-22.

[MTP March 18, RTP Sept'25, RTP Jan'26]

OR

M/s Right Trading Limited is a company engaged in trading automobile spare parts. During the current financial year 2024-25, Mr. J, the CFO, retired due to bad health. The company appointed Mr. C as the new CFO. Upon verification of the financial statements and statutory returns of the company, Mr. C advised the Board of M/s Right Trading Limited to revise the financial statements for the year 2021-22.
Examine, with reference to the applicable provisions of the Companies Act, 2013, whether M/s Right Trading Limited can do so?

[Sept'24 - 5 marks]

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Answer

Voluntary Revision of Financial Statements or Board's Report on the Approval of the Tribunal

As per section 131 of the Companies Act, 2013, if it appears to the directors of a company that:

a. the financial statement of the company does not comply with the provisions of section 129; or
b. the report of the Board does not comply with the provisions of section 134

they may prepare revised financial statement or board's report in respect of any of the 3 preceding financial years after obtaining the approval of the Tribunal on an application made by the company within fourteen days of the decision taken by the Board. A certified copy of the order of the Tribunal shall be filed with the Registrar of Companies within 30 days of the date of receipt of the certified copy.

In the given question, Mr. Shyam has advised the Board of New Sales Pvt. Limited to revise the financial statements for the year 2021-22. The Board of Directors can do so as the said financial statements are pertaining to not later than three preceding financial years (from 2024- 2025) and by obtaining the approval of the Tribunal within fourteen days of the decision taken by the Board.

Question 4

SMTN Limited is a listed company that operates in the pharmaceutical sector. The company's annual accounts for the year 2023-24 were audited by a prominent audit firm, JJ & Co. Following an investigation by the Ministry of Corporate Affairs (MCA), it was discovered that the audit report issued by JJ & Co. contained several discrepancies, including failure to disclose material information regarding the company's liabilities and misstatements in its revenue recognition practices.

The issue was raised by a group of minority shareholders, who alleged that the audit firm had not complied with auditing standards and had failed to conduct a proper audit. The MCA referred the matter to the National Financial Reporting Authority (NFRA), a body established under Section 132 of the Companies Act, 2013, to investigate whether the audit of SMTN Limited's financial statements was conducted in compliance with accounting and auditing standards.

In the light of provisions of the Companies Act, 2013, explain any 3 functions and duties of NFRA and what actions can the NFRA take against the audit firm, JJ & Co., based on its findings upholding the allegations raised by the group of minority shareholders?

[Sept'25 - 5 marks]

OR

Explain the following in brief with reference to Companies Act 2013: National Financial Reporting Authority.

[Nov 20, Jan 21, May'25 - 5 marks]

Answer

1. Functions and Duties of National Financial Reporting Authority [NFRA]

Section 132(1A) of the Companies Act, 2013, provides that National Financial Reporting Authority shall perform its functions through such divisions as may be prescribed.

Further section 132(2) read with rule 4, 6 to 9 of the National Financial Reporting Authority Rules 2018 lays down the functions and duties that NFRA shall perform, namely:

The Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors.

Without prejudice to the generality, the Authority in particular shall:

(a) Maintain details of particulars of auditors appointed in the companies and bodies corporate governed by NFRA;
(b) Recommend accounting standards and auditing standards for approval by the Central Government;
(c) Monitor and enforce compliance with accounting standards and auditing standards;

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(d) Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service;
(e) Promote awareness in relation to the compliance of accounting standards and auditing standards;
(f) Co-operate with national and international organisations of independent audit regulators in establishing and overseeing adherence to accounting standards and auditing standards; and
(g) Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

2. As per section 132(4)(c) of the Companies Act 2013, where professional or other misconduct is proved, NFRA have the power to make order for:

(A) imposing penalty of:
   I. not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and
   II. not less than five lakh rupees, but which may extend to ten times of the fees received, in case of firms.

(B) debarring the member or the firm from:
   I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or
   II. performing any valuation as provided under section 247, for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority.

NFRA can take the above actions against the audit firm JJ & Co. based on its findings upholding the allegations raised by the group of (even) minority shareholders.

Question 5

Altar Limited has on its Board, four Directors viz. W, X, Y and Z. In addition, the company has Mr. D as the Managing Director. The company also has a full time Company Secretary, Mr. Wise, on its rolls. The financial statements of the company for the year ended 31st March, 2017 were authenticated by two of the directors, Mr. X and Y under their signatures.
Referring to the provisions of the Companies Act, 2013:
(i) Examine the validity of the authentication of the Balance Sheet and Statement of Profit & Loss and the Board's Report.
(ii) What would be your answer in case the company is a One Person Company (OPC) and has only one Director, who has authenticated the Balance Sheet and Statement of Profit & Loss and the Board's Report?

[RTP May 2018, MTP May 2020, Jan'26 - 5 marks]

Answer

In accordance with the provisions of the Companies Act, 2013, as contained under section 134 (1), the financial statements, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by at least:
1) the chairperson of the company where he is authorised by the Board or by two Directors out of which one shall be managing director, if any, and
2) the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or
3) in the case of One Person Company, only by one director, for submission to the auditor for his report thereon

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The Board's report and annexures thereto shall be signed by its Chairperson of the company, if he is authorized by the Board and where he is not so authorized, shall be signed by at least two directors one of whom shall be a managing director.

(i) In the given case, the Balance Sheet and Profit & Loss Account have been signed by Mr. X and Mr. Y, the directors. In view of the provisions of Section 134 (1), the Managing Director Mr. D should be one of the two signatories. Since, the company has also employed a full time Secretary, he should also sign the Balance Sheet and Profit & Loss Account. Therefore, authentication done by two directors is not valid.

(ii) In case of OPC, the financial statements should be signed by one director and hence, the authentication is in order.

Question 6

The Companies Act, 2013 has prescribed an additional duty on the Board of Directors to include in the Board's Report a 'Directors' Responsibility Statement'. Explain briefly the details to be furnished in the said statement.

[MTP Aug'18, May 18, MTP N '22, MTPNov'23, MTP May'24, MTP Jan'26- 5 marks]

Answer

Section 134(3)(c) of the Companies Act, 2013 provides that there shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include a number of statements as prescribed in the sub section including Directors' Responsibility Statement.

Further section 134(5) states that the Directors Responsibility Statement shall state that:

i. In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
ii. the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
iii. the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
iv. that the directors had prepared the annual accounts on a going concern basis; and
v. the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively; and
vi. the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Question 7

Yellow limited has prepared its financial statements for the year 2018-19. Mr. Prateek, the Managing director the company is declining to sign these financial statements on the grounds that it is only the duty of the Board of the directors to sign the financial statements as approved by the Board and he is not liable to sign the same. Now, Mr. Prateek has approached you advise him regarding his responsibility for signing the financial statement. Advise Mr. Prateek regarding his responsibility for signing the financial statements as per the provisions of the Companies Act, 2013.

Mr. Prateek has also provided to you the following more information:

1. The Board as a policy does not authorise the chairperson of the company to sign the financial statements.
2. The company has appointed Ms. Sunanina as its Company Secretary.

[RTP Nov 19]

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Answer

According to section 134(1) of the Companies Act, 2013, the financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.

As per the facts of the question, the Board has not authorised the chairperson of the company to sign the financial statements. Hence, the financial statement shall be signed by two directors out of which one shall be managing director [i.e. Mr. Prateek].

Author's Note -
In the conclusion, you can also mention that in addition to these 2 directors, the CEO, CFO and CS, if any, in the company will also sign such financial statements.

Question 8

The Board of Directors of Vishwakarma Electronics Limited consists of Mr. Ghanshyam (Director), Mr. Hyder (Director) and Mr. Indersen (Managing Director). The company has also employed a full time Secretary. The Profit and Loss Account and Balance Sheet of the company were signed by Mr. Ghanshyam and Mr. Hyder. Examine whether the authentication of financial statements of the company was in accordance with the provisions of the Companies Act, 2013?

[RTP May 2020, Jan 21, ICAI Module, MTP Jan'26]

Answer

According to section 134(1) of the Companies Act, 2013, the financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.

In the instant case, the Balance Sheet and Profit and Loss Account have been signed by Mr. Ghanshyam and Mr. Hyder, the directors. In view of Section 134(1) of the Companies Act, 2013, Mr. Indersen, the Managing Director should be one of the two signing directors.
Since, the company has also employed a full- time Secretary, he should also sign the Balance Sheet and Profit and Loss Account.

Hence, the financial statement is not properly authenticated as per the provision of this Act.

Question 9

Define the term 'Book of account' as per the Companies Act, 2013.

[MTP Sept'24 - 5 marks]

Answer

According to section 2(13) of the Companies Act, 2013, 'Books of account' includes records maintained in respect of:

(i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
(ii) all sales and purchases of goods and services by the company;
(iii) the assets and liabilities of the company; and
(iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section.

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Question 10

Tirupati Limited, a listed company has made the following profits, the profits reflect eligible profits under the relevant section of the Companies Act, 2013

Financial year	Amount (Rs. In crores)
2012-13	20
2013-14	40
2014-15	30
2015-16	70
2016-17	50

(i) Calculate the amount that the company has to spend towards CSR for the financial year 2017-18.
(ii) State the composition of the CSR committee in case of unlisted company and a private company.

[RTP May 2018]

Answer

Section 135 read with Companies (Corporate Social Responsibility Policy) Rules, 2014 of the Companies Act, 2013 deals with the provisions related to the Corporate Social Responsibility.

As per the given facts, following are the answers in the given situations:

(i) Amount that Company has to spend towards CSR: According to section 135 of the Companies Act, 2013, the Board of every company shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR Policy. Accordingly, net profits of Tirupati Ltd. for three immediately preceding financial years is 150 crores (30+70+50) and 2% of the average net profits of the company made during these three immediately preceding financial years will constitute 1 crore, can be spent towards CSR in financial year 2017-2018.

(ii) Composition of CSR Committee: The CSR Committee shall be consisting of 3 or more directors, out of which at least one director shall be an independent director.
   (a) an unlisted public company or a private company covered under section 135(1) which is not required to appoint an independent director, shall have its CSR Committee without such director;
   (b) a private company having only two directors on its Board shall constitute its CSR Committee with two such directors.

Question 11

Rera Ltd., a company incorporated under the Companies Act, 2013 having turnover of Rs. 100 crore, net profit Rs. 3 crore, accumulated loss of Rs. 50 crore and securities premium Rs. 300 crore as per the audited accounts of the company for the Financial Year 2016 -17.

The CFO of the company informed the directors of the company that the Corporate Social Responsibility (CSR) committee is required to be constituted as per the Companies Act, 2013. The directors seek your advice as a professional regarding the criteria required to constitute CSR committee and whether it is applicable to Rera Ltd. or not.

[May 18]

Answer

According to Section 135 of the Companies Act, 2013 read with the Companies (Corporate Social Responsibility) Rules, 2014, every company including its holding or subsidiary, and a foreign company defined under section 2(42) of the Companies Act, 2013, having its branch office or project office in India, having -

(1) net worth of rupees 500 crore or more, or
(2) turnover of rupees 1000 crore or more or
(3) a net profit of rupees 5 crore or more

during any financial year shall constitute a Corporate Social Responsibility Committee of the Board.

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"Net worth" [Section 2(57)] means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

In the present case,
- turnover of Rera Ltd. is Rs. 100 crore,
- net profit of Rs. 3 crore and
- net worth of Rs. 253 crore (Net profit + securities premium - accumulated loss= 3 + 300 - 50 = 253 crore).

Hence, RERA Ltd. is not fulfilling any criteria prescribed for constitution of CSR committee. So, it is not obligatory for Rera Ltd. to constitute CSR Committee.

Note 1: It can also by presumed that net profit of the current year has already been considered while calculating accumulated losses.
Note 2: Since paid-up share capital value is not given in the question, it has been presumed that accumulated losses as stated in the question is given after taking into consideration the paid-up share capital, i.e. net of accumulated losses less paid-up share capital

Question 12

Mary Ltd is a listed company having turnover of Rs. 1200 crores during the financial year 2016-17. The CSR committee of the Board formulated and recommended a CSR project which was approved by the Board. The company finalised the project under its CSR initiatives which require funds @ 5 % of average net profit of the company for last three financial years. Will such excess expense be counted in subsequent financial years as a part of CSR expenditure? Advise the company.

[RTP Nov 2018]

Answer

In terms of Section 135(5) of the Companies Act, 2013, the Board of every company to which section 135 is applicable, shall ensure that the company spends, in every Financial year at least 2 per cent of average net profits of the company made during the 3 immediately preceding financial years, in pursuance of its CSR policy.

As per Rule 4: CSR Expenditure:
Where a company spends an amount in excess of requirement provided under sub-section (5) of section 135, such excess amount may be set off against the requirement to spend under sub-section (5) of section 135 up to immediate succeeding three financial years subject to the conditions that -

(i) the excess amount available for set off shall not include the surplus arising out of the CSR activities, if any, in pursuance of sub-rule (2) of this rule.
(ii) the Board of the company shall pass a resolution to that effect.

Hence, such excess expense can be set off in immediately succeeding 3 financial years subject to above conditions.

Question 13

Explain the following in brief with reference to Companies Act 2013: Corporate Social Responsibility (CSR) Committee.

[Nov 2020 - 3 marks]

Answer

Corporate Social Responsibility (CSR) Committee: According to section 135(1) of the Companies Act, 2013, every company having:

1) net worth of rupees 500 crore or more, or
2) turnover of rupees 1000 crore or more or
3) a net profit of rupees 5 crore or more

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during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.

Duties of CSR Committee [Section 135(3)]:
The CSR Committee shall-

(a) formulate and recommend to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII;
(b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
(c) monitor the CSR Policy of the company from time to time.

Question 14

The balances extracted from the financial statement of ABC Limited are as below:

Sr. No.	Particulars	Balances as on 31-03-2020 as per Audited Financial Statement (Rs. in Cr)	Balances as on 30-09-2020 (Provisional Rs. in crore)
1.	Net Worth	100	100
2.	Turnover	500	1000
3.	Net Profit	1	5

Explaining the provisions of the Companies Act, 2013, you are requested to examine whether ABC Limited is required to constitute 'Corporate Social Responsibility Committee' (CSR Committee) during the second half of the financial year 2020-21.

[July 2021, MTP May 24 - 3 marks]

Answer

According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of Board consisting of three or more directors, out of which at least one director shall be an independent director.
In the given question, the company does not fulfil any of the given criteria (net worth/ turnover/ net profit) for the immediately preceding financial year (i.e., 1.4.2019 to 31.3.2020).

Hence, ABC Limited is not required to constitute Corporate Social Responsibility Committee for the financial year 2020-21.

Question 15

A Housing Finance Ltd. is a housing finance company having a paid up Share Capital of Rs. 11 crores and a turnover of Rs. 145 crores during the Financial Year 2017-18. Explain with reference to the relevant provisions and rules, whether it is necessary for A Housing Finance Ltd. to file its financial statements in XBRL mode.

[Nov 18, ICAI Module - 3 marks]

OR

RMP Private Limited is an unlisted company having:

- Paid-up share capital of ₹ 6 crore, and
- Annual turnover of ₹ 90 crore.

The company is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015.

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The company filed its financial statements for the financial year 2024-25 in Form AOC-4 (normal form) instead of Form AOC-4 XBRL.
State the classes of companies required to file financial statements and documents in XBRL format under Section 137 of the Companies Act, 2013 and examine whether RMP Private Limited has complied with the applicable legal provisions.

[Jan'26 - 5 Marks]

Answer

Filing of financial statements in XBRL Mode

As per Rule 3 of the Companies (Filing of Documents and forms in Extensible Business Reporting Language) Rules, 2015, the following class of companies shall file their financial statements and other documents under section 137 of the Act with the Registrar in e-form AOC-4 XBRL as per Annexure-I of this Rule:-

(i) companies listed with stock exchanges in India and their Indian subsidiaries
(ii) companies having paid up capital of five crore rupees or above
(iii) companies having turnover of one hundred crore rupees or above
(iv) all companies which were hitherto covered under the Companies (Filing of documents and Forms in Extensible Business Reporting Language) Rules, 2011.

Provided that the companies in Banking, insurance, and Non-Banking Financial companies are exempted from XBRL filing.

Hence, A housing Finance Ltd. being a housing finance company is exempted from filing its financial statement in XBRL mode under Rule 3 of the Companies *(Filing of Documents and forms in Extensible Business Reporting Language) Rules, 2015*.

Question 16

The Government of India is holding 51% of the paid-up equity share capital of Sun Ltd. The Audited financial statements of Sun Ltd. for the financial year 2017-18 were placed at its annual general meeting held on 31st August, 2018. However, pending the comments of the Comptroller and Auditor General of India (CAG) on the said accounts the meeting was adjourned without adoption of the accounts. On receipt of CAG comments on the accounts, the adjourned annual general meeting was held on 15th October, 2018 whereat the accounts were adopted. Thereafter, Sun Ltd. filed its financial statements relevant to the financial year 2017-18 with the Registrar of Companies on 12th November, 2018. Examine, with reference to the applicable provisions of the Companies Act, 2013, whether Sun Ltd. has complied with the statutory requirement regarding filing of accounts with the Registrar?

[May 19, Nov 22, RTP May 24, MTP Sept'25, ICAI Module - 5 marks]

Answer

According to first proviso to section 137(1) of the Companies Act, 2013, where the financial statements are not adopted at annual general meeting or adjourned annual general meeting, such unadopted financial statements along with the required documents shall be filed with the Registrar within thirty days of the date of annual general meeting and the Registrar shall take them in his records as provisional till the financial statements are filed with him after their adoption in the adjourned annual general meeting for that purpose.

According to second proviso to section 137(1) of the Companies Act, 2013, financial statements adopted in the adjourned AGM shall be filed with the Registrar within thirty days of the date of such adjourned AGM with such fees or such additional fees as may be prescribed.
In the instant case, the accounts of Sun Ltd. were adopted at the adjourned AGM held on 15th October, 2018 and filing of financial statements with Registrar was done on 12th November, 2018 i.e. within 30 days of the date of adjourned AGM. However, Sun Ltd. has not filed its unadopted financial statements within 30 days of the date of the Annual General Meeting held on 31st August, 2023.

Hence, Sun Ltd. has not complied with the statutory requirement regarding filing of unadopted accounts with the Registrar, but has certainly complied with the provisions by filing of adopted accounts within the due date with the Registrar.

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Question 17

SDF Ltd. an unlisted company has shared the following financial data for 5 the F.Y. 2024-25 :

Equity Paid-up capital	₹ 48 Crore
Turnover	₹ 195 Crore
Deposits as on 31.03.2025	₹ 20 Crore
Loans outstanding from IBL Bank Pvt. Ltd. as on 30.09.2024	₹ 100.59 Crore
Loans outstanding from IBL Bank Pvt. Ltd. as on 01.02.2025	₹ 96.50 Crore
Loans outstanding from IBL Bank Pvt. Ltd. as on 31.03.2025 after partial repayment	₹ 75.10 Crore
Net worth	₹ 149.25 Crore

The company has invited your expert advice on the following issues, considering the provisions of the Companies Act, 2013:

(i) Whether it would be mandatory to appoint an internal auditor for the company?

(ii) Further in case the answer is in affirmative, can G who is a professional but neither a C.A. nor an employee of the concern be appointed as an internal auditor?

[Sept'25, MTP Jan'26 - 5 marks]

OR

Natraj Limited is an unlisted Public company having paid up share capital of Rs. 80 crores during the preceding financial year 2016-17. The turnover of the company was Rs. 110 crores for the same period. Referring to the provisions of the Companies Act, 2013, discuss the answer to the following:

(i) Is it mandatory for the above company to appoint an internal auditor for the financial year 2017-18?

(ii) What are the qualifications of the Internal Auditor?

[MTP March 18, MTP Nov'22, MTP-1 Nov'23, MTP Sept'25 - 5 marks]

Answer

(i) According to the provisions of section 138 of the Companies Act, 2013, read with Rule 13 of the Companies (Accounts) Rules, 2014, the following class of companies shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely:

(1) Every listed company;

(2) Every unlisted public company having:

(A) Paid up share capital of 50 crore rupees or more during the preceding financial year; or

(B) Turnover of 200 crore rupees or more during the preceding financial year; or

(C) Outstanding loans or borrowings from banks or financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or

(D) Outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year.

Referring to the above provisions we can conclude that the appointment of an Internal Auditor shall be mandatory as the loans outstanding on one instance i.e. 30.09.2024 is ₹ 100.59 crore, which is above ₹100.00 crore, as mandated in the above provisions for compulsory appointment of an Internal Auditor.

(ii) Section 138(1) provides that such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Explanation to Rule 13(1) of Companies (Accounts) Rules, 2014 provides that the internal auditor may or may not be an employee of the company.

In terms of the above provisions, Mr. G can be appointed as an internal auditor of the Company.

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Question 18

PQR Private Limited operates as a manufacturing company, generating a turnover of Rs. 150 crore and holds an outstanding loan of Rs. 75 crore from a public financial institution solely in the previous financial year (with a total loan availed of Rs. 110 crore, but Rs. 35 crore were repaid during the same year). The company's Board has delegated the authority to Chief Executive Officer (CEO) to designate an internal auditor to conduct internal audit. However, the CEO believes that the company is not legally obligated to have an internal auditor. Analyse the accuracy of the CEO's perspective by referring to the provisions outlined in the Companies Act, 2013. What would be your response if the Board of Directors wanted to appoint the Mr. Nagendra (an ex- employee who is a qualified Chartered Accountant) as an internal auditor?

[RTP May'24, RTP Nov 2021]

OR

ABC Private Limited was incorporated on 30th September 2020. It has a paid up share capital of ₹ 45 crore. The company had a turnover of 250 crore for the financial year 2023-24. The accounts manager of the company has intimated to the company that they are not required to appoint internal auditor for the financial year 2024-25. The management of the company have approached you to advise them about the appointment of internal auditor, as per the provisions of the Companies Act, 2013.

[MTP May'25 - 5 marks]

Answer

According to the provisions of section 138 of the Companies Act, 2013, read with Rule 13 of the Companies (Accounts) Rules, 2014, every private company having:

(a) turnover of 200 crore rupees or more during the preceding financial year; or

(b) outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year.

shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate.

Internal Auditor shall either be a Chartered Accountant or a Cost Accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

The internal auditor may or may not be an employee of the company.

Thus, PQR Private Limited is required to appoint an internal auditor as the outstanding loans from public financial institutions during the year have exceeded 100 crores (irrespective of the fact that the outstanding loan during the year is 75 crore rupees). Hence, the advice of CEO is not correct.

Internal Auditor may be any professional as decided by the Board and may be even an employee of the company. Hence, the Board of Directors may appoint Mr. Nagendra, an ex- employee who is a qualified Chartered Accountant, as an internal auditor.

Question 19

X Ltd. is a listed company having a paid-up share capital of Rs. 25 crore as at 31st March, 2019 and turnover of Rs. 100 crore during the financial year 2018-19. The Company Secretary has advised the Board of Directors that X Ltd. is not required to appoint 'Internal Auditor' as the company's paid up share capital and turnover are less than the threshold limit prescribed under the Companies Act, 2013. Do you agree with the advice of the Company Secretary? Explain your view referring to the provisions of the Companies Act, 2013.

[Jan 2021, MTP May'24 - 5 marks]

Answer

According to the provisions of Section 138 of the Companies Act, 2013, read with Rule 13 of the Companies (Accounts) Rules, 2014, the following class of companies shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely:

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(1) every listed company;
(2) every unlisted public company having-
  (a) paid up share capital of 50 crore rupees or more during the preceding financial year; or
  (b) turnover of 200 crore rupees or more during the preceding financial year;
  (c) outstanding loans or borrowings from banks or financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year; or
  (d) outstanding deposits of 25 crore rupees or more at any point of time during the preceding financial year.

Besides, some private companies are also required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate.

Thus, X limited (which is a listed company) is required to appoint an internal auditor, irrespective of its paid-up share capital or turnover (as the limit of paid- up share capital or turnover is applicable for unlisted public company).
Hence, the advice of the Company Secretary is not correct.

Question 20

Dhiman Limited, is a company incorporated in India. Dhiman Limited is a leading manufacturer of sports shoes. It has many subsidiaries, one of them being Best Shoes Limited which is based in Morocco. Dhiman Limited is in the process of finalization of the consolidated financial statements of the company for the year ended 31 March 2022. The accounts section of Dhiman Limited has requested the management of Best Shoes Limited to provide its standalone financial statements to Dhiman Limited. The subsidiary company prepares its financial statements in the local language of the country and the same is provided to the Indian parent company. Further, audit of financial statement is not required by the Best Shoes Limited under the Moroccan laws. Advise, how would Dhiman Limited deal with the consolidation of such financial statements.

[RTP Nov 22]

Answer

According to fourth proviso to section 137(1) of the Companies Act, 2013, a company shall, along with its financial statements to be filed with the Registrar, attach the accounts of its subsidiary or subsidiaries which have been incorporated outside India and which have not established their place of business in India.

Provided also that in the case of a subsidiary which has been incorporated outside India (herein referred to as "foreign subsidiary"), which is not required to get its financial statement audited under any law of the country of its incorporation and which does not get such financial statement audited, the requirements of the fourth proviso shall be met if the holding Indian company files such unaudited financial statement along with a declaration to this effect and where such financial statement is in a language other than English, along with a translated copy of the financial statement in English.

Hence, Dhiman Limited. would have to get the standalone financial statements of Best Shoes Limited translated in English language and also get those aligned as per the its accounting policies for the purpose of consolidation.
Further Dhiman Limited would need to file such unaudited financial statement of Best Shoes Limited along with a declaration to this effect along with a translated copy of the financial statement in English.

Further the format of accounts of Moroccan subsidiary company should be, as far as possible, in accordance with requirements under the Companies Act, 2013. In case this is not possible, a statement indicating the reasons for deviation may be placed/ filed along with such accounts.

Question 21

XYZ Ltd. received a communication from Central Government for preparation of periodical financial results and complete audit or limited review of such periodical financial results. The Board of Directors have raised an objection on the ground that as it is an unlisted company, periodical financial results need not to be prepared. Examine, referring the provisions of the Companies Act, 2013, in this regard.

[May 2022, RTP May'23, MTP May'24 - 5 marks]

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Answer

Periodical Financial Results [Section 129A of the Companies Act, 2013]

The Central Government may, require such class or classes of unlisted companies, as may be prescribed—

(a) to prepare the financial results of the company on periodical basis and in prescribed form

(b) to obtain approval of the Board of Directors and complete audit or limited review of such periodical financial results in the prescribed manner; and

(c) file a copy with the Registrar within a period of thirty days of completion of the relevant period with such fees as may be prescribed.

Therefore, the objection of the Board of Directors on the ground that as XYZ Ltd. is an unlisted company, periodical financial results need not be prepared, is not correct. Section 129A clearly specifies that even unlisted company has to prepare Periodical Financial Results.

Question 22

Quick Money Limited attracts the provisions of Section 135 of the Companies Act, 2013, and it has a minimum average obligation to spend Corporate Social Responsibility (CSR) amount of ₹ 15 crores during each of the preceding five years. In this connection, the Board of Directors of the company needs your expert views on the following matters:

(i) What is the meaning of "impact assessment"?

(ii) Whether impact assessment is required to be taken by all the companies?

(iii) Who can conduct impact assessment?

[Jan'25 - 5 marks]

Answer

Rule 8(3) of the Companies (Corporate Social Responsibilities Policy), 2014 provides the class of companies that are required conduct an impact assessment.

Every company having average CSR obligation of ten crore rupees or more in pursuance of section 135(5) of the Companies Act, 2013, in the three immediately preceding financial years, shall undertake impact assessment, through an independent agency, of their CSR projects having outlays of one crore rupees or more, and which have been completed not less than one year before undertaking the impact study.

The above-mentioned companies may undertake impact assessment, through an independent agency.

Alternate Answer

(i) Meaning of Impact Assessment:

The impact assessment is an exercise to assess the social, economic and environmental impact of a particular CSR project. Impact assessment intends to evaluate "social, economic and environmental return on investment". It is the exercise of taking a retroactive view of the Corporate Social Responsibility (CSR) activities completed by the entity and assess the effects of these activities on various stakeholders like employees, customers, communities and the environment.

Impact assessment is seemingly another step to encourage companies to make considered decisions before deploying CSR amounts and assess the impacts of their investments to capture the impact being generated by them. This shall not only serve as feedback for companies to plan and better allocate resources, but shall also deepen the impact of CSR.

(ii) Whether the impact assessment is to be taken by all Companies?

Since impact assessment is cost-intensive and time consuming, the idea is to obligate only certain classes of companies which have large amount of spending and have completed their large CSR projects. Accordingly, Rule 8(3) of the Companies (Corporate Social Responsibilities Policy), 2014 requires the following class of companies to conduct an impact assessment:

Every company having average CSR obligation of ₹ 10 crore or more in the three immediately preceding financial years of their CSR projects having outlays of 1 crore rupees or more, and which have been completed not less than 1 year before undertaking impact assessment.

(iii) Who can conduct an impact assessment?

The impact assessment shall be conducted by an independent agency.

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Question 23

Explain the following as per the provisions of the Companies Act, 2013:

(i) Who shall sign Board's Report?

(ii) Filing of financial statements with the Registrar when AGM is not held.

[MTP-1 May 23 - 6 marks]

Answer

(i) Signing of Board's Report [Section 134(6)]:

The Board's report and any annexures thereto under section 134(3) shall be signed by its chairperson of the company if he is authorised by the Board and where he is not so authorised, shall be signed by at least two directors, one of whom shall be a managing director, or by director where there is one director.

(ii) Annual General meeting not held [Section 137(2)]:

Where the AGM of a company for any year has not been held, the financial statements along with the documents required to be attached, duly signed along with the statement of facts and reasons for not holding the AGM shall be filed with the Registrar within 30 days of the last date before which the AGM should have been held and in such manner, with such fees or additional fees as may be prescribed.

Question 24

Red Limited (the Company) was incorporated on 01.04.2020. The balances extracted from its audited financial statement are as given below:

Financial Year (FY)	Net Profit before tax	Net Profit after tax (Ignore Income Tax computation)
2020-21	₹ 5.00 crore	₹ 3.75 crore
2021-22	₹ 7.00 crore	₹ 5.25 crore

The Company proposes to allocate the minimum required amount for CSR Activities to be undertaken during FY 2022-23 if it is mandatory. You are requested to advice the Company in this regard and compute the minimum amount to be allocated, if so required, taking into account the relevant provisions of the Companies Act, 2013.

[RTP May 23, MTP May'24 - 5 marks]

Answer

According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board.

Further, according to section 135(5), the Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

Here, the "Net Profit" shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of section 198. In the instant case,

1. Net Profit before tax of Red Limited for the FY 2021-22 is ₹ 7 crore, hence, Red Limited is required to constitute a CSR committee during FY 2022-23 as the Net profit before tax for the FY exceeds ₹ 5 crore.
2. Minimum contribution towards CSR will be: 2% of average net profits since incorporation (Red Limited was incorporated on 1.04.2020.)

Average Net Profit since incorporation: (₹ 5 crore + ₹ 7 crore)/ 2 = ₹ 6 crore

Minimum contribution towards CSR will be: 2% of ₹ 6 crore = ₹ 0.12 crore or ₹ 12 Lacs

Author's Note - ICAI forgot to mention that where CSR expense is <Rs. 50 lakhs, CSR committee is not required. If this question is asked in exam, students are advised to mention the Rs. 50 lakhs point and answer accordingly.

Question 25

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The aggregate value of the paid-up share capital of ABC Security Services, was 200 crores divided into 20 crore equity shares of 10/- each at the end of the Financial Year 2021-22 having its registered office at Mumbai. This company had been registered with an authorized share capital of 300 crore divided into 30 crore equity shares of 10/- each.

The extract of Balance Sheet of the company as on 31 March, 2022 showed the following figures:

Particulars	Rs. (Crores)
Authorised Share Capital	300
Issued, Subscribes and Paid-up Share Capital	200
Free Reserves Created out of profits	200
Securities Premium Account	80
Profit & Loss Account (Cr.)	50
Reserves out of Revaluation of assets	25
Misc. Expenditure not written off	10

Turnover of the company during the Financial Year 2021-22 was Rs. 800 crore and the net profit calculated in accordance with section 198 of the Companies Act, 2013 with other adjustments as per CSR Rules was 4 crore only.

Praveen, Company Secretary of the company advised that the company attracts the provisions of section 135 of the Companies Act, 2013 and all the formalities have to be complied with accordingly.
Thereafter, on 30th April, 2022 a CSR committee was formed to comply with the provisions of Corporate Social Responsibility.

The Board of Directors of the company constituted of the following persons as its directors:

Mohan Singh	Managing Director
Rohit and Bhavna	Independent Directors
Venkatesh, Isha, Mohit and Muskaan	Directors

On the basis of above facts and by applying applicable provisions of Companies Act, 2013, answer the following:

(iii) Is the contention of Praveen, Company Secretary of the company that the company attracts the provisions of section 135 of the Companies Act, 2013 and is required to form a CSR committee is correct? Support your answer with the applicable provision and the required calculation.

(iv) It was decided that Mohan Singh, Venkatesh, Isha and Bhavna will be the members of CSR committee. Is this decision correct in the light of provisions of the Act and Companies (Corporate Social Responsibility Policy) Rules, 2014?

[May 2023, Nov 23 - 6 marks]

Answer

(i) Correctness of the contention and required calculations: According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee (CSR) of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Net worth meaning and calculation: As per the requirement, "Net worth" in the light of the provided particulars calculated as Rs. 520 crore [aggregate value of the paid-up share capital (Rs. 200 crore), all reserves created out of the profits (Rs. 200 crore), securities premium account (Rs. 80 crore) and debit or credit balance of the profit and loss account (Rs. 50 crore), after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off (Rs. 10 crore), as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation], Turn over given as Rs. 800 crore

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and Net profits Rs. 4 crore. Since the net worth is not less than Rs. 500 crore section 135(1) is attracted.

Yes, the contention of Praveen, the Company Secretary is correct w.r.t the constitution of CSR Committee as per the compliance of requirement of section 135 of the Companies Act, 2013.

(ii) Correctness of constitution of CSR Committee: As per requirement, Corporate Social Responsibility Committee of the Board shall be consisting of three or more directors, out of which at least one director shall be an independent director. Decision that Mohan Singh, Venkatesh, Isha and Bhavna (Independent Director) will be the members of CSR Committee, is correct.

Question 26 [Sec 128]

BBQ Ltd., with its registered office in Hyderabad, has two branch offices, one located in Delhi and the other in London. The accounting transactions of the branches are recorded and all books of account are maintained in the branches. The branch accountant of Delhi branch sent monthly and the branch accountant of London sent quarterly summarized trial balance, profits and loss account and balance sheet to the Hyderabad office. One of the assistants of the audit team, Mr. Naveen, raised the issue that the branches of the company maintain its books and records at branches, so it defaults on not maintaining the proper books of account at the registered office. Mr. Naveen further objected to the fact that the London branch sent their summarised returns on a quarterly basis instead of a monthly basis.

You are requested to analyse and decide the validity of both the objections of Mr. Naveen relating to the place of maintaining the books of account and sending summarised returns thereof to the registered office by the branch offices of the company referring to the provisions of the companies Act, 2013.

[May 24 - 5 marks]

Answer

1. Provisions of section 128 of the Companies Act, 2013, requires every company to prepare and keep the books of account and other relevant books and papers and financial statements at its registered office. It also provides that all or any of the books of account may be kept at such other place in India as the Board of directors may decide. Where such a decision is taken by the Board, the company shall within seven days thereof file with the registrar a notice in writing as per rule 2A of the Companies (Accounts) Rules, 2014 in form AOC-5 giving full address of that other place.

   Thus, in the given case, the books of accounts of BBQ Ltd. should be prepared and maintained at registered office in Hyderabad. However, the same can be maintained at the respective branches if the Board of directors have decided so and intimated the registrar a notice in writing within 7 days thereof giving full address of that other place (i.e. other than the registered office).
   Hence, objection of Mr. Naveen is valid as intimation to registrar is not specified in the question.

2. Where a company has a branch office in or outside India, it shall be deemed to have complied with the requisite provisions of section 128(1) if-
   a. Proper books of account relating to the transactions effected at the branch office are kept at that office, and
   b. Proper summarised returns are sent on periodical basis by branch office to the company at its registered office or other place.

   As per Rule 4(1) of the Companies (Accounts) Rules, 2014, the summarized returns of the books of account of the company kept and maintained outside India shall be sent to the registered office at quarterly intervals, which shall be kept and maintained at the registered office of the company and kept open to directors for inspection.

Since, London office was sending summarized returns to the registered office in Hyderabad on quarterly basis, which is as per the requirement of law, hence, the objection of Mr. Naveen is invalid.

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Question 27

Madan Pvt. Ltd. is a partially owned subsidiary of Puri Ltd., holding 90% of its shares. The company does not have any listed securities and is not in the process of listing on any stock exchange. Puri Ltd., the holding company, prepares and files consolidated financial statements (CFS) with the Registrar in compliance with applicable Accounting Standards.

Considering the above, analyze and examine the following situations:

1. Is Madan Pvt. Ltd. required to prepare its own consolidated financial statements? What are the requisite conditions for the same?
2. How does it matter, if Madan Pvt. Ltd. had securities listed on a recognized stock exchange?

[RTP May'25]

Answer

As per section 129 of the Companies Act, 2013, where a company has one or more subsidiaries or associate companies, it shall (in addition to financial statements prepare a consolidated financial statement (CFS) of the company and of all the subsidiaries, associate companies and joint ventures in the same form and manner as that of its own and in accordance with applicable accounting standards. Such CFS shall also be laid before the annual general meeting of the company along with the laying of its financial statement.

Exemptions from preparation of CFS

According to section 129(3), the preparation of consolidated financial statements by a company is not required if it meets the following conditions:

a. It is a wholly owned subsidiary, or is a partially owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;

b. It is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in or outside India; and

c. Its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

In line with stated legal requirements, following are the answers:

1. Madan Pvt. Ltd. may qualify for an exemption from preparing consolidated financial statements because:
   - It is a partially owned subsidiary (90% ownership by Puri Ltd.).
   - It does not have any listed securities and is not in the process of listing on any stock exchange i.e., have no publicly trading of securities.
   - Its holding company, Puri Ltd., prepares and files consolidated financial statements with the Registrar in compliance with applicable Accounting Standards.

   Since Madan Pvt. Ltd. is a partially owned subsidiary, it must ensure that all its members, including remaining shareholders (10% in this case), are informed in writing about the decision not to present CFS, and it must maintain proof of delivery of such communication. No member should object to this exemption.

2. If Madan Pvt. Ltd. had its securities listed on a recognized stock exchange or was in the process of being listed, it would not qualify for the exemption and would be required to prepare and present its own consolidated financial statements as per the applicable provisions.

Question 28

XYZ Ltd., uses an Accounting Software for recording its financial transactions.

The statutory auditor of the company while auditing finds the following issues:

- Some journal entries were altered without creating edit logs for all such changes.
- The audit trail feature was disabled for certain modules (e.g., inventory adjustments, inter-company transactions).

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Keeping in view of the above issue, advice the company on the followings:
(i) Audit trail and Edit Log requirements
(ii) The back-up of books of accounts.

[May'25 - 5 marks]

Answer

The second proviso to Section 128(1) of the Companies Act, 2013 allows a company to keep books of account or other relevant papers in electronic mode as per manner specified in Rule 3 of the Companies (Accounts) Rules, 2014.

Rule 3(1) states the books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India, at all times, so as to be usable for subsequent reference.

i. Audit Trail and Edit Log [Proviso to Rule 3(1)]

In order to ensure audit trail, in case of company which uses accounting software for maintaining its books of account, the proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014 requires that:

1. For the financial year commencing on or after the 1st day of April, 2023,
2. Every such company (which uses accounting software) shall use only such accounting software,
3. Which has a feature of recording audit trail of each and every transaction,
4. Creating an edit log of each change made in books of account along with the date when such changes were made and
5. Ensuring that the audit trail cannot be disabled.

Further, Sub-rule 5 requires there shall be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law.

Advice to the Company:

XYZ Ltd. has not complied with the Audit Trail and Edit Log requirements of the Companies Act, 2013 since the journal entries were altered without creating edit logs and audit trail feature was also partially disabled.

Therefore, XYZ Ltd. should ensure compliance with the above provisions by enabling edit log features for all entries linked to its creation and alteration, and enabling the audit trail feature for all modules.

ii. The back-up of books of accounts

Proviso to sub-rule 5 of Rule 3 requires the back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a daily basis.

Hence, the issue raised by the statutory auditor of XYZ Ltd. with respect to mandatory requirement of maintaining the audit trail and edit log requirement, and with respect to maintenance of the backup of books of accounts is correct.

Question 29

The registered office of the Emerald Engineering Ltd. is situated in a classified backward area of Jharkhand. The Board wants to keep its books of account at its corporate office in Ranchi which is conveniently located. The Board seeks your advice about the feasibility of maintaining the accounting records at a place other than the registered office of the company. Advice the company as per the provisions of the Companies Act, 2013.

[ICAI Module, MTP Sept'25 - 5 marks]

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Answer

According to section 128(1) of the Companies Act, 2013, every company is required to prepare and keep the books of accounts and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on accrual basis and according to the double entry system of accounting.

The proviso to section 128(1) further provides that all or any of the books of account aforesaid and other relevant papers may be kept at such other place in India as the Board of Directors may decide and where such a decision is taken, the company shall, within seven days thereof, file with the Registrar a notice in writing giving the full address of that other place. Further company may keep such books of account or other relevant papers in electronic mode as per the Rule 3 of the Companies (Accounts) Rules, 2014.

Therefore, the Board of Emerald Engineering Ltd. can keep its books of account at its corporate office in Ranchi by following the above-mentioned procedure.

Question 30

Chicago Bricks Inc. is a company incorporated in Chicago, USA in the year 1985 engaged in the manufacture of cement and related products. On 10.04.2022, it commenced manufacture in India through its branch, engaged in the manufacture of fly-ash bricks used in construction of buildings and other infrastructural projects throughout the country. The operations of the branch have been growing in a fast pace.
The turnover of the branch as on 31.03.2025 since its commencement are:

Financial Year	Turnover
FY 2022-23	₹ 75 Crore
FY 2023-24	₹ 65 Crore
FY 2024-25	₹ 85 Crore

As per the data available, the branch works based on 20% net-profit margin.
The branch is opposing the above view and has submitted that although the CSR provisions are applicable in the present case but there was no requirement to constitute a CSR Committee and the above CSR functions can be discharged by the Board of Directors themselves.

Considering the provisions of the Companies Act,2013, whether Chicago Bricks Inc. is correct in the view as to non-applicability of formation of CSR Committee in this case?

[Sept'25 - 5 marks]

Answer

As per the facts given in the question, we have to answer whether Chicago Bricks Inc. (advised through its Director Mr. Ramesh) is correct as to applicability of formation of the CSR Committee or as to non-applicability of formation of the CSR Committee (by the Indian branch) is correct.

The question can be answered by analysing the provisions of section 135(1), 135(5) and 135(9) of the Companies Act, 2013 read with Rule 3(1) of the Companies (Corporate Social Responsibility Policy) Rules, 2014.
According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.

@teamvalpha

As per Rule 3(1) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, which fulfills the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules.

According to section 135(5), the Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, atleast 2% of the average net profits of the company made during the three immediately preceding financial years, or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

According to section 135(9), where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

In terms of the above provisions of section 135(1) of the Companies Act, 2013 read with Rule 3(1) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, the provisions of section 135 will be applicable to the Indian Branch of Chicago Bricks Inc. since the branch has earned a net profit of ₹ 17 crore [20% of ₹ 85 crore] in the immediately preceding financial year (2024-2025), although its turnover was less than the stipulated ₹1,000 crore during the same period.

In terms of the above provisions of section 135(5), we can calculate the amount to be spent by the branch, which will be at least two per cent. of the average net profits of the company made during the three immediately preceding financial years.
2% of [(20% of ((75+65 + 85)/3)] = ₹ 15 crore] i.e. ₹ 30 lakh.

In terms of the above provisions of section 135(9), since the amount to be spent by the Indian Branch of Chicago Bricks Inc. under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of the Indian Branch (company).

Therefore, the view of Chicago Bricks Inc. is not correct as to applicability of formation of the CSR Committee in this case and the functions of such Committee be discharged by the Board of Directors of the Indian Branch (company).

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10 Audit and Auditors

Question 1

Explain how the auditor will be appointed in the following case:
The Auditor of the company (other than government company) has resigned on 31st December, 2016, while the Financial year of the company ends on 31st March, 2017.

[MTP Oct 2019, Oct 21 - 3 marks]

OR

Sohan Lal was appointed as the statutory auditor of RST Ltd., a non-government company at the Annual General Meeting held on 30th September, 2023. He has resigned after two months as he wanted to discontinue the practice and surrendered his Certificate of Practice and joined a multinational company. Explain how the new auditor will be appointed by RST Ltd. and the conditions to be complied with in this regard.

[Jan'25 - 5 marks]

Answer

The situation as stated in the question relates to the creation of a casual vacancy in the office of an auditor due to resignation of the auditor before the AGM in case of a company other government company. Under section 139 (8)(i) any casual vacancy in the office of an auditor arising as a result of his resignation, such vacancy can be filled by the Board of Directors within 30 days thereof and in addition the appointment of the new auditor shall also be approved by the company at a general meeting convened within 3 months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

Question 2

Lemon & Company, Chartered Accountants a Limited Liability Partnership firm with CA. L, CA. M and CA. N as partners, is the statutory auditor of a listed company M/s Big Limited for past 6 years as on 01.04.2014.
CA. M is also a partner in other Chartered Accountant firm Dew & Company, Chartered Accountants. Advise under the provisions of the Companies Act, 2013 :

1. Upto how many years can Lemon & Company continue as statutory auditors of M/s Big Limited?
2. What shall be the cooling-off period for Lemon & Company with respect to M/s Big Limited?
3. Can Dew & Company; be appointed as statutory auditors of M/s Big Limited and it's another listed subsidiary M/s Dark Limited during such cooling-off period?
4. Can Lemon & Company be appointed as internal auditors of M/s Big Limited and it's another listed subsidiary M/s Dark Limited, during such cooling-off period?

[RTP Nov 2018]

OR

CA. Mudit is a partner in SM & Company (Chartered Accountants) and ML & Company (Chartered Accountants). SM & Company are statutory auditors of Liberal Ltd. (a listed company) for past ten years as on 31st March, 2027. Advice under relevant provisions of the Companies Act, 2013, whether ML & Company be appointed as statutory auditor of Liberal Ltd. during cooling off period (after 31st March, 2027) for SM & Company?

[MTP Sept 24, Sept'24- 5 marks]

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Answer

According to Section 139 (2) of the Companies Act, 2013,

i. Listed companies and other prescribed class or classes of companies (except one person companies and small companies) shall not appoint or re-appoint an audit firm as auditor for more than two terms of 5 consecutive years.

ii. An audit firm which has completed its term (i.e. two terms of five consecutive years) shall not be eligible for re- appointment as auditor in the same company for five years from the completion of such term.

iii. Further, as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as an auditor of the same company for a period of five years.

iv. For the purpose of the rotation of auditors, in case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of 5 consecutive years or 10 consecutive years, as the case may be.

Applying the above provisions,

1. Lemon & Company can continue as statutory auditors of M/s Big Limited for 4 more years from 1.4.2014, i.e. they can continue in office only till 31.3.2018. (Author's note - transition provision, can be ignored)

2. The cooling- off period shall be of 5 years.

3. Dew & Company cannot be appointed as a statutory auditor of M/s Big Limited during the cooling - off period of Lemon & Company, as CA. M is the common partner in both Lemon & Company and Dew & Company However, Dew & Company can be appointed as a statutory auditor of M/s Dark Limited (a listed subsidiary of M/s Big Limited), during the cooling – off period.

4. As per Section 138 (1) of the Companies Act, 2013, every listed company and other prescribed class of companies, shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional (which may be either an individual or a partnership firm or a body corporate) as may be decided by the Board to conduct internal audit of the functions and activities of the company.

   Accordingly, M/s Lemon & Company can be appointed as an internal auditors of M/s Big Limited and in its subsidiary M/S Dark Limited (a listed company). The provision of cooling off period as given under Section 139 of the Companies Act, 2013, shall not be applicable on the Internal auditors.

Question 3

XYZ Ltd., a prominent manufacturing company, is in the process of appointing a new auditor for the upcoming financial years. Mr. A is a renowned auditor being considered for the role. During the due diligence process, the following details come to light:

3. Mr. B and Mr. A are partners in ABC & Co. Mr. B has taken a personal loan of Rs.4 Lacs from XYZ Ltd.'s subsidiary, EFG Ltd., six months ago.
4. Mr. A's relative, Ms. C, has an outstanding debt of Rs.2 Lacs with DEF Ltd., an associate company of XYZ Ltd., which was taken three months ago.

Discuss about the eligibility of Mr. A for being appointed as an auditor of XYZ Ltd. in view of the provisions of the Companies Act, 2013.

[RTP Sept 2024]

Answer

According to section 141(3)(d)(ii) of the Companies Act, 2013, an auditor is disqualified to be appointed as an auditor if he or his relative or partner is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of Rs. 5 Lacs.

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In this scenario:
1. Mr. A's partner, Mr. B, has a debt of Rs. 4 Lacs from EFG Ltd., a subsidiary of XYZ Ltd.
2. Mr. A's relative, Ms. C, has a debt of Rs. 2 Lacs from DEF Ltd., an associate company of XYZ Ltd.

The total indebtedness linked to Mr. A's partner and relative is **Rs. 6 Lacs** (Rs. 4 Lacs + Rs. 2 Lacs), which **exceeds** the Rs. 5 Lacs threshold mentioned in the provision.

Therefore, Mr. A is **disqualified** from being appointed as the auditor of XYZ Ltd. under section 141(3)(d)(ii) of the Companies Act, 2013, as the combined indebtedness of his partner and relative surpasses the permissible limit.

Question 4

HD Software Limited is engaged in the business of providing software services. The company appointed its statutory auditors (not the first auditor). The Board of directors of the company informed the auditor that the fees shall be fixed by the Board of directors only.

But the auditor objected to the same. Now the directors have approached you to advise them whether they can solely fix the remuneration of the auditor.

[RTP Jan'25, RTP Jan'26]

Answer

Section 142 of the Companies Act, 2013, provides for remuneration of auditors. According to this section the remuneration of the auditors of a company **shall be fixed** by the company **in general meeting** or in such manner as the company in general meeting may determine. However, the **Board** may **fix remuneration** of the **first auditor** appointed by it.

The remuneration shall, **in addition to the fee** payable to an auditor, **include** the **expenses**, if any, incurred by the auditor in connection with the audit of the company **and** any **facility** extended to him but **does not include** any remuneration paid to him for any **other service** rendered by him at the request of the company.

As per the facts of the question and stated provision, remuneration of the appointed statutory auditors of a company **shall be fixed** by the company **in general meeting** or in such manner as the company in general meeting may determine as they are not the first auditor.

Hence, the **contention of the Board** of directors that they can fix the remuneration of the auditor on their own is **not valid**.

Question 5

PKC Ltd., wants to appoint Mr. Praveen Kumar, a practicing Chartered Accountant as the statutory auditor of the company and asked the proposed auditor to give a certificate in this regard. What are the contents of the certificate to be issued in accordance with the Companies (Audit & Auditors Rules, 2014)?

[May 2018]

Answer

As per proviso to **section 139**(1) of the Companies Act, 2013, before the appointment is made, a **written consent** of the auditor to such appointment, and a **certificate** from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained.

Certificate by Auditor:

The Companies (Audit and Auditors) Rules, 2014 provides the content of the Certificate. According to this, the auditor appointed shall submit a certificate that -

a. the individual or the firm, as the case may be, is **eligible for appointment** and is **not disqualified** for appointment under the Act, the **Chartered Accountants Act, 1949** and the rules or regulations made thereunder;

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b. the proposed appointment is as per the term provided under the Act;
c. the proposed appointment is within the limits laid down by or under the authority of the Act;
d. the list of proceedings against the auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

The certificate shall also indicate whether the auditor satisfies the criteria provided in section 141.

Mr. Praveen Kumar, the proposed auditor has to give the above certificate to the company before accepting the appointment as the auditor of PKC Ltd.

Question 6

CA. M is a partner in SM & Company (Chartered Accountants) and ML & Company (Chartered Accountants). SM & Company are statutory auditors of M/s. Global Ltd. (listed) for past seven years as on 1-04-2018. Advice under relevant provisions of the Companies Act, 2013:

(1) For how many more years SM & Company can continue as statutory auditors of M/s. Global Ltd. (listed)?
(2) Can ML & Company be appointed as statutory auditor of M/s. Global Ltd. during cooling off period for SM & Company?

[Nov 18 – 4 marks]

Answer

(1) As per section 139 read with relevant Rule 6 of the Companies (Audit & Auditors) Rules, 2014, in case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of 5 consecutive years (individual) or 10 consecutive years (audit firm), as the case may be.

As per the stated facts, SM & Co. are statutory auditors of M/s. Global Ltd. for past seven years as on 1.04.2018. Accordingly, SM & Co. can continue as statutory auditors of M/s. Global Ltd. for 3 more years i.e., till 31.03.2021.

(2) Section 139(2) states that as on the date of appointment no audit firm having a common partner or partners of the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.

Hence, as per the above provision, ML & Co. cannot be appointed as statutory auditor of M/s. Global Ltd. during cooling period because CA. M was the common partner in both the Audit firms. This prohibition is only for 5 years i.e. upto year 2026. After 5 years, M/s. Global Ltd. is free to appoint ML & Co. as its statutory auditors.

Question 7

Under the Companies Act, 2013, an auditor appointed by a company is allowed to provide only those services that are approved by the Board of Directors or the Audit Committee. However, there are certain services that an auditor is expressly prohibited from rendering, whether directly or indirectly, to the company, its holding company, or its subsidiary company.
List any seven such restricted services that an auditor cannot provide.

[MTP May'25 – 5 marks]

Answer

An auditor appointed under the Companies Act, 2013, shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be.

But such services shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:

1. Accounting and book keeping services;
2. Internal audit;
3. Design and implementation of any financial information system;
4. Actuarial services;

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5. Investment advisory services;
6. Investment banking services;
7. Rendering of outsourced financial services;
8. Management services; and
9. Any other kind of services as may be prescribed

Question 8

The Board of Directors of Moon Light Limited, a listed company appointed Mr. Tel, Chartered Accountant as its first auditor within 30 days of the date of registration of the Company to hold office from the date of incorporation to conclusion of the first Annual General Meeting (AGM). At the first AGM, Mr. Tel was re-appointed to hold office from the conclusion of its first AGM till the conclusion of 6th AGM. In the light of the provisions of the Companies Act, 2013, examine the validity of appointment/ reappointment in the following cases:

(i) Appointment of Mr. Tel by the Board of Directors.
(ii) Re-appointment of Mr. Tel at the first AGM in the above situation.
(iii) In case Mr. Bell, Chartered Accountant, was appointed as auditor at the first AGM to hold office from the conclusion of its first AGM till the conclusion of 5th AGM. i.e.., 4 years tenure.

[Nov 2020, MTP 1 May'23]

OR

Shivam Limited is incorporated on 1.1.2020. The company wants to appoint its first auditor. Please enumerate to the company the relevant provisions of the Companies Act, 2013 with respect to the appointment of first auditor.

[MTP March 2021, MTP Mar 2022 - 3 marks]

OR

Rupa Limited, a listed company appointed M/s. VG & Associates an audit firm as Company's auditor in the Annual General Meeting held on 30 -09-2017. Explain the provisions of the Companies Act, 2013 relating to the appointment or reappointment of an auditor in relation to the tenure of an auditor.

[May 18]

Answer

As per section 139 (6) of the Companies Act, 2013, the first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within thirty days from the date of registration of the company and such auditor shall hold office till the conclusion of the first annual general meeting

Whereas Section 139(1) of the Companies Act, 2013 states that every company shall, at the first annual general meeting (AGM), appoint an individual or a firm as an auditor of the company who shall hold office from the conclusion of 1st AGM till the conclusion of its 6th AGM and thereafter till the conclusion of every sixth AGM.

As per section 139 (2), no listed company or a company belonging to such class or classes of companies as may be prescribed, shall appoint or re-appoint an individual as auditor for more than one term of five consecutive years.

As per the given provisions following are the answers:

(i) Appointment of Mr. Tel by the Board of Directors is valid as per the provisions of section 139(6).

(ii) Appointment of Mr. Tel at the first Annual General Meeting is valid due to the fact that the appointment of the first auditor made by the Board of Directors is a separate appointment and the period of such appointment is not to be considered, while Mr. Tel is appointed in the first Annual General Meeting, which is for the period from the conclusion of the first Annual General Meeting to the conclusion of the sixth Annual General Meeting.

(iii) As per law, auditor appointed shall hold office from the conclusion of 1st AGM till the conclusion of its 6th AGM i.e., for 5 years. Accordingly, here appointment of Mr. Bell, which is for 4 years, is not in compliance with the said legal provision, so his appointment is not valid.

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Question 9

Repeated question. Hence, merged with other question

Question 10

Shiv Limited is incorporated on 3.10.2020. The company is having a paid- up share capital of Rs. 5 crores. Following are key shareholders of the company:

Name of the Party holding shares	Amount (in Rs.)
Central Government	1.50
Punjab Government	1.23
Others	2.27

The first auditor of the company has been appointed by the Board of Directors on 31.10.2020. The members of the company have objected to such an appointment by the Board of Directors. According to the members its only the members who can appoint the first auditor.
Advise the company on the validity of such appointment as per the provisions of the Companies Act, 2013. Also, advise whether the contention of members of the company is correct.

[MTP April 2021 - 6 marks]

OR

Explain the provision relating to appointment of auditor in case of a Government Company.

[RTP May 18, MTP March 2019]

OR

One-fourth of the subscribed capital of AMC Limited was held by the Government of Rajasthan. Mr. Vikas, a Chartered Accountant, was appointed as an auditor of the Company at the Annual General Meeting held on 30th April, 2020 by an ordinary resolution. Mr. Mukesh, a shareholder of the Company, objects to the manner of appointment of Mr. Vikas on the ground of violation of the Companies Act, 2013. Decide whether the objection of Mr. Mukesh is tenable? Also examine the consequences of the above appointment under the said Act.

[MTP Oct 2020, ICAI Module]

Answer

According to section 2(45) of the Companies Act, 2013, "Government company" means any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

As per section 139(7), in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor-General of India within 60 days from the date of registration of the company and in case the Comptroller and Auditor - General of India does not appoint such auditor within the said period, the Board of Directors of the company shall appoint such auditor within the next 30 days; and in the case of failure of the Board to appoint such auditor within the next 30 days, it shall inform the members of the company who shall appoint such auditor within the 60 days at an extraordinary general meeting, who shall hold office till the conclusion of the first annual general meeting .

In the given question, Shiv Limited is a government company as 54.6% [(1.5+1.23)/ 5= 54.6%] of the share capital is held by Central government and State Government (Punjab Government).

Thus, the first auditor of Shiv Limited shall be appointed by the Comptroller and Auditor-General of India within 60 days from the date of registration.

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Thus, the appointment of first auditor by Board of Directors on 31.10.2020 is not valid. The Board of Directors can appoint the first auditor in case the Comptroller and Auditor-General of India does not appoint such auditor within the said period of period 60 days. The Board of Directors of the company shall appoint such auditor within the next 30 days.

In the case of failure of the Board to appoint such auditor within the next 30 days, it shall inform the members of the company who shall appoint such auditor within 60 days at an extraordinary general meeting, who shall hold office till the conclusion of the first annual general meeting.

Thus, the contention of members that its only the members who can appoint the first auditor of the Government company, is not correct.

Question 11

Maya Limited is a public company. Maharashtra Bank (a nationalized bank) is a shareholder holding 18% of the subscribed capital of the company. Explain how the following shall be appointed:

(i) First auditor
(ii) Subsequent auditor

[July 2021]

OR

A Public Company whose shareholders include XYZ Bank (a nationalized bank) holding 18% of the subscribed capital of the company.

[MTP March 2018, ICAI Module]

OR

A company includes the following shareholders also:

1) Bank of Baroda (A nationalized Bank) holding 12% of the subscribed capital in the company.
2) National Insurance Company Limited (carrying on General Insurance Business) holding 10% of the subscribed capital in the company.
3) Maharashtra State Financial Corporation (A Public Financial Institution) holding 8% of the subscribed capital in the company.

Advise the company, whether the provisions related to 'appointment of auditor in case of Government Company' are applicable to it. Discuss in the light of the provisions of the Companies Act, 2013.

[MTP Oct 2019]

Answer

According to section 2(45) of the Companies Act, 2013, "Government company" means any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

In the given case, the total shareholding of the Maharashtra Bank in Maya Limited, is just 18% of the subscribed capital of the company. Hence, Maya Limited is not a government company. Hence, the provisions applicable to non-government companies in relation to the appointment of auditors shall apply. The auditor shall be appointed as follows:

(i) According to section 139(6) of the Companies Act, 2013, the first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within 30 days from the date of registration of the company and in the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall within 90 days at an extraordinary general meeting appoint such auditor and such auditor shall hold office till the conclusion of the first AGM.

(ii) The company shall, at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting.

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Before such appointment of auditor is made, the written consent of the auditor to such appointment, and a certificate from him or firm of auditors that the appointment, if made, shall be obtained from the auditor.

Further, the company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed (Form ADT-1).

Question 12

Mr. Suresh, a Chartered Accountant, was appointed by the Board of Directors of AB Limited as the First Auditor. The company in General Meeting removed Mr. Suresh without seeking the approval of the Central Government and appointed Mr. Gupta as Auditor in his place?

[MTP Aug 2018]

Answer

Section 140(1) stipulates that any auditor appointed under section 139 may be removed from office before the expiry of his term by passing special resolution in general meeting, after obtaining the previous approval of the Central Government in that behalf.
Provided that before taking any action under subsection (1) of Section 140, the auditor concerned shall be given a reasonable opportunity of being heard.

The first auditors appointed by Board of Directors can be removed in accordance with the provision of Section 140(1) of the Companies Act, 2013. Hence, the removal of the first auditor appointed by the Board without seeking approval of the Central Government is invalid. The company contravened provision of the Act.

Question 13

Mr. Honest, an auditor of MM company ltd. has colluded with the company for a fraud. The Central Government has applied to Tribunal about the said fraud by Mr. Honest. State the provisions of the Companies Act, 2013 regarding the steps that can be taken by Tribunal when it finds that the auditor of a company has acted in a fraudulent manner.

[MTP Aug 18]

Answer

Auditor acts in a fraudulent manner or abetted or colluded in any fraud [Section 140(5)]

(i) On satisfaction of Tribunal that the auditor of a company has acted in a fraudulent manner etc.: Without prejudice to any action under the provisions of this Act or any other law for the time being in force, the Tribunal either suo moto or on an application made to it by the Central Government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its directors or officers, it may, by order, direct the company to change its auditors.

(ii) Requirement for change of auditor: If the application is made by the Central Government and the Tribunal is satisfied that any change of the auditor is required, it shall within fifteen days of receipt of such application, make an order that he shall not function as an auditor and the Central Government may appoint another auditor in his place.

Question 14

AB & Associates, a firm of Chartered Accountants was re-appointed as auditors at the Annual General Meeting of X Ltd. held on 30-09-2019. However, the Board of Directors recommended to remove them before expiry of their term by passing a resolution in the Board Meeting held on 31-03-2020. Subsequently, having given consideration to the Board recommendation, AB & Associates were removed at the general meeting held on 25-05-2020 by passing a special resolution subject to approval of the Central Government. Explaining the provisions for removal of second and subsequent auditors, examine the validity of removal of AB & Associates by X Ltd. under the provisions of the Companies Act, 2013.

[July 2021, MTP Nov'22, MTP-2 Nov 23, MTP May 24- 5 marks]

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Answer

Section 140 of the Companies Act, 2013 prescribes procedure for removal of auditors. Under section 140(1) the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the prescribed manner.

From this sub section it is clear that the approval of the Central Government shall be taken first and thereafter the special resolution of the company should be passed.

Provided that before taking any action under this sub-section, the auditor concerned shall be given a reasonable opportunity of being heard.

Therefore, in terms of section 140 (1) of the Companies Act, 2013 read with Rule 7 of the Companies (Audit & Auditors) Rules, 2014, the following steps should be taken for the removal of an auditor before the completion of his term:

- The application to the Central Government for removal of auditor shall be made in Form ADT-2 and accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
- The application shall be made to the Central Government within thirty days of the resolution passed by the Board.
- The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution.

Hence, in the instant case, the decision of X Ltd. to remove AB & Associates, auditors of the company at the general meeting held on 25-5-2020 subject to approval of Central Government is not valid. The Approval of the Central Government shall be taken before passing the special resolution in the general meeting.

Question 15

Gajendra Ltd. was incorporated in 1995 in the town of Alwar. Its main business is manufacturing tiles. It is in the process of appointing statutory auditors for the financial year 2021 -22. Advise whether the following persons are qualified to be appointed as statutory auditor of the Gajendra

(i) Maninder, a qualified Chartered Accountant, holds equity shares of nominal value of Rs. 2,00,000 of Narender Ltd., which is an associate company of Gajendra Ltd.

(ii) Dinesh, a qualified Chartered Accountant, whose son owes Gajendra Ltd. a sum of Rs. 99,000

(iii) Rajender, a qualified Chartered Accountant, who has been convicted in the year 2005 by a Court for an offence involving fraud.

[MTP April 2022- 6 marks]

OR

Gizmo Limited was incorporated in 1990 in the town of Alwar. Its main business is manufacturing high quality bangles. It is in the process of appointing statutory auditors for the financial year 2021 -22. Advise whether the following persons are qualified to be appointed as statutory auditor of the Gizmo Limited:

(1) Priyansh, a qualified chartered accountant, is an employee of Gizmo Limited.

(2) Vinod is a practicing Chartered Accountant indebted to Gizmo Limited for rupees 2 lakh.

[MTP Nov 22, MTP-1 Nov'23 - 5 marks]

Answer

(i) As per section 141 (3)(d)(i) of the Companies Act, 2013, read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014, a person is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

Hence, Maninder is disqualified to be appointed as an auditor in Gajendra Ltd. as he holds securities in the Narender Ltd. (associate company of Gajendra Ltd.)

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(ii) As per section 141(3)(d)(ii) a person is disqualified to be appointed as an auditor if he, or his relative or partner is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of Rs. 5 Lacs.
Hence, Dinesh is not disqualified as the limit of indebtedness for the auditor or his relative is exceeding Rs.5,00,000 and in this case Dinesh's son owes only Rs. 99,000.

(iii) As per section 141(3)(h), a person who has been convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction, shall not be qualified to be appointed as an auditor of a company.
Though Rajender was convicted by a court for an offence involving fraud but as a period of 10 years have elapsed, hence, Rajendra is qualified to be appointed as statutory auditor of Gajendra Ltd.

Question 16

Examine the validity of the following with reference to the provisions of the Companies Act, 2013:-

(i) "Mr. A", a practicing Chartered Accountant, is holding securities of "XYZ Ltd." having face value of Rs. 900/-. Whether Mr. A is qualified for appointment as an Auditor of "XYZ Ltd."?

(ii) "Mr. P" is a practicing Chartered Accountant and "Mr. Q", the relative of "Mr. P", is holding securities of "ABC Ltd." having face value of Rs. 90,000/-. Whether "Mr. P" is Qualified from being appointed as an Auditor of "ABC Ltd."?

[MTP Oct, 2018]

OR

Mr. Ram brother of CA. Shyam, a practicing chartered accountant, acquired securities of M/s. Cool Ltd. having market value of Rs. 1,20,000 (face value Rs. 95,000). State whether CA. Shyam is qualified to be appointed as a statutory auditor of M/s. Cool Ltd.

[Nov 18, MTP Oct, 2021 – 3 marks]

Answer

(i) According to section 141 (3)(d) (i), an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company:

In the present case, Mr. A. is holding security of Rs. 900 in the XYZ Ltd, therefore he is not eligible for appointment as an Auditor of "XYZ Ltd".

(ii) As per section 141 (3)(d)(i), an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company: Further as per proviso to this Section, the relative of the auditor may hold the securities or interest in the company of face value not exceeding of Rs. 1,00,000.

In the present case, Mr. Q. (relative of Mr. P, an auditor), is having securities of Rs. 90,000 face Value in the ABC Ltd., which is as per requirement of proviso to section 141 (3)(d)(i), Therefore, Mr. P will not be disqualified to be appointed as an auditor of ABC Ltd.

Question 17

Examine the following situations in the light of the Companies Act, 2013:

(i) Mr. Ayush, a Chartered accountant has been appointed as an auditor of X Ltd. in the Annual General Meeting of the company held in September, 2018, in which he accepted the assignment. Subsequently, in January, 2019 he joined B, as a partner for the consultancy firm of Mr. B. Mr. B is working also working as a Finance Executive of X Ltd.

(ii) "Mr. Abhi", a practicing Chartered Accountant, is holding securities of "Abhiman Ltd." having face value of Rs. 1000/-. Whether Mr. Abhi is qualified for appointment as an Auditor of Abhiman Ltd."?

[MTP March 19, May 20, RTP May 19]

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Answer

Provisions and Explanation: Section 141(3) (c) of the Companies Act, 2013 prescribes that any person who is a partner or in employment of an officer or employee of the company will be disqualified to act as an auditor of a company. Sub- section (4) of Section 141 provides that an auditor who becomes subject, after his appointment, to any of the disqualifications specified in sub-sections (3) of Section 141, he shall be deemed to have vacated his office as an auditor.

Conclusion: In the present case, Ayush, an auditor of X Ltd., joined as partner with B, who is Finance executive of X Ltd., has attracted clause (3) (c) of Section 141 and, therefore, he shall be deemed to have vacated office of the auditor of X Limited.

Answer to Part (ii) covered in prior questions.

Question 18

New Limited appointed an individual firm, Naresh & Company, Chartered Accountants, as Auditors of the company at the Annual General Meeting held on 30 September 2019. Mrs. Reena, wife of Mr. Naresh, invested in the equity shares face value of Rs. 1 lakh of New Limited on 15 October 2019. But Naresh & Company continues to function as statutory auditors of the company. Advice, Naresh & Company on the continuation of such appointment, as per provisions of the Companies Act, 2013.

[MTP Aug 18, April 19, RTP May 20, Nov 20, ICAI Module]

OR

Mrs. Sita, wife of CA. 'Arjun' the statutory auditor of Stellar Builders Limited, acquired shares in the company for a face value of Rs.75,000/- on 15th March, 2018. CA. 'Arjun', issued his audit report on 25th April, 2018. Examine the validity of this transaction under the Companies Act, 2013. Would your answer be different if face value of the shares have been Rs. 1,50000/- (market value Rs. 95,000/-)

[RTP Nov 18]

Answer

Disqualification of auditor: According to section 141(3)(d)(i) of the Companies Act, 2013, a person who, or his relative or partner holds any security of the company or its subsidiary or of its holding or associate company or a subsidiary of such holding company, which carries voting rights, such person cannot be appointed as auditor of the company. Provided that the relative of such person may hold security or interest in the company of face value not exceeding 1 lakh rupees as prescribed under the Companies (Audit and Auditors) Rules, 2014.

In the case Mr. Naresh, Chartered Accountants, did not hold any such security. But Mrs. Reena, his wife held equity shares of New Limited of face value Rs. 1 lakh, which is within the specified limit.

Further Section 141(4) provides that if an auditor becomes subject, after his appointment, to any of the disqualifications specified in sub-section 3 of section 141, he shall be deemed to have vacated his office of auditor. Hence, Naresh & Company can continue to function as auditors of the Company even after 15 October 2019 i.e. after the investment made by his wife in the equity shares of New Limited.

Answer to part (ii) of the question in OR part (Mrs. Sita):

Yes, answer will be different in case where the face value of acquired shares is Rs. 1,50,000. Then in that case:

(i) Corrective action to maintain the limit specified (i.e., 1 lac) shall be taken by the auditor within 60 days of such acquisition, or

(ii) Failure to take such corrective action shall lead to auditor has to vacate his office.

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Question 19

Examine whether the following persons are eligible for being appointed as auditor under the provisions of the Companies Act, 2013:

i. "Mr. Prakash" is a practicing CA and "Mr. Aakash", who is a relative of "Mr. Prakash" is holding securities of "ABC Ltd." having face value of Rs. 70,000/- (market value Rs. 1,10,000/-). Directors of ABC Ltd. want to appoint Mr. Prakash as an auditor of the company;

ii. Mr. Ramesh is a practicing Chartered Accountant indebted to MNP Ltd. for Rs. 6 lacs. Directors of MNP Ltd. want to appoint Mr. Ramesh as an auditor of the company.

iii. Mrs. KVJ spouse of Mr. Kumar, a Chartered Accountant, is the store keeper of PRC Ltd. Directors of PRC Ltd. want to appoint Mr. Kumar as an auditor of the company.

[Nov 19, MTP Nov 2021, ICAI Module - 5 marks]

Answer

i. Already covered in previous questions

ii. Already covered in previous questions

iii. As per section 141(3)(f), an auditor is disqualified to be appointed as an auditor if a person whose relative is a director or is in the employment of the company as a director or a key managerial personnel.

In the instant case, since Mrs. KVJ Spouse of Mr. Kumar (Chartered Accountant) is the store keeper (not a director or KMP) of PRC Ltd., hence Mr. Kumar will not be disqualified to be appointed as an auditor in the said company.

Question 20

Three chartered accountants, Mr. Robert, Mr. Ram and Mrs. Rohini, formed a Limited Liability Partnership under the Limited Liability Partnership Act, 2008 in the name of 'R & Associates LLP', practicing chartered accountants. SR Ltd. intends to appoint 'R & Associates LLP' as auditors of the company. Examine the validity of the proposal of SR Ltd. to appoint 'R & Associates LLP', a body corporate, as an auditor of the company as per the provisions of the Companies Act, 2013.

[Jan 2021, MTP Jan'26]

Answer

As per the provisions of Section 141 (3) of the Companies Act, 2013 read with Rule 10 of Companies (Audit and Auditors) Rule 2014, a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008 shall not be qualified for appointment as auditor of a company.

In the given case, proposal of SR Ltd. to appoint 'R & Associates LLP' as auditors of the company is valid as the restriction marked for appointment as auditor for a body corporate is not applicable to Limited Liability Partnership.

Question 21

State the provisions of the Companies Act, 2013 regarding the signing of the Audit report by the Auditors of the company.

[MTP March 18 - 3 marks]

OR

Who will sign the audit report in case of a proprietorship concern or the firm of the auditors and how the qualification/s in the audit report will be dealt with by the auditor at the annual general meeting of the company as per the provisions of the Companies Act, 2013?

[May'24]

Answer

Section 145 of the Companies Act, 2013 provides for auditors to sign audit reports, etc. According to this section:

(i) The person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of sub-section (2) of section 141 (i.e. in case of firm including LLP, only Chartered Accountants are authorised to act and sign).

@teamvalpha

(g) The qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

Question 22

What are the rights of the auditor of a company in respect of attending the General Meeting.

[MTP Oct 18]

Answer

Section 146 of the Companies Act, 2013 provides for auditors to attend general meeting. According to this section:

(i) All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company.

(ii) The auditor shall, unless otherwise exempted by the company, attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting.

(iii) The auditor shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

Question 23

The Board of Directors of A Ltd. requested its Statutory Auditor to accept the assignment of designing and implementation of suitable financial information system to strengthen the internal control mechanism of the Company. How will you approach to this proposal, as an Statutory Auditor of A Ltd., taking into account the consequences, if any, of accepting this proposal?

[May 19, RTP May 2021, MTP 2 May'23, ICAI Module - 6 marks]

OR

SSR & Co. (Statutory Auditors) while conducting audit for FY 2021-22, find out some manipulative entries in books of accounts of ASR Ltd. Auditors told the MD that internal control system of company is not reliable. The Board of Directors of ASR Ltd. requested them to accept the assignment of designing and implementation of suitable financial information system to strengthen the internal control mechanism of the Company. The Company offered them a fee of Rs.10 lakhs plus taxes for this assignment for betterment of company. But Statutory Auditor refused to take the assignment. What are the consequences if they accept this assignment?

[May 2023]

Answer

According to section 144 of the Companies Act, 2013, an auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be. But such services shall not include designing and implementation of any financial information system.

In the said instance, the Board of directors of A Ltd. requested its Statutory Auditor to accept the assignment of designing and implementation of suitable financial information system to strengthen the internal control mechanism of the company. As per the above provision said service is strictly prohibited. In case the Statutory Auditor accepts the assignment, he will attract the penal provisions as specified in Section 147 of the Companies Act, 2013.

In the light of the as above provisions, we shall advise the Statutory Auditor not to take up the above stated assignment.

Consequences as regards to Audit firm

Liability of Audit firm [Section 147(5)]: Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in the Companies Act, 2013, or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally and shall also be liable under section 447.

@teamxalpha

Provided that in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

Note: Accepting such assignment may also lead to vacation of office of auditor u/s 141.

Question 24

ABC & Co., Chartered Accountants, are statutory auditors of Moon Exports Limited. In an inquiry, it is proved that 'A', one of the partners of the firm has acted in fraudulent manner and colluded in fraud to its partners. Explain the consequences of such act under the provisions of the Companies Act, 2013.

[May'22 - 5 marks]

Answer

According to section 147(5) of the Companies Act, 2013, where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally.

Provided that in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

Here, 'A' the partner of ABC & Co. on inquiry was found that he acted in a fraudulent manner or colluded in fraud to its partners.

Accordingly, 'A' the partner, partners concerned and the firm 'ABC & Co.' jointly & severally liable for the fine.

With respect to criminal liability of the firm 'ABC & Co.', the concerned partner or partners, who acted in a fraudulent manner or colluded in any fraud, shall only be liable.

Question 25

Mr. Govind Ram is a partner and in- charge (and certifies financial statements) of P & Associates. The firm is appointed as an auditor firm of Kanha Limited (listed company). Mr. Govind Ram retires from P & Associates and after some time join Gupta & Gupta firm as a partner, on 20/05/22. In the general meeting of Kanha Limited held on 15/06/22, the company appointed Gupta & Gupta firm as next auditor of the company. Advise Kanha Limited, whether the company has adhered to the provision of the Company Act, 2013, by appointing Gupta & Gupta as auditor for the company?

[RTP Nov 22]

Answer

According to Section 139(2) of the Companies Act, 2013, no listed company or a company belonging to such class or classes of companies as may be prescribed, shall appoint or re-appoint—

(a) an individual as auditor for more than one term of five consecutive years; and

(b) an audit firm as auditor for more than two terms of five consecutive years. Provided that –

(i) an individual auditor who has completed his term under clause (a) shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;

(ii) an audit firm which has completed its term under clause (b), shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term.

Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.

As per Explanation II in Rule 6(3) of the Companies (Audit and Auditors) Rules, 2014, if a partner, who is in charge of an audit firm & also certifies the financial statements of the company, retires from the said firm & joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of 5 years.

@teamvalpha

Here, Mr. Govind Ram has retired from P & Associates and joined Gupta & Gupta Firm. Mr. Govind Ram was a partner, in- charge Associates (and certifies the financial statement of the company) in P & Associates. He retires from P & Associates and joins Gupta & Gupta firm.

As per the facts of the question and provisions of law, Gupta & Gupta Firm will also be ineligible, to be appointed as auditor of Kanha Limited (listed company) for a period of 5 years.

Question 26

P Limited appointed "XYZ & Co.", an audit firm, as Auditor of the company at the Annual General Meeting held on 30th September, 2021. Mr. X, Y and Z are partners in XYZ & Co. With reference to the Companies Act, 2013, examine, the validity of appointment of the XYZ & Co. in each of the following cases separately:

(i) Mrs. Q, wife of Mr. X has invested in the equity shares of P Limited having face value of ₹1 lakh.

(ii) Mrs. Q, wife of Mr. X has given guarantee in relation to a loan taken by G from P Ltd. of an amount worth ₹ 1,50,000.

(iii) Mrs. Q, wife of Mr. X is indebted to Z Ltd. for ₹10,00,000 (P Ltd. holds 1/4th of the paid-up Equity Share Capital of Z Ltd.)

[Nov 22, MTP Sept'25 - 5 marks]

Answer

Already covered in prior questions.

Question 27

L Ltd. having 2,000 members with paid-up capital of 1 crore, decided to hold its Annual General Meeting (AGM) on 21 August, 2022. On 2nd July, 2022, 50 members holding paid-up capital of 6 lakhs in aggregate, has given notice of their intension for a resolution to be passed at the AGM for appointing Dawar & Co., as its Statutory auditor from FY 2022-23 onwards, instead of its existing Statutory auditor, SNS & Co. which was originally appointed for 5 years term and had completed only 3 years term. When such notice was received by existing auditors, they sent a representation in writing to the company along with a request for its notification to the members of the company. In the context of aforesaid facts, answer the following question(s) according to provisions of the Companies Act, 2013:

(i) Whether the said notice was given by adequate number of members and within the prescribed time limit to L Ltd.?

(ii) Whether the company was bound to send such representation to its members made by SNS & Co?

[May 2023 - 4 marks]

OR

Srinivas Iron and Steel Ltd. is a public sector listed company engaged in the manufacture of high-end steel sheets to be supplied to various other entities country-wide. M/S CVB & Associates, Chartered Accountants, had been appointed as the statutory auditors of the company for the term F.Y. 2023-24. Later in the year, a financial fraud has come to the fore, not reported by the current auditors in their report, leading to dissatisfaction amongst a group of learned members of the company.

The Next Annual General Meeting is scheduled on 28.09.2024. The members comprising of Mr. H, Mr. J, Mr. K holding paid-up share capital ₹ 1,50,000; ₹ 1,00,000; ₹ 2,50,000 respectively have collectively decided to send a special notice to the company regarding passing of the resolution at the next Annual General Meeting for appointment of an auditor other than M/S CVB & Associates as the auditor for the next term.

Referring to the provisions of Companies Act, 2013 elaborate:

(i) Whether the above members can validly issue such Special Notice to the company?

(ii) What will be the last date for issue of such Special Notice by the members to the company?

(iii) Whether the co. would have to communicate about the above Special Notice to other members after receiving the same?

[Jan'25 - 5 marks]

@teamxalpha

Answer

(i) Special Notice: As per section 140(4) of the Companies Act, 2013, resolution for appointment of an auditor other than retiring auditor at an Annual General Meeting requires special notice.

As per section 115 of the Companies Act, 2013, read with rule 23 of Companies (Management and Administration) Rules, 2014:
Where, by any provision contained in this Act or in the Articles of Association of a company, special notice is required for passing any resolution, then the notice of the intention to move such resolution shall be given to the company by such number of members holding not less than 1% of the total voting power, or holding shares on which such aggregate sum not exceeding Rs. 5 lakhs, has been paid-up.
Rule 23 provides, a special notice required to be given to the company shall be signed, either individually or collectively by such number of members holding not less than 1% of total voting power or holding shares on which an aggregate sum of not less than 5,00,000 rupees has been paid up on the date of the notice.

The afore-mentioned notice shall be sent by members to the company not earlier than 3 months but at least 14 days before the date of meeting at which the resolution is to be moved, exclusive of the day on which the notice is given and the day of the meeting.

Here, L Ltd. is having 2,000 members with paid-up capital of Rs.1 crore, and it received a notice from its 50 members holding paid-up capital of Rs. 6 lakh, in aggregate, on 2nd July, 2022 for a resolution to be passed at the AGM to be held on 21st August, 2022.

As the members who gave the notice hold more than Rs. 5 lakh in the paid-up capital of the company, they were eligible to give such notice.

Further, the notice should have been given not earlier than 3 months but at least 14 days before the date of meeting - 21st Aug, 2022, and notice was given on 2nd July, 2022 i.e., within the prescribed time limit.

Thus, it can be said that the said notice was made by adequate number of members within the prescribed time limit to L Ltd.

[Note: In the given question 50 members are holding paid-up share capital of Rs.6 lakh. In fact they are holding more than 1% of total voting power as the paid -up share capital of the company is Rs.1 crore. This can also be considered as fulfillment of the condition. Further, a presumption may be taken that these members are holding equity shares carrying voting rights in absence of any specific information given in the question regarding class of shares.]

(ii) Representation to members: Where notice is given of such a resolution and the retiring auditor makes with respect thereto representation in writing to the company (not exceeding a reasonable length) and requests its notification to members of the company, the company shall —

(1) in any notice of the resolution given to members of the company, state the fact of the representation having been made; and
(2) send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after the receipt of the representation by the company.

Yes, as per section 140(4) of the Companies Act, 2013, the company was bound to send the representation made by SNS & Co., to its members.

However, if a copy of the representation is not sent as aforesaid because it was received too late or because of the company's default, a copy thereof shall be filed with the Registrar and the auditor may (without prejudice to his right to be heard orally) require that representation shall be read out at the meeting.

@teamxalpha

Question 28

Yellow Private Limited is engaged in the business of manufacturing premium quality rattle toys. They have a huge market for their toys all over India. The company has appointed its statutory auditors for the financial year 2022-2023. The engagement letter of the auditors was signed with a clause that fee to be mutually decided. Directors of the company have approached you to seek your advice for provisions related to remuneration of auditors as per the provisions of the Companies Act, 2013.

[RTP Nov 23]

Answer

Section 142 of the Companies Act, 2013, provides for remuneration of auditors. According to this section the remuneration of the auditors of a company shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine.

The remuneration shall, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of the company.

As per the facts of the question and stated provision, remuneration of the appointed statutory auditors of a company shall be fixed by Yellow Private Limited in general meeting or in such manner as the company in general meeting may determine.

Question 29

Stallworth Ltd. a listed company having a paid-up share capital of Rs.11 crores with a turnover of Rs. 100 crores had appointed an Audit Committee which recommended M/S ANC & Associates, a firm of Chartered Accountants having such qualifications and experience as is required for appointment as the auditor of the company. The next Annual General Meeting (the AGM) was due on 30.09.2023. The Board disagreed with the said recommendation of the committee and refer back to it for reconsideration. The Audit Committee was adamant on appointing the above firm of the Chartered Accountants.

Discuss in the light of the Companies Act, 2013:

(i) The course of action for Board of Directors to resolve the above deadlock. What would be your answer, if above situation was that of filling the casual vacancy of auditors?

(ii) The steps to be taken by the Board of Directors for appointment of auditors in case there was no requirement of Audit Committee in the company?

[May'24 – 5 marks]

Answer

According to section 177 of the Companies Act, 2013 read with the Companies (Meetings of Board and its Powers) Rules, 2014, in every listed public company- an Audit Committee shall be constituted by Board of directors.

Rule 6 of Companies (Meetings of Board and its Powers) Rules, 2014, provides that in case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company.

The audit committee shall recommend the name of an individual or a firm as auditor to the Board for consideration; the Board shall consider and recommend an individual or a firm as auditor to the members in the Annual General Meeting (AGM) for appointment.

If the Board disagrees with the recommendation of the Audit Committee- It shall refer back the recommendation to the committee for reconsideration citing reasons for such disagreement.

(i) In the given question, the Board shall record reasons for its disagreement with the committee and send its own recommendation for consideration of the members in the AGM.

@teamxalpha

Section 139(8) provides that the Board may fill any **casual vacancy** in the office of an auditor **within 30 days**.

Section 139(11) prescribes that where a company is **required** to **constitute an Audit Committee** under section 177, **all appointments**, including the **filling of a casual vacancy** of an auditor under this section shall be **made after** taking into account the **recommendations of such committee**.
Hence, the position will remain **same** even in case of casual vacancy.

(ii) In case there was **no requirement** of appointment of an audit committee then the **BOD shall recommend** to the **members** in the **AGM**, the name of an individual or a firm which can be appointed as auditor **after considering qualifications** and experience of such individual or firm and other matter as laid therein.

Question 30

Sangeeta was appointed as Statutory Auditor of ABC Ltd. in the Annual General Meeting (AGM) of the shareholders held on 20th August, 2023. However, Sangeeta met with an accident on 23rd December, 2023 and died. The Board of Directors of the ABC Ltd. filled up the casual vacancy caused by the sudden death of Sangeeta and appointed Keshav as the Statutory Auditor. The next AGM of the Company was scheduled for 28th August, 2024 in which the Board of Directors recommended for appointment of Aashish as Statutory Auditors before the shareholders. Keshav objected for the appointment of Aashish and gave representation to the Company Secretary mentioning therein that his (Keshav) appointment was approved by the Board of Directors after the demise of Sangeeta thus can continue as Statutory Auditor of the Company till the conclusion of the next 6th Annual General Meeting and also threatened to report the matter to the Registrar and the NCLT.

Based on the above facts answer the followings:
(i) Explain the procedure to fill up the casual vacancy of the office of Statutory Auditor.
(ii) Whether the contention raised by Keshav is justified as per the provisions of the Companies Act, 2013?
(iii) What shall be your answer, if the casual vacancy in the office of the Statutory Auditor in the company was caused by resignation of Sangeeta?

[May'25 - 5 marks]

Answer

(i) <u>Procedure to fill up the casual vacancy of the office of the Statutory Auditor</u>

Section 139(8) of the Companies Act, 2013 (the Act) describes the procedure for filling up the vacant position of the office of Statutory Auditor caused by a **casual vacancy**.

Accordingly, in case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor General of India, the **Board of directors** may fill any casual vacancy in the office of an auditor **within 30 days**. Any auditor appointed in a casual vacancy shall **hold office** until the conclusion of the **next annual general meeting**.

Further, in terms of Section 139(11) of the Act, where a Company is required to constitute an **Audit Committee** under Section 177 of the Act, **all appointments**, including the filling of a casual vacancy of an auditor under this section shall be **made** after taking into account the **recommendations of such committee**.

(ii) <u>Whether the contention raised by Keshav is justified?</u>

As per the above provision [Section 139(1) of the Act], Keshav (auditor appointed in a casual vacancy) **can hold office** until the conclusion of the next annual general meeting i.e. **28th August**, 2024. Thus, the company can **validly appoint Aashish** as Statutory Auditors in the AGM held on 28th August, 2024. Hence, the **contention raised by Keshav is not justified**. Further, in this AGM, the Board of Directors of ABC Ltd. have already recommended to the shareholders for the appointment of Aashish as the new Statutory Auditor.

@teamxalpha

(iii) If the casual vacancy in the office of the Statutory Auditor in the company was caused by resignation of Sangeeta.

As per Section 139(8)(i) of the Act, where the casual vacancy is **caused by the resignation** of an auditor, such appointment shall also be **approved by the company** at a general meeting convened **within three months** of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

If the casual vacancy in the office of auditor (Sangeeta) was caused by resignation of Sangeeta, the **appointment of Keshav** shall also be **approved by the company at a general meeting** convened within three months of the recommendation of the Board and the tenure of such new auditor shall be till the conclusion of the next AGM.

Question 31

M/s AT & Co. is a proprietary firm and M/s VK Associates, a partnership firm, had been appointed as the Joint statutory auditors of PQR Ltd. for & consecutive years from 1.4.2021 to 31.3.2026. The shareholders had delegated the responsibility to fix the auditor's remuneration to the Managing Director, Mr. D. On 29.03.2023, there was a change in the constitution of M/s AT & Co. from proprietorship to a partnership. In light of the above facts and referring to the provisions of the Companies Act, 2013, answer each of the following questions:

(i) Does the Company have the authority to delegate the power to the Managing Director to fix the remuneration of the statutory auditors?

(ii) Whether annual ratification necessary since the auditor is appointed for a consecutive term of 5 years?

(iii) Whether a revised ADT-1 Form is required to be filed with the details of the new firm, M/s AT & Co. after the change in its constitution?

[MTP Sept'25 - 5 marks]

Answer

(i) As per **section 142(1)** of the Companies Act, 2013, the **remuneration of the auditor** of a company shall be **fixed in its general meeting** or in such manner as the general meeting may determine.

Accordingly, the **shareholders**, through a resolution in the general meeting, **may delegate** the authority to fix the auditor's remuneration to the **Managing Director** or any other person, provided this is done in accordance with the prescribed procedures under the Act.

(ii) Under the Companies Act, 2013, there is **no requirement** for shareholders to **ratify** the appointment of auditors at every Annual General Meeting.

(iii) In case the change in the constitution of the firm (in this case M/s AT & Co.) is taking place, the company shall treat it like an **appointment of a new auditor** and accordingly file the **ADT-1** Form after the **conclusion** of the (forthcoming) **AGM** to be held for the **year 31.03.2023**.

Question 32

Mr. Rock and Amaan are partners in a Chartered Accountant's firm. Their firm has been appointed as the statutory auditor of a company. The accounts manager of the company obtained the signatures from the Directors, CFO, and CEO on the board reports, financial statements and other documents and submitted them to the statutory auditor for the audit. The audit was conducted by a team led by Mr. Rock, while Mr. Amaan signed the auditor's report on behalf of the firm Referring the provisions contained in the Companies Act, 2013, answer each of the following:

(i) Has the Board complied with the relevant provisions?

(ii) Can Mr. Amaan sign the audit report in this case?

[MTP Sept'25 - 5 marks]

@teamvolpha

Answer

(i) As per section 134(1) of the Companies Act, 2013, the financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, for submission to the auditor for his report thereon.

The pre-requisite conditions under section 134(1) of the Companies Act, 2013, is that the financial statements shall be approved by the Board of Directors before they are signed on behalf of the

Board for submission to the auditor for his report thereon. In this case, there is no approval obtained in a board meeting, and merely signing the financial statements is held to be invalid under the provisions of the Companies Act, 2013.

(ii) Section 141 of the Companies Act, 2013 outlines the eligibility, qualifications and disqualifications of auditors. It specifies that only a Chartered Accountants in practice can be appointed as an auditor of a company. When a firm is appointed as the auditor, it is the authorised partners who are also Chartered Accountants who can sign on behalf of the firm. So, Mr. Amaan, a CA and a partner in the firm, can sign the audit report.

Question 33

Sharp Surgical Ltd. is a public limited company engaged in the manufacture of surgical instruments with a nation-wide chain of dealers and retailers to facilitate the trade. It was incorporated in the year 2020. It has a paid-up capital of ₹ 350.10 Crore with free reserves worth ₹ 156.70 Crore with a secured business Term loan of ₹ 56 Crore from GHL Bank Pvt. Ltd. as at 31.03.2025. Lamp bell & Associates Chartered Accountants were appointed to conduct Statutory Audit for F.Y. 2024-25 of the aforesaid company. During the audit of accounts Mr. Lamp bell the senior partner of the auditing firm shared the following observations with Mr. Sharp one of the promoter directors of the aforesaid company:

No.	Observation
1.	Out of the above term loan, ₹ 3.15 Crore were suspected to be used for purposes other than business, in providing unsecured loan to private individuals in the company.
2.	Mr. Reet one of the officers in the company was suspected to have siphoned an amount of ₹ 0.15 Crore.

Mr. Lamp bell having reasons to believe for the above frauds, within 2 days of such detection, informed the Audit Committee and asked it for its reply so that the central government can be informed of the suspected fraud of ₹ 3.15 Crore. Further he emphasized to mention the case of suspected siphoning of ₹ 0.15 Crore to the audit committee. Mr. Sharp requested the auditors not to report any matter to the central government, rather they can mention both above matters in the Director's Report to be prepared under section 134(3) of the Companies Act, 2013.

The above request of Mr. Sharp was based on the reasoning that it was only a case of suspected fraud and the same is a matter of investigation on part of the company.

Considering the applicable provisions under the Companies Act, 2013, decide upon the following:

(i) Whether Lamp bell & Associates Chartered Accountants should restrict the reporting of the above suspected fraud of ₹ 3.15 Crore as requested by Mr. Sharp? What is the correct procedure to be followed by the auditor in such cases?

(ii) What would be the correct procedure for the suspected siphoning of ₹ 0.15 Crore by the auditor of the company?

[Sept'25 - 5 marks]

Teamxalpha

Answer

(i) As per section 143(12) of the Companies Act, 2013, read with Rule 13(1) of the Companies (Audit and Auditors) Rules, 2014, if an auditor in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving or is expected to involve individually an amount of ₹ 1 crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government within the stipulated time.

In the given question, since the amount involved in fraud is more than rupees one crore hence, Lamp bell & Associates Chartered Accountants should not restrict the reporting of the suspected fraud as requested by Mr. Sharp. The auditor must inform the same to the Central Government and should follow the following procedure.

(a) the auditor shall report the matter to the Board or the Audit Committee, as the case may be immediately but not later than two days of his knowledge of the fraud, seeking their reply or observations within forty-five days;

(b) on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days from the date of receipt of such reply or observations;

(c) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;

(d) the report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same. The report shall be filed electronically in form ADT-4.

(ii) As per the proviso to section 143(12) of the Companies Act, 2013, read with Rule 13(1) of the Companies (Audit and Auditors) Rules, 2014, in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases not later than 2 days from the date of his knowledge of the fraud.

The companies, whose auditors have reported frauds under this sub- section to the audit committee or the Board but not reported to the Central Government, shall disclose the following details about such frauds in the Board's report:

(a) Nature of Fraud with description;

(b) Approximate Amount involved;

(c) Parties involved, if remedial action not taken; and

(d) Remedial actions taken.

Under Rule 13(4), the company must disclose in the Board's Report all such frauds reported during the year.

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Question 34

Mr. Ram is the auditor of XYZ Limited, which is a Government company. He has resigned on 31st December, 2025 while the financial year of the company ends on 31st March, 2026. Explain the provisions regarding filling or such vacancy. Would your answer differ if it is other than a Government company?

[MTP Jan'26 - 5 Marks]

Answer

Casual vacancy: According to **section 139(8)** of the Companies Act, 2013,

(1) In the case of a company whose accounts are subject to audit by an auditor appointed by the **Comptroller and Auditor General (CAG) of India**, casual vacancy of an auditor shall be filled by the CAG **within 30 days**.

(2) In case the **CAG does not fill** the vacancy within the said period, the **Board of Directors shall** fill the vacancy **within next 30 days.**

XYZ Ltd. can follow the above provisions for filling of its casual vacancy of its auditor.

In case, XYZ Ltd. would have been a company **other than a government company**, the following provisions would be applicable for filling of **its casual vacancy**:

a. The **Board may fill** any casual vacancy in the office of an **auditor within 30 days** but where such vacancy is caused by the resignation of an auditor, such appointment **shall also be approved** by the company at a **general meeting** convened **within three months** of the recommendation of the Board.
b. Any auditor appointed in a casual vacancy **shall hold office** until the **conclusion of the next annual general meeting**.

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11 Companies Incorporate Outside India

Question 1

(i) ABC Ltd., a foreign company having its Indian principal place of business at Kolkata, West Bengal is required to deliver various documents to Registrar of Companies under the provisions of the Companies Act, 2013. You are required to state, where the said company should deliver such documents.

[MTP May'25 - 5 marks]

(ii) In case, a foreign company does not deliver its documents to the Registrar of Companies as required under section 380 of the Companies Act, 2013, state the penalty prescribed under the said Act, which can be levied.

[ICAI Module]

Answer

(i) The Companies Act, 2013 vide section 380 state that every foreign company is required to deliver to the Registrar for registration, within 30 days of the establishment of office in India, documents which have been specified therein. According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over Central Registeration Centre.

(ii) The Companies Act, 2013 lays down the governing provisions for foreign companies in Chapter XXII which is comprised of sections 379 to 393. The penalties for non- filing or for contravention of any provision for this chapter including for non-filing of documents with the Registrar as required by section 380 and other sections in this chapter are laid down in section 392 of the Act which provides that if a foreign company contravenes the provisions of this Chapter, the foreign company shall be punishable with a fine which shall not be less than 1,00,000 but which may extend to 3,00,000 and in the case of a continuing offence, with an additional fine which may extend to 50,000 for every day after the first during which the contravention continues and every officer of the foreign company who is in default shall be punishable with fine which shall not be less than 25,000 but which may extend to 5,00,000.

Question 2

DEJY is a Company Limited incorporated in Singapore desires to establish a branch office at Mumbai. You being a practicing Chartered Accountant have been appointed by the company as a liaison officer for compliance of legal formalities on behalf of the company. Examining the provisions of the Companies Act, 2013, answer the following:

(i) Whether branch office will be considered as a company incorporated outside India.

(ii) If yes, state the documents you are required to furnish on behalf of the company, on the establishment of a branch office at Mumbai.

[ICAI Module, CA Final MTP March 2021]

Answer

(i) According to section 2(42) of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which-

(a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and

(b) conducts any business activity in India in any other manner.

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Further, branch offices are generally considered as reflection of the Parent Company' office. Thus, branch offices of a company incorporated outside India are considered as a place of business for conducting business activity in India and will be required to follow provisions of this chapter and such other provisions as may be specified elsewhere under Companies Act, 2013.

(ii) Under section 380(1) of the Companies Act, 2013 every foreign company shall, within 30 days of the establishment of place of business in India, deliver to the Registrar for registration the following documents:

(a) a certified copy of the charter, statutes or memorandum and articles, of the company or other instrument constituting or defining the constitution of the company. If the instruments are not in the English language, a certified translation thereof in the English language;
(b) the full address of the registered or principal office of the company;
(c) a list of the directors and secretary of company containing such particulars as may be prescribed;

In relation to the nature of particulars to be provided as above, the Companies (Registration of Foreign Companies) Rules, 2014, provide that the list of directors and secretary or equivalent (by whatever name called) of the foreign company shall contain the following particulars, for each of the persons included in such list, namely:

A. personal name and surname in full;
B. any former name or names and surname or surnames in full;
C. father's name or mother's name or spouse's name;
D. date of birth;
E. residential address;
F. nationality;

If the present nationality is not the nationality of origin, his nationality of origin;

A. passport Number, date of issue and country of issue; (if a person holds more than one passport then details of all passports to be given)
B. income-tax permanent account number (PAN), if applicable;
C. occupation, if any;
D. whether directorship in any other Indian company, (Director Identification Number (DIN), Name and Corporate Identity Number (CIN) of the company in case of holding directorship);
E. other directorship or directorships held by him;
F. Membership Number (for Secretary only); and
G. e-mail ID.

(d) the name and address or the names and address of one or more person's resident in India authorized to accept on behalf of the company service of process and any notices or other documents required to be served on the company;
(e) the full address of the office of the company in India which is deemed to be its principal place of business in India;
(f) particulars of opening and closing of a place of business in India on earlier occasion or occasions;
(g) declaration that none of the directors of the company or the authorized representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; and
(h) any other information as may be prescribed.

According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.

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Question 3

Galilio Ltd. is a foreign company in Germany, and it has established a place of business in Mumbai. Explain the relevant provisions of the Companies Act, 2013 and rules made thereunder relating to preparation and filing of financial statements, as also the documents to be attached along with the financial statements by the foreign company.

[ICAI Module, MTP May'24 - 5 marks]

Answer

Preparation and filing of financial statements by a foreign company:

According to section 381 of the Companies Act, 2013:

(i) Every foreign company shall, in every calendar year—

(a) make out a balance sheet and profit and loss account in such form, containing such particulars and including or having attached or annexed thereto such documents as may be prescribed, and

(b) deliver a copy of those documents to the Registrar.

According to the Companies (Registration of Foreign Companies) Rules, 2014, every foreign company shall prepare financial statement of its Indian business operations in accordance with Schedule III or as near thereto as possible for each financial year including:

(1) documents that are required to be annexed should be in accordance with Chapter IX i.e., Accounts.

(2) The documents relating to copies of latest consolidated financial statements of the parent foreign company, as submitted by it to the prescribed authority in the country of its incorporation under the applicable laws there.

(ii) The Central Government is empowered to direct that, in the case of any foreign company or class of foreign companies, the requirements of clause (a) of section 381(1) shall not apply, or shall apply subject to such exceptions and modifications as may be specified in notification in that behalf.

(iii) If any of the specified documents are not in the English language, a certified translation thereof in the English language shall be annexed. [Section 381 (2)]

(iv) Every foreign company shall send to the Registrar along with the documents required to be delivered to him, a copy of a list in the prescribed form, of all places of business established by the company in India as at the date with reference to which the balance sheet referred to in section 381(1) is made.

According to the Companies (Registration of Foreign Companies) Rules, 2014, every foreign company shall file with the Registrar, along with the financial statement, in Form FC-3 with such fee as provided under Companies (Registration Offices and Fees) Rules, 2014 a list of all the places of business established by the foreign company in India as on the date of balance sheet.

According to the Companies (Registration of Foreign Companies) Rules, 2014, if any foreign company ceases to have a place of business in India, it shall forthwith give notice of the fact to the Registrar, and as from the date on which notice is so given, the obligation of the company to deliver any document to the Registrar shall cease, if it does not have other place of business in India.

(v) According to the Companies (Registration of Foreign Companies) Rules, 2014,

(a) Every foreign company shall, along with the financial statement required to be filed with the Registrar, attach thereto the following documents; namely: -

1. Statement of related party transaction
2. Statement of repatriation of profits
3. Statement of transfer of funds (including dividends, if any)

The above statements shall include such other particulars as are prescribed in the Companies (Registration of Foreign Companies) Rules, 2014.

(b) All these documents shall be delivered to the Registrar within a period of 6 months of the close of the financial year of the foreign company to which the documents relate.

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Question 4:

In the light of the provisions of the Companies Act, 2013, examine whether the following Companies can be considered as a 'Foreign Company':

i. M/s Red Stone Limited is a Company registered in Singapore. The Board of Directors meets and executes business decisions at their Board Meeting held in India.

ii. M/s Blue Star Public Company Limited registered in Thailand has authorized Mr. 'Y' in India to find customers and to enter contracts with them on behalf of the Company.

iii. M/s Xex Limited Liability Company registered in Dubai has installed its main server in Dubai for maintaining office automation software by Cloud Computing for its client in India.

[CA Final Nov 2019 - New/ICAI Module]

Answer

Relevant provision:

According to **section 2(42)** of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which-

a. has a place of business in India whether by itself or through an **agent**, physically or through electronic mode; and

b. conducts any **business activity** in India in any other manner

According to Companies (Registration of Foreign Companies) Rules, 2014, "**electronic mode**" means carrying out electronically based, whether main server is installed in India or not, including, but not limited to-

a. business to business and business to consumer transactions, data interchange and other digital supply transactions;

b. offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India;

c. financial settlements, web-based marketing, advisory and transactional services, database services and products, supply chain management;

d. online services such as telemarketing, telecommuting, telemedicine, education and information research; and

e. all related data communication services whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise.

Given Case and Analysis:

i. In the given situation, M/s Red Stone Limited is registered in Singapore. However, it does not have a place of business in India whether by itself or through an agent, physically or through electronic mode; and does not conduct any business activity in India in any other manner. **Mere holding of board meetings** and **executing business decisions** in India **cannot** be termed as conducting business activity in India. Hence, M/s Red Stone Limited is **not a foreign company** as per the Companies Act, 2013.

ii. In the given situation, M/s Blue Star is registered in Thailand. It has authorized Mr. Y in India to find customers and enter into contract on behalf of the company. Thus, it can be said that M/s Blue Star Limited has **both** place of business **in India** through an agent, physically or through electronic mode; and is conducting business activity in India. Hence, M/s Blue Star Limited is **a foreign company** as per the Companies Act, 2013.

iii. In the given situation, M/s Xex Limited Liability Company is registered in Dubai and has installed its **main server in Dubai** for maintaining office automation software by Cloud Computing for its client in India. Thus, it can be said that M/s Xex Limited Liability Company has a place of business in India **through electronic mode** and is conducting business activity in India. Hence, M/s Xex Limited Liability Company **is a foreign company** as per the Companies Act, 2013.

Question 5:

Abroad Ltd., a foreign company without establishing a place of business in India, proposes to issue prospectus for subscription of securities in India. Being a consultant of the company, advise on the procedure of such an issue of prospectus by Abroad Ltd.

[ICAI Module, MTP Jan'26]

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Answer

Act. As per section 389 of the Companies Act, 2013, no person shall issue, circulate or distribute in India any prospectus offering for subscription in securities of a company incorporated or to be incorporated outside India, whether the company has or has not established, or when formed will or will not establish, a place of business in India, unless before the issue, circulation or distribution of the prospectus in India, a copy thereof certified by the chairperson of the company and two other directors of the company as having been approved by resolution of the managing body has been delivered for registration to the Registrar and the prospectus states on the face of it that a copy has been so delivered, and there is endorsed on or attached to the copy, any consent to the issue of the prospectus required by section 388 and such documents as may be prescribed under Rule 11 of the Companies (Incorporated outside India) Rules, 2014.

Accordingly, the Abroad Ltd. a foreign company shall proceed with the issue of prospectus in compliance with the above stated provisions of section 389 of the Act.

Question 6:

Jackson & Jackson LLC, incorporated in Germany, is proposing to establish a business in Mumbai, India. Its official documents are in German language. Whether Jackson & Jackson LLC can file the required documents with Registrar in the same language.

[ICAI Module]

Answer

Every foreign company shall, within 30 days of the establishment of its place of business in India, deliver the documents to the Registrar as per Section 380 of the Companies Act, 2013. Further, if the original instruments/ documents are not in the English language, a certified translation in the English language is required for the same and submitted to Registrar.

Question 7

Swift Pharmaceuticals, a Company registered in Singapore, has started its business in India during the financial year 2016. The Company has submitted all the required documents with registrar within the due date. On March 1, 2023, Swift Pharmaceuticals has shifted its principal office in Singapore. Does the Company required to undertake any steps due to change in address of principal office.

[ICAI Module, RTP May'24]

Answer

Section 380 (3) provides that where any alteration is made or occurs in the documents delivered to the Registrar under section 380, the foreign company shall, within 30 days of such alteration, deliver to the Registrar for registration, a return containing the particulars of the alteration in the prescribed form. The Companies (Registration of Foreign Companies) Rules, 2014, has prescribed that the return containing the particulars of the alteration shall be filed in form FC-2 along with prescribed fees.

Accordingly, Swift Pharmaceuticals is required to submit the full address of the new registered or principal office of the company by March 30, 2023.

Question 8

Z Limited, a Foreign Company, incorporated in Japan has a branch office in Hyderabad in India. Mr. Bhartiya, the Indian Citizen holds preference shares of Z Limited which comprises 10% of the paid-up share capital of the company. Deshi Limited, a company incorporated in India holds equity shares of Z Limited which comprises 45% of the paid-up share capital of the company. During the financial year 2019-20, there has been alteration in the particulars of the documents mentioned under section 380 of the Act and the company has failed to submit the alterations to the Registrar within 30 days. Analyze in the light of the applicable laws the consequences of failure on the validity of any contracts entered into by the foreign company?

[CA Final MTP April 2021 - New]

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Answer

Relevant provision:

As per Section 379 of the Companies Act, 2013 where not less than fifty per cent of the paid-up share capital, whether equity or preference or partly equity and partly preference, of a foreign company is held by one or more citizens of India or by one or more companies or bodies corporate incorporated in India, or by one or more citizens of India and one or more companies or bodies corporate incorporated in India, whether singly or in the aggregate, such company shall comply with the provisions of this Chapter and such other provisions of this Act as may be prescribed with regard to the business carried on by it in India as if it were a company incorporated in India.

As per section 393 of the Act, any failure by a company to comply with the provisions of Chapter XXII of the Act shall not affect the validity of any contract, dealing or transaction entered into by the company or its liability to be sued in respect thereof, but the company shall not be entitled to bring any suit, claim any set-off, make any counter-claim or institute any legal proceeding in respect of any such contract, dealing or transaction, until the company has complied with the provisions of this Act applicable to it.

Given case, Analysis and Conclusion:

In the above question, the provisions of the Companies Act, 2013 are applicable on Z Limited because an aggregate of 55% of the paid-up share capital of the company are held by an Indian citizen and Indian company.

Therefore, Provisions of the Companies Act, 2013 apply on the company.

However, there has been violation of section 380 of the Act, so as per section 393 of the Act, the validity of any contract entered into by the foreign company shall not be affected, the company may be sued in respect of such contract but shall not be entitled to bring any suit in respect of such contract until it has complied with the relevant provisions related to the companies incorporated outside India under the Companies Act, 2013.

Question 9 *[Controversial Question]*

In the light of the provisions of the Companies Act, 2013 explain whether the following Companies can be considered as a 'Foreign Company':

i. A Company which has no place of business established in India yet is doing online business through telemarketing in India.
ii. A Company which is incorporated outside India employs agents in India but has no place of business in India.
iii. A Company incorporated outside India having shareholders who are all Indian citizens.

[CA Final Nov 2018 New]

OR

Robertson Ltd. is a company registered in Thailand. Although, it has no place of business established in India, yet it is doing online business through telemarketing in India. Whether it will be treated as a Foreign Company under the Companies Act, 2013? Explain.

[CA Final May 2015, RTP Sept 2024]

Answer

According to section 2(42) of the Companies Act, 2013, "foreign company" means any company or body corporate incorporated outside India which:

a. has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
b. conducts any business activity in India in any other manner.

According to the Companies (Registration of Foreign Companies) Rules, 2014, "electronic mode" means carrying out electronically based, whether main server is installed in India or not, including, but not limited to -

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(i) business to business and business to consumer transactions, data interchange and other digital supply transactions;
(ii) offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities in India or from citizens of India;
(iii) financial settlements, web-based marketing, advisory and transactional services, data base services and products, supply chain management;
(iv) online services such as telemarketing, telecommuting, telemedicine, education and information research; and
(v) all related data communication services whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise

In the light of the said provisions of the Companies Act, 2013, as enumerated above:

i. A company which has no place of business in India but is doing online business through telemarketing in India, will be considered as a 'Foreign Company'.

ii. A company incorporated outside India which has a place of business in India whether by itself or through an agent, physically or through electronic mode, will be considered as foreign company.
Thus, a company incorporated outside India which does not have a place of business in India, will not be considered a 'Foreign Company'

> Author's Note:
> The answer of ICAI seems to be based on some literal interpretation which sounds illogical to the Author. Student may also consider that - Employing an agent in India would technically establish Place of Business of India and hence this company will become a Foreign Company as per Sec 2(42).

iii. A company incorporated outside India having shareholders who are all Indian citizens shall be a 'Foreign Company'.
(It is presumed that the company in question is incorporated outside India, so that provisions of section 2(42) of the Companies Act, 2013 can be applied on it)

> Author's Note:
> Yet again a controversial answer. The definition of foreign company in no way depends on the citizenship except to the extent provided u/s 379. In this case, the co. having shareholders as Indian Citizen will not make it a Foreign Company. The answer of ICAI is incorrect.

Question 10

Trans Asia Limited is registered as a public company u/s 4(7) of the erstwhile Companies Act, 1956 which is a subsidiary of Galilio Limited, a foreign company. Trans Asia Limited carries on business in India describing itself as a foreign company. Can it do so? State the actions that can be taken against the company for improper use or description as foreign company under the provisions of the Companies Act, 2013.?

[CA Final Nov 2018-Old]

Answer

Foreign Company [Section 2(42)]: "Foreign company" means any company or body corporate incorporated outside India which:

a. has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
b. Conducts any business activity in India in any other manner.

In the instant case, Trans Asia Limited is registered as a public company u/s 4(7) of the erstwhile Companies Act, 1956 which is a subsidiary of Galilio Limited, a foreign company. Though Trans Asia Limited is a subsidiary of a foreign company but since it is registered in India, it is not a foreign company. Hence, it cannot describe itself as a foreign company.

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- Action against the improper use/description as foreign co:
As per Rule 12 of the Companies (Registration of Foreign Co.) Rules, 2014, if any person or persons trade or carry on business in any manner under any name or title or description as a foreign company registered under the Act or the rules made thereunder, that person or each of those persons shall, unless duly registered as foreign company under the Act and rules made thereunder, shall be liable for investigation under section 210 of the Act and action consequent upon that investigation shall be taken against that person.

Question 11

Mr. Ziyan an Indian citizen holds 25% of the paid-up capital of Laurel Steven Limited, a company which was incorporated in Singapore with a paid-up capital of 10 million Singapore Dollars. Swaraj Limited a company registered in India holds 30% of the paid-up capital of Laurel Steven Limited. Laurel Steven Limited has recently established a share transfer office at New Delhi. The Company seeks your advice as to what formalities it should observe as a foreign company under the Companies Act, 2013.

[CA Final Nov 2017]

Answer

In terms of the definition of a foreign company under section 2 (42) of the Companies Act, 2013 a "foreign company" means any company or body corporate incorporated outside India which:

i. has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
ii. Conducts any business activity in India in any other manner.

According to Section 386 of the Companies Act, 2013, "Place of business" includes a share transfer or registration office.

Further, Section 379 states that where not less than 50% of the paid-up share capital, whether equity or preference or partly equity and partly preference, of a foreign company is held by one or more citizens of India or by one or more companies or bodies corporate incorporated in India, or by one or more citizens of India and one or more companies or bodies corporate incorporated in India, whether singly or in the aggregate, such company shall, in respect of its Indian Business, comply with the provisions of this Chapter and such other provisions of this Act as may be prescribed as if it were a company incorporated in India.

In the case given in the question, the following facts are given:

a. Laurel Steven Ltd. was incorporated in Singapore and has a place of business (share transfer office) in New Delhi; hence, it is a foreign company.

b. Its shareholding comprises of 25% held by Mr. Ziyan who is a citizen of India and 30% by Swaraj Limited which is a company registered in India. Together the two Indian shareholders hold 55% of the share capital of Laurel Steven Ltd.

Therefore, although Laurel Steven Ltd. is a foreign company, due to the holding of more than 50% of its share capital by two Indian entities, it will be covered under section 379 and will be treated as a company incorporated in India or as an Indian Company.

However, it may be noted that under section 379, the application of the Companies Act, 2013 on Laurel Steven Ltd. will be only in respect of business carried by it in India and not in relation to its business anywhere outside India.

Under Section 380 of the Act, a foreign company is required to file for registration within 30 days of the establishment of a place of business in India the following documents with the Registrar:

i. a certified copy of the instrument constituting or defining the constitution of the company.
ii. the full address of the registered or principal office of the company;
iii. a list of the directors and secretary of the company containing such particulars as prescribed under Companies (Registration of Foreign Companies) Rules, 2014;

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iv. the name and address or the names and address of one or more person's resident in India who is authorized for correspondence on behalf of the company.;
v. the full address of the office of the company in India which is deemed to be its principal place of business in India;
vi. particulars of opening and closing of a place of business in India on earlier occasion or occasions;
vii. declaration that none of the directors of the company or the authorized representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; and
viii. any other information as may be prescribed.

Question 12:

Tokushia Motors Ltd. was incorporated in Japan. Its share capital is held by the following persons:
(a) Citizens of India - 10%;
(b) Indian Companies- 40%

The company has opened its representative office in Mumbai on 15th January, 2021, in order to receive orders from the Indian Market and make available the delivery of Japanese luxury cars to the Indian purchasers.

The company was not aware of the Indian Company Law, hence could not file the required documents to the Registrar. The company could file all the required documents only on 28th February, 2021.
Based on the above facts, answer the following questions:
(i) Whether the provisions of Chapter XXII of the Companies Act, 2013 are applicable on Tokushia Motors Ltd?
(ii) What documents are required to be filed by Tokushia Motors Ltd to the Registrar of Companies?
(iii) By what time all the requisite documents shall be filed?

[CA Final RTP Nov 2021 -New]

Answer

(i) Section 379(2) of the Companies Act, 2013, provides that where not less than fifty per cent of the paid-up share capital, whether equity or preference or partly equity and partly preference, of a foreign company is held by one or more citizens of India or by one or more companies or bodies corporate incorporated in India, or by one or more citizens of India and one or more companies or bodies corporate incorporated in India, whether singly or in the aggregate, such company shall comply with the provisions of this Chapter and such other provisions of this Act as may be prescribed with regard to the business carried on by it in India as if it were a company incorporated in India.

In the given case, although the company was incorporated in Japan, however its share capital of not less than 50% is held by the Indian citizens and Indian companies, hence in terms of section 379(2) all the provisions pertaining to Chapter XXII of the Companies Act, 2013, shall be applicable on it.

(ii) In terms of section 380(1) every foreign company shall, within thirty days of the establishment of its place of business in India, deliver to the Registrar for registration:
a. a certified copy of the charter, statutes or memorandum and articles, of the company or other instrument constituting or defining the constitution of the company and, if the instrument is not in the English language, a certified translation thereof in the English language;
b. the full address of the registered or principal office of the company;
c. a list of the directors and secretary of the company containing such particulars as may be prescribed;
d. the name and address or the names and address of one or more person's resident in India authorized to accept on behalf of the company service of process and any notices or other documents required to be served on the company;
e. the full address of the office of the company in India which is deemed to be its principal place of business in India;

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f. particulars of opening and closing of a place of business in India on earlier occasion or occasions;
g. declaration that none of the directors of the company or the authorized representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; and
h. any other information as may be prescribed.

Further its sub-section (3) provides that where any alteration is made or occurs in the documents delivered to the Registrar under this section, the foreign company shall, within thirty days of such alteration, deliver to the Registrar for registration, a return containing the particulars of the alteration in the prescribed form.

(iii) In the given, case the company had established its representative office in India on 15.01.2021, it was required to file the documents latest by 14.02.2021 with the Registrar.

Question 13: *[Extra-ordinary question]*

Qinghai Huading Industrial Company Ltd., incorporated in China established a place of business at Mumbai. The Charter / Documents constituting the Company is in Mandarian Chinese (Chinese local language). It is required inter alia to file a certified translation of above documents with the Registrar of Companies in India. Who can authenticate the translated charter/documents as per the provisions of the Companies Act, 2013 and Rules made there under governing foreign companies in case such translation is made at Mumbai?

[CA Final May 2018]

Answer

According to Rule 10 of the Companies (Registration of Foreign Companies) Rules, 2014,

i. All the documents required to be filed with the Registrar by the foreign companies shall be in English language and where any such document is not in English language, there shall be attached a translation thereof in English language duly certified to be correct in the manner given in these rules.

ii. Where such translation is made within India, it shall be authenticated by-
   a. an advocate, attorney or pleader entitled to appear before any High Court; or
   b. an affidavit, of a competent person having, in the opinion of the Registrar, an adequate knowledge of the language of the original and of English.

In the instant case, Qinghai Huading Industrial company Ltd. can translate the related documents within India, and they shall be authenticated by the persons mentioned under the above Rules.

Question 14:

Analyze under the provisions of the Companies Act, 2013, whether the following Companies can be considered as a Foreign Company:

i. A Company incorporated outside India and registered in Moscow; Russia has installed its main server in Moscow for maintaining office automation software by cloud computing for its client in India.
ii. A Company which is incorporated outside India employs agents in India but has no place of business in India.
iii. A Company incorporated outside India and registered in Australia has authorized Mr. X in India to source customers and subsequently to enter into contracts with them on behalf of the Company.
iv. A Company incorporated outside India and is registered in Mauritius. All the business models, financial strategy, important decisions are carried and taken out at the Board Meetings held only in India.

[CA Final Jan 2021 -New]

Answer

i. As per the facts, a company is registered in Moscow, Russia and has installed its main server in Moscow for maintaining office automation software by Cloud Computing for its client in India. Thus, it can be said that this company has a place of business in India through electronic mode and is conducting business

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activity in India. Hence, the above company is a **foreign company** by taking into account the provisions of Section 2(42) of the Companies Act, 2013 read with the Companies (Registration of Foreign Companies) Rules, 2014.

ii. In this case, a company is incorporated outside India and employs **agents** in India but does not have a place of business in India. As per section 2(42) of the Companies Act, 2013, foreign company means any company or body corporate incorporated outside India which has a place of business in India whether by itself or through an agent, physically or through electronic mode. Since, the company though employed agent in India but have no place of business in India, so it **cannot be** termed as **foreign** company.

iii. In the given situation, a company is registered in Australia. It has authorized Mr. X in India to source customers and enter into contract on behalf of the company. Thus, it can be said that this company has **both** place of business in India through an agent, physically or through electronic mode; and is conducting **business activity in India**. Hence, this company is **a foreign company** as per the Companies Act, 2013.

iv. In the given situation, a company is registered in Mauritius. However, it **does not have** a place of business in India whether by itself or through an agent, physically or through electronic mode; and does not conduct any business activity in India in any other manner. Mere holding of board meetings and executing business models, financial strategies and important decisions in India cannot be termed as conducting business activity in India. Hence, the above company is not a foreign company as per the Companies Act, 2013.

Question 15:

Phil Heath Systems Incorporated (PHSI), is a foreign Company registered in Australia and has established a place of business in India. The financial statements pertaining to the Indian business operations for the year ended 31st March, 2020 were prepared by the Company. Referring to the provisions of the Companies Act, 2013, advise the Company on the following matters:

i. Whether the accounts of the Company pertaining to Indian business operations shall be audited? If yes, by whom?
ii. What is the due date for filing the audited financial statements with the Registrar of Companies (RoC)?
iii. What is the effect of the contracts entered by an Indian Company with PHSI in case PHSI has not filed financial statements with the RoC?
iv. In which e-form and within what period, the annual return of the Indian operations of the foreign company shall be filed with the Registrar of Companies?

[CA Final Jan 21 - New]

Answer

Phil Health Systems Incorporated (PHSI), a foreign company, is registered outside India and has a place of business in India. As it has prepared financial statements pertaining to the Indian business operations, it reflects conducts of business activity in India. Therefore, provisions related to companies incorporated outside India **shall be applicable** to it.

Following are the answer in line with said nature of the company:

i. According to the Companies (Registration of Foreign Companies) Rules, 2014, PHSI shall get its **accounts**, pertaining to the Indian business operations, **audited** by a **practicing Chartered Accountant** in India or a Firm or Limited Liability Partnership of practicing Chartered Accountants.

ii. The audited financial statements of Indian business operations of PHSI shall be **delivered** to the **Registrar** within a period of **six months** of the close of the financial year of the foreign company to which the documents relate i.e., latest by **30th September 2020**.

Provided that the Registrar may, for any special reason, and on application made in writing by the foreign company concerned, extend the said period by a period not exceeding **three months** i.e., latest by **31st December 2020**.

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iii. According to **Section 393** of the Companies Act, 2013, any failure by a company to comply with the provisions of **Chapter XXII** of the Companies Act, 2013 (chapter XXII deals with 'Companies incorporated Outside India'), shall not affect the validity of any contract, dealing or transaction entered into by the company or its liability to be sued in respect thereof.

In the instant case, non-filing of financial statements by PHSI shall **not invalidate** the contracts entered by Indian companies with PHSI.

However, PHSI shall not be entitled to bring in any suit, claim any set off, make any counter claim or institute any legal proceeding in respect of any such contract until the company has filed the financial statements.

iv. According to the Companies (Registration of Foreign Companies) Rules, 2014, every foreign company shall prepare and file an annual return in **Form FC-4** along with prescribed fees, within a period of **60 days** from the last day of its financial year i.e., by **30th May 2020**, to the Registrar containing the particulars as they stood on the close of the financial year.

Question 16:

X Inc is a company registered in UK and carrying on Trading Activity, with Principal Place of Business in Chennai. Since the company did not obtain registration or make arrangement to file Return, the GST Officer having jurisdiction, intends to serve show cause notice on the Foreign Company. As Standing Counsel for the department, advise the GST Officer on valid service of notice.

[CA Final Nov 2014]

Answer

Service of notice on foreign company (Section 383 of the Companies Act, 2013):

According to **section 383** of the Companies Act, 2013, any process, notice, or other document required to be served on a foreign company shall be **deemed to be sufficiently served**, if addressed to any person whose name and address have been delivered to the Registrar under section 380 of the Companies Act, 2013, and **left at, or sent by post to**, the **address** which has been so delivered to the Registrar or **by electronic mode**. Hence, the GST Officer may serve the show cause notice by following the above provisions.

Assumption: It is assumed that X Inc is a foreign company within meaning of sec 379 of the Companies Act, 2013.

Question 17:

MNO Ltd., a foreign Joint Venture Company having its established place of business in India and following International Financial Reporting Standards (IFRS) and its financial statement being prepared in German language desires to know the following with regard to submission of its financial statements to the Registrar of Companies in India. Its area office is located at Mumbai:

(i) Submission of financial statements in German Language;
(ii) Format of financial statements as per IFRS;
(iii) How authentication of its financial statements is to be done?
(iv) Whether the documents can be submitted at the Registrar's office at Mumbai?

[CA Final May 21 – New]

Answer

In the light of the given facts, following are the answers:

i. All the documents required to be filed with the Registrar by the foreign companies shall be in **English** language. If the financial statements are in German language and not in the English language, a **certified translation** thereof in the English language shall be annexed and submitted to Registrar [Sec 381 (2)]

ii. Format of Financial statement as per IFRS:

Rule 6 of the Companies (Accounts) Rules, 2014 provides for the **consolidation** of accounts of companies in the following manner:

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Manner of consolidation of Accounts: The consolidation of financial statements of the company shall be made in accordance with the provisions of **Schedule III** of the Act and the applicable accounting standards.

iii. Authentication of translated financial statements [Rule 10 of the Companies (Registration of Foreign Companies) Rules, 2014]:

1. All the documents required to be filed with the Registrar by the foreign companies shall be in **English language** and where any such document is not in English language, there shall be attached a **translation** thereof in English language duly certified to be correct in the manner given in these rules.
2. Where any such translation is made outside India, it shall be authenticated by the signature and the seal, if any, of—
   (a) the official having **custody** of the original; or
   (b) a **Notary** (Public) of the country (or part of the country) where the company is incorporated;
3. Where such translation is made within India, it shall be **authenticated** by—
   (a) an **advocate, attorney or pleader** entitled to appear before any High Court; or
   (b) an **affidavit**, of a competent person having, in the opinion of the Registrar, an adequate knowledge of the language of the original and of English.

iv. According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having **jurisdiction over New Delhi**. Hence, the documents of MNO Ltd. **cannot be submitted** at the Registrar's office at **Mumbai**.

Question 18:

Identify which among the following companies can be categorized as foreign companies:

Case	Incorporated	Registered	Additional Condition
1	Malaysia	Malaysia	Developed patient's database for a hospital in India. Server in Malaysia
2	Dubai	Dubai	No Place of business in India but employs agents in India
3	California	California	Board meetings held in India
4	Australia	Australia	59% of the shareholding held by an India company
5	Washington	Washington	Offers & invites deposits from citizens of India but has no place of business In India
6	Germany	Germany	49% of the shareholding held by an Indian Company

[CA Final MTP – Dec 21, RTP Jan'26]

Answer

According to **Section 2(42)** of the Companies Act, 2013, foreign company means any company or body corporate incorporated outside India which:

a. Has a place of business in **India** whether by itself or through an **agent** physically or through electronic mode &

b. Conducts any business activity in India in any other manner

For the purposes of clause (42) of section 2 of the Act," **electronic mode**" means carrying out electronically based, whether main server is installed in India or not, including, but not limited to:

i. business to business and business to consumer transactions, **data interchange** and other digital supply transactions;
ii. offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India;
iii. financial settlements, web-based marketing, advisory and transactional services, **database services** and products, supply chain management;

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iv. online services such as telemarketing, telecommuting, telemedicine, education and information research; and

v. all related data communication services, whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise;

Also, as per section 379 of the Act, where not less than fifty per cent of the paid-up share capital , whether equity or preference or partly equity and partly preference, of a foreign company is held by one or more citizens of India or by one or more companies or bodies corporate incorporated in India, or by one or more citizens of India and one or more companies or bodies corporate incorporated in India, whether singly or in the aggregate, such company shall comply with the provisions of this Chapter and such other provisions of this Act as may be prescribed with regard to the business carried on by it in India as if it were a company incorporated in India.

Based on the above provisions, analyzing each case as below:

Case	Incorporated	Registered	Additional Condition	Reasons
1	Malaysia	Malaysia	Developed patient's database for a hospital in India, Server in Malaysia	Though incorporated outside India, it is involved in transacting business in India and having place of Business through electronic mode. Hence it is a foreign company.
2	Dubai	Dubai	No Place of business in India but employs agents in India	Since the company, though employed agent in India, but have no place of business in India. Hence not a foreign company.
3	California	California	Board meetings held in India	Mere holding of meetings in India cannot be termed as conducting business activity in India. Hence not a foreign company.
4	Australia	Australia	59% of the shareholding held by an Indian company	As per the provisions, if not less than 50% of shareholding of a foreign company is held by Indian citizens. It is treated as an Indian Company. Hence this is not a foreign company.
5	Washington	Washington	Offers & invite deposits from citizens of India but has no place of business India	This is one of the ways of transacting business through electronic modes. However, this company doesn't have a place of business in India. Hence it cannot be called as a Foreign Company
6	Germany	Germany	49% of the shareholding held by an Indian Company	As per the provisions, if not less than 50% of shareholding of a foreign company is held by Indian citizens, it is treated as an Indian Company. Here only 49% is held by Indian company. Hence this is a foreign company.

Author's Note:
In case 4 and 6 - Where ICAI says - "It is treated as an Indian Company. Hence this is not a foreign company". In this case, the Author believes that the intention of ICAI is to say that - By virtue of Sec 379, the provisions applicable to Indian companies will become applicable to these companies but whether or not it is a foreign company depends on whether it complies both the conditions mentioned u/s 2(42).
Moreover, in the opinion of Author, the answer of ICAI for Part 2 and Part 5 seems incorrect to me. In case where a company incorporated outside employed agent in India, it ideally should be considered as foreign company despite not having a place of business in India. Similar argument for Part 5. I am hopeful that ICAI corrects its answers when this MTP question actually comes in exam. I request student to stick to the viewpoint that they agree with. I have already stated mine ☺ Keep going!

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Question 19:

1) Elegant Educations Ltd. is a UK based company, engaged in the business of providing on-line education. It has introduced some certificate courses having duration of 4 to 6 months and any person can enrol in the courses. The education is provided through on-line classes, webinars and study materials are supplied through e-mails to the registered candidates. The company is not having any place of business in India. It is mentioned that all the candidates who have enrolled in the course are the Indian Citizens residing in India. Based on the above facts of procuring 100% business from India, whether the company will be treated as foreign company or an Indian company.

2) What will be your answer if in the above question, more that 55% of that foreign company's paid-up share capital is held by Indian Companies or Indian Citizens.

[CA Final MTP2- Nov22]

OR

ABC Inc., a company based in USA, develops cyber security software and sells it to its Indian clients. ABC Inc. has entered into service agreement with PQR Private Limited, a company incorporated in India. PQR Private Limited provides support to the Indian customers for the software installation and after sale services. PQR Private Limited also holds 50% of shares of ABC Inc.
Explain whether ABC Inc. is required to comply with the provisions of chapter XXII of the Companies Act, 2013.

[May'25 - 5 marks]

Answer

1) In terms of Section 2(42) "Foreign Company" means any company or body corporate incorporated outside India which—
   a. has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
   b. conducts any business activity in India in any other manner.

   Further Rule 2(1)(c)(iv) of the Companies (Registration of Foreign Companies) Rules, 2014 provides that for the purposes of clause (42) of section 2 of the Act, "electronic mode" means carrying out electronically based, whether main server is installed in India or not, including, but not limited to online services such as telemarketing, telecommuting, telemedicine, education and information research.
   Thus, from the above provisions the company is treated as foreign company irrespective of the fact that its 100% business comes from India.

2) Section 379(2) provides that where not less than 50% of the paid-up share capital, whether equity or preference or partly equity and partly preference, of a foreign company is held by-
   - one or more citizens of India; or
   - one or more companies; or
   - bodies corporate incorporated in India;
   - one or more citizens of India and one or more companies or bodies corporate incorporated in India,

   whether singly or in the aggregate, such company shall comply with the provisions of Chapter XXII and such other provisions of this Act as may be prescribed with regard to the business carried on by it in India as if it were a company incorporated in India.

   Thus, in the given case, if more that 50% of the paid-up share capital is held by Indian Companies/ Citizen it shall be treated as a company incorporate in India and such company shall abide by the provisions of Section 380 to 386 (both inclusive) and Section 392 and 393 shall be applicable.

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Question 20:

Blue Star Inc. is a company incorporated in USA, four years back and has no established place of business in India. The company has entered into following contracts:

Particulars	Contracts entered in the ordinary course of business	Material Contracts
F.Y. 2017-18	4	2
F.Y. 2018-19	6	1
F.Y. 2019-20	5	3
F.Y. 2020-21	3	4

Apart from above, one contract has been entered into with its manager. The company intended to offer its securities in India. For that purpose, the secretary of the company, Mr. Berry Christan prepared the prospectus along with annexing the required documents and got it registered. Expert's consent was issued in a separate statement, the reference of which was given in the prospectus.

Few application forms for securities of Blue Star Inc. were issued to prospective investors without the prospectus out of which one such form was issued in connection with bona fide invitation to the person to enter into an underwriting agreement with respect to securities of Blue Star Inc.

In the context of aforesaid case, please answer to the following questions: -

(i) Whether the expert's statement can be considered to be included in the prospectus?

(ii) What copy of contracts would have been annexed with the prospectus by Mr. Berry?

(iii) Whether it is valid on the part of Blue Star Inc. for issuing few application forms without prospectus?

[CA Final RTP, May 22]

Answer

(i) According to **section 388**(2) of the Companies Act, 2013, a statement shall be deemed to be included in a prospectus, if it is contained in any **report or memorandum** appearing on the **face** thereof or by reference incorporated therein or issued therewith.

In the given case, the reference of **expert's consent statement** was given in the prospectus. Thus, the expert's statement shall be deemed to be included in a prospectus.

(ii) According to the Companies (Registration of Foreign Companies) Rules, 2014, the following documents shall be annexed to the prospectus, inter-alia, namely: -

a) a **copy of contracts for appointment** of managing director or manager and in case of a contract not reduced into writing, a memorandum giving full particulars thereof;

b) a copy of any other **material contracts, not entered in the ordinary course of business**, but entered within **preceding 2 years**.

In the given case, during the preceding 2 years, i.e., F.Y. 2019 -20 and F.Y. 2020-21, respectively, the material contracts entered into by Blue Star Inc. are **3 + 4 = 7** and apart from it, one contract has been entered into with its manager. So, in total **8 copies of contracts would have been annexed with the prospectus by Mr. Berry.**

(iii) According to **section 387**(3) of the Companies Act, 2013, no person shall issue to any person in India a form of application for securities of such a company or intended company as is mentioned in section 387(1), unless the form is issued with a prospectus which complies with the provisions of this Chapter (**Chapter XXII**) and such issue does not contravene the provisions of section 388:

Exception: If it is shown that the form of **application was issued in connection with a bona fide invitation** to a person to enter into **an underwriting agreement** with respect to securities.

Blue Star Inc. has, thus, violated provisions of section 387(3) by issuing few application forms without prospectus. However, the application form issued in connection with bona fide invitation to the person to enter into an underwriting agreement with respect to securities of Blue Star Inc. can be considered as **valid** as such a case is covered by the exception to the said sub-section.

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Question 21:

(i) Tokyo Ferro Alloys Limited, a company registered in Japan, started its operations in India by establishing a Marketing Division in Mumbai on 1st April, 2021. Recently, the Company decided to issue certain securities in India and therefore, is planning to circulate in India, a prospectus offering for subscription in securities of the Company. Assuming that all the other formalities in this respect have been complied with, advise the person in-charge of Indian operations regarding the other documents required to be annexed to the prospectus in order to registered the same, referring to the relevant provisions of the Companies Act, 2013 and the rules made thereunder,

(ii) Vibav Pte, a company incorporated in Singapore is having a liaison office in Delhi. The Liaison office seeks your advice regarding the documents to be filed with the Registrar along with the financial statement under the Companies Act, 2013 read with the Companies (Registration of Foreign Companies) Rules, 2014.

[CA Final - Dec 21, MTP May'24 - 4 marks]

Answer

(i) According to this Section 389 of the Companies Act, 2013 read with Rule 11 of the Companies (Registration of Foreign Companies) Rules, 2014,

The Following documents shall be annexed to the prospectus, namely:

a. any consent to the issue of the prospectus required from any person as an expert;
b. a copy of contracts for appointment of managing director or manager and in case of a contract not reduced into writing, a memorandum giving full particulars thereof;
c. a copy of any other material contracts, not entered in the ordinary course of business, but entered within preceding 2 years;
d. A copy of underwriting agreement; and
e. A copy of power of attorney, if prospectus is signed through duly authorized agent of directors.

Accordingly, the person in charge of the Indian operations shall be advised in accordance with the above provisions.

(ii) According to Rule 4 of the Foreign Companies (Registration of Foreign Companies) Rules, 2014, every foreign company, shall, along with the financial statement required to be filed with the Registrar, attach thereto the following documents; namely: -

1. Statement of related party transaction
2. Statement of repatriation of profits
3. Statement of transfer of funds (including dividends, if any).

The above statement shall include such other particulars as are prescribed in the Companies (Registration of Foreign Companies) Rules, 2014.

Question 22:

RFC Limited has been incorporated in Singapore and has a business place in Mumbai. The company has issued 5,00,000 shares of USD 100 each, consisting of 4,00,000 equity shares and 1,00,000 preference shares. The issued share capital is fully paid up except 5,000 preference shares where USD 50 per share is unpaid. RJW, an Indian citizen is holding 26,000 preference shares which include 1100 partly paid- up shares and Ronte Limited incorporated in New-Delhi (India) is holding 2,23,500 equity shares in RFC Limited.
The Registrar of Companies issued notice under Section 379 of the Companies Act, 2013 addressed to the person whose name and address has been delivered to the Registrar by RFC Limited for compliance under the Companies Act, 2013 for foreign companies.
The above notice was Delivered at the address which was given by RFC Limited to the Registrar of Companies.

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Answer the following, referring to the provisions of the Companies Act, 2013:
(i) Whether RFC Limited is a foreign company?
(ii) Whether service of notice by the Registrar of companies is valid?

[CA Final May 22]

Answer

(i) Whether RFC Limited is a Foreign Company?

As per Section 2(42) of the Companies Act, 2013, "Foreign Company" means any company or body corporate incorporated outside India which has a place of business in India whether by itself or through an agent, physically or through electronic mode; and conducts any business activity in India.

Provision of Section 379(2): Requirement of holding of paid-up share capital of Foreign Company:

Further, in the light of the inputs given in the problem, where not less than 50% of the paid-up share capital, whether equity or preference or partly equity and partly preference, of a foreign company incorporated outside India is held by one or more citizens of India and one or more companies or bodies corporate incorporated in India, whether singly or in the aggregate, such foreign company shall also comply with the provisions of Chapter XXII and such other provisions of this Act as may be prescribed with regard to the business carried on by it in India as if it were a company incorporated in India. [Section 379(2)]

In the given case, RFC Limited, incorporated in Singapore has a business place in Mumbai. The Company has issued 5,00,000 shares of USD 100 each i.e., of USD 5,00,00,000 comprising of USD 4,00,00,000 equity share capital (i.e., 4 lac* USD 100) and USD 1,00,00,000 preference share capital (i.e,1 lac * USD 100).

As the issued capital was fully paid up except 5,000 preferences shares (i.e., 5000* 50= USD 2,50,000), so, total paid up share capital of the RFC limited is:

Equity Share Capital	USD 4,00,00,000
Preference Share Capital (Full Paid)	USD 95,00,000
Preference Share Capital (Partly Paid)	USD 2,50,000
Total Paid up Share Capital	USD 4,97,50,000

As per facts, shareholding by RJW, an Indian citizen is USD 25,45,000 preference share capital (i.e. 26,000 shares *USD 100- 1100 shares * USD 50) and Ronte Limited incorporated in New-Delhi (India) is holding USD 2,23,50,000 equity share capital (i.e., 2,23,500 *USD 100) in RFC Limited. Aggregate shareholding is USD 2,48,95,000.

As per requirement of Section 379(2), RJW, an Indian citizen and Ronte Limited incorporated (an Indian Company) were holding more than 50% of the shareholding (i.e. 50%* USD 4,97,50,000 = 2,48,75,000) in RFC Limited.

Therefore, RFC Ltd. is not only a foreign company as per Section 2(42) but shall also be complying with the provisions of Chapter XXII and other provisions of this Act with regard to the business carried on by it in India, as if it were a company incorporated in India as per Section 397(2).

(ii) Whether service of notice by the RoC is valid?

Yes, the service of notice by the Registrar of Companies is valid in the light of Section 383 of the Companies Act, 2013. According to the provision any process, notice, or other document required to be served on a foreign company, shall be deemed to be sufficiently served, if addressed to any person whose name and address have been delivered to the Registrar and left at, or sent by post to, the address which has been so delivered to the Registrar or by electronic mode.

Question 23:

A company incorporated in France, with limited liability, established an office in Baroda, and started conducting business activity from its place of business. In compliance of Section 382 of the Companies Act, 2013, it conspicuously exhibited a name board outside its office, with the name of the company in English in big block letters. In three days, the company received a notice from the Registrar stating that it had not properly complied with the requirements of Section 382 of the Companies Act, 2013. Mention the areas of lapses of the foreign company, which would be mentioned in the notice.

[CA Final MTP - Nov 22]

Answer

According to Section 382 of the Companies Act, 2013,

- every foreign company shall conspicuously exhibit on the outside of every office or place where it carries on business in India, the name of the company and the country in which it is incorporated, in letters easily legible in English characters, and also in the characters of the language or one of the languages in general use in the locality in which the office or place is situate;
- if the liability of the members of the company is limited, cause notice of that fact:
  (i) to be stated in every such prospectus issued and in all business letters, bill -heads, letter paper, notices, advertisements and other official publications of the company, in legible English characters; and
  (ii) to be conspicuously exhibited on the outside of every office or place where it carries on business in India, in legible English characters and also in legible characters of the language or one of the languages in general use in the locality in which the office or place is situated.

After taking into account the provisions of Section 382 of the Companies Act, 2013, the following are the lapses by the company:

(i) The company has exhibited the name of the company in English but it has not displayed the name of the country where it was incorporated. Further, it has not displayed both the facts in the local language or one of the languages in general use in the locality in which the office or place is situated. i.e., Baroda

(ii) Further the company is one where the liability of members is limited. The fact that the members liability is limited has not been conspicuously exhibited on the outside of every office or place i.e., in Baroda, in legible English characters and also in legible characters of the language or one of the languages in general use in the locality i.e., Baroda.

The above lapses would have given rise to the notice from the Registrar.

Question 24:

XYZ Limited, a company incorporated outside India and to which provisions of Chapter XXII of the Companies Act, 2013 are applicable, entered into a contract with ABC Limited, an Indian company, for the supply of machinery. After the machinery was delivered, ABC Limited failed to make the payment citing defects in the machinery.

XYZ Limited discovered that it had failed to comply with certain provisions of Chapter XXII of the Companies Act, 2013, relating to the registration of foreign companies in India. Despite this, XYZ Limited intends to file a suit against ABC Limited for payment.

Discuss whether XYZ Limited can initiate legal proceedings against ABC Limited in light of the non-compliance with Chapter XXII of the Companies Act, 2013.

Give your answer as per the provisions of the Companies Act, 2013 [read along with the Companies (Registration of Foreign Companies) Rules, 2014].

[MTP Jan'25 - 5 marks]

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Answer

According to section 393 of the Companies Act, 2013, any failure by a company to comply with the provisions of Chapter XXII of the Companies Act, 2013, shall not affect the validity of any contract, dealing or transaction entered into by the company or its liability to be sued in respect thereof. However, the company shall not be entitled to bring any suit, claim any set-off, make any counter-claim or institute any legal proceeding in respect of any such contract, dealing or transaction, until the company has complied with the provisions of the Companies Act, 2013, applicable to it.

In this given question, XYZ Limited, a company incorporated outside India, has failed to comply with certain provisions of Chapter XXII of the Companies Act, 2013, which governs the registration and compliance requirements for foreign companies operating in India.

According to the Companies Act, 2013, non-compliance with Chapter XXII does not affect the validity of any contract, dealing, or transaction entered into by the company. Therefore, the contract between XYZ Limited and ABC Limited remains valid, and ABC Limited is still legally bound to fulfill its contractual obligations, including the payment for the machinery supplied.

Further, XYZ Limited cannot bring a suit, claim any set-off, make any counter-claim, or institute any legal proceeding related to the contract as it has not complied with certain provisions of Chapter XXII.

Question 25

Zen Tech Ltd., a company incorporated in Singapore, has a branch office in Bengaluru, India. The financial year of the company ends on 31st March 2025. As per the provisions of the Companies Act, 2013, Zen Tech Ltd. is required to file certain documents with the Registrar of Companies (ROC) every year. However, due to internal audit delays in its Singapore headquarters, the company could not finalize its financial statements by the end of September 2025.

The management seeks clarification on the following points:

(1) What documents need to be filed by Zen Tech Ltd. along with its financial statements, with the Registrar?

(2) By what time should these documents normally be filed?

Examine it as per the provisions of the Companies (Registration of Foreign Companies) Rules, 2014.

[Jan'26 – 5 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

12 The General Clauses Act, 1897

Question 1

Mr. Apar and Mr. New, both aspiring Chartered Accountants have met in a conference for CA students. Both are having an argument about the meaning of Financial Year. They have approached you as a senior in the profession to guide them about the meaning of Financial Year as per the provisions of the General Clauses Act, 1872. Also, brief them about the difference between a calendar year and financial year.

[RTP May 21]

OR

What is "Financial Year" under the General Clauses Act, 1897?

[ICAI Module]

OR

A confusion, regarding the meaning of 'financial year' arose among the financial executive and accountant of a company. Both were having different arguments regarding the meaning of financial year & calendar year. What is the correct meaning of financial year under the provision of the General Clauses Act, 1897? How it is different from calendar year?

[MTP Nov 22, MTP-2 Nov 23, MTP May 24, MTP Sept'25 - 4 marks]

Answer

Financial Year: According to section 3(21) of the General Clauses Act, 1897, financial year shall mean the year commencing on the first day of April. The term Year has been defined under Section 3(66) as a year reckoned according to the British calendar. Thus, as per General Clauses Act, Year means calendar year which starts from January to December.

Difference between Financial Year and Calendar Year: Financial year starts from first day of April but Calendar Year starts from first day of January.

Question 2

Vyas owned a land with acknowledgment due. He sold his land and the timber (obtained after cutting the fifty trees) to Yash. Vyas wants to know whether the sale of timber tantamount to sale of immovable property. Advise him with reference to provisions of "General Clauses Act, 1897".

[May'18, RTP Nov'19, MTP'April 19, Oct'19, March'21, March'22, RTP May'23, RTP May'24]

OR

What is "Immovable Property" under the General Clauses Act, 1897?

[ICAI Module, , MTP Sept'25 - 4 marks]

Answer

"Immovable Property" [Section 3(26) of the General Clauses Act, 1897]:

'Immovable Property' shall include:

(i) Land,
(ii) Benefits to arise out of land, and
(iii) Things attached to the earth, or
(iv) Permanently fastened to anything attached to the earth.

It is an inclusive definition. It contains four elements: land, benefits to arise out of land, things attached to the earth and things permanently fastened to anything attached to the earth. Where, in any enactment, the definition of immovable property is in the negative and not exhaustive, the definition as given in the General Clauses Act will apply to the expression given in that enactment.

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In the instant case, Vyas sold Land along with timber (obtained after cutting trees) of fifty tamarind trees of his land. According to the above definition, Land is immovable property; however, timber cannot be immovable property since the same are not attached to the earth.

Extra note - Trees are benefits arise out of land & attached to earth, hence are immovable property.

Question 3

CCTV recording of an incident can be considered as a document. Explain what do you understand by the word document and how will you justify your answer in accordance with the provision of the General Clauses Act, 1897?

[MTP Mar'18, MTP May'25 - 4 marks]

OR

State what do you understand by the term 'document' as per the General Clauses Act, 1897? Discuss which of the following will be treated as a document:

(i) Power of Attorney
(ii) Cheque

[Jan'25 - 4 marks]

Answer

As per Section 3 of the Indian Evidence Act, 1872, a document refers to any matter that is expressed or described upon a substance using letters, figures, or marks with the intention of recording information. Similarly, Section 3(18) of the General Clauses Act, 1897, states that a document includes any material on which information is written, expressed, or described through various means.

A document generally consists of four key elements:

1. Matter - The content or subject recorded in the document.
2. Record - The process of fixing or storing the matter on a particular medium.
3. Substance - The physical medium on which the information is recorded (paper, digital file, stone engraving, etc.).
4. Means - The method used to record the information, such as letters, numbers, symbols, or figures.

So a contract agreement between two businesses is a document because it contains matter (terms and conditions of the agreement). It is recorded in writing on a substance (paper or electronic document). It is written using letters and symbols to communicate between the parties.

A CCTV recording of an incident is a document. Even though it is not written on paper, it is still a document because it records matter (the incident), is stored on a medium (hard drive or tape) and can be used as proof in a legal proceeding.

Question 4

Ayush and Vipul are good friends and pursuing CA course. While doing group studies for the paper of "Corporate and Other Law", they are confused about the provisions of section 3 of the Companies Act 2013. Section 3 provides "A company may be formed for any lawful purpose by....." Both Ayush and Vipul are in difficulty about the meaning of word "may". Whether it should be taken as mandatory or directory?

[RTP May 22]

Answer

The word 'shall' is used to raise a presumption of something which is mandatory or imperative while the word 'may' is used to connote something which is not mandatory but is only directory or enabling.

However, sometimes Word 'may' has a mandatory force if directory force will defeat object of the Act.

However, sometimes the words "may and shall" can be interpreted interchangeably depending on the intention of the legislator.

Ayush and Vipul, two CA students, are confused with the language of the provisions of section 3 of the Companies Act 2013 that whether the word "may" used in section should be considered as mandatory or directory. In the given case, it can be said that the word "may" should be taken as mandatory force, because the law will never allow the formation of company with unlawful object. Here the word used "may" shall be read as "shall". Usage of word 'may' here makes it mandatory for a company for the compliance of section 3 for its formation.

Question 5

Define the following term Affidavit with reference to the General Clauses Act, 1897

[Nov 19, Nov 20, MTP May'25, MTP Jan'26]

Answer

"Affidavit" [Section 3(3) of the General Clauses Act, 1897]: 'Affidavit' shall include affirmation and declaration in the case of persons by law allowed to affirm or declare instead of swearing.

The above definition is inclusive in nature. It states that Affidavit shall include affirmation and declarations. This definition does not define affidavit. However, we can understand this term in general parlance. Affidavit is a written statement confirmed by oath or affirmation for use as evidence in Court or before any authority.

Question 6

Mrs. K went to a jewellery shop to purchase diamond ornaments. The owners of jewellery shop are notorious and indulging in smuggling activities. Mrs. K purchased diamond ornaments honestly without making proper enquiries. Was the purchase made in Good faith as per the provisions of the General Clauses Act, 1897 so as to convey good title?

[Nov 20]

Answer

In the instant case, the purchase of diamond ornaments by Mrs. K from a Jewellary Shop, the owners of which are notorious and indulged in smuggling activities, made in good faith, will not convey good title.

As per section 3 (22) of the General Clauses Act, 1897, a thing shall be deemed to be done in "good faith" where it is in fact done honestly, whether it is done negligently or not. The definition of good faith as is generally understood in the civil law and which may be taken as a practical guide in understanding the expression in the Indian Contract Act, 1872 is that nothing is said to be done in good faith which is done without due care and attention as is expected with a man of ordinary prudence. An honest purchase made carelessly without making proper enquiries cannot be said to have been made in good faith so as to convey good title.

Question 7

"The act done negligently shall be deemed to be done in good faith." Comment with the help of the provisions of the General Clauses Act, 1897.

[Jan 21, MTP-2 May'23 - 3 marks]

OR

What do you understand by the term 'Good Faith'. Explain it as per the provisions of the General Clauses Act, 1897. Mr. X purchased a watch from Mr. Y carelessly without proper enquiry. Whether the purchase made could said to be made in good faith.

[Nov 19 - 4 marks]

OR

What do you understand by the term 'Good Faith'. Explain as per the provisions of the General Clauses Act.

[MTP Aug 18, March 19, Nov 20, MTP May'25, MTP Jan'26]

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Answer

In general, anything done with due care and attention, which is not malafide is presumed to have been done in good faith. But, according to section 3(22) of the General Clauses Act, 1897, a thing shall be deemed to be done in "good faith" where it is in fact done honestly, whether it is done negligently or not.
The question of good faith under the General Clauses Act is one of fact. It is to determine with reference to the circumstances of each case. It is therefore understood that the General Clauses Act, 1897 considers the honesty in doing the Act as a primary test to constitute the thing done in good faith and therefore the act done honestly but with negligence may also be termed as done in good faith as per the General Clauses Act, 1897.

The term "Good faith" has been defined differently in different enactments. This definition of the good faith does not apply to that enactment which contains a special definition of the term "good faith" and there the definition given in that particular enactment has to be followed. This definition may be applied only if there is nothing repugnant in subject or context, and if that is so, the definition is not applicable.

Question 8

Income Tax Act, 1961 provides that the gratuity paid by the government to its employees is fully exempt from tax. You are required to explain the scope of the term 'government' and clarify whether the exemption from gratuity income will be available to the State Government Employees? Give your answer in accordance with the provisions of the General Clauses Act, 1897.

[Jan 21, MTP-1 May 23 – 2 marks]

Answer

According to section 3(23) of the General Clauses Act, 1897, 'Government' or 'the Government' shall include both the Central Government and State Government.

Hence, wherever, word 'Government' is used, it will include Central Government and State Government both.

Thus, when the Income Tax Act, 1961, provides that gratuity paid by the government to its employees is fully exempt from tax, the exemption from gratuity income will be available to the State Government employees also.

Question 9

Elucidate the term "Commencement" as per the General Clauses Act, 1897

[MTP April 21]

Answer

Section 3(13) of the General Clauses Act, 1897, defines the term "Commencement".
"Commencement" used with reference to an Act or Regulation, shall mean the day on which the Act or Regulation comes into force.

Coming into force or entry into force (also called commencement) refers to the process by which legislation, regulations, treaties and other legal instruments come to have a legal force and effect.

A law cannot be said to be in force unless it is brought into operation by legislative enactment, or by the exercise of authority by a delegate empowered to bring it into operation. The theory of a statute being "in operation in a constitutional sense" though it is not in fact in operation has no validity. (State of Orissa Vs. Chandrasekhar Singh Bhai — AIR 1970 SC 398).

Question 10

Mr. N is caught stealing a bicycle, an offense punishable under the Indian Penal Code. According to Section 379 of the IPC, the punishment for theft was charged against him. Elaborate how the term "imprisonment" levied under the General Clauses Act, 1897, can be applied in line with the relevant law specified in the IPC?

[RTP May'25, MTP Jan'26 – 4 Marks]

Answer

According to section 3(27) of the General Clauses Act, 1897 states that 'Imprisonment' shall mean imprisonment of either description as defined in the Indian Penal Code. By section 53 of the Indian Penal Code, the punishment to which offenders are liable under that Code are imprisonment which is of two descriptions, namely, rigorous, that is with hard labor and simple. So, when an Act provides that an offence is punishable with imprisonment, the Court may, in its discretion, make the imprisonment rigorous or simple.

In this case, if the court considers Mr. N's offense as a minor theft and believes it does not warrant harsh punishment, it might sentence him to simple imprisonment.

However, if the theft involved force, was committed in a violent manner, or if Mr. N has a history of criminal behaviour, the court may decide to impose rigorous imprisonment.

Question 11

"Whenever an Act is repealed, it must be considered as if it had never existed." Comment and explain the effect of repeal under the General Clause Act, 1897.

[May 2023 - 4 marks]

OR

Explain the provision related to 'Effect of Repeal' as per the General Clauses Act, 1897.

[May'18, May 2022 - 4 marks]

Answer

Effect of Repeal: According to section 6 of the General Clauses Act, 1897, where any Central legislation or any regulation made after the commencement of this Act repeals any Act made or yet to be made, unless another purpose exists, the repeal shall not:

- Revive anything not enforced or prevailed during the period at which repeal is effected or;
- Affect the previous operation of any enactment so repealed or anything duly done or suffered thereunder; or
- Affect any right, privilege, obligation or liability acquired, accrued or incurred under any enactment so repealed; or
- Affect any penalty, forfeiture or punishment incurred in respect of any offence committed against any enactment so repealed; or
- Affect any inquiry, litigation or remedy with regard to such claim, privilege, debt or responsibility or any inquiry, litigation or remedy may be initiated, continued or insisted

Question 12

Repeated question. Hence, merged with other question.

Question 13

Purva Buildcon Ltd. (PBL) is a public company having two subsidiary companies namely Arihant Cements Ltd. (ACL) and Siddharth Bricks Ltd. (SBL). Purva is a Chief Financial Officer of PBL.
Ashish and Mrinal, who were the CFO's of ACL and SBL resigned from their respective companies and Purva was offered to take charge of the office of CFO in ACL and SBL, which she accepted.

Whether Purva can be designated as CFO simultaneously in two subsidiaries (i.e. in SBL and ACL) besides being CFO of PBL? Examine the matter with reference to the provisions contained in the Companies Act. 2013 as well as in the General Clauses Act, 1897.

[May'25 - 4 marks]

OR

As per the provisions of the Companies Act, 2013, a whole time Key Managerial Personnel (KMP) shall not hold office in more than one company except its subsidiary company at the same time. Referring to the Section 13 of the General Clauses Act, 1897, examine whether a whole time KMP can be appointed in more than one subsidiary company?

[RTP Nov 20, MTP Aug 18, Nov 23, May 24, MTP Jan'26 - 4 marks]

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Answer

Provisions under the Companies Act, 2013

Chief Financial Officer (CFO) comes within the definition of Key Managerial Personnel (KMP) as defined in Section 2(51) read with Section 203(1) of the Companies Act, 2013.

Section 203(3) of the Companies Act, 2013 provides that Whole Time Key Managerial Personnel shall not hold office in more than one company except in its subsidiary company at the same time.

Provisions under the General Clauses Act, 1897

Section 13(2) of the General Clauses Act, 1897 provides that in all Central Acts and Regulations, unless there is anything repugnant in the subject or context, words in the singular shall include the plural, and vice versa.

With respect to the issue that whether a Whole Time KMP of a holding company be appointed in more than one subsidiary company or can be appointed in only one subsidiary company.

It can be noted that Section 13 of the General Clauses Act, 1897 provides that the word 'singular' shall include the 'plural', unless there is anything repugnant to the subject or the context.

Hence, Purva, the CFO (Whole Time Key Managerial Personnel) may hold office in more than one subsidiary company (i.e. ACL and SBL) as per the present law.

Question 14

Komal Ltd. declares a dividend for its shareholders in its AGM held on 27th September, 2018. Referring to provisions of the General Clauses Act, 1897 and Companies Act, 2013, advice:

i. The dates during which Komal Ltd. is required to pay the dividend?
ii. The dates during which Komal Ltd. is required to transfer the unpaid or unclaimed dividend to unpaid dividend account?

[Nov 18, MTP May 20, MTP May'24, ICAI Module - 4 marks]

OR

The Companies Act, 2013 provides that the amount of dividend remained unpaid/unclaimed on expiry of 30 days from the date of declaration of dividend shall be transferred to unpaid dividend account within 7 days from the date of expiry of such period of 30 days. If the expiry date of such 30 days is 30.10.2018, decide the last date on or before which the unpaid/unclaimed dividend amount shall be required to be transferred to a separate bank account in the light of the relevant provisions of the General Clauses Act, 1897?

[May 19, ICAI Module - 2 marks]

OR

Excel Ltd. declared dividend for its shareholder in its Annual General Meeting held on 30/09/2017. Under the provisions of the Companies Act, 2013, company is required to pay declared dividend within 30 days from the date of declaration. As per the provisions of the General Clauses Act, 1897, discuss what will be the commencement and termination time for posting of declared dividend.

[MTP March 18, Oct 18]

Answer

As per section 9 of the General Clauses Act, 1897, for computation of time, the section states that in any legislation or regulation, it shall be sufficient, for the purpose of excluding the first in a series of days or any other period of time to use the word "from" and for the purpose of including the last in a series of days or any other period of time, to use the word "to".

i. Payment of dividend: In the given instance, Komal Ltd. declares dividend for its shareholder in its Annual General Meeting held on 27/09/2018. Under the provisions of Section 127 of the Companies Act, 2013, a company is required to pay declared dividend within 30 days from the date of declaration, i.e. from 28/09/2018 to 27/10/2018. In this series of 30 days, 27/09/2018 will be excluded and last 30th day i.e. 27/10/2018 will be included.
Accordingly, Komal Ltd. will be required to pay dividend within 28/09/2018 and 27/10/2018 (both days inclusive)

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Transfer of unpaid or unclaimed divided: As per the provisions of Section 124 of the Companies Act, 2013, where a dividend has been declared by a company but has not been paid or claimed within 30 days from the date of the declaration, to any shareholder entitled to the payment of the dividend, the company shall, within 7 days from the date of expiry of the said period of 30 days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called the "Unpaid Dividend Account" (UDA). Therefore, Komal Ltd. shall transfer the unpaid/unclaimed dividend to UDA within the period of 28th October, 2018 to 3rd November, 2018 (both days inclusive).

Question 15:

Referring to the provisions of the General Clauses Act, 1897, find out the day/ date on which the following Act/Regulation comes into force. Give reasons also,

(1) An Act of Parliament which has not specifically mentioned a particular date.

(2) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Fifth Amendment) Regulations, 2015 was issued by SEBI vide Notification dated 14th August, 2015 with effect from 1st January, 2016.

[ICAI Module]

OR

When does an enactment is said to have come into operation if the Act has not specified any particular date of its enforcement. Explain with help of an example as per provisions of the General Clauses Act, 1897.

[MTP March 18]

Answer

(1) According to section 5 of the General Clauses Act, 1897, where any Central Act has not specifically mentioned a particular date to come into force, it shall be implemented on the day on which it receives the assent of the President in case of an Act of Parliament.

(2) If any specific date of enforcement is prescribed in the Official Gazette, the Act shall come into enforcement from such date.

Thus, in the given question, the SEBI (Issue of Capital and Disclosure Requirements) (Fifth Amendment) Regulations, 2015 shall come into enforcement on 1st January, 2016 rather than the date of its notification in the gazette.

Question 16:

Repeal' of provision is different from 'deletion' of provision. Explain.

[Nov 18, MTP Oct 19, Nov 20, ICAI Module]

Answer

In Navrangpura Gam Dharmada Milkat Trust Vs. Rmtuji Ramaji, AIR 1994 Guj 75 case, it was decided that Repeal' of provision is in distinction from 'deletion' of provision. 'Repeal' ordinarily brings about complete obliteration (abolition) of the provision as if it never existed, thereby affecting all incoherent rights and all causes of action related to the 'repealed' provision while 'deletion' ordinarily takes effect from the date of legislature affecting the said deletion, never to effect total effecting or wiping out of the provision as if it never existed.

Question 17

There are two ways to reach city A from city B. The distance between the two cities by roadways is 100 kms and by water ways 80 kms. How is the distance measured for the purpose of any Central Act under the provisions of the General Clauses Act, 1897?

[Nov 20]

Answer

Measurement of Distances [Section 11]: In the measurement of any distance, for the purposes of any Central Act or Regulation made after the commencement of this Act, that distance shall, unless a different intention appears, be measured in a straight line on a horizontal plane.

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Question 18

PK and VK had a long dispute regarding the ownership of a land for which a legal suit was pending in the court. The court fixed the date of hearing on 29.04.2018, which was announced to be a holiday subsequently by the Government. What will be the computation of time of the hearing in this case under the General Clauses Act, 1897?

[Jan 21, MTP 1 May 23, MTP Jan'26 - 4 marks]

OR

Ajit was supposed to submit an appeal to High Court of Kolkata on 30th March, 2020, which was the last day on which such appeal could be submitted. Unfortunately, on that day High Court was closed due to total Lockdown all over India due to Covid-19 pandemic. Examine the remedy available to Ajit under the provisions of the General Clauses Act, 1897.

[July 21 - 3 marks]

Answer

According to Section 10 of the General Clauses Act, 1897, where by any legislation or regulation, any act or proceeding is directed or allowed to be done or taken in any court or office on a certain day or within a prescribed period then, if the Court or office is closed on that day or last day of the prescribed period, the act or proceeding shall be considered as done or taken in due time if it is done or taken on the next day afterwards on which the Court or office is open.

In the given question, the court fixed the date of hearing of dispute between PK and VK, on 29.04.2018, which was subsequently announced to be a holiday.

Applying the above provisions we can conclude that the hearing date of 29.04.2018, shall be extended to the next working day.

Question 19

Examine the validity of the following statements with reference to the General Clauses Act, 1897:

i. Insurance Policies covering immovable property have been held to be immovable property
ii. The word "bullocks" could be interpreted to include "cows".

[July 21, MTP-2 May 23 - 4 marks]

Answer

i. Insurance Policies covering immovable property have been held to be immovable property: This statement is not valid.
Insurance policy is a written document containing an agreement between the insurer and insured. It includes a matter intended to be used or may be used for the purpose or recording of the matter. Hence, the insurance policies covering immovable property is not covered under the definition of immovable property.

ii. The word 'bullocks' could be interpreted to include 'cows': This statement is not valid.
Where a word connoting a common gender is available but the word used conveys a specific gender, there is a presumption that the provisions of General Clauses Act, 1897 do not apply. Thus, the word 'bullocks' could not be interpreted to include 'cows'.

Question 20:

Examine the validity of the following statements with reference to the General Clauses Act, 1897:
Board of Directors of Sabarwal Construction Private Limited authorised by passing resolution in board meeting Mr. Munim to appoint five employees for accounts department of company. Mr. Munim appointed five employees including Mr. Rupal who was relative of one of the director of company. After one month, Mr. Munim observed that Mr. Rupal was not performing his duties honestly. Mr. Munim issued the order of dismissal of Mr. Rupal with proper reasons. Mr. Rupal filed a petition in the court that his dismissal order is not valid as Board of Directors had authorised Mr. Munim only for appointment of employees not for dismissal. Whether is Mr. Rupal correct with his words?

[MTP April 22, May 24]

Answer

As per the provisions of section 16 of the General Clauses Act, 1897, the authority having for the time being power to make the appointment shall also have power to suspend or dismiss any person appointed whether by itself or any other authority in exercise of that power.

Mr. Munim was appointed in board meeting of Sabarwal Construction Private Limited to appoint five employees for accounts department of company. Mr. Munim appointed five employees. After one month, he issued the order of dismissal to one of those five employees. That employee filed an application in the court challenging the validity of dismissal order with the words that Mr. Munim was authorised only for appointment of employees not for dismissal.

On the basis of above provisions and facts of the case, Mr. Rupal was not correct with his words because as per the General Clauses Act, 1897, power to appoint includes power to suspend or dismiss. Hence, Mr. Munim has power to dismiss Mr. Rupal.

Question 21

What is the effect on the implementation of the Rules that are issued between passing and commencement of enactment. Explain as per the provisions of the General Clauses Act, 1897.

[MTP Oct 18]

Answer

Making of rules or bye-laws and issuing of orders between passing and commencement of enactment [Section 22]

Where, by any Central Act or Regulation which is not to come into force immediately, on the passing thereof, a power is conferred to make rules or bye-laws, or to issue orders with respect to the application of the Act or Regulation or with respect to the establishment of any Court or the appointment of any Judge or officer thereunder, or with respect to the person by whom, or the time when, or the place where, or the manner in which, or the fees for which, anything is to be done under the Act or Regulation, then that power may be exercised at any time after passing of the Act or Regulation; but rules, bye-laws or orders so made or issued shall not take effect till the commencement of the Act or Regulation.

Question 22

Explain various provisions applicable to rules or bye-laws being made after previous publications as enumerated in Section-23 of the General Clauses Act, 1897.

[Nov'18, Sept'25 - 4 marks]

Answer

Provisions applicable to making of rules or bye-laws after previous publications [Section 23 of the General Clauses Act, 1897]:

Where, by any Central Act or Regulation, a power to make rules or bye-laws is expressed to be given subject to the condition of the rules or bye-laws being made after previous publication, then the following provisions shall apply, namely:

(i) Publish of proposed draft rules/ bye - laws: The authority having power to make the rules or bye-laws shall, before making them, publish a draft of the proposed rules or bye-laws for the information of persons likely to be affected thereby;

(ii) To publish in the prescribed manner: The publication shall be made in such manner as that authority deems to be sufficient, or, if the condition with respect to previous publication so requires, in such manner as the Government concerned prescribes;

(iii) Notice annexed with the published draft: There shall be published with the draft a notice specifying a date on or after which the draft will be taken into consideration;

(iv) Consideration on suggestions/objections received from other authorities: The authority having power to make the rules or bye-laws, and, where the rules or bye- laws are to be made with the

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sanction, approval or concurrence of another authority, that authority also shall consider any objection or suggestion which may be received by the authority having power to make the rules or bye-laws from any person with respect to the draft before the date so specified;

(v) Notified in the official gazette: The publication in the Official Gazette of a rule or bye-law purporting to have been made in exercise of a power to make rules or bye- laws after previous publication shall be conclusive proof that the rule or bye-laws have been duly made.

Question 23

Mr. Ram, an advocate has fraudulently deceived his client Mr. Shyam, who was taking his expert advise on taxation matters. Now, Mr. Ram is liable to a fine for acting fraudulently both under the Advocates Act, 1961 as well as the Income Tax Act, 1961. State the provision as to whether his offence is punishable under the both the Acts, as per the General Clauses Act, 1897.

[RTP Nov 18, MTP April 21]

Answer

Provision as to offence punishable under two or more enactment [Section 26]: Where an act or omission constitutes an offence under two or more enactments, then the offender shall be liable to be prosecuted and punished under either or any of those enactments, but shall not be punished twice for the same offence.

Thus, Mr. Ram shall be liable to punished under the Advocates Act, 1961 or the Income Tax Act, 1961, but shall not be punished twice for the same offence.

Question 24

What is the meaning of 'Official Gazette' as per the provisions of the General Clauses Act, 1897?

[Nov 22 - 3 marks]

Answer

Official Gazette [Section 3(39) of the General Clauses Act, 1897]: 'Official Gazette' or 'Gazette' shall mean:

(i) The Gazette of India, or
(ii) The Official Gazette of a state.

The Gazette of India is a public journal and an authorised legal document of the Government of India, published weekly by the Department of Publication, Ministry of Housing and Urban Affairs. As a public journal, the Gazette prints official notices from the government. It is authentic in content, accurate and strictly in accordance with the Government policies and decisions. The gazette is printed by the Government of India Press.

Question 25

A notice when required under the Statutory rules to be sent by "registered post acknowledgment due" is instead sent by "registered post" only. Whether the protection of presumption regarding serving of notice by "registered post" under the General Clauses Act is tenable? Referring to the provisions of the General Clauses Act, 1897, examine the validity of such notice in this case.

[RTP May 18, May 19, ICAI Module]

OR

What is the meaning of service by post as per provisions of the General Clauses Act, 1897?

[M'18, MTP'Apr 19, May'20, RTP'M'21, MTP N'22, MTP'N 23, MTP Sept'25, ICAI Mod. - 4 marks]

Answer

As per the provisions of Section 27 of the General Clauses Act, 1897, where any legislation or regulation requires any document to be served by post, then unless a different intention appears, the service shall be deemed to be effected by:

(i) properly addressing,
(ii) pre-paying, and
(iii) posting by registered post.

A letter containing the document to have been effected at the time at which the letter would be delivered in the ordinary course of post.

Therefore, in view of the above provision, since, the statutory rules itself provides about the service of notice that a notice when required under said statutory rules to be sent by 'registered post acknowledgement due', then, if notice was sent by 'registered post' only it will not be the compliance of said rules. However, if such provision was not provided by such statutory rules, then service of notice if by registered post only shall be deemed to be effected.

Furthermore, in similar case of In United Commercial Bank v. Bhim Sain Makhija, AIR 1994 Del 181: A notice when required under the statutory rules to be sent by 'registered post acknowledgement due' is instead sent by 'registered post' only, the protection of presumption regarding serving of notice under 'registered post' under this section of the Act neither tenable not based upon sound exposition of law.

Question 26

Mr. A (landlord) staying in Delhi, rented his flat of Bengaluru to Mr. B (tenant) for ₹20,000 per month to be paid annually. An agreement was made between them that during the tenancy period, if A requires his flat to be vacated, one-month prior notice is to be given to Mr. B. After eight months a notice was sent by Mr. A to Mr. B to vacate his flat by registered post which was refused to be accepted by Mrs. C (wife of Mr. B) and Mr. B denied to vacate the flat on ground of non-receipt of notice. Examine, as per the General Clauses Act, 1897, whether the notice is tenable?

[Nov 22 – 4 marks]

OR

Mr. Mike has lent his house property to Mr. Wise at a monthly rent of Rs. 15,0000 per month. The yearly rent agreement was due to expire in near future. However, Mr. Mike does not intend to continue this agreement and he has sent a notice to Mr. Wise for the termination of the agreement. Mr. Wise on the other hand does not want to vacate the property and hence has returned the notice with an endorsement of refusal. Now, Mr. Wise has contended that the no notice was served to him and hence there is no need for him to vacate the property. As per the provisions of the General Clauses Act, 1897, discuss whether a notice was served to Mr. Wise.

[MTP Aug 18]

Answer

As per section 27 of the General Clause Act, 1897, where any legislation or regulation requires any document to be served by post, then unless a different intention appears, service shall be deemed to be effected by:

(i) properly addressing
(ii) pre-paying, and
(iii) posting by registered post.

Case Laws

(i) In Smt. Vandana Gulati Vs. Gurmeet Singh alias Mangal Singh, AIR 2013 All 69, it was held that where notice sent by registered post to person concerned at proper address is deemed to be served upon him in due course unless contrary is proved.

(ii) In Jagdish Singh Vs. Nathu Singh, AIR 1992 SC 1604, it was held that where a notice is sent by the landlord by registered post and the same is returned by the tenant with an endorsement of refusal, it will be presumed that the notice has been served.

In other words, Endorsement 'not claimed/not met' is sufficient to prove deemed service of notice.

In the given question, Mr. A has served the notice to Mr. B by registered post which was refused to be accepted by Mrs. C (wife of Mr. B). However, Mr. B cannot deny to vacate the flat on ground of non-receipt of notice, since Mrs. C had refused to accept the notice served by Mr. A through registered post.

Hence, the notice served by Mr. A is tenable provided one- month prior notice given to Mr. B.

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Question 27

Mr. Rachit purchased a new house and after some time he shifted to his new house. He was regularly filing his Income Tax Return but he did not update his address with the Income Tax Department. The Income Tax department sent a show cause notice to Mr. Rachit whereby the time limit for reply was 15 days from service of notice. The notice was properly sent by registered post to his address which was in the records of the Income Tax Department. The notice reached at old house and present owner of that house refused to accept that notice. After a certain period, the Income Tax Department took a penal action against Mr. Rachit. He requested the department, that he should not be charged as he did not receive the said notice. Advise in terms of the provisions of the General Clauses Act, 1897, whether sending of the show cause notice by the Income Tax Department would be considered proper service of notice? Give your answer with reference to the provisions of the General Clauses Act, 1897.

[MTP May 24 - 4 marks]

OR

A notice was served on Mr. P for appearing in the court. However, the notice could not be served on account of the fact that the house of the Mr. P was found locked. Thus, Mr. P. did not appear in the court at the said date. Examine the situation as per the provisions of the General Clauses Act, 1897 and determine whether Mr. P. will be liable in the given situation.

[MTP April 19]

Answer

According to section 27 of the General Clauses Act, 1897, where any legislation or regulation requires any document to be served by post, then unless a different intention appears, the service shall be deemed to be effected by:

(i) properly addressing
(ii) pre-paying, and
(iii) posting by registered post.

Further, on the basis of decision taken by the apex court in case of Jagdish Singh vs Natthu Singh, where a notice is sent to the landlord by registered post and the same is returned by the tenant with an endorsement of refusal, it will be presumed that the notice has been served.

In the given case, the Income Tax Department sent the show cause notice properly by a registered post at the address which was in the records of the department. Hence, it was a proper service of notice. Further, refusal by current owner of house to accept the notice, will not amount to- that the notice was not properly served by the Income Tax Department. It was the duty of Mr. Rachit to update his address. Therefore, Income Tax Department is correct in its decision.

Question 28:

The Ministry of Corporate Affairs (MCA) published in the Gazette of India, the proposed draft of Rules further to amend certain rules under the Companies Act, 2013. The MCA made some modifications in the draft Rules already published. In the light of the provisions of the General Clauses Act, 1897, answer the following:

(i) Is it required for MCA to publish a draft of the proposed Rules?
(ii) In case of any irregularities in the publication of the draft, can it be questioned?
(iii) Is MCA entitled to make suitable changes in the draft?
(iv) Is it necessary to re-publish the Rules in the amended form when the changes made are ancillary to the earlier draft?

[May 2022 - 4 marks]

Answer

The answer can be given in terms of section 23 of the General Clauses Act, 1897. Following shall be the answers in the light of the given information and the relevant legal provisions:

(i) Yes, MCA is required to publish a draft of the proposed Rules for the information of persons likely to be affected thereby.
(ii) No, in case of any irregularities in the publication of the draft, it cannot be questioned. The publication

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in the Official Gazette of a rule or bye-law after previous publication, shall be conclusive proof that the rule or bye-laws has been duly made. It raises a conclusive presumption that after the publication of the rules in the Official Gazette, it is to be inferred that the procedure for making the rules had been followed. Any irregularities in the publication of the draft cannot therefore be questioned.

(iii) Yes, MCA is entitled to make suitable changes in the draft before finally publishing them.

(iv) No, it is not necessary to re-publish the Rules in the amended form when the changes made are ancillary to the earlier draft.

Question 29:

Section 2(18)(aa) of the Income Tax Act, 1961, provides that a company is said to be a company in which the public are substantially interested, if it is a company which is registered under section 25 of the Companies Act, 1956. After the advent of Companies Act, 2013, the corresponding change has not been made in section 2(18) of the Income tax Act, 1961. Explain, with reference to the provisions of the General Clauses Act 1897, how will the provisions of section 2(18)(aa) of the Income Tax Act, 1961, will be considered after the enactment of the Companies Act 2013?

[RTP Nov 22, RTP Jan'26]

Answer

According to section 8 of the General Clauses Act, 1897, where this Act or Central Act or Regulation made after the commencement of this Act, repeals and re-enacts, with or without modification, any provision of a former enactment, then references in any other enactment or in any instrument to the provision so repealed shall, unless a different intention appears, be construed as references to the provision so re-enacted.

Also, in Gauri Shankar Gaur v. State of U.P., AIR 1994 SC 169, it was held that every Act has its own distinction. If a later Act merely makes a reference to a former Act or existing law, it is only by reference and all amendments, repeals new law subsequently made will have effect unless its operation is saved by the relevant provision of the section of the Act.

Question 30

Mr. Sridhar has issued a promissory note of ₹1000 to Mr. Mohan on 17th May 2022 payable 3 months after date. After that, a sudden holiday was declared on 20th August 2022 due to Moharram. As per the provisions of the General Clauses Act 1897, what should be the date of presentment of promissory note for payment? Whether it should be 19th August 2022 or 21st August 2022?

[MTP Nov 22, MTP-1 Nov 23- 4 marks]

Answer

Section 10 of the General Clauses Act, 1897 provides where by any legislation or regulation, any act or proceeding is directed or allowed to be done or taken in any court or office on a certain day or within a prescribed period then, if the Court or office is closed on that day or last day of the prescribed period, the act or proceeding shall be considered as done or taken in due time if it is done or taken on the next day afterwards on which the Court or office is open.

A promissory note of ₹1000 was issued by Mr. Sridhar to Mr. Mohan on 17th May 2022 which was payable 3 months after date. After that, a sudden holiday was declared on 20 th August 2022 due to Moharram.

In the given case, the period of 3 months ends on 17th August 2022. Three days of grace are to be added. It falls due on 20th August 2022 which declared to be a public holiday after the issue of Promissory Note. In the light of provisions of section 10 of the General Clauses Act 1897, the due date will be on next day when office is open i.e., 21st August 2022.

Question 31

Jumbo Road lines Ltd. is a public limited company engaged in business 4 of inter-state goods transportation. The company owns a fleet of more than ten heavy-duty trucks which have the capacity to transport up-to 1000 tons of goods in one consignment as per the registration. The transportation company received an

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order to transport 1000 tons of goods particularly plastic parts of automobiles to be loaded from a production facility in Surat, Gujarat and offloaded in an automobile factory in Pune, Maharashtra. The driver loaded the heavy-duty truck to its maximum capacity. On its way to Pune, the driver further loaded 100 tons of other goods from a local trader who lured him for some extra payment. The driver on his way with his overloaded truck rammed into a road divider causing damage to the public property.

The local traffic police charged Jumbo Road lines Ltd. for overloading the truck under the Motor-Vehicles Act, 1988 and filed a suit against the transport company. Further the Highway Authority filed another suit against the company under the Prevention of Damage to Public Property Act, 1984 for damaging the dividers and iron girders installed on the road-sides.

The Jumbo Road lines Ltd. opposed the suits on the plea of double- jeopardy and double punishment for the same act under two different legislations. Whether the plea given by the road-lines of double-jeopardy be accepted by the court?

Discuss based on underlying principle and concepts referring the provisions of the General Clauses Act, 1897.

[Sept'25 - 4 marks]

OR

"No person shall be prosecuted and punished for the same offence more than once." Explain in the light of provisions of Section 26 of the General Clauses Act, 1897.

[May 2023, RTP Sept'25 - 3 marks]

Answer

As per section 26 of the General Clauses Act, 1897, where an act or omission constitutes an offence under two or more enactments, then the offender shall be liable to be prosecuted and punished under either or any of those enactments but shall not be punished twice for the same offence.

As per Article 20(2) of the Constitution, no person shall be prosecuted and punished for the same offence more than once.

The combined reading of provisions of section 26 of the General Clauses Act, 1897 and Article 20(2) of the Constitution apply only when the two offences which form the subject of prosecution is the same, i.e., the ingredients which constitute the two offences are the same. If the offences under the two enactments are distinct and not identical, none of these provisions will apply.

In the given question, the local police charged Jumbo Road Lines Limited for overloading the truck under the Motor Vehicles Act, 1988. The Highway Authority filed another suit for damage of public property (iron girders installed on roadside), under the Prevention of Damage to Public Property Act, 1984. As the offences under the two enactments are distinct and not identical, hence the plea given by the road lines of double jeopardy cannot be accepted by the Court.

Question 32

Mrs. Neelu Chandra was director in Laddoo Sweets Private Limited. Once while dealing with supplier of raw materials for company, she agreed to get some secret commission from supplier for making the deal. Afterwards, on finding the facts, the company has filed the suit against Mrs. Neelu Chandra. She contended that section 166 of the Companies Act, 2013, provides "A director of a company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company." She contended that section 166 is applicable to male director only, she being female will not be liable. In the light of the provisions of the General Clauses Act, 1897, decide whether she is bound by the provisions of section 166 of the Companies Act, 2013?

[RTP Nov 23, May'24, MTP May'25, MTP Jan'26 - 4 marks]

Answer

By virtue of provisions of **section 13 of the General Clauses Act, 1897**, in all Central Acts or Regulations, **unless** there is anything repugnant in the subject or context, words importing the masculine gender shall be taken to **include females**.

Mrs. Neelu Chandra, director in Laddoo Sweets Private Limited, made an undue gain in the form of commission (from supplier for making the deal) in dealing for Laddoo Sweets Private Limited but she denied accepting the liability by saying that the language of section 166 provides penalty only for male directors not for females.

On the basis of provisions of the General Clauses Act, 1897 and facts of the case, the provisions of section 166 of the Companies Act, 2013, are not only applicable to males but also to females. Therefore, Mrs. Neelu Chandra is **bound to comply** by section 166 of the Companies Act, 2013.

Question 33

Explain the following with reference to the provisions of the General Clauses Act, 1897:
(i) Movable Property
(ii) Oath

[MTP May'24 - 4 marks]

Answer

(i) Movable Property

According to **section 3(36)** of the General Clauses Act, 1897, 'Movable Property' shall mean property of every description, **except immovable property**.
Thus, any property which is not immovable property is movable property. Debts, share, electricity are movable property.

(ii) Oath

According to **section 3(37)** of the General Clauses Act, 1897, 'Oath' shall include **affirmation and declaration** in the case of persons by law allowed to affirm or declare **instead of swearing**.

Question 34

Mr. Chaggan Lal is an importer dealing in luxury perfumes. Recently, a new enactment was passed which imposes a duty of 15% on the value of luxury goods, including perfumes. Now Mr. Chaggan Lal has approached you to explain to him the provisions in relation to 'Duty to be taken pro rata in enactments' of the General Clauses Act, 1897. Also, help him to calculate the amount of duty on a Shipment of 100 bottles of perfumes, each valued at $50.

[RTP Sept'24]

OR

Under an enactment, an excise duty of ₹ 10 is levied on every 100 litres of a certain chemical produced in a factory. During inspection, it was found that Factory A had produced 350 litres of that chemical but had paid duty only for 300 litres, arguing that the Act only specifies duty per 100 litres and does not mention fractional quantities.

With reference to the General Clauses Act, 1897, determine whether the factory is liable to pay excise duty on the remaining 50 litres. Support your answer with reasoning.

[Jan'26 - 4 Marks]

Answer

According to **section 12** of the General Clauses Act, 1897, where, by any enactment now in force or hereafter to be in force, **any duty of customs or excise** or in the nature thereof, is leviable on any given quantity, by weight, measure or value of any goods or merchandise, then a like duty is leviable according to the **same rate on any greater or less** quantity.

The amount of duty would be= (100* 50)*15%= **$750**.

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Question 35

Mr. M issued a cheque of Rs. 3,00,000 dated 31.12.2023 at 10 a.m. to Mr. N as a consideration towards the medical services provided by the later. Mr. N presented the above cheque on 31.03.2024 during the banking business hours. The cheque was dishonoured taking the plea that it was not presented within the requisite time of 3 months as provided under Section 138 of the Negotiable Instruments Act 1881.
Referring to the provisions of the General Clauses Act, 1897 decide, whether the plea for dishonouring the cheque was valid.

[May 24 - 2 marks]

Answer

As per the section 9 of the General Clauses Act, 1897, in case any legislation or Regulation, it shall be sufficient, for the purpose of excluding the first in a series of days or any other period of time, to use the word "from", and, for the purpose of including the last in a series of days or any other period of time, to use the word "to".

The first day in series is 31.12.2023 and last day is 31.03.2024. Hence, applying the above provisions, 31.12.2023 is to be excluded and 31.03.2024 is to be included in calculation as per the General Clauses Act, 1897.

Since, the cheque has been presented within 3 months i.e. on 31.03.2024, it is eligible for honor and payment. Hence, the plea of dishonouring the cheque is not valid.

Question 36

In 2022, the Central Government enacted the "Digital Communications Act" to regulate and manage digital communications across the country. The Act provides specific duties and responsibilities for the Director of Digital Communications, including the oversight of digital infrastructure, enforcement of regulations, and ensuring compliance with data protection standards.

In 2023, the Director of Digital Communications, Mr. Arjun Patel, was appointed to lead the implementation of this Act. However, in January 2024, Mr. Patel took a medical leave of absence for six months. During his absence, Ms. Priya Sharma, the Deputy Director of Digital Communications, was lawfully assigned to perform the duties of the Director.

While Mr. Patel was on leave, a major data breach incident occurred involving a significant violation of the Digital Communications Act. Ms. Sharma took immediate action to investigate the breach, enforce penalties, and implement new compliance measures to prevent future incidents.

The actions taken by Ms. Sharma, while performing the duties of the Director, led to a legal challenge. The opposing party argued that only the Director, as specified in the Act, had the authority to enforce such penalties and measures, and that Ms. Sharma's actions were not valid.
Analyze the validity of Ms. Priya Sharma's actions in the context of the General Clauses Act, 1897, considering the provisions related to 'Official chiefs and subordinates'.

[MTP Sept'24- 4 marks]

Answer

Official Chiefs and subordinates

According to section 19 of the General Clauses Act, 1897, a law relative to the chief or superior of an office shall apply to the deputies or subordinates lawfully performing the duties of that office in the place of their superior, to prescribe the duty of the superior.

In the instant case, Ms. Priya, the Deputy Director of Digital Communications, was lawfully assigned to perform the duties of the Director. Hence, the actions taken by Ms. Priya Sharma were valid.

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Question 37

Define the term 'person' as per the General Clauses Act, 1897. Discuss which of the following will be treated as a person:

(i) An idol

(ii) A public body

(iii) A company

[Jan'25 - 4 marks]

Answer

Definition of the term "Person"

As per section 3(42) of the General Clauses Act, 1897, "Person" shall include:

- any company, or
- an association, or
- body of individuals, whether incorporated or not.

From the above definition, we can conclude:

(i) An Idol: An idol is a juristic person. A juristic person is a legal entity with a legal personality that is recognized by law. Hence, an idol is a person.

(ii) A Public Body: A public body to be a person need not always be set-up by the statute. It may be set-up by the Government by exercising its executive function. A public body is a legal entity and is treated as a "person."

(iii) A Company: The definition of person includes a company. Thus, a company is a person.

Question 38

Dream Builders Limited was engaged in the activity of building and selling budget friendly apartments. It recently started a new project at Noida. Pending approval, the builders started the construction work. On verification of documents, the Corporation of Noida refused to sanction the permission, and the Assistant Commissioner Mr. S issued a demolition order, signed by him under his authority.

The builders filed an appeal at the court and stayed the demolition. After 6 months of court trials, the verdict was announced in favour of the Corporation of Noida, Mr. G, the present Assistant Commissioner initiated the demolition process.

The builders argued that the order was passed by Mr. S and since he is no longer in the authority, the order stands cancelled and Mr. G cannot demolish the construction.

Referring to the provisions of the General Clauses Act, 1897, determine the validity of the claim of the builders.

[May'25 - 4 marks]

Answer

As per Section 17 of the General Clauses Act, 1897, in any Central Act or Regulation made after the commencement of this Act, it shall be sufficient, for the purpose of indicating the application of a law to every person or number of persons for the time being executing the functions of an office, to mention the official title of the officer at present executing the functions, or that of the officer by whom the functions are commonly executed.

As per Section 18 of the General Clauses Act, 1897, in any Central Act or Regulation made after the commencement of this Act, it shall be sufficient, for the purpose of indicating the relation of a law to the successors of any functionaries or of corporations having perpetual succession, to express its relation to the functionaries or corporations.

In other words, the General Clauses Act, 1897, provides general definitions and rules for interpreting laws, particularly Central Acts and Regulations. Section 18 specifically deals with the continuity of laws when a

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functionary is replaced. It clarifies that when a law refers to a specific official, it's not limited to that individual but extends to their successors.

This means that if a law grants power to a particular officer, that power also extends to their successor, unless explicitly stated otherwise. A successor in office can generally continue a case under the General Clauses Act, and this is also related to the doctrine of merger.

As per Section 18, the power to appoint includes the power to appoint ex-officio, meaning the authority is attached to the office, not the individual. Further, under Section 17, official acts continue to remain valid despite changes in officeholders.

As per the facts of the question and a combined reading of Sections 17 and 18 of the General Clauses Act, 1897, Mr. G, in his capacity as the current Assistant Commissioner, is legally competent to order the demolition of the construction. This is because the original order was issued by Mr. S, the former Assistant Commissioner, in his official capacity, and the authority to act continues with the office, not the individual.

Hence, the claim of Dream Builders Limited is not valid.

Question 39

ABC Ltd. is in the business of manufacturing life-saving drugs. The company has its plant in Kerala. The turnover of the last financial year has crossed ₹52 crore. During the first quarter of the current financial year (2024–2025), the company's turnover has already reached ₹50 crore. ABC Ltd. is expecting its turnover to reach ₹200 crore for the financial year 2024–25.

The company held its Board meeting on August 1, 2024, and decided to appoint a cost auditor for the financial year 2024–25.

1. According to the General Clauses Act, 1897, by what date must ABC Ltd. file the cost auditor appointment, and how is this timeline calculated?
2. ABC Limited's failure to appoint a cost auditor, where it is statutorily required, constitutes an offence under Section 148 of the Companies Act, 2013. What is meant by "offence" under the General Clauses Act, 1897?

[Jan'26 – 4 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

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13 Interpretation of Statutes

Question 1

Give the difference between interpretation and construction.

[MTP March 18, March 21, May 24 - 4 marks]

Answer

Difference between Interpretation and Construction-

Interpretation differs from construction. Interpretation is of finding out the true sense of any form and the construction is the drawing of conclusion respecting subjects that lie beyond the direct expression of the text.

When the legislature uses certain words which have acquired a definite meaning over a period of time, it must be assumed that those words have been used in the same sense.

Thus, where the Court adheres to the plain meaning of the language used by the legislature, it would be 'interpretation' of the words, but where the meaning is not plain, the court has to decide whether the wording was meant to cover the situation before the court. Here the court would be resorting to what is called 'construction'.

However, the two terms - 'interpretation' and 'construction'- overlap each other and it is rather difficult to state where 'interpretation' leaves off and 'construction' begins.

It would also be worthwhile to note, at this stage itself, the difference between the terms 'Interpretation' and Construction. While more often the two terms are used interchangeably to denote a process adopted by the courts to ascertain the meaning of the legislature from the words with which it is expressed, these two terms have different connotations.

Interpretation is the art of ascertaining the meaning of words and the true sense in which the author intended that they should be understood. It is the drawing of conclusions from a statute that lie beyond the direct expression of the words used therein. [Bhagwati Prasad Kedia v. C.I.T,(2001)]

It is the duty of the courts to give effect to the meaning of an Act when the meaning can be equitably gathered from the words used. Words of legal import occurring in a statute which have acquired a definite and precise sense, must be understood in that sense. (State of Madras v. Gannon Dunkerly Co. AIR 1958)

Conclusions drawn by means of construction are within the spirit though not necessarily within the letter of the law. In practice, construction includes interpretation and the terms are frequently used synonymously.

Question 2

Define Grammatical Interpretation. What are the exceptions to grammatical interpretation?

[May 18, MTP Sept,25, ICAI Module - 4 marks]

Answer

Grammatical Interpretation and its exceptions:

'Grammatical interpretation' concerns itself exclusively with the verbal expression of the law, it does not go beyond the letter of the law. In all ordinary cases, 'grammatical interpretation' is the sole form allowable. The Court cannot take from or add to modify the letter of the law.

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This rule, however, is subject to some exceptions:

(1) Where the letter of the law is logically defective on account of ambiguity, inconsistency or incompleteness.

As regard the defect to ambiguity, the Court is under a duty to travel beyond the letter of the law so as to determine from the other sources the true intention of the legislature.
In the case of the statutory expression being defective on account of inconsistency, the court must ascertain the spirit of the law.

(2) If the text leads to a result which is so unreasonable that it is self-evident that the legislature could not mean what it says, the court may resolve such impasse by inferring logically the intention of the legislature.

Question 3

Explain the principles of "Grammatical Interpretation" and "Logical Interpretation" of a Statute. What are the duties of a court in this regard?

[ICAI Module, MTP March 19, March 21, MTP Nov 22, Nov'22, MTP-1 Nov 23- 3 marks]

Answer

Principles of Grammatical Interpretation and Logical Interpretation:

In order to ascertain the meaning of any law/ statute the principles of Grammatical and Logical Interpretation is applied to conclude the real meaning of the law and the intention of the legislature behind enacting it.

Meaning: Grammatical interpretation concerns itself exclusively with the verbal expression of law. It does not go beyond the letter of the law, whereas Logical interpretation on the other hand, seeks more satisfactory evidence of the true intention of the legislature.

Application of the principles in the court: In all ordinary cases, the grammatical interpretation is the sole form allowable. The court cannot delete or add to modify the letter of the law. However, where the letter of the law is logically defective on account of ambiguity, inconsistency or incompleteness, the court is under a duty to travel beyond the letter of law so as to determine the true intentions of the legislature. So that a statute is enforceable at law, however, unreasonable it may be. The duty of the court is to administer the law as it stands rather it is just or unreasonable.

However, if there are two possible constructions of a clause, the courts may prefer the logical construction which emerges from the setting in which the clause appears and the circumstances in which it came to be enacted and also the words used therein.

Question 4

How will you interpret the term "Instrument" used in a statutes?

[Nov 19 – 3 marks]

Answer

'Instrument': In common parlance, 'instrument' means a formal legal document which creates or confirms a right or records a fact. It is a formal writing of any kind, such as an agreement, deed, charter or record, drawn up and executed in a technical form.

It also means a formal legal document having legal effect, either as creating liability or as affording evidence of it. Section 2(14) of the Indian Stamp Act, 1899 states that 'instrument' includes every document by which any right or liability is or purports to be created, transferred, extended, extinguished or recorded.

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Question 5

Explain how does 'natural and grammatical meaning' helps in the interpretation of a statute?

[MTP March'18]

Answer

Natural and grammatical meaning: Statute are to be first understood in their natural, ordinary, or popular sense and must be construed according to their plain, literal and grammatical meaning. If there is an inconsistency with any express intention or declared purpose of the statute, or it involves any absurdity, repugnancy, inconsistency, the grammatical sense must then be modified, extended or abridged only to avoid such an inconvenience, but no further. [(State of HP v. Pawan Kumar (2005)]

Example: In a question before the court whether the sale of betel leaves was subject to sales tax. In this matter the Supreme Court held that betel leaves could not be given the dictionary, technical or botanical meaning when the ordinary and natural meaning is clear and unambiguous. Being the word of everyday use, it must be understood in its popular sense by which people are conversant with it as also the meaning which the statute dealing with the matter would attribute to it. Therefore, the sale of betel leaves was liable to sale tax. (Ramavtar V. Assistant Sales Tax Officer).

Question 6

Briefly explain the meaning and application of the rule of "Harmonious Construction" in the interpretation of statutes?

[MTP Aug 18]

Answer

Meaning of rule of Harmonious Construction:

When there is doubt about the meaning of the words of a statute, these should be understood in the sense in which they harmonise with the subject of the enactment and the object which the legislature had in view.

Where there are in an enactment two or more provisions which cannot be reconciled with each other, they should be so interpreted, wherever possible, as to give effect to all of them. This is what is known as the Rule of Harmonious Construction.

It must always be borne in mind that a statute is passed as a whole and not in sections and it may well be assumed to be animated by one general purpose and intent. The Court's duty is to give effect to all the parts of a statute, if possible. But this general principle is meant to guide the courts in furthering the intent of the legislature, not overriding it.

Application of the Rule: The Rule of Harmonious Construction is applicable only when there is a real and not merely apparent conflict between the provisions of an Act, and one of them has not been made subject to the other. When after having construed their context the words are capable of only a single meaning, the rule of harmonious construction disappears and is replaced by the rule of literal construction.

Question 7

Explain the rule in 'Heydon's Case' while interpreting the statutes quoting an example.

[ICAI Module, MTP March 21, MTP Sept'25 - 4 marks]

OR

Explain 'Mischieve Rule' for interpretation of statute. Also, give 4 matters it considers in construing an Act

Answer

Where the language used in a statute is capable of more than one interpretation, the most firmly established rule for construction is the principle laid down in the Heydon's case. This rule enables, consideration of four matters in constituting an act:

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(1) what was the law before making of the Act,
(2) what was the mischief or defect for which the law did not provide,
(3) what is the remedy that the Act has provided, and
(4) what is the reason for the remedy.

The rule then directs that the courts must adopt that construction which 'shall suppress the mischief and advance the remedy. Therefore, even in a case where the usual meaning of the language used falls short of the whole object of the legislature, a more extended meaning may be attributed to the words, provided they are fairly susceptible of it.

If the object of any enactment is public safety, then its working must be interpreted widely to give effect to that object. Thus in the case of Workmen's Compensation Act, 1923 the main object being provision of compensation to workmen, it was held that the Act ought to be so construed, as far as possible, so as to give effect to its primary provisions.

However, it has been emphasized by the Supreme Court that the rule in Heydon's case is applicable only when the words used are ambiguous and are reasonably capable of more than one meaning [CIT v. Sodra Devi (1957)].

Question 8

What is the purpose of inclusion of "definitions" of certain words and expressions in the body of any statute?

[Sept'24 - 4 marks]

Answer

Purpose of inclusion of 'definition' of certain words and expressions in the body of any statute

The legislature has the power to embody in a statute itself the definitions of its language and it is quite common to find in the Statutes 'definitions' of certain words and expressions used in the body of the statute.

When a word or phrase is defined as having a particular meaning in the enactment, it is that meaning alone which must be given to it in interpreting a Section of the Act unless there be anything repugnant in the context. This is called an exhaustive definition. The Court cannot ignore an exhaustive statutory definition and try and extract what it considers to be the true meaning of the expression independently of it.

The purpose of a definition clause is two-fold:
(i) to provide a key to the proper interpretation of the enactment, and
(ii) to shorten the language of the enacting part by avoiding repetition of the same words contained in the definition part every time the legislature wants to refer to the expressions contained in the definition.

Question 9

'The meaning of a word is to be judged by the company it keeps'. Explain the concept of 'Noscitur A Sociis'.

[MTP May 20, May'25, MTP Jan'26 - 4 marks]

OR

"Associate words to be understood in common sense manner". Explain this statement with reference to rules of interpretation statutes.

[Nov 20, MTP Nov 22, MTP-2 Nov 23, RTP Jan'26 - 3 marks]

Answer

Associated Words to be Understood in Common Sense Manner:

Concept of 'Noscitur A Sociis' ('it is known by its associates') - that is to say 'the meaning of a word is to be judged by the company it keeps'. When two or more words which are capable of analogous (similar or parallel) meaning are coupled together, they are to be understood in their cognate sense (i.e. akin in origin, nature or quality). They take their colour from each other, i.e., the more general is restricted to a sense analogous to the less general.

It is a rule wider than the rule of ejusdem generis, rather ejusdem generis is only an application of the noscitur a sociis. It must be borne in mind that noscitur a sociis, is merely a rule of construction and it cannot prevail in cases where it is clear that the wider words have been deliberately used in order to make the scope of the defined word correspondingly wider.

For example, in the expression 'commercial establishment means an establishment which carries on any business, trade or profession', the term 'profession' was construed with the associated words 'business' and 'trade' and it was held that a private dispensary was not within the definition. (Devendra M. Surti (Dr.) vs. State of Gujrat).

Question 10

Sohel, a director of a Company, not being personally concerned or interested, financially or otherwise, in a matter of a proposed motion placed before the Board Meeting, did not disclose his interest although he has knowledge that his sister is interested in that proposal. He restrains from making any disclosure of his interest on the presumption that he is not required by law to disclose any interest as he is not personally interested or concerned in the proposal. He made his presumption relying on the 'Rule of Literal Construction'. Explaining the scope of interpretation under this rule in the given situation, decide whether the decision of Sohel is correct?

[Jan 21, MTP-1 May 23 - 3 marks]

Answer

Rule of Literal Construction:

Normally, where the words of a statute are in themselves clear and unambiguous, then these words should be construed in their natural and ordinary sense and it is not open to the court to adopt any other hypothetical construction. This is called the rule of literal construction.

This principle is contained in the Latin maxim "*absoluta sententia expositore non indeget*" which literally means "an absolute sentence or preposition needs not an expositor". In other words, plain words require no explanation.

Sometimes, occasions may arise when a choice has to be made between two interpretations - one narrower and the other wider or bolder. In such a situation, if the narrower interpretation would fail to achieve the manifest purpose of the legislation, one should rather adopt the wider one.

When we talk of disclosure of 'the nature of concern or interest, financial or otherwise' of a director or the manager of a company in the subject-matter of a proposed motion (as referred to in section 102 of the Companies Act, 2013), we have to interpret in its broader sense of referring to any concern or interest containing any information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decisions thereon.

What is required is a full and frank disclosure without reservation or suppression, as, for instance where a son or daughter or father or mother or brother or sister is concerned in any contract or matter, the shareholders ought fairly to be informed of it and the material facts disclosed to them. Here a restricted narrow interpretation would defeat the very purpose of the disclosure.

In the given question, Sohel (a director) did not disclose his interest in a matter placed before the Board Meeting (in which his sister has interest), as he is not personally interested or concerned in the proposal. Here, he ought to have considered broader meaning of the provision of law; and therefore, even though he was personally not interested or concerned in the proposal, he should have disclosed the interest.

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Question 11

Explain the meaning of term 'Proviso'. Give the distinction between proviso, exception and Saving Clause.

[RTP May 18]

OR

Write short note on:
(i) Proviso
(ii) Explanation,
with reference to interpretation of Statutes, Deeds and Documents.

[MTP Sept 24- 4 marks]

Answer

Proviso: The normal function of a proviso is to except something out of the enactment or to qualify something stated in the enactment which would be within its purview if the proviso were not there. The effect of the proviso is to qualify the preceding enactment which is expressed in terms which are too general. As a general rule, a proviso is added to an enactment to qualify or create an exception to what is in the enactment. Ordinarily a proviso is not interpreted as stating a general rule.

It is a cardinal rule of interpretation that a proviso to a particular provision of a statute only embraces the field which is covered by the main provision. It carves out an exception to the main provision to which it has been enacted as a proviso and to no other. (Ram Narain Sons Ltd. vs. Assistant Commissioner of Sales Tax).

Distinction between Proviso, exception and saving Clause

There is said to exist difference between provisions worded as 'Proviso', 'Exception', or 'Saving Clause'.

Exception	Proviso	Saving Clause
Exception' is intended to restrain the enacting clause to particular cases	'Proviso' is used to remove special cases from general enactment and provide for them specially	'Saving clause' is used to preserve from destruction certain rights, or privileges already existing

Short note on Explanation: **[Answer to Alternative question (ii)]**

An Explanation is at times appended to a section to explain the meaning of the text of the section. An Explanation may be added to include something within the section or to exclude something from it. An Explanation should normally be so read as to harmonise with and clear up any ambiguity in the main section. It should not be so construed as to widen the ambit of the section.

The meaning to be given to an explanation will really depend upon its terms and not on any theory of its purpose.

Question 12

How far are (i) title and (ii) preamble in an enactment helpful in interpreting any of the parts of an enactment?

[MTP Aug 18]

Answer

i) Title: An enactment would have what is known as 'Short Title' and also a 'Long Title'.
The short title merely identifies the enactment and is chosen merely for convenience.
The 'Long title' describes the enactment and does not merely identify it. The Long title is a part of the Act and, therefore, can be referred to for ascertaining the object and scope of the Act.

ii) Preamble: It expresses the scope and object of the Act more comprehensively than the long title. The preamble may recite the ground and the cause for making a statute and or the evil which is sought to the remedied by it.

The **preamble like the Long title** can legitimately be used for construing it. However, the preamble cannot override the provisions of the Act. Only if the wording of the Act gives rise to doubts as to its proper construction (e.g., where the words or a phrase has more than the one meaning and doubts arise as to which of the two meanings is intended in the Act) the preamble can and ought to be referred to arrive at the proper construction.

Question 13

How far are 'marginal notes' in an enactment helpful in interpreting any of the parts of an enactment?
[MTP Oct 18]

Answer

Marginal Notes: Although there is **difference of opinion** regarding resort to Marginal Notes for construing an enactment, the **generally held view** is that the Marginal Notes appended to a Section **cannot be used for construing** the Section.

In **C.I.T. vs. Ahmedbhai Umarbhai & Co.** (SC), Patanjali Shastri, J., had declared: "Marginal notes in an Indian statute, as in an Act, of Parliament **cannot be referred** to for the purpose of **construing** the statute", and the same view has been taken in many other cases. Many cases show that reference to marginal notes may be permissible in exceptional cases for construing a section in a statute. [Deewan Singh v. Rajendra Pd. Ardevi, (2007), Sarabjit Rick Singh v. Union of India, (2008)]

However, **marginal notes appended to Articles of the Constitution** have been held to be **part of the Constitution** as passed by the Constituent Assembly and therefore have been made use of in **construing the Articles**.

Example: Article 286 of the constitution furnishing "**prima facie**", some clue as to the meaning and purpose of the Article [Bengal Immunity Co. Ltd. v. State of Bihar (SC)]

Question 14

Does an **explanation** added to a section **widen the ambit** of a section?
[ICAI Module, May 2022, MTP 2 May'23, Nov'18, MTP May'25 - 4 marks]

Answer

Sometimes an explanation is added to a section of an Act for the purpose of **explaining the main provisions** contained in that section. If there is **some ambiguity** in the provisions of the main section, the explanation is inserted to **harmonise and clear up** any ambiguity in the main section. Something may be added to (or something may be excluded from) the main provision by insertion of an explanation. But the explanation should **not be construed to widen** the ambit of the section.

Question 15

What does the principle of "reading the statute as a whole" imply in the interpretation of statutes? Explain with the help of an example.
[RTP May'24, RTP Nov 18, MTP May'24 - 4 marks]

Answer

Read the Statute as a Whole: It is the **elementary principle** that construction of a statute is to be made of **all its parts taken together** and not of one part only. The deed/ statute must be **read as a whole** in order to ascertain the true meaning of its several clauses, and the words of each clause should be so interpreted as to bring them into **harmony** with other provisions - if that interpretation does no violence to the meaning of which they are naturally susceptible. And the same approach would apply with equal force with regard to Acts and Rules passed by the legislature.

One of the **safest guides** to the construction of **sweeping general words** is to examine other words of like import in the same enactment or instrument to see what limitations must be imposed on them. If we find that a number of such expressions have to be subjected to limitations and qualifications and that such limitations and qualifications are of the same nature, that circumstance forms a strong argument for subjecting the expression in dispute to a similar limitation and qualification.

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Example: If one section of an Act requires 'notice' should be given, then a verbal notice would generally be sufficient. But, if another section provides that 'notice' should be 'served' on the person or 'left' with him, or in a particular manner or place, then it would obviously indicate that a written notice was intended.

Question 16

Gaurav Textile Company Limited has entered into a contract with a Company. You are invited to read and interpret the document of contract. What rules of interpretation of deeds and documents would you apply while doing so?

[ICAI Module]

Answer

The rules regarding interpretation of deeds and documents are as follows:

First and the foremost point that has to be borne in mind is that one has to find out what reasonable man, who has taken care to inform himself of the surrounding circumstances of a deed or a document, and of its scope and intendments, would understand by the words used in that deed or document. It is inexpedient to construe the terms of one deed by reference to the terms of another. Further, it is well established that the same word cannot have two different meanings in the same documents, unless the context compels the adoption of such a rule.

The Golden Rule is to ascertain the intention of the parties of the instrument after considering all the words in the documents/deed concerned in their ordinary, natural sense. For this purpose, the relevant portions of the document have to be considered as a whole.

The circumstances in which the particular words have been used have also to be taken into account. Very often, the status and training of the parties using the words have also to be taken into account as the same words maybe used by an ordinary person in one sense and by a trained person or a specialist in quite another sense and a special sense. It has also to be considered that very many words are used in more than one sense. It may happen that the same word understood in one sense will give effect to all the clauses in the deed while taken in another sense might render one or more of the clauses ineffective. In such a case the word should be understood in the former and not in the latter sense.

It may also happen that there is a conflict between two or more clauses of the same documents. An effect must be made to resolve the conflict by interpreting the clauses so that all the clauses are given effect. If, however, it is not possible to give effect of all of them, then it is the earlier clause that will override the latter one.

Question 17

How will you interpret the definitions in a statute, if the following words are used in a statute?

(i) Means

(ii) Includes

Give one illustration for each of the above from statutes you are familiar with.

[ICAI Module, RTP Nov 22, MTP Nov 22, MTP-2 Nov 23, MTP May 24, MTP Jan'26 - 4 marks]

Answer

Interpretation of the words "Means" and "Includes" in the definitions:

The definition of a word or expression in the definition section may either be restricting of its ordinary meaning or may be extensive of the same. When a word is defined to 'mean' such and such, the definition is 'prima facie' restrictive and exhaustive, we must restrict the meaning of the word to that given in the definition section.

But where the word is defined to 'include' such and such, the definition is 'prima facie' extensive, here the word defined is not restricted to the meaning assigned to it but has extensive meaning which also includes the meaning assigned to it in the definition section.

Example:

Definition of Director [section 2(34) of the Companies Act, 2013] Director means a director appointed to the board of a company. The word "means" suggests exhaustive definition.

Definition of Whole-time director [Section 2(94) of the Companies Act, 2013]: Whole time director includes a director in the whole time employment of the company. The word "includes" suggests extensive definition. Other directors may be included in the category of the whole time director.

Question 18

Differentiate Mandatory Provision from a Directory Provision. What factors decide whether a provision is directory or mandatory?

[ICAI Module]

Answer

Practically speaking, the distinction between a provision which is 'mandatory' and one which is 'directory' is that when it is mandatory, it must be strictly observed; when it is 'directory' it would be sufficient that it is substantially complied with.

However, we have to look to the substance and not merely the form, an enactment in mandatory form might substantially be directory and, conversely, a statute in directory form may in substance be mandatory.

Hence, it is the substance that counts and must take precedence over mere form. If a provision gives a power coupled with a duty, it is mandatory: whether it is or not so would depend on such consideration as:

-the nature of the thing empowered to be done,
-the object for which it is done, and
-the person for whose benefit the power is to be exercised.

Question 19

Explain the rule which suggests that the 'Plain word requires no explanation' and 'Technical words be understood in technical sense only'.

[Sept'24, MTP Jan'26 - 4 marks]

Answer

Rule that suggests 'Plain Word requires no explanation'

This Rule is called "Rule of Literal Construction".

It is a cardinal rule of construction that a statute must be construed literally and grammatically giving the words their ordinary and natural meaning. Therefore, the language used in the statute must be construed in its grammatical sense. The correct course is to take the words themselves and arrive if possible, at their meaning without reference to cases, in the first instance.

If the phraseology of a statute is clear and unambiguous and capable of one and only one interpretation, then it would not be correct to extrapolate these words out of their natural and ordinary sense. When the language of a statute is plain and unambiguous it is not open to the courts to adopt any other hypothetical construction simply with a view to carrying out the supposed intention of the legislature. This principle is contained in the Latin maxim "*absoluta sententia expositore non indiget*" which literally means "an absolute sentence or preposition needs not an expositor". In other words, plain words require no explanation.

Sometimes, occasions may arise when a choice has to be made between two interpretations- one narrower and the other wider or bolder. In such a situation, if the narrower interpretation would fail to achieve the manifest purpose of the legislation, one should rather adopt the wider one.

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Technical words are to be understood in a Technical sense only

This point of literal construction is that technical words are understood in the technical sense only. In construing the word 'practice' in the Supreme Court Advocates Act, 1951, it was observed that practice of law generally involves the exercise of both the functions of acting and pleading on behalf of a litigant party.

When legislature confers upon an advocate the right to practice in a court, it is legitimate to understand that expression as authorizing him to appear and plead as well as to act on behalf of suitors in that court. (Ashwini Kumar Ghose v. Arabinda Bose AIR 1952 SC 369).

Question 20

Explain how 'Dictionary Definitions' can be of great help in interpreting/ constructing an Act when the statute is ambiguous.

[ICAI Module, Nov 18, MTP Oct 18, April 19, Oct 19, MTP Sept'25 - 4 marks]

Answer

Dictionary Definitions: First, we refer to the Act in question to find out if any particular word or expression is defined in it. Where we find that a word is not defined in the Act itself, we may refer to dictionaries to find out the general sense in which that word is commonly understood. However, in selecting one out of the several meanings of a word, we must always take into consideration the context in which it is used in the Act.

It is the fundamental rule that the meanings of words and expressions used in an Act must take their color from the context in which they appear.

Further, judicial decisions laying down the meaning of words in construing statutes in "pari materia" (i.e., on the same matter) will have greater weight than the meaning furnished by dictionaries. However, for technical terms, reference may be made to technical dictionaries.

Question 21

Preamble does not over-ride the plain provision of the Act. Comment. Also give suitable example.

[ICAI Module, MTP Sept'25 - 4 marks]

Answer

Preamble: The Preamble expresses the scope, object and purpose of the Act more comprehensively. The Preamble of a Statute is a part of the enactment and can legitimately be used as an internal aid for construing it. However, the Preamble does not over-ride the plain provision of the Act.

But if the wording of the statute gives rise to doubts as to its proper construction, for example, where the words or phrase has more than one meaning and a doubt arises as to which of the two meanings is intended in the Act, the Preamble can and ought to be referred to in order to arrive at the proper construction.

In short, the Preamble to an Act discloses the primary intention of the legislature but can only be brought in as an aid to construction if the language of the statute is not clear. However, it cannot override the provisions of the enactment.

Example: Use of the word 'may' in section 5 of the Hindu Marriage Act, 1955 provides that "a marriage may be solemnized between two Hindu" has been construed to be mandatory in the sense that both parties to the marriage must be Hindus as defined in section 2 of the Act. It was held that a marriage between a Christian male and a Hindu female solemnized under the Hindu Marriage Act was void. This result was reached also having regard to the preamble of the Act which reads: 'An Act to amend and codify the law relating to marriage among Hindus" [GullipoliSowria Raj V. BandaruPavani, (2009)].

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Question 22

When can the Preamble be used as an aid to interpretation of a statute?

[May'23, ICAI Module, MTP-2 May 23, RTP May 23, MTP May'25 - 4 marks]

Answer

While the Preamble can be used to know the aims and objects of the legislation it cannot be used to control or qualify the precise and unambiguous language of an enactment. The preamble is the key to the mind of the maker of the law, but it cannot override in order to enlarge or restrict the enacting provision of the Act.

A provision contained in the Act cannot be considered as invalid because they do not accord with the preamble, which is only a brief summary of legislative objectives behind the Act, and if there is any conflict between the preamble and any provision of an Act, the provision prevails. The preamble merely affords help in the matter of construction if there is any ambiguity. Where the language of the Act is clear, the court is bound to give it effect.

When will courts refer to the preamble as an aid to construction?

Situation 1: Where there is any ambiguity in the words of an enactment the assistance of the preamble may be taken to resolve the conflict.

Situation 2: Where the words of an enactment appear to be too general in scope or application then courts may resort to the preamble to determine the scope or limited application for which the words are meant.

Question 23

At the time of interpreting a statutes what will be the effect of 'Usage' or 'customs and Practices'?

[ICAI Module, Nov 23 - 3 marks]

Answer

Effect of usage: Usage or practice developed under the statute is indicative of the meaning recognized to its words by contemporary opinion. A uniform notorious practice continued under an old statute and inaction of the Legislature to amend the same are important factors to show that the practice so followed was based on correct understanding of the law. When the usage or practice receives judicial or legislative approval it gains additional weight.

In this connection, we have to bear in mind two Latin maxims:

(i) 'Optima Legum interpres est consuetude' (the custom is the best interpreter of the law); and

(ii) 'Contemporanea Expositio est optima et fortissinia in lege' (the best way to interpret a document is to read it as it would have been read when made).

Therefore, the best interpretation/construction of a statute or any other document is that which has been made by the contemporary authority. Simply stated, old statutes and documents should be interpreted as they would have been at the time when they were enacted/written. Contemporary official statements throwing light on the construction of a statute and statutory instruments made under it have been used as contemporanea expositio to interpret not only ancient but even recent statutes in India.

Question 24

Repeated question. Merged with other questions.

Question 25

If it is defined as:

(i) "Company means a company incorporated under the Companies Act, 2013 or under any previous company Law".

(ii) "Person" includes, _____ under the Consumer Protection Act,1986.

How would you interpret/construct the nature and scope of the above definitions?

[Nov 19, MTP Oct 20, RTP May 21]

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Answer

Restrictive and extensive definitions: The definition of a word or expression in the definition section may either be restricting of its ordinary meaning or may be extensive of the same.
When a word is defined to 'mean' such and such, the definition is 'prima facie' restrictive and exhaustive, we must restrict the meaning of the word to that given in the definition section.

But where the word is defined to 'include' such and such, the definition is 'prima facie' extensive: here the word defined is not restricted to the meaning assigned to it but has extensive meaning which also includes the meaning assigned to it in the definition section.

Thus,

(i) The definition is restrictive and exhaustive to the effect that only an entity incorporated under the Companies Act, 2013 or under any previous Companies Act, shall deemed to be company.

(ii) The definition is inclusive in nature, thereby the meaning assigned to the respective word (here 'person') is extensive. It has a wider scope to include other terms into the ambit of the definition having regard to the object of the definition.

Question 26

In what way are the following terms considered as external aid in the interpretation of statutes:
(i) Historical Setting
(ii) Use of Foreign Decisions

[MTP Nov 22, July 21, RTP Nov 19, MTP-2 Nov 23, MTP May 24 - 4 marks]

Answer

(i) Historical Setting: The history of the external circumstances which led to the enactment in question is of much significance in construing any enactment. We have, for this purpose, to take help from all those external or historical facts which are necessary in the understanding and comprehension of the subject matter and the scope and object of the enactment. History in general and Parliamentary History in particular, ancient statutes, contemporary or other authentic works and writings all are relevant in interpreting and construing an Act.

(ii) Use of Foreign Decisions: Foreign decisions of countries following the same system of jurisprudence as ours and given on laws similar to ours can be legitimately used for construing our own Acts. However, prime importance is always to be given to the language of the Indian statute. Further, where guidance can be obtained from Indian decisions, reference to foreign decisions may become unnecessary.

Question 27

What is External Aid to interpretation? Explain how the Dictionary definitions are the External Aids to Interpretations?

[Jan 21, MTP Jan'26 - 4 Marks]

Answer

External aids are the factors that help in interpreting/construing an Act and have been given the convenient nomenclature of 'External Aids to Interpretation'. Apart from the statute itself there are many matters which may be taken into account when the statute is ambiguous. These matters are called external aids.

Dictionary Definitions: Dictionary Definitions is one of the External Aids to interpretation. Discussed in previous answers in detail.

Question 28:

Enumerate when does the rule of Ejusdem Generis apply.

[MTP Nov 22, MTP-1 Nov 23 - 3 marks]

Answer

The rule of Ejusdem Generis applies when:

1. The statute contains an enumeration of specific words
2. The subject of enumeration constitutes a class or category
3. That class or category is not exhausted by the enumeration
4. General terms follow the enumeration; and
5. There is no indication of a different legislative intent.

Question 29

Explain in reference to Interpretation of Statutes, the cases where Rule of Ejusdem Generis will not apply. [Nov 22 – 3 marks]

Answer

The Rule of Ejusdem Generis will not apply in the following situations:

1	If the preceding term is general, as well as that which follows this rule cannot be applied.
2	Where the particular words exhaust the whole genus.
3	Where the specific objects enumerated are essentially diverse in character.
4	Where there is an express intention of legislature that the general term shall not be read ejusdem generis the specific terms.

Question 30

Explain the following in context of use of definitional sections in Interpretation of Statutes:

(i) Definitions subject to a contrary context

(ii) Ambiguous definitions

[MTP-1 May 23 – 3 marks]

Answer

(i) Definitions subject to a contrary context: When a word is defined to bear a number of inclusive meanings, the sense in which the word is used in a particular provision must be ascertained from the context of the scheme of the Act, the language of the provision and the object intended to be served thereby.

(ii) Ambiguous definitions: Sometime, we may find that the definition section may itself be ambiguous, and so it may have to be interpreted in the light of the other provisions of the Act and having regard to the ordinary meaning of the word defined. Such type of definition is not to be read in isolation. It must be read in the context of the phrase which it defines, realising that the function of a definition is to give accuracy and certainty to a word or phrase which would otherwise be vague and uncertain but not to contradict it or depose it altogether.

Question 31

Explain the Doctrine of Contemporanea Expositio.

[May'23, Sept'25 – 4 marks]

Answer

Doctrine of Contemporanea Expositio

This doctrine is based on the concept that a statute or a document is to be interpreted by referring to the exposition it has received from contemporary authority. The maxim "Contemporanea Expositio est optima et fortissinia in lege" means "contemporaneous exposition is the best and strongest in the law." This means a law should be understood in the sense in which it was understood at the time when it was passed.

This maxim is to be applied for construing ancient statutes, but not to Acts that are comparatively modern.

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Question 32

Explain the meaning of 'Without Prejudice' as a Harmonious aid to interpretation of statutes. Support your answer with the help of an example.

[RTP Nov 23, Sept'25 - 4 marks]

Answer

When certain particular provisions follow general provisions and when it is stated that the particular provisions are without prejudice to those general provisions, the particular provisions would **not restrict or limit the operation and generality** of the **preceding general provisions**.

In other words, the particular provisions shall **operate in addition to and not in derogation** of the general provisions. Example: Section 4(3) of the Companies Act, 2013, "Without prejudice to the provisions of sub-section (2), a company shall not be registered with a name which contains....."

This implies that while registering (and deciding) the name of the company [as per section 4(3)], provisions of section 4(2) shall also be operative.

Question 33:

A clause that begins with the words "notwithstanding anything contained" is a clause, that has the effect of making the provision prevail over others. It can operate at four levels. Explain any two of them.

[Nov'23 - 4 marks]

OR

Imagine you are a legal advisor for a company drafting a new contract. One of the clauses in the contract states: "Notwithstanding anything contained in any other provisions of this agreement, the company reserves the right to terminate the agreement without notice if there is a breach of confidentiality by the employee." Explain to the management of the company the meaning of a non-obstante clause in legal documents and its effect on overriding other provisions with reference to decided case law.

[RTP Sept 2024, Sept'25]

Answer

A clause that begins with the words 'notwithstanding anything contained' is called a **non-obstante** clause. Unlike the 'subject to' clause, the notwithstanding clause has the effect of making the **provision prevail over others**. When this term is used then the clause will prevail over the other provision(s) mentioned therein. (**K. Parasurammaiah Vs. Pakari Lakshman**)

A notwithstanding clause can operate at four levels.

S. No.	Clause	Effect
1.	Notwithstanding anything contained in another section or sub- section of that statute.	The clause will override such other section(s) / sub-section(s)
2.	Notwithstanding anything contained in a statute.	The clause will override the entire enactment.
3.	Notwithstanding anything contained in specific section(s) or sub-section(s) or all the provisions contained in another statute.	The clause will prevail over the other enactment.
4.	Notwithstanding anything contained in any other law for the time being in force.	The clause will override all other laws.

In conclusion, a non-obstante clause plays a crucial role in legal drafting by ensuring that the **specified provision prevails over conflicting provisions**, thereby enhancing legal certainty and consistency in judicial interpretation.

Question 34

In what way is 'Heading and Title of a Chapter' considered as internal aid in the interpretation of statutes.

[MTP May'24 - 4 marks]

Answer

Heading and Title of a Chapter

If we glance through any Act, we would generally find that a number of its sections referring to a particular subject are grouped together, sometimes in the form of chapters, prefixed by headings and/or Titles. These Heading and Titles prefixed to sections or groups of sections can legitimately be referred to for the purpose of construing the enactment or its parts.

The headings of different portions of a Statute can be referred to determine the sense of any doubtful expression in a section ranged under any particular heading.

They cannot control the plain meaning of the words of the enactment though, they may, in some cases be looked at in the light of preamble if there is any ambiguity in the meaning of the sections on which they can throw light.

It may be noted that headings may sometimes be referred to know the scope of a section in the same way as the preamble. But a heading cannot control or override a section.

Question 35:

Explain the term "Generalia specialibus non derogant", in connection with Interpretation of Statutes.

[May 24 - 4 marks]

Answer

It is a basic rule of interpretation that if it is possible to avoid a conflict between two provisions on a proper construction thereof, then it is the duty of the court to so construe them that they are in harmony with each other. But where it is not possible to give effect to both the provisions harmoniously, collision may be avoided by holding that one section which is in conflict with another merely provides for an exception or a specific rule different from the general rule contained in the other. A specific rule will override a general rule. This principle is usually expressed by the maxim, "generalia specialibus non derogant".

However, this rule can be adopted only when there is a real and not merely apparent conflict between provisions, where the words of a statute, on a reasonable construction thereof, admit of one meaning only then such natural meaning will prevail. The court shall not attempt an interpretation based on equity and harmonious construction.

Question 36

"No vehicles are allowed in the park." Comment on the statement, explaining the concept of 'Construction' in legal interpretation. Mention its significance in determining the legal interpretation.

[MTP May'25 - 5 marks]

Answer

In legal interpretation, 'construction' refers to the process of determining the true meaning and intent behind a statute or legal document. It extends beyond the literal words of the text and considers the broader legislative purpose, historical context, and other relevant factors. This method helps courts and legal professionals resolve ambiguities and apply laws in a just and reasonable manner.

As per the stated statement "No vehicles are allowed in the park" can have a strict literal interpretation which would mean that all types of vehicles, including bicycles, baby strollers, and even wheelchairs, are prohibited in the park. However, through legal construction, courts may consider the legislative intent behind the law. If the primary goal is to prevent pollution and ensure pedestrian safety, the restriction may only apply to motorized vehicles, while bicycles and strollers may still be allowed.

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Significance of Construction in Legal Interpretation:

1. Clarifies Legislative Intent: Construction ensures that laws are interpreted in alignment with the intention of the lawmakers rather than relying solely on the literal meaning of the words.
2. Resolves Ambiguities: Many legal texts contain vague or unclear language. Construction helps eliminate confusion and ensures a consistent application of the law.
3. Ensures Justice: By considering context and broader objectives, legal construction prevents unfair or unintended consequences that could arise from rigid literal interpretations.
4. Adapts Laws to Changing Contexts: Societal norms and circumstances evolve over time. Construction allows laws to be interpreted in a way that remains relevant and applicable to modern situations.

Question 37

Ms. Mona employed in X-One Corporation, adopted a three-month-old baby applied for maternity leave under her company's policy, which provided 26 weeks of paid maternity leave. However, her employer rejected the request, stating that maternity leave applies only to biological mothers as per the law. Mona approached the court against the company decision. In related to the above case, explain how the Rule of Beneficial Construction can be applied and interpreted as a welfare legislation?

[MTP May'25 - 5 marks]

Answer

The Rule of Beneficial Construction is a judicial approach used to interpret statutes in a way that best serves their intended purpose, particularly when dealing with welfare legislation. This principle is applied when a legal provision can be understood in more than one way, allowing courts to choose the interpretation that ensures maximum benefit to the intended class of people.

In welfare laws, such as labour laws, social security laws, and laws protecting marginalized communities, this rule helps remove ambiguities and ensures that the law is applied in a just and equitable manner. One area where this rule has been significantly applied is in maternity leave benefits for adoptive mothers.

Maternity leave is an essential right granted to women to allow them time to recover from child birth and care for their new-borns. Laws in many countries, including India, grant paid maternity leave to working women.

However, a strict interpretation of such laws often restricts these benefits only to biological mothers, creating an unfair disadvantage for adoptive mothers who also need time to bond with their adopted child.

The court will apply the Rule of Beneficial Construction, stating that:

1. Purpose Over Literal Meaning: The law's primary objective is child welfare and mother-child bonding, not just post-delivery recovery. Therefore, maternity leave should not be denied based on a narrow interpretation.
2. No Discrimination Between Biological and Adoptive Mothers: Excluding adoptive mothers would create unjust discrimination against working women who adopt, violating the spirit of gender equality.

Hence the court can ruled in favour of the adoptive mother, directing the employer to grant her full maternity leave benefits.

Question 38

What is meant by beneficial construction in statutory interpretation? Under what circumstances the rule of beneficial construction is generally applied?

[RTP Sept'25]

Answer

Beneficial construction is not a strict rule of interpretation but rather a method used to interpret a statute liberally in order to give effect to the declared intention of the legislature, particularly when the statute is enacted to benefit a specific class of people.

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Beneficial construction will be applied to a statute, which brings into effect provisions for improving the conditions of certain classes of people who are under privileged or who have not been treated fairly in the past.

In such cases it is permissible to give an extended meaning to words or clauses in enactments. But this can only be done when two constructions are reasonably possible and not when the words in a statute are quite unequivocal or clear.

Thus, if the language of the statute is clear and unambiguous, the courts must follow the plain meaning and cannot stretch the language beyond its natural meaning.

Question 39

Whether Illustrations will have effect of modifying the language of the section in connection with Interpretation of Statutes? Explain with the help of an example.

[May'25 - 4 marks]

Answer

Illustrations cannot have the effect of modifying the language of the Section and can neither curtail nor expand the ambit of the Section

Many Sections of an Act have illustrations appended to them. These illustrations follow the text of the sections and, therefore, do not form a part of the sections. However, illustrations do form a part of the statute and are considered to be of relevance and value in construing the text of the sections. However, illustrations cannot have the effect of modifying the language of the section and can neither curtail nor expand the ambit of the section.

Example: Section 73 of the Indian Contract Act, 1872 does not permit the award of interest as damages for mere detention of debt. Here, the Privy Council rejected the argument that illustration given in the Act can be used for arriving at a contrary result. It was observed that an illustration cannot have the effect of modifying the language of the section which alone forms the enactment.

Question 40

Write any four differences between the Rule of Beneficial Construction and the Rule of Exceptional Construction.

[Jan'26 - 4 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

Question 41

Statutory interpretation becomes essential when the language of a statute is unclear or leads to ambiguity. Discuss the circumstances under which the interpretation of statutes is applied.

[Jan'26 - 4 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

14 The Foreign Exchange Management Act, 1999

Question 1:

Printex Computer' is a Singapore based company having several business units all over the world. It has a unit for manufacturing computer printers with its Headquarters in Pune. It has a Branch in Dubai which is controlled by the Headquarters in Pune. What would be the residential status under the FEMA, 1999 of printer units in Pune and that of Dubai branch?

[ICAI Module, MTP Sept'25 - 4 marks]

Answer

Printex Computer being a Singapore based company would be person resident outside India [(Section 2(w)]. Section 2 (u) defines 'person' under clause (viii) thereof, as person would include any agency, office or branch owned or controlled by such person. The term such person appears to refer to a person who is included in clause (i) to (vi). Accordingly, Printex unit in Pune, being a branch of a company would be a 'person'.

Section 2(v) defines a person resident in India. Under clause (iii) thereof person resident in India would include an office, branch or agency in India owned or controlled by a person resident outside India. Printex unit in Pune is owned or controlled by a person resident outside India, and hence it, would be a 'person resident in India.'

However, Dubai Branch though not owned is controlled by the Printer unit in Pune which is a person resident in India. Hence, the Dubai Branch is a person resident in India.

Question 2:

Mr. Sane, an Indian National desires to obtain Foreign Exchange for the following purposes:

(i) Remittance of US Dollar 50,000 out of winnings on a lottery ticket.

(ii) US Dollar 100,000 for sending a cultural troupe on a tour of U.S.A.

Advise him whether he can get Foreign Exchange and if so, under what conditions?

[ICAI Module, RTP May'24]

Answer

Under provisions of section 5 of the Foreign Exchange Management Act, 1999 certain Rules have been made for drawal of Foreign Exchange for Current Account transactions. As per these Rules, Foreign Exchange for some of the Current Account transactions is prohibited. As regards some other Current Account transactions, Foreign Exchange can be drawn with prior permission of the Central Government while in case of some Current Account transactions, prior permission of Reserve Bank of India is required.

(i) In respect of item No.(i), i.e., remittance out of lottery winnings, such remittance is prohibited and the same is included in First Schedule to the Foreign Exchange Management (Current Account Transactions) Rules, 2000. Hence, Mr. Sane cannot withdraw Foreign Exchange for this purpose.

(ii) Foreign Exchange for meeting expenses of cultural tour can be withdrawn by any person after obtaining permission from Government of India, Ministry of Human Resources Development, (Department of Education and Culture) as prescribed in Second Schedule to the Foreign Exchange Management (Current Account Transactions) Rules, 2000. Hence, in respect of item (ii), Mr. Sane can withdraw the Foreign Exchange after obtaining such permission.

In all the cases, where remittance of Foreign Exchange is allowed, either by general or specific permission, the remitter has to obtain the Foreign Exchange from an Authorized Person as defined in Section 2(c).

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Question 3:

State which kind of approval is required for the following transactions under the Foreign Exchange Management Act, 1999:

(i) X, a Film Star, wants to perform along with associates in New York on the occasion of Diwali for Indians residing at New York. Foreign Exchange drawal to the extent of $20,000 is required for this purpose.

[MTP May 24 - 4 marks]

(ii) R wants to get his heart surgery done at United Kingdom. Up to what limit Foreign Exchange can be drawn by him and what are the approvals required?

[ICAI Module]

Answer

Approval to the following transactions under FEMA, 1999:

(i) Foreign Exchange drawal for cultural tours require prior permission/approval of the Ministry of Human Resources Development (Department of Education and Culture) irrespective of the amount of foreign exchange required. Therefore, in the given case X, the Film Star is required to seek permission of the said Ministry of the Government of India.

(ii) Individuals can avail of foreign exchange facility within the limit of USD 2,50,000 only. Any additional remittance in excess of the said limit for the expenses requires an approval from RBI. However, in connection with medical treatment abroad, no approval of the Reserve Bank of India is required. Therefore, R can draw foreign exchange up to amount estimated by a medical institute offering treatment.

Question 4:

Referring to the provisions of the Foreign Exchange Management Act, 1999, state the kind of approval required for the following transactions:

(i) M requires U.S. $ 5,000 for remittance towards hiring charges of transponders.

[MTP May'25]

(ii) P requires U.S. $ 2,000 for payment related to call back services of telephones.

[ICAI Module]

Answer

Under section 5 of the Foreign Exchange Management Act, 1999, and Rules relating thereto, some current account transactions require prior approval of the Central Government, some others require the prior approval of the Reserve Bank of India, some are freely permitted transactions and some others are prohibited transactions. Accordingly,

(i) It is a current account transaction, where M is required to take approval of the Central Government for drawal of foreign exchange for remittance of hire charges of transponders.

(ii) Withdrawal of foreign exchange for payment related to call back services of telephone is a prohibited transaction. Hence, Mr. P cannot obtain US $ 2,000 for the said purpose.

Question 5:

Suresh resided in India during the Financial Year 2020-2021. He left India on 15th July 2021 for Switzerland for pursuing higher studies in Biotechnology for 2 years. What would be his residential status under the Foreign Exchange Management Act, 1999 during the Financial Years 2021-2022 and 2022-2023?

Mr. Suresh requires every year USD 25,000 towards tuition fees and USD 30,000 for incidental and stay expenses for studying abroad. Is it possible for Mr. Suresh to get the required Foreign Exchange and, if so, under what conditions?

[ICAI Module, MTP May'25 - 4 marks]

Answer

Residential Status: According to section 2(v) of the Foreign Exchange Management Act, 1999, 'Person resident in India' means a person residing in India for more than 182 days during the course of preceding financial year [Section 2(v)(i)]. However, it does not include a person who has gone out of India or who stays outside India for employment outside India or for any other purpose in such circumstances as would indicate his intention to stay outside India for an uncertain period.

Generally, a student goes out of India for a certain period. In this case, Mr. Suresh who resided in India during the financial year 2020-2021 left on 15.7.2021 for Switzerland for pursuing higher studies in Biotechnology for 2 years, he will be resident as he has gone to stay outside India for a 'certain period'. RBI has however clarified in its AP circular no. 45 dated 8th December 2003, that students will be considered as non-residents. This is because usually students start working there to take care of their stay and cost of studies.

Mr. Suresh will be treated as person resident in India for Financial Year 2021- 2022 till 15th July 2021 and from 16th July 2021, he will be considered as person resident outside India.

However, during the Financial Year 2022-2023, Mr. Suresh will be considered as person resident outside India as he left India on 15th July 2021.

Foreign Exchange for studies abroad: According to Para I of Schedule III to Foreign Exchange Management (Current Account Transactions), Amendment Rule, 2015 dated 26th May, 2015, individuals can avail of foreign exchange facility for the studies abroad within the limit of USD 2,50,000 only. Any additional remittance in excess of the said limit shall require prior approval of the RBI. Further proviso to Para I of Schedule III states that individual may be allowed remittances (without seeking prior approval of the RBI) exceeding USD 2,50,000 based on the estimate received from the institution abroad. In this case the foreign exchange required is only USD 55,000 per academic year and hence approval of RBI is not required.

Question 6:

a. Mr. P has won a big lottery and wants to remit US Dollar 20,000 out of his winnings to his son who is in USA. Advise whether such remittance is possible under the Foreign Exchange Management Act, 1999.
[MTP May'25]

b. Mr. Z is unwell and would like to have a kidney transplant done in USA. He would like to know the formalities required and the amount that can be drawn as foreign exchange for the medical treatment abroad.
[ICAI Module, MTP Sept'25 - 4 marks]

Answer

Remittance of Foreign Exchange (Section 5 of the Foreign Exchange Management Act, 1999): According to section 5 of the FEMA, 1999, any person may sell or draw foreign exchange to or from an authorized person if such a sale or drawal is a current account transaction. Provided that Central Government may, in public interest and in consultation with the reserve bank, impose such reasonable restrictions for current account transactions as may be prescribed.

As per the rules, drawal of foreign exchange for current account transactions are categorized under three headings-

i. Transactions for which drawal of foreign exchange is prohibited,
ii. Transactions which need prior approval of appropriate government of India for drawal of foreign exchange, and
iii. Transactions which require RBI's prior approval for drawl of foreign exchange.

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a. Mr. P wanted to remit US Dollar 20,000 out of his lottery winnings to his son residing in USA. Such remittance is **prohibited** and the same is included in the Foreign Exchange Management (Current Account Transactions) Rules, 2000.
Hence Mr. P **cannot** withdraw foreign exchange for this purpose.

b. "Remittance of foreign exchange for **medical treatment abroad**" requires **prior permission or approval** of RBI where the individual requires withdrawal of foreign exchange **exceeding USD 250,000**. The Schedule also prescribes that for the purpose of expenses in connection with medical treatment, the individual **may** avail of exchange facility for an amount in excess of the limit prescribed under the Liberalized Remittance Scheme, if so required by a medical institute offering treatment.

Therefore, Mr. Z can draw foreign exchange **up to the USD 250,000** and no prior permission/ approval of RBI will be required. For amount exceeding the above limit, authorized dealers may release foreign exchange based on the estimate from the doctor in India or hospital or doctor abroad.

Question 7

Mr. Rohan, an Indian Resident individual desires to obtain Foreign Exchange for the following purposes:
1. US$ 120,000 for studies abroad on the basis of estimates given by the foreign university.
2. Gift Remittance amounting US$ 10,000.

Advise him whether he can get Foreign Exchange and if so, under what condition(s)?

[ICAI Module, MTP May 24 - 4 marks]

Answer

1. Remittance of Foreign Exchange for studies abroad: Foreign exchange may be released for studies abroad **up to a limit of US $ 250,000** for the studies abroad **without any permission** from the RBI. Above this limit, RBI's prior approval is required. Further proviso to Para I of Schedule III states that individual may be **allowed remittances exceeding** USD 250,000 based on the **estimate received from the institution abroad**. In this case since US $ 120,000 is the drawal of foreign exchange, so permission of the RBI is **not required**.

2. Gift remittance exceeding US $ 10,000: Under the provisions of section 5 of FEMA 1999, certain Rules have been made for drawal of foreign exchange for current account transactions. Gift remittance is a current account transaction. Gift remittance **exceeding US $ 250,000 can be made after obtaining** prior approval of the RBI. In the present case, since the amount to be gifted by an individual, Mr. Rohan is **USD 10,000**, there is **no need** for any permission from the RBI.

Question 8:

Examine, with reference to the provisions of the Foreign Exchange Management Act, 1999, the residential status of the branches mentioned below:

i. MKP Limited, an Indian company having its Registered Office at Mumbai, India established a branch at New York U.S.A. on 1st April, 2004.
ii. WIP Ltd., a company incorporated and registered in London established a branch at Chandigarh in India on 1st April, 2004.
iii. WIP Ltd.'s Singapore branch which is controlled by its Chandigarh branch.

[May 2005]

Answer

Section 2(u) defines a 'person'. As per this definition, the following shall be covered in the definition of a 'person':

a) A company
b) **Any agency, office or branch owned by a 'person'.**

Section 2(v) defines a 'person resident in India'. As per this definition, the following shall be covered in the definition of a person resident in India:

a) Any person or body corporate registered or incorporated in India.
b) An office, branch or agency in India owned or controlled by a person resident outside India.
c) An office, branch or agency outside India owned or controlled by a person resident in India.

The answer to the given problem is as under:

i. MKP Limited as well as the New York branch of MKP Limited is a 'person'. Therefore, residential status under FEMA shall be determined for each of them separately.
MKP Limited is incorporated in India. Therefore, it is a 'person resident in India'.

MKP Limited (a 'person resident in India') has established a branch outside India. Therefore, the New York branch of MKP Limited falls under the clause 'an office, branch or agency outside India owned or controlled by a person residential India' and so the New York branch is a 'Person resident in India'.

ii. WIP Ltd. as well as Chandigarh branch of WIP Ltd. is a 'person'. WIP Ltd. (a foreign company) does not fall under any of the clauses of the definition of a 'person resident in India'. Therefore, WIP Ltd. is a person resident outside India. The Chandigarh branch of WIP Ltd. is a 'Person resident in India' since it falls under the clause an office, branch or agency in India owned or controlled by a person resident outside India'.

iii. The Singapore branch of WIP Ltd., though not owned, is controlled by the Chandigarh branch. The Singapore branch is a 'Person resident in India' since it falls under the clause 'an office, branch or agency outside India owned or controlled by a person resident in India'

Question 9:

Miss Alia is an airhostess with the British Airways. She flies for 12 days in a month and thereafter takes a break for 18 days. During the break, she is accommodated in 'base', which is normally the city where the Airline is headquartered. However, for security considerations, she was based at Mumbai. During the financial year, she was accommodated at Mumbai for more than 182 days. What would be her residential status under FEMA?

Answer

Miss Alia stayed in India at Mumbai 'base' for more than 182 days in the preceding financial year. She is however employed in UK. She has not come to India for employment, business or circumstances which indicate her intention to stay for uncertain period. Under section 2(v) (B), such persons are not considered as Indian residents even if their stay exceeds 182 days in the preceding year. Thus, while Miss Alia may have stayed in India for more than 182 days, she cannot be considered to be a Person Resident in India.
If, however, she has been employed in Mumbai branch of British Airways, then she will be considered a Person Resident in India.

Question 10:

Mr. X had resided in India during the financial year 2019-2020 for less than 182 days. He had come to India on April 1, 2020 for carrying on business. He intends to leave the business on April 30, 2021 and leave India on June 30, 2021. Determine his residential status for the financial years 2020-2021 and 2021-2022 up to the date of his departure?

Answer

Mr. X came to India for carrying on business. During FY 2019-20, he resided in India for less than 182 days. Since he has not fulfilled condition of staying in India for more than 182 days, he would normally be considered PROI but as Mr X has come for carrying on business in India, he falls under the second limb and will be considered as PRI w.e.f. 1st April 2020. Mr. X will be considered as a person resident in India' from 1st April 2020.

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As regards, financial year 2021-2022, Mr. X would continue to be an Indian resident from 1st April 2021. If he leaves India for the purpose of taking up employment or for business/vocation outside India, or for any other purpose as would indicate his intention to stay outside India for an uncertain period, he would cease to be person resident in India from the date of his departure.

It may be noted that even if Mr. X is a foreign citizen, if he has not left India for any these purposes, he would be considered, 'person resident in India' during the financial year 2021-2022. Thus, it is the purpose of leaving India which will decide his status from 1st July 2021.

Question 11:

University of Oxford is one of the leading institutes of UK. In the month of May 2024, they are planning a cultural event in UK. The University has invited Ms. Kanika Tripathi and her group, an Indian artist to perform in the event.

Ms. Kanika Tripathi needs to withdrawal foreign exchange of USD 75,000 for the purpose of visit to UK for performing at cultural event of University of Oxford in UK. Advise whether she can withdraw Foreign Exchange and if so, under what conditions?

[MTP May'24 - 4 Marks]

Answer

Section 5 of the Foreign Exchange Management Act, 1999 provides that any person may sell or draw foreign exchange to or from an authorized person if such sale or drawal is a current account transaction. The Central Government in consultation can, in public interest and in consultation with Reserve Bank of India, impose reasonable restrictions for such transactions.

Schedule II of the Foreign Exchange Management (Current Account Transactions) Rules, 2000 provides that no person shall draw foreign exchange for a transaction without approval of the Central Government. One of the transaction included in Schedule II is 'cultural tours'.

Accordingly, Ms. Kanika Tripathi can withdraw foreign exchange of USD 75,000 for meeting expenses of cultural tour after obtaining permission from Ministry of Human Resource Development (Department of Education and Culture) as prescribed in Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.

Question 12:

Explain the meaning of the term 'Current Account Transaction' and the right of a citizen to obtain Foreign Exchange under the Foreign Exchange Management Act, 1999.

[CA Final May 2001]

Answer

Definition of current account transaction [Section 2(j)]

Current account transaction means a transaction other than a capital account transaction and without prejudice to the generality of the foregoing such transaction includes-

i. payments due in connection with foreign trade, other current business, services, and short- term banking and credit facilities in the ordinary course of business;
ii. payments due as interest on loans and as net income from investments:
iii. remittances for living expenses of parents, spouse and children residing abroad: and
iv. Expenses in connection with foreign travel, education and medical care of parents, spouse and children.

No restriction on current account transactions unless prescribed (Section 5)

Foreign exchange is freely available for a current account transaction if the following two conditions are satisfied:

(a) The transaction is not prohibited by the Rules.
(b) The transaction is within the ceiling, if any, prescribed by the Rules, or the permission of the Reserve Bank of India or the Central Government, as the case may be, is obtained

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Question 13:

Mr. G, an Indian National desires to obtain foreign exchange on current account transactions for following purposes:

i. Payment of commission on exports made towards equity investment in wholly owned subsidiary abroad of an Indian company.

ii. Remittance of hiring charges of transponder.

Advise G whether he can obtain the foreign exchange and, if so, under what conditions?

[CA Final Nov 2001]

Answer

If a sale or drawal **satisfies** the conditions of a current account transaction, then any person may sell or draw foreign exchange to or from an authorized person. However, the Central Government may, in public interest and in consultation with the RBI, impose such **reasonable restrictions** for current account transactions as may be prescribed (Section 5). The Central Government has framed Foreign Exchange Management (Current Account Transactions) Rules, 2000. The rules stipulate some restrictions on drawal of foreign exchange for certain purposes.

In the light of the above, answer to the given problem is as under:

i. As per Rule 3 read with Schedule I of Foreign Exchange Management (Current Account Transactions) Rules, 2000, payment of commission on exports made towards equity investment in wholly owned subsidiary abroad of an Indian company is **prohibited**

ii. As per Rule 4 read with Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000, drawal of foreign exchange for remittance of hiring changes of transponder requires the **prior approval of the Central Government.**

Brownie Points – *However, no approval of the Central Government is required if the payment is made out of the funds held in Resident Foreign Currency Account or EEFC.*

Question 14:

Mr. Ramesh of Nagpur wants to travel to Nepal and for this purpose proposes to draw foreign exchange. Specify-

(i) Can Mr. Ramesh draw any foreign exchange for his journey?

(ii) What are the purposes for which foreign exchange drawal is not allowed for current account transactions?

[CA Final Nov 2002]

Answer

(i) **Rule 3** of Foreign Exchange Management (Current Account Transactions) Rules, 2000 **prohibits drawal of foreign exchange** (by any person) for the **purpose of travel to Nepal and/or Bhutan.** Therefore, Mr. Ramesh **cannot** draw any foreign exchange for journey to Nepal.

(ii) **Rule 3** read with Schedule I **prohibits** drawal of foreign exchange (by any person) tor the following purposes:

- Remittance out of **lottery winnings.**
- Remittance of **income from racing/riding, etc.,** or any **other hobby.**
- Remittance for **purchase of lottery tickets,** banned/prescribed magazines, football pools, sweepstakes. Etc.
- Payment of **commission on exports** made towards equity investment in Joint Ventures/Wholly Owned Subsidiaries abroad of Indian companies.
- Remittance of **dividend by any company** to which the requirement of dividend balancing is applicable.
- Payment of **commission on exports** under Rupees State Credit Route, except payment of commission up to 10% of the invoice value of export of tea and tobacco.
- Payment related to **'Call Back Services'** of telephones.
- Remittance of **interest income** on funds held in **Non-resident Special Rupee Scheme Account.**

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Question 15:

Mr. Arjun, an Indian resident, had been working abroad for the past 10 years. During his tenure abroad, he acquired foreign currency and held investments in foreign securities. He also inherited a property located in New York from his late grandfather, who was a non-resident Indian. After returning to India permanently, Mr. Arjun wishes to understand the provisions under the Foreign Exchange Management Act, 1999 (FEMA) regarding the ownership and utilization of his foreign assets.

[RTP Sept'24, MTP Sept'25 - 4 marks]

Answer

Under the provisions of the Foreign Exchange Management Act, 1999 (FEMA), Mr. Arjun, being a resident in India, can hold, own, transfer, or invest in foreign currency, foreign securities, or immovable property situated outside India under certain conditions. These conditions are clarified by the RBI through A.P. (DIR Series) Circular No. 90 dated 9th January, 2014, which elaborates on section 6(4) of the Act.

Clarifications under section 6(4) of FEMA

(i) Foreign Currency Accounts

- Mr. Arjun can maintain foreign currency accounts that were opened and maintained by him when he was resident outside India.

(ii) Income and Investments

- Income earned through employment, business, or vocation outside India while Mr. Arjun was a non-resident.
- Investments made abroad during his non-resident status.
- Gifts or inheritance received from a non-resident Indian.

(iii) Foreign Exchange and Income therefrom

- Foreign exchange holdings, including income arising from them, held outside India by Mr. Arjun, acquired through inheritance from a non-resident Indian.

(iv) Utilization of Assets After Return to India

- Mr. Arjun may freely utilize all eligible assets abroad, including the income on such assets or sale proceeds received after his return to India.
- He can make payments or fresh investments abroad without the approval of the Reserve Bank of India, provided the funds used are from eligible assets held by him abroad and the transaction complies with FEMA provisions.

Therefore, Mr. Arjun is eligible to hold and utilize his foreign assets as per the provisions outlined in section 6(4) of FEMA and the RBI circular. These provisions allow him to manage his foreign currency, securities, and inherited property located outside India in compliance with the regulations governing residents' dealings in foreign assets under FEMA.

Question 16:

Mr. Rohan Sharma, an international cricket player has started its cricket academy, namely, Rohan Sharma Cricket Academy, a private coaching club, which provides coaching for cricket. The Academy has a cricket team which participates in cricket matches all over India as well as outside India.

Rohan Sharma Cricket Academy in a collaboration with Melbourne Cricket Academy is organizing a cricket event in Melbourne, Australia in the month of May 2024 and June 2024. Rohan Sharma Academy is required to remit USD 200,000 to Melbourne Cricket academy as a part of its share for organizing the cricket event in Melbourne. Advise whether it can get Foreign Exchange and if so, under what conditions?

[MTP May'24 - 4 marks]

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Answer

Section 5 of the Foreign Exchange Management Act, 1999 provides that any person may sell or draw foreign exchange to or from an authorized person if such sale or drawal is a current account transaction. The Central Government in consultation can, in public interest and in consultation with Reserve Bank of India, impose reasonable restrictions for such transactions.

Schedule II of the Foreign Exchange Management (Current Account Transactions) Rules, 2000 provides that no person shall draw foreign exchange for a transaction without approval of the Central Government. One of the transactions included in Schedule II is remittance of prize money/ sponsorship of sports activity abroad by a person other than International/ National/ State level sports bodies, if the amount involved exceeds USD 100,000.

Accordingly, Rohan Sharma Cricket Academy can withdraw foreign exchange of USD 100,000 as participation fee after obtaining permission from Ministry of Human Resource Development (Department of Youth Affairs and Sports) as prescribed in Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.

Question 17:

Mr. F, an Indian National desires to obtain foreign exchange for the following purposes:

a) Payment of US $ 10,000 as commission on exports under Rupee State Credit Route.
b) US $ 30,000 for a business trip to U.K.
c) Remittance of US $ 2,00,000 for payment as prize money to the winning team in a Hockey Tournament to be held in Australia.

Advise him, if he can get the Foreign Exchange and under what conditions.

[CA Final May 2005]

Answer

If a sale or drawal satisfies the conditions of a current account transaction, then any person may sell or draw foreign exchange to or from an authorized person.

However, the Central Government may, in public interest and in consultation with the RBI, impose such reasonable restrictions for current account transactions as may be prescribed (Section 5). The Central Government has framed Foreign Exchange Management (Current Account Transactions) Rules, 2000. The rules stipulate some restrictions on drawal of foreign exchange for certain purposes.

In the light of the above, answer to the given problem is as under:

i. As per Rule 3 read with Schedule I of Foreign Exchange Management (Current Account Transactions) Rules, 2000, payment of commission on exports under Rupees State Credit Route (except commission up to 10% of invoice value of exports of tea and tobacco) is prohibited.

   Therefore, payment of US $ 10,000 as commission on exports under Rupee State Credit Route is prohibited unless such commission is paid for export of tea and tobacco, and the commission does not exceed 10% of invoice value of exports.

ii. As per Rule 5 read with Schedule III of Foreign Exchange Management (Current Account Transactions) Rules, 2000, individuals can draw foreign exchange up to $ 2,50,000 for travel for business under the Liberalized Remittance Scheme. Drawal of foreign exchange in excess of US Dollar 2,50,000 shall require prior approval of the Reserve Bank of India.

   Therefore, Mr. F can obtain US Dollar 30,000 for business tour to U.K. without any approval of the Reserve Bank of India.

iii. As per Rule 4 read with Schedule II of Foreign Exchange Management (CAT) Rules, 2000, drawal of foreign exchange exceeding US$ 1,00,000 for the purpose of remittance of prize money/sponsorship of sports activity abroad by a person other than International/National/State level sports bodies requires the prior approval of the Central Govt.

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In the given case, the drawal of US $2,00,000 for payment as prize money to the winning team in a Hockey Tournament to be held in Australia is organized by Mr. F, who is an Indian National (i.e., not any International, National or State level Sports Body).

Therefore, Mr. F can obtain US Dollar 1,00,000 without any permission, but for drawal of additional US Dollar 1,00,000, prior approval of the Central Government is required.

Question 18:

State the kind of approval required for the following transactions under the Foreign Exchange Management Act, 1999:

i. X wants to draw USD 20,000 to make donation to a charitable trust situated in South Korea.
ii. M requires USD 5,000 to make payment related to 'call back services' of telephone.

[CA Final June 2009]

Answer

If a sale or drawal satisfies the conditions of a current account transaction, then any person may sell or draw foreign exchange to or from an authorized person. However, the Central Government may, in public interest and in consultation with the RBI, impose such reasonable restrictions for current account transactions as may be prescribed (Section 5). The Central Government has framed Foreign Exchange Management (Current Account Transactions) Rules, 2000. The rules stipulate some restrictions on drawal of foreign exchange for certain purposes.

In the light of the above, answer to the given problem is as under:

i. As per Rule 5 read with Schedule III of Foreign Exchange Management (Current Account Transactions) Rules 2000 individuals can draw foreign exchange up to $2,50,000 for gift or donation (referred to as the Liberalized Remittance Scheme'). Therefore, Mr. X can obtain US Dollar 20,000 for making donation to a charitable trust situated in South Korea without any approval of the Reserve Bank of India.

ii. Rule 3 read with Schedule I of Foreign Exchange Management (Current Account Transactions) Rules 2000 prohibits drawal of foreign exchange for payments related to call back services of telephones. Therefore, payment of US $ 5,000 for callback services of telephone is prohibited.

Question 19:

Mr. T. Raghava has secured admission in a reputed and recognized university in Germany, for the study of higher and technical education, outside India. After arrival in Germany, he has gone ill and wants medical treatment facility in a reputed German hospital. He desires to apply to the Government of India for availing the additional remittance beyond the limit approved for foreign currency exchange facility. He has already enjoyed the permitted facility of foreign exchange for studies abroad, for the said financial year. Decide the following as to the facts given in the question as per the provisions of the Foreign Exchange Management Act, 1999:

i. As an individual, to what extent Mr. T. Raghava may avail foreign exchange facilities for higher and technical study in Germany.
ii. Can Mr. T. Raghava avail the facility of additional remittance in foreign exchange, beyond the limit, for the medical treatment?

[CA Final Nov 2017 – Old]

Answer

According to the Schedule III of the FEMA, 1999 following shall be the limit for the remittance of Foreign Exchange in the given situations:

i. <u>Remittance of Foreign Exchange for Studies Abroad:</u>
Foreign exchange may be released for studies abroad up to a limit of US $ 2, 50,000 without any permission from the RBI. Above this limit, RBI's prior approval is required.

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ii. Remittance for Medical Treatment:

Remittance of foreign exchange for medical treatment abroad **requires prior permission** or approval of RBI where the individual requires withdrawal of foreign exchange **exceeding USD 2,50,000.**

The Schedule also prescribes that for the purpose of expenses in connection with studies abroad and medical treatment, the individual may avail of exchange facility for an amount in excess of the limit prescribed under **the Liberalized Remittance Scheme**, if so required by the university concerned or the medical institute offering treatment respectively.
Such amount shall be **reduced from USD 2, 50,000** by the amount so remitted.

Therefore, Mr. T. Raghava can draw foreign exchange exceeding USD 2, 50,000 without prior permission provided it is so required by the university concerned or the medical institute offering treatment.

Question 20:

Examine the given situations in the light of the FEMA, 1999:

(1) LMN Ltd. had total foreign exchange earnings of USD 600 million in the last three financial years. What is the maximum amount the company can donate without RBI approval?

(2) STU Ltd. had foreign exchange earnings of USD 250 million over the last three financial years. It plans to donate USD 3 million to a university fund. Does it need RBI approval?

[CA Final Nov 2016 - Old, MTP May 25 - 4 marks]

Answer

The given situations can be examined in the light of the **Schedule II** of the **FEM (Current Account Transactions) Rules, 2000**. According to the Regulation, wherever, **Donations exceeding one per cent** of their foreign exchange earnings during the **previous three financial years** or **USD 5,000,000**, whichever is **less**, it shall require **prior approval of RBI**.

Accordingly, following shall be the answers:

(1) 1% of Foreign Exchange Earnings = (1/100) × 600 million = USD 6 million
USD 5 million limit (whichever is less) applies.
Since USD 5 million is less than USD 6 million, LMN Ltd. **can donate** up to **USD 5 million without RBI approval.**

(2) 1% of Foreign Exchange Earnings = (1/100) × 250 million = USD 2.5 million
Maximum limit before requiring RBI approval = Lesser of USD 2.5 million or USD 5 million = USD 2.5 million
Since USD 3 million **exceeds the limit** of USD 2.5 million, STU Ltd. **needs RBI approval.**

Question 21:

ABC Limited hired the services of Mr. Taylor, a technician from Germany for the installation of a machinery. The company paid USD 40,000 for the services rendered by Mr. Taylor. Examine under the Foreign Exchange Management Act, 1999, whether payment of remuneration to foreign technician Mr. Taylor is a permissible transaction under the provisions of the said Act.

[CA Final Nov 2019 - Old]

Answer

Remuneration payable to a foreign technician is a **current account transaction**. According to Section 5 of the Foreign Exchange Management Act, 1999 any person can sell or draw foreign exchange to or from authorized person if such sale or drawal is a current account transaction.

Reasonable restrictions on current account transactions can be imposed by the Central Government. Basically, all current account transactions are free unless specifically restricted by the Central Government. Hiring of foreign national as technicians is **permissible without restriction**. There is **no ceiling** on salary which can be paid as per contract. Their salary can be **remitted abroad after-tax deductions**, contribution **to provident fund and other deductions at source.**

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Question 22:

Examine whether the following transactions are permissible or not under the above Act as Capital Account transactions:

i. Investment by person resident in India in Foreign Securities.
ii. Foreign currency loans raised in India and abroad by a person resident in India.
iii. Export, import and holding of currency/currency notes.
iv. Trading in transferable development rights.
v. Investment in a Nidhi Company.

[CA Final Nov 2007]

Answer

i. Investment by person resident in India in Foreign Securities is a capital account transaction. It is permitted within the limit, subject to the compliance of conditions and if declaration is made as per the provisions contained in the Regulations relevant to the transaction.

ii. Foreign currency loans raised in India and abroad by a person resident in India is a capital account transaction. It is permitted within the limit, subject to the compliance of conditions and if declaration is made as per the provisions contained in the Regulations relevant to the transaction.

iii. Export, import and holding of currency /currency notes is a capital account transaction. It is permitted within the limit, subject to the compliance of conditions and if declaration is made as per the provisions contained in the Regulations relevant to the transaction.

iv. Trading in transferable development rights is prohibited since no person resident outside India shall make investment in India in any entity which is engaged, or proposes to engage in trading in Transferable Development Rights (TDRs) (Regulation 4 of Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000).

v. Investment in a Nidhi Company is prohibited since no person resident outside India shall make investment in India in any entity which is engaged, or proposes to engage as Nidhi Company (Regulation 4 of Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000.

Question 23:

State whether there are any restrictions in respect of the following transactions:

1. Drawal of foreign exchange for payments due on account of amortization of loans in ordinary course of business.
2. Purchase by a person resident outside India of shares of a company in India engaged in plantation activities.

[CA Final Nov 2002, Nov 2005, Nov 2010]

Answer

1. <u>Amortization of loans is permitted</u>
   Section 6 specifically mentions that the Reserve Bank shall not impose any restriction on the drawal of foreign exchange for payments due on account of -
   (a) amortization of loans in the ordinary course of business; or
   (b) Depreciation of direct investments in the ordinary course of business.
   Thus, there is no restriction on drawal of foreign exchange for payments due on account of amortization of loans in ordinary course of business.

2. <u>Investment in plantation activities is prohibited</u>
   The Reserve Bank of India has framed Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000. As per these Regulations, no person resident outside India shall make investment in India in any entity which is engaged, or proposes to engage in agricultural or plantation activities.
   Thus, a person resident outside India cannot purchase shares of a company in India engaged in plantation activities.

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Question 24

Mr. V is a person of Indian origin who had moved to USA along with his wife in the year 1998 and had been living there until 2024. He was holding joint bank accounts with his wife in USA since 1998. On the demise of his wife on 17th November, 2024, he had returned permanently to India on 24th November, 2024. He also inherited his wife's money after her death, which got transferred to his bank account in USA. After few days of his return to India, he has paid premium from his bank account in USA of his insurance policy, which he had taken when he was in USA.

Referring to the provisions of the Foreign Exchange Management Act, 1999, examine whether Mr. V is permitted to carry out the above transactions.

[May'25 - 4 marks]

OR

Examine with reference to the provisions of the Foreign Exchange Manage Act. 1999 whether there are any restrictions in respect of the following:

A person, who was resident of U.S.A. for several years, is planning to return to India permanently. Can he continue to hold the investment made by him in the securities issued by companies in U.S.A.?

[CA Final Nov 2010 - Old]

Answer

As per Section 2(v) of the Foreign Exchange Management Act, 1999, "Person Resident in India" includes a person residing in India for more than 182 days during the course of the preceding financial year but does not include, a person who has come to or stays in India, in either case, otherwise than for any purpose, in such circumstances as would indicate his intention to stay in India for an uncertain period.

As per provisions of the Foreign Exchange Management Act, 1999, a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.

The RBI vide A.P. (DIR Series) Circular No. 90 dated 9th January, 2014 has issued a clarification on Section 6(4) of the Foreign Exchange Management Act, 1999. This circular clarifies that Section 6(4) of the Act covers the following transactions:

1. Foreign currency accounts opened and maintained by such a person when he was resident outside India.
2. Foreign exchange including any income arising therefrom, and conversion or replacement or accrual to the same, held outside India by a person resident in India acquired by way of inheritance from a person resident outside India.

In the given question Mr. V has permanently returned to India on 24th November, 2024. Hence, he will be treated as a person resident in India from 24th November, 2024.

According to the Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000, a person resident in India is permitted to maintain his foreign currency accounts and take insurance policy from an insurance company outside India.

Based on the above provisions, we can conclude that Mr. V who is residing in India since 2024, is now, a person resident in India and he is permitted to hold his bank account in USA and also pay for his insurance policy from that account.

Alternate Answer

According to the Section 6(4) of the Foreign Exchange Management Act, 1999, a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.

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The RBI vide A.P. (DIR Series) Circular No.90 dated 9th January, 2014 has issued a clarification on Section 6(4) of the FEMA Act, 1999. This circular clarifies that section 6(4) of the Act covers the following transaction:

In terms of **Section 6 (4) (iv)** of FEMA, 1999, a person resident in India can freely utilize their eligible assets abroad, as well as income on such assets or sale proceeds thereof received after their return to India for making any payments or to make fresh investments abroad without approval of the Reserve Bank of India, provided the cost of such investments and/or any subsequent payments received therefore are **met exclusively out of the funds forming part of eligible assets held by them and the transactions is not in contravention** to the extant of FEMA provisions.

V has inherited money from his wife, who was a person resident outside India. V has been a resident in India since 24th November, 2024, as he had permanently returned to India from abroad. Thus, **amounts in his foreign bank accounts are classified as eligible assets** under the FEMA.

Therefore, under Section 6(4) of the FEMA, 1999 and vide the above RBI circular, 'V' can pay the insurance premium from his bank account in the USA for his insurance policy taken in the USA, as taking an insurance policy is a permitted transaction under Schedule I of the Foreign Exchange Management (Permissible Capital Account Transactions) regulations, 2000. So, by that account, **paying a premium is also a permissible transaction.**

Question 25

Mrs. Chandra, a resident outside India, is likely to inherit from her father some immovable property in India. Are there any restrictions under the provisions of the Foreign Exchange Management Act, 1999 in acquiring or holding such property?

[CA Final Nov 12- Old]

Answer

As per **section 6(5)**, a person resident outside India may hold, own, transfer or invest in India currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.

Thus, a person resident outside India may hold, own or transfer any immovable property situated in India if such property is inherited from a person resident in India.

Accordingly, Mrs. Chandra is **entitled to acquire as well as hold the immovable property in India inherited by her.**

Author's Note: Please note that in this question, assumption is that his **father** is a **PRI.**

Question 26:

Explain the meaning of the following term as per the provisions of Foreign Exchange Management Act, 1999:
(a) Foreign Exchange, (b) Currency, (c) Foreign Security

[MTP Sept'24, May'25]

Answer

(a) Foreign Exchange:

According to **section 2(n)** of the Foreign Exchange Management Act, 1999, 'foreign exchange' means foreign currency and includes:

(i) deposits, credits and balances payable in any **foreign currency,**
(ii) drafts, travelers' cheques, letters of credit or bills of exchange, **expressed or drawn in Indian currency but payable in any foreign currency,**
(iii) drafts, travelers' cheques, letters of credit or bills of exchange drawn by banks, institutions or persons **outside India, but payable in Indian currency.**

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(b) Currency

According to section 2(h) of the Foreign Exchange Management Act, 1999, 'Currency' includes all currency notes, postal notes, postal orders, money orders, cheques, drafts, travelers' cheques, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments, as may be notified by the Reserve Bank.

(c) Foreign Security

According to Section 2(o) of the Foreign Exchange Management Act, 1999, Foreign Security means any security, in the form of shares, stocks, bonds, debentures or any other instrument denominated or expressed in foreign currency and includes securities expressed in foreign currency, but where redemption or any form of return such as interest or dividends is payable in Indian currency.

Question 27:

Ravi, an Indian citizen, works as a software engineer for an international company. During the previous financial year (2023-2024), Ravi resided in India for 200 days. However, in April of the current financial year, he accepted a job offer in Canada and left India with a long-term work visa, planning to settle in Canada indefinitely.

Analyse the residential status of Ravi for the financial year 2024-2025, as per the provisions of the Foreign Exchange Management Act, 1999.

[RTP Jan'25, MTP Sept'25, MTP Jan'26 - 4 marks]

Answer

As per section 2(v) of the Foreign Exchange Management Act, 1999, the term 'person resident in India' means the following entities:

A person who resides in India for more than 182 days during the preceding financial year.

The following persons are not persons resident, in India even though they may have resided in India for more than 182 days.

(a) A person who has gone out of India or stays outside India for any of the three purposes given below,

(b) A person who has come to or stays in India otherwise than for any of the three purposes given below;

Three Purposes:

i) For or on taking up Employment

ii) For carrying on a business or Vacation

iii) For any other purpose in such circumstances as would indicate stay for his intention an uncertain period.

Ravi's Residential Status: Ravi resided in India for more than 182 days in the preceding financial year, which would typically qualify him as a "person resident in India." However, his decision to leave India for long-term employment in Canada changes his status. According to the provision, a person who has left India for the purpose of employment abroad is not considered a "person resident in India" even if they meet the 182-day requirement. Thus, Ravi does not qualify as a resident for the current financial year.

Question 28:

A foreign tourist comes to India, and he purchases an antiques from a shop. He would like to pay US$ 30 in cash to the shopkeeper. Comment in the light of the FEMA, whether shopkeeper is permitted to accept foreign currency?

[CA Final RTP May 21]

Answer

As per section 3 of the FEMA, save as otherwise provided in this Act, rules or regulations made thereunder, or with the general or special permission of the Reserve Bank, no person shall receive otherwise than through an authorized person, any payment by order or on behalf of any person resident outside India in any manner.

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Where any person in, or resident in, India receives any payment by order or on behalf of any person resident outside India through any other person (including an authorized person) without a corresponding inward remittance from any place outside India, then, such person shall be deemed to have received such payment otherwise than through an authorized person.

Here in the given case, the foreign tourist wanted to pay foreign currency in cash on purchase of antiques to shopkeeper which as per section 3, is not permissible to any person to receive any payment by order or on behalf of any person resident outside India in any manner except received through an authorized person. Therefore, the Shopkeeper cannot accept cash as it will be a receipt otherwise than through Authorized Person except where the shopkeeper has taken a money changers license to accept foreign currency

Question 29:

The Adjudicating authority under FEMA Act, 1999 based on the complaints received in writing from the officer authorized by the Central Government, had issued show cause notice to following persons accused of committing contravention under the Act, to show cause as to why an inquiry should not be held against them as follows:

Noticed issued to whom	Alleged contravention prescribed in the show-cause notice issued	Reply by the accused person to the show- cause notice
Global Shipping Ltd.	Made remittance for membership of P & I club without taking the requisite approval	The amount for the same was remitted through the RFC Account and EEFC Account, respectively, for which no approval was required.
Siphonic Ltd.	Made remittance of $ 1,10,000 to BMT Inc., a US co., without taking requisite approval, as reimbursement of pre- incorporation expenses incurred for setting up the co. by bringing investment of Rs. 18 CR to India. (1 USD = Rs. 75)	Such remittance does not exceed the limit as specified, so, no approval was required.

In the context of aforesaid case-scenario, examine in the lights of the provisions of the FEMA Act, 1999 and its rules & regulations, the validity of the contentions made by the aforesaid persons?

[CA Final MTP - Dec'21]

Answer

i. Validity of Contention made by Global Shipping Ltd.

As per Rule 4 read with the Schedule II of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, for making remittance for membership of P & I Club, prior approval of Ministry of Finance (Insurance Division) is required to be taken.

No approval is required where any remittance has to be made for the transactions listed in Schedule II from an RFC account and EEFC account, respectively. However, if payment has to be made for remittance for membership of P & I, approval is required even if payment is from EEFC account.

Here, Global Shipping Ltd. was required to take approval of the Ministry of Finance (Insurance Division) for making the remittance through EEFC account and in case of RFC account only, no approval was required. Thus, its contention is partially invalid.

ii. Validity of Contention made by Siphonic Ltd.

As per Rule 5 read with the Schedule III of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, for remittances exceeding five per cent of investment brought into India or USD 100,000 whichever is higher, by an entity in India by way of reimbursement of pre-incorporation expenses, prior approval of the Reserve Bank of India shall be required.

Here, Siphonic Ltd. made remittance of $ 1,10,000 equivalent to Rs. 82.5 lakhs (1 USD = Rs. 75) to BMT Inc., a US company, as reimbursement of pre-incorporation expenses for bringing investment of Rs. 18

crores into India. So, the amount remitted comes to approximately 4.58% (Rs. 82.5 lakhs / Rs. 1800 lakhs) of the investment made into India which is lesser than the prescribed limit of 5%.

However, as it exceeds $ 1,00,000 and so approval was required irrespective of whether the amount remitted exceeds 5% of the investment or not. Thus, the contention of Siphonic Ltd. is invalid.

Author's Note: Here the conclusion of ICAI in case of Siphonic Limited seems to be incorrect. Let me explain this in a different manner.
Provision - If amount of reimbursement exceeds the limit, then approval is required.
Limit = Higher of $100k or 5% of investment (5% of Rs. 18 crores = Rs. 90 lakh i.e., $120k) = $120k
Here, reim. Of $110k is lower than limit & hence no approval is reqd. Hence, contention of co. is valid.

Question 30:

Under the auspices of the Foreign Exchange Management Act, 1999, (the Act) examine whether the given situations fall under "Current Account Transactions" or not as defined in the Act?

(i) Mr. S, a resident in India, imports machinery from a vendor in UK for installing in his factory.

(ii) An Indian resident, imports machinery from a vendor in US for installing in his factory on a credit period of 3 months.

(iii) An Indian resident, transfers US$ 1,000 to his NRI brother in New York as "gift". The funds are sent from resident's Indian Bank account to the NRI brother's Bank account in New York.

[CA Final Nov 20]

Answer

(i) An Indian resident imports machinery from a vendor in UK for installing in his factory. As per FEMA, it does not alter (create) an asset in India for the UK vendor. It does not create any liability to a UK vendor for the Indian importer. Once the payment is made, the Indian resident or the UK vendor neither owns nor owes anything in the other country. Hence it is a Current Account Transaction.

(ii) An Indian resident imports machinery from a vendor in UK for installing in his factory on a credit period of 3 months. Under FEMA, it is a liability outside India. However, under definition of Current Account Transaction [S. 2(j)(i)], "short-term banking and credit facilities in the ordinary course of business" are considered as a Current Account Transaction. Hence import of machinery on credit terms is a Current Account Transaction.

(iii) An Indian resident transfers US$ 1,000 to his NRI brother in New York as "gift". The funds are sent from resident's Indian bank account to the NRI brother's bank account in New York. As per FEMA, once the gift is accepted by the NRI, no one owns or owes anything to anyone in India or USA, the transaction is over. Hence it is a Current Account Transaction.

Question 31:

Ms. Pearl was an Indian citizen who got a job in a software company in USA. She went to USA and stayed there for 15 years. During her stay, she purchased a house in USA for her residence. Then due to some personal issues she moved back to India and joined a software company in India. As she had moved back to India, she let out her house in USA and deposited the obtained rent in her account in USA. Advise whether Ms. Pearl can purchase another house in USA from her account in USA? Give you answer referring to the provisions of the Foreign Exchange Management Act, 1999.

[CA Final MTP Nov'22, RTP Sept'25]

Answer

According to section 6(4) of the Foreign Exchange Management Act, 1999, (the Act) a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.
As per the fact, Ms. Pearl during her stayed in USA purchased a house in USA.

As per the above provision and facts of the case, Ms. Pearl can purchase the new house in USA from her USA account.

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Question 32:

Mr, L was employed as a fashion designer in Elegant Textile Ltd., a public limited company in Gurugram, India during the financial year 2023-2024. He had efficiently provided his services for 183 days during the above said period. On 01.04.2024 Mr. H the Human Resource Manager of Jeff Fashion Ltd., Paris (a foreign country) offered him a better employment opportunity in such company.

On 02.04.2024, Mr. L left India for taking up employment as a production controller at Jeff Fashion Ltd. In Paris. On 30.04.2024 he flew back to India for 10 day family function in Manali, India.

In light of the provisions of the Foreign Exchange Management Act,1999 elucidate: The residential status of Mr. L -

(i) On his return for attending the family function on 30.04.2024.

(ii) In case, instead of vacation, he joins an employment in an Indian company after arriving on 30.04.2024.

[May 24 - 4 marks]

Answer

According to section 2(v) of the Foreign Exchange Management Act, 1999, "Person resident in India" means a person residing in India for more than 182 days during the course of the preceding financial year but does not include a person who has gone out of India or who stays outside India, for or on taking up employment besides with the other specified purposes, outside India.

(i) In the given question, Mr. L will be treated as a person resident outside from 2.4.2024 till the time he works in Jeff Fashion Ltd. in Paris, as he has gone out of India for or on taking up employment outside India.

His return to India for 10 days to attend a family function, will not alter his residential status.

(ii) Mr. L will be treated as a person resident in India from the day he joins employment in India (after arriving on 30.4.2024).

Question 33

Explain the rules relating to the remittances made by persons other than individuals requiring approval of RBI as provided in Schedule III to the Foreign Exchange Management (Current Account Transactions) Rules, 2000 issued under the Foreign Exchange Management Act, 1999 in respect of the following:

(i) Commission to the agents abroad for sale of residential flats or commercial plots in India.

(ii) Remittances for consultancy services procured from outside India.

[RTP Jan'26]

(iii) Remittances by way of reimbursement of pre-incorporation expenses.

[May 24 - 4 marks]

Answer

The following remittances by persons other than individuals shall require prior approval of the Reserve Bank of India as provided under FEMA, 1999 read with Schedule III of the FEM (Current Account Transactions) Rules, 2000:

(i) Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or five percent of the inward remittance whichever is more.

(ii) Remittances exceeding USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1,000,000 per project, for other consultancy services procured from outside India.

Explanation—For the purposes of this sub-paragraph, the expression "infrastructure' shall mean as defined in explanation to para 1(iv)(A)(a) of Schedule I of FEMA Notification 3/2000-RB, dated the May 3, 2000.

(iii) Remittances exceeding five per cent of investment brought into India or USD 100,000 whichever is higher, by an entity in India by way of reimbursement of pre-incorporation expenses.

Question 34

Murari Lal, a person resident outside India, has invested in four residential immovable properties under construction in Kolkata. Each property is negotiated at ₹ 2 crore, with the companies owned by builders. This amount is to be paid in two instalments as 60% on immediate basis on booking and the balance on possession of the properties.

The above transaction is done by the companies owned by builders through two brokers from USA on commission basis. Mr. Murari Lal as per the terms and conditions remitted 60% of the amount of all four immovable properties directly to the company.

Answer the following explaining the provisions of the FEMA, 1999:

(i) Whether investment by Mr. Murari Lal and payment of commission on this transaction is permissible?

(ii) How much maximum amount of commission can be paid to each broker without RBI approval?

(Ignore the USD - Rupee Exchange Rate)

[Jan'25, MTP Jan'26 - 4 marks]

Answer

The investment in immovable properties in India by Mr. Murari Lal, a resident outside India, is a Capital Account Transaction which is permissible as per Schedule II of the Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000 which permits Acquisition and Transfer of Immovable Property in India by a Person Resident Outside India.

According to Schedule III to Foreign Exchange Management (Current Account Transactions) Rules, 2000, remittances by persons other than individuals shall require prior approval of the Reserve Bank of India if Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeds USD 25,000 or five percent of the inward remittance whichever is more.

As per the facts of the question and mentioned provisions, the following are the answers to the questions asked:

(i) Yes, the investment by Mr. Murari Lal and payment of commission on this transaction is permissible.

(ii) Calculation of maximum commission that can be paid without the approval of RBI.

The maximum amount of commission that can be paid to each broker for each transaction, without RBI approval is, more of- USD 25,000 or ₹ 6 lakh [i.e. 5% of (60% of 2 crore)].

Question 35

List any seven permissible classes of Capital account transactions that a person resident in India can undertake, under the Foreign Exchange Management Act (FEMA), 1999.

[MTP May'25, MTP Jan'26 - 4 marks]

Answer

The list of permissible classes of transactions made by persons resident in India is:

(a) Investment by a person resident in India in foreign securities.
(b) Foreign currency loans raised in India and abroad by a person resident in India.
(c) Transfer of immovable property outside India by a person resident in India.
(d) Guarantees issued by a person resident in India in favour of a person resident outside India.
(e) Export, import and holding of currency/currency notes.
(f) Loans and overdrafts (borrowings) by a PRI from a person resident outside India.
(g) Maintenance of foreign currency accounts in India and outside India by a person resident in India.
(h) Taking out of insurance policy by a PRI from an insurance company outside India.
(i) Loans and overdrafts by a person resident in India to a person resident outside India.
(j) Remittance outside India of capital assets of a person resident in India.
(k) Undertake derivative contracts

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Question 36

Analyse the following situations and comment upon the legal validity of the transactions in the light of the FEMA,1999.

(1) John, a foreign national (not of Indian origin), wants to buy agricultural land in India.

(2) An NRI wants to open a fixed deposit account in an Indian bank using foreign currency.

[MTP May'25 - 4 marks]

Answer

(1) No, said transaction cannot take place being invalid in nature. As per the Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000, the person resident outside India is prohibited from making investments in India in any form, in any company, or partnership firm or proprietary concern or any entity whether incorporated or not which is engaged or proposes to engage in agricultural. Therefore, John cannot buy an agricultural land in India.

(2) Yes, the given statement or act of a NRI is valid under Schedule II(e) of the Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000. According to which deposits between a resident and a non-resident are permitted. So, NRI can open NRE (Non-Resident External) or FCNR (Foreign Currency Non-Resident) deposit accounts in India, which allow foreign currency deposits.

Question 37

(i) Mr. Amrish has been admitted to a postgraduate program at a foreign university and intends to join soon. The annual course fee is approximately ₹ 3,50,000. Kindly advise his parents on how they can make the remittance for the fees under the provisions of the Foreign Exchange Management Act (FEMA), 1999.

(ii) After completing his studies, Mr. Amrish is employed by a joint venture of a foreign company in India. The company intends to send him on deputation to handle business operations abroad. His family resides in India, and he would like to know if he can remit his salary to support their maintenance in India. Advise Mr. Amrish as per the provisions of the Foreign Exchange Management Act, 1999.

[RTP May'25]

Answer

(i) Under the Foreign Exchange Management Act (FEMA), 1999 read with the Schedule III of the FEM (Current Account Transactions) Rules, 2000, the overall limit prescribed is generally USD 250,000. Any additional remittance in excess of such limit shall require prior approval of the RBI. In the given case, the remittance of fees of Amrish for pursuing education abroad, may avail exchange facility for an amount in excess of the limit prescribed under the LRS in a Financial Year. In such a case, the applicable limit for such an individual would be reduced from USD 250,000 by the amount so remitted.

(ii) Under the Foreign Exchange Management Act (FEMA), 1999, Mr. Amrish can remit his salary earned abroad to his family in India, subject to the following regulations:

A person (who is resident but not permanently resident in India) is a citizen of India, who is on deputation to the office or branch of a foreign company or subsidiary or joint venture in India of such foreign company, may make remittance up to his net salary (after deduction of taxes, contribution to provident fund and other deductions).

As per the stated law, a person resident in India on account of his employment or deputation of a specified duration (irrespective of length thereof) or for a specific job or assignments, the duration of which does not exceed three years, is a resident but not permanently resident.

Question 38

Heavy Loaders Ltd. is a public limited company incorporated in India and engaged in the manufacture of loader vehicles used for commercial construction purposes. It is planning to expand its business outside India and hence has come in contact with Mr. Fred, an American citizen working as an agent of companies planning to secure business in USA. Mr. Fred has informed the directors of Heavy Loaders Ltd. that another Indian company engaged in the commercial construction business has a requirement of 25 loader vehicles for its wholly owned American subsidiary company.

Heavy Loaders Ltd. supplied the required loader vehicles with an invoice value of USD 350,000 in exchange of allotment of equity capital of the same worth in the American company. Mr. Fred has asked for an export agent commission of 15% of the invoice value of goods supplied from Heavy Loaders Ltd. to which Heavy Loaders Ltd. has refused the payment on grounds that maximum commission that can be paid can be 10% of the invoice value of goods supplied.

Considering the provisions of the Foreign Exchange Management Act, 1999 decide:

(i) Whether the above transaction of supplying machines in exchange of equity investments can be treated as "export" keeping in mind the absence of monetary factor in the transaction?

(ii) Whether the rate of export agent commission demanded by Mr. Fred be paid or confined to only 10% of the invoice value of goods supplied.

[Sept'25 - 4 marks]

Answer

(i) According to section 2(l) of the Foreign Exchange Management Act, 1999, 'Export', with its grammatical variations and cognate expressions means:

(1) the taking out of India to a place outside India any goods.
(2) provision of services from India to any person outside India.

In the given question, Heavy Loaders Ltd., an Indian company, supplied loader vehicles with an invoice value of USD 350,000 in consideration for the allotment of equity shares in an American Company, which is a wholly owned subsidiary of an Indian Company.

Since, the transaction involves 'the taking out of India to a place outside India the loader vehicles', the transaction will be treated as 'export'.

(ii) As per Schedule I of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, drawl of foreign exchange is prohibited for Payment of commission on exports made towards equity investment in Joint Ventures/ Wholly Owned Subsidiaries abroad of Indian companies.
Hence, the payment of any commission by Heavy Loaders Ltd. to Mr. Fred is prohibited in the given situation.

Question 39

Enumerate the circumstances and the forms of business as mentioned in 4 the Foreign Exchange Management Act, 1999 in which a person resident outside India is absolutely prohibited from making any investments in India.

[Sept'25 - 4 marks]

Answer

As per the Foreign Exchange Management (Permissible Capital Account Transactions) Rules, 2000, a person resident outside India is prohibited from making investments in India in any form, in any company, or partnership firm or proprietary concern or any entity whether incorporated or not which is engaged or proposes to engage:

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(i) In the business of chit fund: Registrar of Chits or an officer authorised by the State Government in this behalf, may, in consultation with the State Government concerned, permit any chit fund to accept subscription from Non-resident Indians. Non- resident Indians shall be eligible to subscribe, through banking channel and on non- repatriation basis, to such chit funds, without limit subject to the conditions stipulated by the Reserve Bank of India from time to time.

(ii) As Nidhi company;

(iii) In agricultural or plantation activities;

(iv) In real estate business, or construction of farm houses, or
Explanation: In "real estate business" the term shall not include development of townships, construction of residential/commercial premises, roads or bridges and Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations 2014.

(v) In trading in Transferable Development Rights (TDRs).
'Transferable Development Rights' means certificates issued in respect of category of land acquired for public purpose either by Central or State Government in consideration of surrender of land by the owner without monetary compensation, which are transferable in part or whole.

Question 40

(i) Skynex Ltd., incorporated in India in 2024, is engaged in the manufacture of lithium batteries for two-wheelers. The company markets its products domestically and exports to Mexico. During the financial year 2025, the company engaged in the following transaction:

Commission paid to the agent in Mexico for the sale of the company's commercial plot in India to the tune of USD 50,000, against the inward remittance of USD 9,50,000 from the Exchange Earners' Foreign Currency (EEFC) Account.
Examine whether the above transaction is exempt from the approval of the RBI, with reference to the relevant provisions of FEMA, 1999.

(ii) Bob, a Director at Skynex Ltd., along with his wife, major son, and father, purchased a property in Mexico, holding equal shares in the property. They collectively remitted USD 1,000,000 during the financial year. Bob confirmed that all family members complied with the applicable terms and conditions, and the amount sent is within the limit prescribed for remitting funds to Mexico.
Examine whether Bob and his family members can remit USD 1,000,000 to Mexico in a single financial year without requiring any approval.

[Jan'26 – 4 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

Question 41

Examine the given situations in the light of the FEMA, 1999:

(1) Bhargav Ltd. had total foreign exchange earnings of USD 12,000,000 in the last three financial years. What is the maximum amount the company can donate without RBI approval?

(2) Preeto Ltd. wants to make remittances 6% of investment brought into India. Does it need RBI approval?

[Jan'26 – 4 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

FEMA MASTER QUESTIONS

Question 1 : FEMA Master Question (Part 1) - CUAT

Advise whether in the following questions, we can get Foreign Exchange and if so, under what conditions? And Approval from which Ministry, if required.

(i) X, a Film Star, wants to perform along with associates in New York on the occasion of Diwali for Indians residing at New York. Foreign Exchange drawal to the extent of $20,000 is required for this purpose.

(ii) M requires U.S. $ 5,000 for remittance towards hiring charges of transponders.

(iii) P requires U.S. $ 2,000 for payment related to call back services of telephones

(iv) Mr. P has won a big lottery and wants to remit US Dollar 20,000 out of his winnings to his son who is in USA.

(v) Mr. Z is unwell and would like to have a kidney transplant done in USA. He would like to know the formalities required and the amount that can be drawn as foreign exchange for the medical treatment abroad.

[MTP Jan'26 - 4 marks]

(vi) US$ 120,000 for studies abroad on the basis of estimates given by the foreign university.

(vii) Gift Remittance amounting US$ 10,000 by Mr.Rohan

(viii) Ms. Kanika Tripathi needs to withdrawal foreign exchange of USD 75,000 for the purpose of visit to UK for performing at cultural event of University of Oxford in UK.

(ix) Payment of commission on exports made towards equity investment in wholly owned subsidiary abroad of an Indian company

(x) Mr. Rohan Sharma, an international cricket player has started its cricket academy, namely, Rohan Sharma Cricket Academy, a private coaching club, which provides coaching for cricket. The Academy has a cricket team which participates in cricket matches all over India as well as outside India. Rohan Sharma Cricket Academy in a collaboration with Melbourne Cricket Academy is organizing a cricket event in Melbourne, Australia in the month of May 2024 and June 2024. Rohan Sharma Academy is require to remit USD 200,000 to Melbourne Cricket academy as a part of its share for organizing the cricket event in Melbourne.

(xi) Payment of US $ 10,000 as commission on exports under Rupee State Credit Route.

(xii) US $ 30,000 for a business trip to U.K.

(xiii) X wants to draw USD 20,000 to make donation to a charitable trust situated in South Korea.

(xiv) Lifesys Limited, a billion-dollar, Indian company wishes to create a chair in a reputed university in the U.S. This chair is for the department of computer science. The company wishes to obtain your advice in regard to the following with reference to the FEMA, 1999.

  (a) Is such "chair" creation permissible?
  (b) What is the maximum amount that can be donated for such chair?
  (c) Any formalities to be complied with?

(xv) ABC Limited hired the services of Mr. Taylor, a technician from Germany for the installation of a machinery. The company paid USD 40,000 for the services rendered by Mr. Taylor.

(xvi) Commission to the agents abroad for sale of residential flats or commercial plots in India.

(xvii) Remittances for consultancy services procured from outside India.

(xviii) Remittances by way of reimbursement of pre-incorporation expenses.

Answer

Definition of current account transaction [Section 2(j)]

Current account transaction means a transaction other than a capital account transaction and without prejudice to the generality of the foregoing such transaction includes

A. payments due in connection with foreign trade, other current business, services, and short- term banking and credit facilities in the ordinary course of business;

B. payments due as interest on loans and as net income from investments;

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C. remittances for living expenses of parents, spouse and children residing abroad: and
D. Expenses in connection with foreign travel, education and medical care of parents, spouse and children.

Remittance of Foreign Exchange (Section 5 of the Foreign Exchange Management Act, 1999):
According to section 5 of the FEMA, 1999, any person may sell or draw foreign exchange to or from an authorized person if such a sale or drawal is a current account transaction. Provided that Central Government may, in public interest and in consultation with the reserve bank, impose such reasonable restrictions for current account transactions as may be prescribed.
As per the rules, drawal of foreign exchange for current account transactions are categorized under three Headings
A. Transactions for which drawal of foreign exchange is prohibited,
B. Transactions which need prior approval of appropriate govt. of India for drawal of foreign exchange, &
C. Transactions which require RBI's prior approval for drawal of foreign exchange.

Rule 3 read with Schedule I prohibits drawal of foreign exchange (by any person) for the following purposes:
A. Remittance out of lottery winnings.
B. Remittance of income from racing/riding, etc., or any other hobby.
C. Remittance for purchase of lottery tickets, banned/prescribed magazines, football pools, sweepstakes. Etc.
D. Payment of commission on exports made towards equity investment in Joint Ventures/Wholly Owned Subsidiaries abroad of Indian companies.
E. Remittance of dividend by any company to which the requirement of dividend balancing is applicable.
F. Payment of commission on exports under Rupees State Credit Route, except payment of commission up to 10% of the invoice value of export of tea and tobacco.
G. Payment related to 'Call Back Services' of telephones.
H. Remittance of interest income on funds held in Non-resident Special Rupee Scheme Account.

(i) Foreign Exchange drawal for cultural tours require prior permission/approval of the Ministry of Human Resources Development (Department of Education and Culture) irrespective of the amount of foreign exchange required. Therefore, in the given case X, the Film Star is required to seek permission of the said Ministry of the Government of India.

(ii) It is a current account transaction, where M is required to take approval of the Central Government for drawal of foreign exchange for remittance of hire charges of transponders.

(iii) Withdrawal of foreign exchange for payment related to call back services of telephone is a prohibited transaction. Hence, Mr. P cannot obtain US $ 2,000 for the said purpose.

(iv) Mr. P wanted to remit US Dollar 20,000 out of his lottery winnings to his son residing in USA. Such remittance is prohibited and the same is included in the Foreign Exchange Management (Current Account Transactions) Rules, 2000. Hence Mr. P cannot withdraw foreign exchange for this purpose.

(v) "Remittance of foreign exchange for medical treatment abroad" requires prior permission or approval of RBI where the individual requires withdrawal of foreign exchange exceeding USD 250,000. The Schedule also prescribes that for the purpose of expenses in connection with medical treatment, the individual may avail of exchange facility for an amount in excess of the limit prescribed under the Liberalized Remittance Scheme, if so required by a medical institute offering treatment.

(vi) Remittance of Foreign Exchange for studies abroad: Foreign exchange may be released for studies abroad up to a limit of US $ 250,000 for the studies abroad without any permission from the RBI. Above this limit, RBI's prior approval is required. Further proviso to Para I of Schedule III states that individual may be allowed remittances exceeding USD 250,000 based on the estimate received from the institution abroad. In this case since US $ 120,000 is the drawal of foreign exchange, so permission of the RBI is not required.

(vii) Gift remittance exceeding US $ 10,000: Under the provisions of section 5 of FEMA 1999, certain Rules have been made for drawal of foreign exchange for current account transactions. Gift remittance is a current account transaction. Gift remittance exceeding US $ 250,000 can be made after obtaining prior approval of the RBI. In the present case, since the amount to be gifted by an individual, Mr. Rohan is USD 10,000, there is no need for any permission from the RBI.

(viii) Schedule II of the Foreign Exchange Management (Current Account Transactions) Rules, 2000 provides that no person shall draw foreign exchange for a transaction without approval of the Central Government. One of the transaction included in Schedule II is 'cultural tours.

Accordingly, Ms. Kanika Tripathi can withdraw foreign exchange of USD 75,000 for meeting expenses of cultural tour after obtaining permission from Ministry of Human Resource Development (Department of Education and Culture) as prescribed in Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.

(ix) As per Rule 3 read with Schedule I of Foreign Exchange Management (Current Account Transactions) Rules, 2000, payment of commission on exports made towards equity investment in wholly owned subsidiary abroad of an Indian company is prohibited

(x) Schedule II of the Foreign Exchange Management (Current Account Transactions) Rules, 2000 provides that no person shall draw foreign exchange for a transaction without approval of the Central Government. One of the transactions included in Schedule II is remittance of prize money/ sponsorship of sports activity abroad by a person other than International/ National/ State level sports bodies, if the amount involved exceeds USD 100,000. Accordingly, Rohan Sharma Cricket Academy can withdraw foreign exchange of USD 100,000 as participation fee after obtaining permission from Ministry of Human Resource Development (Department of Youth Affairs and Sports) as prescribed in Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.

(xi) As per Rule 3 read with Schedule I of Foreign Exchange Management (Current Account Transactions) Rules, 2000, payment of commission on exports under Rupees State Credit Route (except commission up to 10% of invoice value of exports of tea and tobacco) is prohibited. Therefore, payment of US $ 10,000 as commission on exports under Rupee State Credit Route is prohibited unless such commission is paid for export of tea and tobacco, and the commission does not exceed 10% of invoice value of exports.

(xii) As per Rule 5 read with Schedule III of Foreign Exchange Management (Current Account Transactions) Rules, 2000, individuals can draw foreign exchange up to $ 2,50,000 for travel for business under the Liberalized Remittance Scheme. Drawal of foreign exchange in excess of US Dollar 2,50,000 shall require prior approval of the Reserve Bank of India. Therefore, Mr. F can obtain US Dollar 30,000 for business tour to U.K. without any approval of the Reserve Bank of India.

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(xiii) As per Rule 5 read with Schedule III of Foreign Exchange Management (Current Account Transactions) Rules 2000 individuals can draw foreign exchange up to $2,50,000 for gift or donation (referred to as the Liberalized Remittance Scheme'). Therefore, Mr. X can obtain US Dollar 20,000 for making donation to a charitable trust situated in South Korea without any approval of the Reserve Bank of India.

(xiv) As per Schedule III of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, read with section 5 of the Foreign Exchange Management Act, 1999 donations exceeding 1% of their foreign exchange earnings during the previous 3 financial years or $ 5,000,000, whichever is less, can be remitted by persons other than individuals for creation of Chairs in reputed educational institutes with the prior approval of the Reserve Bank of India. Considering the above provision:

(a) In the first case, "chair" creation for the department of computer science in reputed university in the U.S. is permissible.
(b) Maximum amount that can be donated for such chair will be one per cent of their foreign exchange earnings during the previous 3 FY or USD 5,000,000, whichever is less without prior approval of the Reserve Bank of India.
(c) In case where donations exceed one per cent of their foreign exchange earnings during the previous three financial years or USD 5,000,000, it shall require prior approval of Reserve Bank of India.

(xv) Remuneration payable to a foreign technician is a current account transaction. According to Section 5 of the Foreign Exchange Management Act, 1999 any person can sell or draw foreign exchange to or from authorized person if such sale or drawal is a current account transaction. Reasonable restrictions on current account transactions can be imposed by the Central Government. Basically, all current account transactions are free unless specifically restricted by the Central Government. Hiring of foreign national as technicians is permissible without restriction. There is no ceiling on salary which can be paid as per contract. Their salary can be remitted abroad after-tax deductions, contribution to provident fund and other deductions at source.

(xvi) Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or five percent of the inward remittance whichever is more.

(xvii) Remittances exceeding USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1,000,000 per project, for other consultancy services procured from outside India.

(xviii) Remittances exceeding five per cent of investment brought into India or USD 100,000 whichever is higher, by an entity in India by way of reimbursement of pre-incorporation expenses.

Question 2: FEMA MASTER QUESTION (PART 2) - CAT

Examine whether the following transactions are permissible or not under the above Act as Capital Account Transactions and state whether there are restrictions in respect of following transactions:

(i) Investment by person resident in India in Foreign Securities.
(ii) Foreign currency loans raised in India and abroad by a person resident in India.
(iii) Export, import and holding of currency/currency notes
(iv) Trading in transferable development rights.
(v) Investment in a Nidhi Company.
(vi) Drawal of foreign exchange for payments due on account of amortization of loans in ordinary

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course of business.

(vii) Purchase by a person resident outside India of shares of a company in India engaged in plantation activities.

(viii) A person, who was resident of U.S.A. for several years, is planning to return to India permanently. Can he continue to hold the investment made by him in the securities issued by companies in U.S.A.?

(ix) Mrs. Chandra, a resident outside India, is likely to inherit from her father some immovable property in India. Are there any restrictions under the provisions of the Foreign Exchange Management Act, 1999 in acquiring or holding such property?

(x) Ruchika got an employment opportunity in a UK based IT company. She moved to UK and remained there for 10 years. During her tenure she purchased a small flat in UK for the residential purpose. After returning to India, she joined another IT company and let out her flat situated in UK. The rental income of UK flat was deposited by her in the bank account of UK. A good amount was accumulated in her UK' bank account, so she planned to purchase a second flat in the UK. Whether Ruchika can purchase the first flat in UK and continue to retain even after returning to India?

Answer

(i) Investment by person resident in India in Foreign Securities is a capital account transaction. It is permitted within the limit, subject to the compliance of conditions and if declaration is made as per the provisions contained in the Regulations relevant to the transaction.

(ii) Foreign currency loans raised in India and abroad by a person resident in India is a capital account transaction. It is permitted within the limit, subject to the compliance of conditions and if declaration is made as per the provisions contained in the Regulations relevant to the transaction.

(iii) Export, import and holding of currency /currency notes is a capital account transaction. It is permitted within the limit, subject to the compliance of conditions and if declaration is made as per the provisions contained in the Regulations relevant to the transaction.

(iv) Trading in transferable development rights is prohibited since no person resident outside India shall make investment in India in any entity which is engaged, or proposes to engage in trading in Transferable Development Rights (TDRs) (Regulation 4 of Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000).

(v) Investment in a Nidhi Company is prohibited since no person resident outside India shall make investment in India in any entity which is engaged, or proposes to engage as Nidhi Company [Regulation 4 of Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000].

(vi) <u>Amortization of loans is permitted</u>

Section 6 specifically mentions that the Reserve Bank shall not impose any restriction on the drawal of foreign exchange for payments due on account of -

(a) amortization of loans in the ordinary course of business; or

(b) Depreciation of direct investments in the ordinary course of business.

Thus, there is no restriction on drawal of foreign exchange for payments due on account of amortization of loans in ordinary course of business.

(vii) <u>Investment in plantation activities is prohibited</u>

The Reserve Bank of India has framed Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000. As per these Regulations, no person resident outside India shall make investment in India in any entity which is engaged, or proposes to engage in agricultural or plantation activities.

Thus, a person resident outside India cannot purchase shares of a company in India engaged in

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plantation activities.

(viii) As per Section 6(4), a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.
Hence, the USA Resident shall be entitled to hold the foreign securities even after he becomes a person resident in India

(ix) As per section 6(5), a person resident outside India may hold, own, transfer or invest in India currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.

Thus, a person resident outside India may hold, own or transfer any immovable property situated in India if such property is inherited from a person resident in India. Accordingly, Mrs. Chandra is entitled to acquire as well as hold the immovable property in India inherited by her.

Author's Note: Please note that in this question, assumption is that his father is a PRI.

(x) Purchase of First Flat in UK
Section 6(4) of the FEMA, 1999 provides that a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.
Ruchika purchased the first flat when she residing in UK and was resident outside India. After returning to India and after becoming the resident in India, she can continue to hold such flat.

15 The Limited Liability Partnership Act, 2008

Question 1:

"LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership". Explain.

[ICAI Module, MTP May 24, MTP Sept'25, MTP Jan'26 - 5 marks]

Answer

LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership

Limited Liability: Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26 of the LLP Act, 2008). The liability of the partners will be limited to their agreed contribution in the LLP, while the LLP itself will be liable for the full extent of its assets.

Flexibility of a partnership: The LLP allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.

Question 2:

Sulagna, Sukanya & Associates LLP was formed on 1st November, 2024 5 to be engaged in the business of manufacturing affordable range of fashionable accessories for women. Sulagna a fashion designer had appointed Shreesh a qualified Chartered Accountant to maintain and finalize the accounts on a January to December basis thereby preparing the financial statements for first two months ending 31st December, 2024. Shreesh differed from the view and advised her for April to March as the financial year thereby urging upon such account finalization from November 2024 to March 2025 instead. Meanwhile Dilip a Karta of a HUF in which Sukanya is also a member has approached the LLP and offered to be admitted as a partner.

Considering the provisions of the Limited Liability Partnership Act, 2008, answer the following:

(i) Whether the advice of Sulagna for maintaining the accounts on January to December basis hold good at law?

(ii) Whether the offer given by Dilip to induct the HUF as a partner be considered?

(iii) What would be your answer if instead of Dilip, a Charitable Trust had approached to become a partner in the LLP?

[Sept'25 - 5 marks]

OR

Mr. Ankit Sharma wants to form an LLP taking him, his wife Mrs. Archika Sharma and One HUF as partners for that. Whether this LLP can be incorporated under LLP Act, 2008? Explain.

[ICAI Module]

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Answer

(i) As per section 2(1)(l) of the LLP Act, 2008, "Financial year", in relation to a LLP, means the period ending on the 31st day of March every year:

Provided that in the case of a limited liability partnership incorporated on or after the 1st day of October of a year, the financial year may end on the 31st day of March of the following year.
In terms of the above provision, advice of Sulagna for maintaining the accounts on January to December basis is not valid.

(ii) Section 5 of the Limited Liability Partnership Act, 2008 provides that any individual or body corporate can be a partner in LLP. However, it has been clarified vide MCA General Circular No. 13/2013 dated 29th July, 2013 read with MCA General Circular No. 2/16 dated 15th January, 2016 that a HUF cannot be treated as a body corporate for the purposes of LLP Act, 2008.

Therefore, a HUF or its Karta cannot become a partner or designated partner in LLP.
Hence, Dilip cannot be inducted as a partner to the LLP.

(iii) The answer would be the same as a trust is not a body corporate in India. A trust is a legal arrangement for managing property for the benefit of another person, called the beneficiary. The person who manages the property is called the trustee. Hence, in that case too such Charitable Trust could not be inducted as a partner to the LLP.

Question 3:

Mohan and Rakul are college friends and intend to do trading in musical instruments. They have met Mr. John and Ms. Kate who are non-resident Indian and they all have decided to form a Limited Liability Partnership (LLP) under the name and style of Mohan John LLP with an initial capital contribution of Rs. 1,00,000 each. The LLP was incorporated on October 15, 2020. The LLP intends to appoint Mr. John and Ms. Kate as designated partners and consults same with its Company Secretary. You as the Company Secretary advise the LLP on the appointment of Mr. John and Ms. Kate as the only designated partners of the LLP.

[MTP May 24, MTP Jan'26 - 5 Marks]

OR

There is an LLP by the name Ram Infra Development LLP which has 4 partners namely Mr. Rahul, Mr. Raheem, Mr. Kartar and Mr. Albert. Mr. Rahul and Mr. Albert are non - resident while other two are resident. LLP wants to take Mr. Rahul and Mr. Raheem as Designated Partner. Explain in the light of Limited Liability Partnership Act, 2008 whether LLP can do so?

[ICAI Module]

Answer

According to section 7 of the Limited Liability Partnership Act, 2008, every LLP shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.
Further, explanation to the section provides, the term "resident in India" means a person who has stayed in India for a period of not less than 120 days during the financial year.

In the given case, Mohan John LLP intends to appoint Mr. John and Ms. Kate (both are nonresident Indians) as the only designated partners. This is not in consonance with provisions of the Limited Liability Partnership Act, 2008, as at least one of the designated partners should be a resident in India.

Question 4:

Mr. Mudit is the creditor of Devi Ram Food Circle LLP. He has a claim of Rs. 10,00,000 against the LLP but the worth of the assets of LLP are only Rs. 7,00,000. Now Mr. Mudit wants to make the partners of LLP personally liable for the deficiency of Rs. 3,00,000. Whether by virtue of provisions of Limited Liability Act, 2008, Mr. Mudit can claim the deficiency from the partners of Devi Ram Food Circle LLP?

[ICAI Module, RTP May'24]

Answer

A limited liability partnership is a body corporate formed and incorporated under this Act and is a legal entity separate from that of its partners. The LLP itself will be liable for the full extent of its assets but the liability of the partners will be limited. Creditors of LLP shall be the creditors of LLP alone. In other words, creditors of LLP cannot claim from partners. The liability of the partners will be limited to their agreed contribution in the LLP.

Hence the creditors of Devi Ram Food Circle LLP are the creditors of Devi Ram Food Circle LLP only. Partners of LLP are not personally liable towards creditors. Mr. Mudit cannot claim his deficiency of Rs. 3,00,000 from the partners of Devi Ram Food Circle LLP.

Question 5:

M/s Vardhman Steels LLP was incorporated on 01.09.2022. On 01.01.2023, one partner of a partnership firm named M/s Vardhman Steels is registered with Indian Partnership Act, 1932 since 01.01.2000 requested ROC that as the name of LLP is nearly resembles with the name of already registered partnership firm, the name of LLP should be changed. Explain whether M/s Vardhman Steels LLP is liable to change its name under the provisions of Limited Liability Act, 2008?

[ICAI Module]

Answer

Section 15 of LLP Act, 2008 provides no LLP shall be registered by a name which, in the opinion of the Central Government is—

(a) undesirable; or
(b) identical or too nearly resembles to that of any other 'LLP or a company or a registered trade mark of any other person under the Trade Marks Act, 1999'.

Further, section 17 provides, if the name of LLP is identical with or too nearly resembles to-
(a) that of any other LLP or a company; or
(b) a registered trade mark of a proprietor under the Trade Marks Act, 1999
then on an application of such LLP or proprietor referred to in clauses (a) and (b) respectively or a company, the CG may direct that such LLP to change its name within a period of 3 months from the date of issue of such direction.

Following the above provisions, LLP need not change its name if its name resembles with the name of a partnership firm. These provisions are applicable only in case where name is resembles with LLP, company or a registered trade mark of a proprietor.
Hence, M/s Vardhman Steels LLP need not change its name even it resembles with the name of firm.

Question 6:

Kanik, Priyansh, Abhinav and Bhawna were partners in Singh Jain & Associates LLP. Abhinav resigned from the firm w.e.f. 01.11.2022 but this was not informed to ROC by LLP or Abhinav. Whether Abhinav will still be liable for the loss of firm of the transactions entered after 01.11.2022?

[ICAI Module, May'25]

Answer

According to section 24(3), where a person has ceased to be a partner of an LLP (hereinafter referred to as "former partner"), the former partner is to be regarded (in relation to any person dealing with the LLP) as still being a partner of the LLP unless—
(a) the person has notice that the former partner has ceased to be a partner of the LLP; or
(b) notice that the former partner has ceased to be a partner of the LLP has been delivered to the Registrar.

Hence, by virtue of the above provisions, as no notice of resignation was given to ROC, Abhinav will still be liable for the loss of firm of the transactions entered after 01.11.2022.

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Question 7

Repeat question. Merged with other questions.

Question 8

Mr. Prateek (an individual) has started a Limited Liability Partnership firm along with Brown Limited and Picture Limited. As per the provisions of the Limited Liability Partnership Act, 2008, advise Limited Liability Partnership firm, about who can be the designated partners of the firm.

[MTP May'24 - 5 marks]

Answer

According to section 7 of the Limited Liability Partnership Act, 2008, every Limited Liability Partnership (LLP) shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

Provided, if in LLP, all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such LLP or nominees of such bodies corporate shall act as designated partners.

In the given question, at least Mr. Prateek and one nominee of any bodies corporate shall be designated partners.

Question 9

XYZ LLP was registered under the Limited Liability Partnership Act, 2008 (LLP Act) with a name that was later found to be identical to an existing company's name, XYZ OPC Pvt Ltd. This similarity was not noticed at the time of registration.

Explain the provisions of the Limited Liability Partnership Act, 2008, in respect of the following:

(i) When the name of LLP is identical.

(ii) Formalities with the Registrar of Companies after name change of LLP.

[RTP Sept 24]

Answer

According to section 17 of the LLP Act, 2008,

(i) Notwithstanding anything contained in sections 15 and 16, if through inadvertence, or otherwise, the LLP, on its first registration or on its registration by new name, is registered by a name which is identical with or too nearly resembles to-

(a) that of any other LLP or a company; or

(b) a registered trade mark of a proprietor under the Trade Marks Act, 1999

as likely to be mistaken, then on an application of such LLP or proprietor referred to in clauses (a) and (b) respectively or a company, the Central Government may direct such LLP to change its name or new name within a period of 3 months from the date of issue of such direction,

Provided that an application of the proprietor of the registered trade marks shall be maintainable within a period of 3 years from the date of incorporation or registration or change of name of the LLP under this Act.

(ii) Where an LLP changes its name or obtains new name, it shall within a period of 15 days from the date of such change, give notice of the change to Registrar along with the order of the Central Government, who shall carry out necessary changes in the certificate of incorporation and within 30 days of such change in the certificate of incorporation, such LLP shall change its name in the LLP agreement.

Question 10

A dispute among the partners of Limited Liability Partnership (the LLP) jeopardized the stability of the business. Out of two partners, one due to quarrel, left the LLP. The other partner alone continued the business of the LLP. You are being expert in law is requested to explain the provisions governing the LLP being operated by a single partner and its winding up by the Tribunal as per the provisions of the Limited Liability Partnership Act,2008.

[May 24, MTP Sept'25 - 5 marks]

OR

Enumerate the circumstances in which a Limited Liability Partnership may be wound up by the Tribunal. Give your answer in respect of the provisions of the Limited Liability Partnership Act, 2008.

[MTP May'24 - 5 marks]

Answer

According to section 6 of the Limited Liability Partnership Act, 2008,

(i) Every LLP shall have at least two partners.

(ii) If at any time the number of partners of a LLP is reduced below two and the LLP carries on business for more than six months while the number is so reduced, the person, who is the only partner of the LLP during the time that it so carries on business after those six months and has the knowledge of the fact that it is carrying on business with him alone, shall be liable personally for the obligations of the LLP incurred during that period.

In the given situation, the alone partner should consider the above provisions of the Limited Liability Partnership Act, 2008, governing the LLP being operated by a single partner.

As per section 64 of the Limited Liability Partnership Act, 2008, the circumstances in which LLP may be wound up by Tribunal are:

(a) if the LLP decides that LLP be wound up by the Tribunal;
(b) if, for a period of more than 6 months, the number of partners of the LLP is reduced below two;
(c) if the LLP has acted against the interests of the sovereignty and integrity of India, the security of the state or public order;
(d) if the LLP has made a default in filling with the Registrar the Statement of Account and Solvency or annual return for any 5 consecutive financial years; or
(e) if the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

Question 11

(i) Explain the protection available for the "whistleblowers" in the context of the Limited Liability Partnership Act,2008.

(ii) Describe the consequences of making a false statement in any return, statement or other document under Section 37 of the Limited Liability Partnership Act,2008.

[May 24 - 5 marks]

Answer

(i) According to section 31 of the Limited Liability Partnership Act, 2008,

(1) The Court or Tribunal may reduce or waive any penalty leviable against any partner or employee of a LLP, if it is satisfied that:

- such partner or employee of an LLP has provided useful information during investigation of such LLP; or
- when any information given by any partner or employee (whether or not during investigation) leads to LLP or any partner or employee of such LLP being convicted under this Act or any other Act.

(2) No partner or employee of any LLP may be discharged, demoted, suspended, threatened, harassed or in any other manner discriminated against the terms and conditions of his LLP or employment merely because of his providing information or causing information to be provided pursuant to sub-section (1).

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(ii) According to section 37 of the Limited Liability Partnership Act, 2008, If in any return, statement or other document required by or for the purposes of any of the provisions of this Act, any person makes a statement:

(a) which is false in any material particular, knowing it to be false; or

(b) which omits any material fact knowing it to be material,

he shall, save as otherwise expressly provided in this Act, be punishable with imprisonment for a term which may extend to 2 years, and shall also be liable to fine which may extend to 5 lakh rupees but which shall not be less than 1 lakh rupees.

Question 12

Define the term 'Small limited liability partnership' as per the provisions of the Limited Liability Partnership Act, 2008.

[MTP Sept 24 - 5 marks]

Answer

Small limited liability partnership

According to section 2(1)(ta) of the Limited Liability Partnership Act, 2008, small limited liability partnership means a limited liability partnership:

(i) the contribution of which, does not exceed twenty-five lakh rupees or such higher amount, not exceeding five crore rupees, as may be prescribed; and

(ii) the turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed forty lakh rupees or such higher amount, not exceeding fifty crore rupees, as may be prescribed; or

(iii) which meets such other requirements as may be prescribed, and fulfils such terms and conditions as may be prescribed.

Question 13

Raman, Sita and Mohan are partners in an LLP firm RSM & Co. engaged in consultancy services. As per the LLP agreement, profits and losses are shared equally. Raman, requiring funds for personal purposes, transfers 40% of his share of profits to his friend Arjun.

After the transfer, Arjun claims that:

(a) He is entitled to participate in the management of RSM & Co.

(b) Since Raman has transferred part of his rights, he is deemed to be disassociated as a partner of the LLP.

You are required to advise, with reference to the Limited Liability Partnership Act, 2008:

(i) Whether Raman's partial transfer of rights will lead to disassociation or dissolution of the LLP.

(ii) Whether Arjun is entitled to participate in the management of RSM & Co.

[RTP Jan'26]

OR

A, B, C, and D are the partners of Alpha LLP and have equal share in the profits and losses of the LLP. A has made an agreement to transfer 70% of his share in the profits of Alpha LLP to his daughter X.

X wanted to access information about the trading transactions of Alpha LLP claiming that she is entitled to the information as she receives a percentage of profits from the LLP. The partners refused to grant her access. Does X have any remedy against the denial according to the provisions of the Limited Liability Partnership Act, 2008? Are the partners correct in denying access to X?

[Sept'24, May'25 - 5 marks]

Answer

As per section 42 of the Limited Liability Partnership Act, 2008,

(1) The rights of a partner to a share of the profits and losses of the limited liability partnership and to receive distributions in accordance with the limited liability partnership agreement are transferable either wholly or in part.

(2) The transfer of any right by any partner pursuant to sub-section (1) does not by itself cause the disassociation of the partner or a dissolution and winding up of the limited liability partnership.

(3) The transfer of right pursuant to this section does not, by itself, entitle the transferee or assignee to participate in the management or conduct of the activities of the limited liability partnership, or access information concerning the transactions of the limited liability partnership.

In the given question, Raman has transferred 40% of his share of profits in RSM & Co. to his friend Arjun.

In view of the above provisions and facts of the question:

(i) Transfer of rights does not by itself cause the disassociation of the partner or a dissolution and winding up of the limited liability partnership. Hence, Raman's partial transfer of rights will not lead to disassociation or dissolution of the LLP.

(ii) Transfer of right pursuant does not, by itself, entitle the transferee or assignee to participate in the management in the activities of the limited liability partnership. Hence, Arjun is not entitled to participate in the management of RSM & Co.

Question 14

Amit and Priya are partners in XYZ LLP, a consulting firm. Recently, Priya moved to a new address but forgot to notify the LLP within the required period. A month later, Amit's cousin, Ramesh, expressed interest in joining XYZ LLP as a partner, and after a few discussions, he was accepted as a new partner.
However, XYZ LLP did not immediately update the Registrar of Companies (RoC) regarding Priya's address change or Ramesh's admission as a partner. Two months after Ramesh joined, the LLP filed a notice with the RoC about these changes.

Advise the LLP about the default on part of LLP about the non compliance in respect to not informing the ROC about:

(i) Priya's address change
(ii) Ramesh's admission as a partner.

[RTP Jan'25, MTP Jan'26, Jan'26 - 5 Marks]

Answer

According to section 25 of the Limited Liability Partnership Act, 2008,

(1) Every partner shall inform the LLP of any change in his name or address within a period of 15 days of such change.

(2) A LLP shall—

(a) where a person becomes or ceases to be a partner, file a notice with the Registrar within 30 days from the date he becomes or ceases to be a partner; and

(b) where there is any change in the name or address of a partner, file a notice with the Registrar within 30 days of such change.

(3) A notice filed with the Registrar under sub-section (2)—

(a) shall be in such form and accompanied by such fees as may be prescribed;

(b) shall be signed by the designated partner of the LLP and authenticated in a manner as may be prescribed; and

(c) if it relates to an incoming partner, shall contain a statement by such partner that he consents to becoming a partner, signed by him and authenticated in the manner as may be prescribed.

(i) Priya's Address Change: Under the provision, Priya was required to inform XYZ LLP of her address change within 15 days of the move. Following that, XYZ LLP was required to file a notice with the RoC within 30 days of being notified of Priya's new address. As Priya did not inform the LLP about change of address and consequently LLP did not file a notice regarding the change in address of Priya with the Registrar, XYZ LLP is not in compliance with the required timeline.

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(ii) Ramesh's Admission as a Partner: For new partners, XYZ LLP must file a notice with the RoC within 30 days of a person becoming a partner. This notice should include Ramesh's consent statement, signed by him and authenticated as prescribed. The delay in filing means XYZ LLP did not meet the 30-day requirement.

Question 15

Define the term 'Financial Year' as per the provisions of the Limited Liability Partnership Act, 2008.

[MTP Jan'25 - 2 marks]

Answer

Financial Year: According to section 2(1)(l) of the Limited Liability Partnership Act, 2008, "Financial year", in relation to a Limited Liability Partnership (LLP), means the period from the 1st day of April of a year to the 31st day of March of the following year.

However, in the case of a LLP incorporated after the 30th day of September of a year, the financial year may end on the 31st day of March of the year next following that year.

Question 16

NS & Associates LLP was formed in the year 2020 and it was engaged in the business of manufacturing of plastic parts for automobiles. It constituted of Mr. Naveen and Mr. Suresh as designated partners who were responsible for obtaining contracts from various automobile manufacturers across the country for supply of spare parts for vehicles.

In the year 2021, an investigation was ordered by the Tribunal against the LLP in connection with a financial fraud worth ₹ 50,25,000. Mr. J, one of the Accounts Managers and an employee of the LLP, was accused by the complainant as one of the perpetrators of the fraud.

The Tribunal levied a penalty of ₹ 1,25,000 to be paid by Mr. J on his conviction. Mr. J approached the Tribunal and provided vital information about the other black sheep involved in the fraud, thus aiding in the investigation process. The Tribunal is considering providing some relief in the penal action taken against him, while the LLP is planning to suspend Mr. J from service for this act.

Considering the provisions of the Limited Liability Partnership Act, 2008:
(i) Decide whether the Tribunal can waive off or reduce the penalty imposed by it on Mr. J?
(ii) Can the LLP suspend Mr. J from service for commission of the act of revealing the name of the other accused involved in the fraud?

[Jan'25 - 5 marks]

Answer

Section 31(1) of the Limited Liability Partnership Act, 2008 provides that:
The Court or Tribunal may reduce or waive any penalty leviable against any partner or employee of a LLP, if it is satisfied that:

- such partner or employee of an LLP has provided useful information during investigation of such LLP; or when any information given by any partner, or
- when any information given by any partner or employee (whether or not during investigation) leads to LLP or any partner or employee of such LLP being convicted under this Act or any other Act.

On the basis of the above provisions, the question can be answered as under:

(i) Yes, the Tribunal has the power to waive or reduce the penalty of ₹ 1,25,000 being imposed on Mr. J as he has provided useful information that is helpful towards investigations in the case of fraud by the LLP.

(ii) Section 31(2) of the LLP Act, 2008 further provides that:
No partner or employee of any limited liability partnership may be discharged, demoted, suspended, threatened, harassed or in any other manner discriminated against the terms and conditions of his limited liability partnership or employment merely because of his providing information or causing information to be provided pursuant to sub-section (1). Hence, Mr. J cannot be suspended from the job by the LLP on the grounds of having provided vital information regarding the fraud to the Tribunal.

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Question 17

XYZ LLP was incorporated on 15th March, 2023, with its registered office in Mumbai. The LLP received a legal notice from a supplier at this address. However, the partners claim they never received the notice, as they had shifted their office to Pune on 10th Jan, 2024, but had not informed the Registrar about the change.

Based on the provisions of the provisions of the Limited Liability Partnership (LLP) Act, 2008, advise whether the service of notice at the Mumbai address is legally valid.

[MTP May'25 - 5 marks]

Answer

Registered Office of LLP and Change therein

As per section 13 of the Limited Liability Partnership Act, 2013,

(1) Every LLP shall have a registered office to which all communications and notices may be addressed and where they shall be received.

(2) A document may be served on a LLP or a partner or designated partner thereof by sending it by post under a certificate of posting or by registered post or by any other manner, as may be prescribed, at the registered office and any other address specifically declared by the LLP for the purpose in such form and manner as may be prescribed.

(3) A LLP may change the place of its registered office and file the notice of such change with the Registrar in such form and manner and subject to such conditions as may be prescribed and any such change shall take effect only upon such filing.

In the given question, the registered office of XYZ LLP is at Mumbai. Further, the question informs that the LLP has shifted their office to Pune.

In the light of the provisions of the Act and the facts of question, the registered office of XYZ LLP will be Mumbai as it is registered with the Registrar. The changed office to Pune cannot be treated as a registered office.

Thus, the service of notice at the Mumbai address is legally valid.

Question 18

Analyzing the role and liabilities of Designated Partners in a Limited Liability Partnership (LLP) under the LLP Act, 2008, answer the following questions:

(i) In a LLP where all partners are corporate entities, can a corporate body be appointed as a designated partner?

(ii) If an LLP agreement does not specify the designated partners, whether LLP can be validly formed without designated partners under the LLP Act, 2008?

(iii) A designated partner of an LLP in India is planning to relocate permanently to another country.

(iv) XYZ LLP was penalized for non-compliance, but one of the designated partners claims he was unaware of the regulatory requirements. Can he avoid liability?

[MTP May'25 - 5 marks]

Answer

The LLP Act, 2008, under Sections 7 and 8, outlines the eligibility, responsibilities, and liabilities of Designated Partners (DPs). Following are the answers:

(i) Every LLP must have at least two designated partners, and at least one must be a resident of India. Where if, all partners are bodies corporate, at least two individuals must be appointed as designated partners. Therefore, as per the stated law a corporate body cannot be appointed as a designated partner. Only individuals are eligible to be appointed as DPs.

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(ii) The incorporation document must specify the designated partners, or they must be appointed per the LLP agreement.

Accordingly, if an LLP agreement does not specify the designated partners, they the partners specified in the incorporation document containing designated partners can validly form the LLP in compliance with the LLP Act, 2008.

(iii) As per the LLP Act, 2008, at least one designated partner of the LLP must be a resident of India. A resident of India is defined as a person who has stayed in India for at least 120 days in the financial year. If the designated partner is permanently relocating, he may no longer require to fulfill the residency criteria of staying in India for at least 120 days in the financial year.

(iv) Designated partners are responsible for ensuring that the LLP complies with the LLP Act, 2008.

a. If the LLP fails to comply with statutory requirements, designated partners are held personally liable for penalties.

b. They may face fines or legal consequences for any violations of the LLP Act.

Where if, the designated partners, claims he was unaware of the regulatory requirements. He cannot take plead of the ignorance and cannot avoid the liability.

Question 19

Ravi and Neha, two entrepreneurs, plan to start a new Limited Liability Partnership (LLP) focused on AI-based software development. They decide to name their LLP as "NextGen AI Innovations LLP." Before proceeding with the incorporation, they want to ensure that their chosen name is available and reserved. They apply to the Registrar through the prescribed web-based platform and pay the required fee for name reservation. Describe the legal requirements as to the reservation of a name as per relevant provisions under the Limited Liability Partnership Act, 2008.

[RTP Sept'25]

Answer

Under section 16 of the Limited Liability Partnership (LLP) Act, 2008, a person may apply to the Registrar for the reservation of a name in either of the following circumstances:

(a) As the name of a proposed LLP, or

(b) As the name to which an existing LLP proposes to change its name.

The application must be made in the prescribed form and manner along with the prescribed fee.

Upon receiving such an application, the Registrar may,

if satisfied that the name is not one liable to be rejected under section 15(2) of the LLP Act, reserve the name for a period of three months from the date of intimation by the Registrar.

As per section 15(2), no LLP shall be registered by a name which, in the opinion of the Central Government is—

(a) undesirable; or

(b) identical or too nearly resembles to that of any other LLP or a company or a registered trademark of any other person under the Trade Marks Act, 1999.

Question 20

Write down any five points on the distinction between LLP and Limited Liability Company.

[May'25 - 5 marks]

Answer

Distinction between LLP and Company

S.No.	Basis	LLP	Company
1	Regulating Act	The LLP Act,2008	The Companies Act,2013
2	Members/Partners	The persons who contribute to LLP are known as partners of the LLP	The persons who invest the money in the shares of the company are known as members of the company

3	Name	Name of the LLP to contain the word "Limited Liability Partnership" or "LLP" as suffix.	Name of the public company to contain the word "Limited" and Pvt. to Co. contain the word "Private Limited" as suffix.
4	No. of members/partners	Minimum - 2 members Maximum - No such limit on the members in the Act. members The members of the LLP can be individuals/or body corporate through the nominees	**Private Company:** Minimum - 2 members Maximum - 200 members **Public Company:** Minimum - 7 members Maximum - No such limit on the members. Members can be organizations, trusts, another business form or individuals.
5	Liability of members/partners	Liability of each partner is limited to the extent of agreed contribution except in case of intention is fraud.	Liability of member is limited to the amount unpaid on the shares held by them.
6	Management	The business of the firm is managed by the partners including the designated partners authorized in the agreement.	The affairs of the company are managed by board of directors elected by the shareholders.
7	Minimum number of directors/designated partners	Minimum 2 designated partners	Pvt. Co. - 2 Directors Public Co. - 3 Directors

Question 21

Harish, Priyam and Priyesh are three advertising professionals specialized in the field of creating short advertisement films for various Fast Moving Consumer Goods (FMCG) companies. They have been engaged in their businesses separately as sole-proprietors, but have now decided to join hands and form a Limited Liability Partnership. On 10.04.2024, the e-Form RUNLLP is filed thereby to reserve the name of the LLP as HPP & Associates LLP which has been approved by the Registrar along with e-Form. The e-form FiLLiP has also been filed containing details of partners and their consent.

Meanwhile even after incorporation as HPP & Associates LLP on 30.04.2024 the LLP could not finalize the LLP agreement as Harish and Priyam have agreed to contribute ₹ 1.15 Crore to the LLP whereas Priyesh has desired and insisted to monetize his future services for one year to the LLP as his capital contribution, which has been opposed by the other two partners as beyond law. However, a consensus was drawn between the above three and a common consensus LLP agreement was submitted on 20.05.2024.
The LLP has further planned to induct Srijan Cooperative Society as one of its partners.

Considering the provisions of the Limited Liability Partnership Act, 2008, answer the following:

(i) Whether the Registrar would accept the LLP agreement so submitted after 20 days of incorporation as in compliance with law?

(ii) Whether the opposition of the desire of Priyesh on matter and form of his capital contribution, correct?

(iii) Whether Srijan Cooperative Society can be inducted as a partner in the LLP?

[Sept'25 - 5 marks]

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Answer

(i) As per section 23 of the Limited Liability Partnership Act (LLP), 2008, the LLP agreement shall be in writing and filed with the Registrar in such form and manner as may be prescribed.

As per Rule 21 of the LLP Rules, 2009, every limited liability partnership shall file information with regard to the limited liability partnership agreement in Form 3 with the Registrar within thirty days of the date of incorporation. Proviso to the above rule also specifies that changes, if any, made therein shall be filed with the Registrar within thirty days of such change.
In terms of the above provisions, the Registrar will accept the LLP agreement which has been submitted after 20 days of incorporation in compliance with law.

(ii) According to section 32(1) of the Limited Liability Partnership Act, 2008, a contribution of a partner of the LLP may consist of tangible, movable or immovable or intangible property or other benefit to the limited liability partnership, including money, promissory notes, other agreements to contribute cash or property, and contracts for services performed or to be performed.

Thus, Priyesh's plea for contributing his future services for one year to the LLP as his capital contribution is tenable and therefore the other partners are not correct in opposing to Mr. Priyesh for the same.

(iii) According to section 5 of the Limited Liability Partnership Act, 2008, any individual or body corporate may be a partner in a LLP.

The definition of body corporate as given under the LLP Act, 2008, does not include a co-operative society registered under any law for the time being in force. Hence, Srijan Cooperative Society cannot be inducted as a partner in LLP.

Question 22

ABC LLP is engaged in the business of providing software consulting services. Due to an economic slowdown, the LLP is unable to meet its obligations towards some creditors. The management of ABC LLP proposes a compromise arrangement with its creditors to restructure its outstanding debts by extending repayment periods and waiving a portion of interest.

The LLP files an application before the National Company Law Tribunal (NCLT), seeking directions to convene a meeting of its creditors.

At the meeting, creditors representing 80% of the total value of debts agree to the proposed arrangement. The Tribunal, after ensuring that all material facts, including the LLP's latest financial statements and the disclosure of pending tax investigations, have been presented, sanctions the compromise.
However, ABC LLP fails to file the Tribunal's order with the Registrar within the prescribed period.

Examine the validity of the compromise or arrangement approved by the creditors and sanctioned by the Tribunal with reference to the Limited Liability Partnership Act, 2008. Also explain the effect of failure by ABC LLP to file the Tribunal's order with the Registrar.

[Jan'26 - 5 Marks]

Answer

Check suggested answer if released. It was not released till the date this question was included here.

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YOUR CA BUDDY
CA SHUBHAM SINGHAL

MULTIPLE CHOICE QUESTIONS (MCQS)

30 MARKS



Compiled from ICAI BoS, Past Papers (to the extent available), MTPs, RTPs and ICAI Module By Your CA Buddy

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1 Preliminary

Question 1: [Section 2(85)]

Roma along with her six friends has incorporated Roma Trading Ltd. in May 2019. The PUSC of the company is Rs 30 lakhs. Further, in April 2020, she noticed that in the last F/Y, the T/O of the company was well below Rs 20 crores. Advise whether the company can be treated as a 'small company'.

(a) Roma Trading Ltd. is definitely a 'small company' since its paid-up capital is much below Rs 4 crores and also its T/O has not exceeded the threshold limit of Rs 40 crores.

(b) The concept of 'small company' is applicable only in the case of a private limited company/OPC and therefore, despite meeting the criteria of 'small company' it being a public limited company it cannot enjoy the benefits of 'small company'.

(c) Unlike a private limited co./OPC which automatically becomes a 'small company' as soon as it meets the criteria of 'small co.', Roma Trading Ltd. being a public limited co. has to maintain the norms applicable to a 'small co.' continuously for 2 years so that, thereafter, it will be treated as a 'small co.'.

(d) If all the shareholders of Roma Trading Ltd. give an undertaking to the ROC stating that they will not let the paid-up share capital and also t/o exceed the limits applicable to a 'small company' in the next two years, then it can be treated as a 'small company'.

(RTP Nov'22, ICAI Module)

Question 2: [Section 2(62)]

Anupam incorporated a OPC with his sister Alpana as the nominee and about three years have passed satisfactorily. Anupam does a number of charitable works and is associated with three NGOs. His business under hisOPC has also flourished. Now he is planning to convert the OPC into a Section 8 company (i.e., a company formed with charitable objects). Choose the correct option.

(a) Since the company belongs to Anupam, he has full discretion to convert the OPC either as a Section 8 company or as a private or public company

(b) Since the company was formed as a private company, the only option available with Anupam is to convert it into a public limited company.

(c) There is a specific prohibition on converting OPC into a Section 8 company; otherwise, it can be converted into a private or public company without any hindrance.

(d) Since Anupam does a lot of charitable work there is no prohibition on converting OPC into Sec 8 co.

(MTP May'21)

Q. No.	Answer	Q. No.	Answer
1.	(b)	2.	(c)

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Question 3: [Section 2(41)]

Sanya Ltd. is incorporated on 3rd January 2021. As per the Companies Act, 2013, what will be the financial year for the company:

(a) 31st March, 2021
(b) 31st December, 2021
(c) 31st March, 2022
(d) 30th September, 2022

(MTP May'22, MTP Sept'24, ICAI Module, ICAI BoS)

Question 4: [Section 2(68)]

M/s Roopali Marketing Company Private Limited (Authorized capital 50,000 shares of Rs.10 each and paid-up share capital of Rs. 4,50,000), 1000 shares are jointly held by Abeer and Abheek; another 800 shares are jointly held by Seema and Srividya; and another 1200 are jointly held by Ramesh, Raksha and Rajneesh. Further, 42,000 shares are held by 193 individual persons in their individual capacity. Is it possible for the company to induct more persons?

(a) The company is unable to induct more persons since it has already had 200 individual members.
(b) The company can induct 4 more persons as members.
(c) The company can induct another 20 persons (i.e., 10% of two hundred individual members) after seeking permission from the concerned ROC.
(d) If the company does not want to seek the permission of the concerned ROC, it can induct only 10 more persons (i.e., 5% of two hundred individual members).

(MTP May'20)

Question 5: [Section 2(52)]

Kaveri Goods Carriers Private Limited (KGCPL) issued 9% Non-convertible Debentures worth Rs. 10 lakhs and thereafter, the directors contemplated to get them listed. After due formalities, these privately placed non-convertible debentures of Rs. 10 lakhs were listed. Which of the following options is applicable in the given situation:

(a) KGCPL shall be considered as a listed company.
(b) KGCPL shall not be considered as a listed company.
(c) KGCPL shall be considered as a listed company only when minimum amount of listed privately placed non-convertible debentures is Rs. 15 lakhs.
(d) KGCPL shall be considered as a listed company only when minimum amount of listed privately placed non-convertible debentures is minimum Rs. 20 lakhs.

(ICAI Module, RTP Nov'23)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
3.	(c)	4.	(b)	5.	(b)

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Question 6: [Section 2(6)]

"Associate company", in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company. Here, the words 'significant influence' means:

(a) Control of at least 10% of total voting power
(b) Control of at least 15% of total voting power
(c) Control of at least 20% of total voting power
(d) Control of at least 25% of total voting power

(ICAI Module, MTP1 May'23)

Question 7: [Section 2(40)]

Which of the following is not mandatorily required to include cash flow as part of its financial statement.

(a) Shiv Limited
(b) Shiv Private Limited (not a start- up company)
(c) Shiv (OPC) Private Limited
(d) Shiv Limited, having paid up share capital of 3 crore and turnover of 30 crore

(MTP May'23, ICAI BoS)

Question 8: [Section 2(40)]

The financial statement in relation to a dormant company may not include:

(a) balance sheet (b) cash flow statement
(c) applicable explanatory note (d) profit and loss account

(MTP Nov'23)

Question 9: [Section 2(40)]

Financial Statement in relation to a company do not include:

(a) Cash Flow Statement
(b) Funds Flow Statement
(c) Statement of Changes in Equity
(d) Explanatory note annexed to the financial statements

(ICAI BOS)

Question 10: [Section 2(90)]

Which among the following is not a Court:

(a) Special Court (b) Court of Session
(c) NCLT (d) Metropolitan Magistrate

(ICAI BOS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
6.	(c)	7.	(c)	8.	(b)	9.	(b)	10.	(c)

@teamxalpha

Question 11: [Section 2(87)]

Aniket Builders Ltd (ABL) was promoted by Aniket and his family members and is in construction business for more than 10 years. Aniket's brother Saket purchased a running cement manufacturing company named Unique Cements Ltd (UCL) and removed the existing directors of the company and appointed majority of the directors of ABL in the Board of UCL. What shall be the status of UCL in such situation:

(a) UCL is an Associate Company of ABL
(b) UCL is a Subsidiary Company of ABL
(c) UCL is a Holding Company of ABL
(d) UCL is a Joint Venture Company of ABL

(ICAI BOS)

Question 12: [Section 2(41)]

Luxture Surface Coatings Limited incorporated in February 2022, is a subsidiary company of Luxture Prime Limited incorporated outside India. Board of directors of Luxture Surface Coatings Limited want to follow a different financial year for the purpose of consolidation of its accounts outside India, to make it align with holding company.

Luxture Surface Coatings Limited seeks your advice whether it can follow different financial year as per the provisions of the Companies Act, 2013. Choose the correct option out of the following:

(a) Yes, but Company has to to make application to central government (CG), then CG may allow to follow a different financial year for consolidation of its accounts outside India, CG may allow any period as its financial year, whether or not that period is a year
(b) No, Luxture Surface Coatings Limited has to follow financial year as per the Companies Act, 2013 and as per Act company has to close its accounts on 31-03-2023 as company is registered after first date of January.
(c) No, Luxture Surface Coatings Limited has to follow financial year as per the Companies Act, 2013 and as per Act company has to close its accounts on 31-03-2022.
(d) Yes, it can follow different financial year but Company has to make application to ROC for following different financial year for consolidation of its accounts with holding company outside India

(ICAI BOS)

Question 13: [Section 2(6)]

The paid-up share capital of ABC Ltd is 5 crore shares of 10 rupees each. The share holding pattern is as under: P Ltd: 1 crore shares, Q Ltd: 0.90 crore shares, R Ltd: 0.50 crore shares, S Ltd: 0.20 crore shares, Promoters: 2 crore shares, Public: 0.40 crore shares. Which company shall be treated as Associate Company of ABC Ltd:

(a) P Ltd. (b) Q Ltd.
(c) R Ltd. (d) S Ltd.

(ICAI BOS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
11.	(b)	12.	(a)	13.	(a)

@teamxalpha

Question 14: [Section 2(57)]

ABC Limited is a company engaged in manufacturing and distributing pharmaceutical products. The company has a paid-up share capital of Rs. 50 crores, free reserves of Rs. 25 crores, and securities premium amounting to Rs. 10 crores. The credit balance of the profit and loss account is Rs. 5 crores after deducting all miscellaneous expenditures and deferred revenue expenditure. The company has not created any reserves on the revaluation of assets. On the basis of given information, what is the net worth of ABC Limited?

(a) Rs. 50 crores
(b) Rs. 85 crores
(c) Rs. 90 crores
(d) Rs. 60 crores

(ICAI BOS)

Question 15: [Section 2(6) refer explanation]

Company X, a leading automobile manufacturer, has invested in Company Y, a start-up specializing in electric vehicle technology. Company X holds a 25% stake in Company Y and actively participates in its strategic decisions. Based on the provisions of the Companies Act 2013 regarding associate companies, which of the following statements is correct?

(a) Company X's investment in Company Y does not qualify as an associate company because Company X does not have control of at least 50% of the total voting power.
(b) Company Y qualifies as an associate company of Company X since Company X holds a 25% stake in Company Y and actively participates in its strategic decisions.
(c) Company Y cannot be considered an associate company of Company X because it is a start-up and does not meet the minimum criteria for significant influence.
(d) Company X's investment in Company Y falls under the category of joint venture and does not qualify as an associate company according to the Companies Act 2013.

(MTP May'24)

Question 16: [Section 2(87)]

A Ltd. is holding 61% shares in B Ltd. & B Ltd. holds 51% in C Ltd. State which is the correct statement

(a) C Ltd. is the holding company to A Ltd.
(b) C Ltd. is the holding company to B Ltd.
(c) B Ltd. is the Subsidiary to C Ltd.
(d) Both B Ltd. and C Ltd. are subsidiary to A Ltd.

(MTP Nov'22, MTP Nov'23)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
14.	(c)	15.	(b)	16.	(d)

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2 Incorporation of Company and Matters Incidental Thereto

Question 1: [Section 14]

In view of the fact that a private company enjoys a number of privileges, Orange Pharma Limited having 20 members is proposing to convert itself into a private company. For this purpose, the company needs to alter its articles by inserting three restrictive clauses as specified in Section 2(68) and the consequent change in the name of the company requires:

(a) A SR and prior approval of the CG.
(b) A SR prior approval of the NCLT.
(c) A SR and prior approval of the ROC.
(d) A SR and prior approval of the State Government.

Question 2: [Section 5]

In case of a private company, the provisions for entrenchment may be made at the time of formation of the company or by amendment of articles,

(a) By passing a special resolution
(b) With the consent of all the members
(c) By passing a special resolution and approval of the Central Government
(d) With the consent of all the members and approval of the Central Government

(MTP May'22, ICAI Module)

Question 3: [Section 13]

Swastik Private Limited passed a SR to change its name to Swastik Darshan Private Limited on 30th May 2019. Relevant MCA filing was done on due time and then company got its new stationery printed on 1st July 2019. However, there was a delay in issue of Certificate and Company received new certificate on 20th August 2019. Company wants to enter into a lease agreement for new premise. When can they do such agreement in new name of the Company?

(a) 30th May 2019
(b) 1st July 2019
(c) 20th August 2019
(d) 10th August 2019

(MTP May'20)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(a)	2.	(b)	3.	(c)

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Question 4: [Section 8]

Abhilasha and Amrita have incorporated a not-for-profit private limited company which is registered under Section 8 of the Companies Act, 2013. One of their friends has informed them that their co. can be categorized as a 'small co.' because as per the last profit and loss account for year ending 31st March 2019, its t/o was less than Rs.40 crores, and its paid-up share capital was less than Rs. 4 crores.

(a) A section 8 co. which meets the criteria of 'T/O' and PUSC in the last F/Y, can avail the status of 'small company' only if it acquires at least 5% stake in another 'small company' within the immediately following F/Y.

(b) If the acquisition of minimum 5% stake in another 'small company' materializes in the second F/Y (and not in the immediately following F/Y) after meeting the criteria of 't/o' and 'paid-up share capital' then with the written permission of concerned ROC, it can acquire the status of 'small co.'.

(c) The status of 'small company' cannot be bestowed upon a 'not for profit' company which is registered under Section 8 of the Companies Act, 2013.

(d) A section 8 co., if incorporated as a private limited co. (and not as public limited co.) can avail the status of 'small co.' with permission of concerned ROC, after it meets criteria of 'T/O' and 'PUSC.

Question 5: [Section 13]

N Limited having 152 members was incorporated with the main objects of manufacture of ceramic goods, glazed, unglazed floor and wall tiles, etc. and to carry on trading in such products. After 3 years of business, it wants to diversify its business by entering into the field of manufacturing electronic goods for which it is required to alter its objects clause. Advise the company.

(a) The company can alter its MoA by passing an OR and obtaining the confirmation of the RD.

(b) The company can alter its MoA by passing an SR at the shareholders' meeting.

(c) The company can alter its MoA in relation to the objects clause by passing an SR at the shareholders' meeting and obtaining the confirmation of the RD.

(d) The co. can alter its MoA in relation to the objects clause by passing an SR at the shareholders' meeting and simultaneously publishing the contents of the SR in two newspapers (one in English and the other one in vernacular language) circulating in that area.

Question 6: [Basic Question]

_____ cannot be a subscriber to the Memorandum of Association and Articles of Association.

(a) A company

(b) Government

(c) Minor

(d) Major

(MTP Nov'20)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(c)	5.	(b)	6.	(c)

@teamxalpha

Question 7: [Section 8]

Where a co. is granted a license u/s 8, it is not required to use __ even though it is a limited company:

(a) Guarantee company;

(b) Limited Liability Partnership;

(c) Limited or Private Limited, as the case may be;

(d) Development Authority.

(MTP Nov'20, May'22, MTP Nov'23)

Question 8: [Basic]

Lalit made an offer to Managing Director (MD) of a company. MD accepted the offer though he had no authority to do so. Subsequently Lalit withdrew the offer but the company had already ratified the MD's acceptance. State which of the statement given hereunder is correct:

(a) Lalit is bound with the offer due to ratification

(b) An offer once accepted cannot be withdrawn

(c) Both option (a) & (b) is correct

(d) Lalit is not bound to an offer.

(MTP May'21)

Question 9: [Section 7]

If a company is registered by furnishing incorrect information, then it's winding up may be ordered by:

(a) CG

(b) Registrar of Companies

(c) National Company Law Tribunal

(d) Court

(MTP May'21)

Question 10: [Section 3]

A Public company may be formed by:

(a) Only two persons

(b) Not more than three persons

(c) Not more than Seven Persons

(d) Seven or more person

(RTP Nov'22)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
7.	(c)	8.	(c)	9.	(c)	10.	(d)

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Question 11: [Section 4(5)]

In case of an application for reservation of name or for change of its name by an existing company, the Registrar may reserve the name for a period of _____ from the date of approval

(a) 90 days (b) 60 days
(c) 30 days (d) 20 days

(ICAI Module, MTP May'23)

Question 12: [Section 10A(1)(a)]

Modern Furniture incorporated on 30th June 2022; its directors filled a declaration under section 10A (1) (a) regarding receipt of payment i.e., value of share (against share subscribed by subscriber) to registrar on 18th April 2023. The company and its officers (officers who are in default) shall be charged with penalty of:

(a) Rs. 1,11,000 and Rs. 1,11,000 respectively (b) Rs. 50,000 and Rs. 1,11,000 respectively
(c) Rs. 1,11,000 and Rs. 50,000 respectively (d) Rs. 50,000 and Rs. 1,00,000 respectively

(ICAI Module)

Question 13: [Section 15]

I.T.C limited changed its name to ITC limited. Company and officers thereat made default by failing to make alteration in every issued copy of memorandums and articles. In this context you are required to pick incorrect statements out of following:

(i) Alteration shall be made to every copy of MOA/AOA because these are considered as Public Doc.
(ii) Alteration shall be made to every copy be it in electronic form or otherwise.
(iii) Penalty shall be rupees one thousand for every copy of the articles issued without such alteration.

(a) (ii) only (b) (iii) only
(c) (ii) and (iii) only (d) None of (i), (ii) and (iii)

(ICAI Module)

Question 14: [Rule 8B]

Which of the following company is required to suffix the word only Limited with its name:

(a) Companies registered under Section 8 of the Companies Act, 2013
(b) Government Company
(c) Government Company which has defaulted in filing its financial statements / annual return with the Registrar of Companies
(d) One Person Company

Question 15: [Indoor management vs constructive notice]

The doctrine of indoor management is considered to be _____ to the doctrine of constructive notice.

(a) Exception
(b) Extension
(c) Alternative
(d) Not related

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
11.	(b)	12.	(d)	13.	(d)	14.	(c)	15.	(a)

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Question 16: [Section 4]

Mr. Ritik wants to incorporate a Private Limited company, he wants to keep his company's name Growskillz Edutech Pvt Ltd. Now Mr. Ritik has a query that for how many days he can reserve this name so that this name is not taken by anyone else

(a) 20 Days from the date of Approval
(b) 7 Days from the date of Approval
(c) 60 Days from the date of Approval
(d) 90 Days from Date of Approval

Question 17: [Section 3]

Miss Priya has incorporated a one-person company. She has given her Brother's Name as nominee in her OPC, her brother Mr. Rahul earlier gave consent to be nominee in Priya's one person company, but now due to some personal reasons Mr. Rahul wants to withdraw his name from Priya's OPC. Priya has an opinion that once Rahul has given consent to be nominee in her company now, he cannot withdraw the same. So now Priya wants your advice that whether Rahul can do so?

(a) Yes, Rahul can withdraw his name any time by giving notice to company
(b) Yes, Rahul can withdraw his name within 3 months from his consent by giving notice to company
(c) No, Rahul cannot withdraw his name.
(d) Yes, Rahul can withdraw his name within 20 Days from his consent by giving notice to company

Question 18: [Section 4]

Which Doctrine protects outsiders against the actions of a company:

(a) The Doctrine of Constructive Notice
(b) The Doctrine of Indoor Management
(c) The Doctrine of Noscitur a Sociis
(d) The Doctrine of Contemporanea Exposition

Question 19: [Section 3]

Which of the following statement is not correct:

(a) OPC can be incorporated by a natural person who is an Indian citizen
(b) Nominee of an OPC need not be an Indian Citizen
(c) Obtaining of consent of nominee is must
(d) A person cannot be nominated for 2 OPCs

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
16.	(a)	17.	(a)	18.	(b)	19.	(b)

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Question 20: [Section 5]

Anshika Pvt Ltd wants to amend its article of association (AOA) to contain some provisions for entrenchment to the effect that specified provisions of the articles can be altered only if procedure that are stricter than those applicable in the case of a special resolution are met. Now Advise them whether Anshika Pvt Ltd can entrench is AOA.

(a) No, As Entrenchment is only possible at the time of formation of Company

(b) Yes, Anshika Pvt ltd can amend its AOA by adding entrenchment provisions by passing a special resolution

(c) Yes, Anshika Pvt ltd can-do amendment in its AOA agreed to by ALL the members of company and company also has to give Notice of such entrenchment to ROC

(d) No, Private companies cannot do entrenchment of its AOA

Question 21: [Section 12]

Grow Skills Pvt Ltd wants to shift the place of its registered office from Rajkot, Gujarat to Ahmedabad, Gujarat (Jurisdiction is same). The Board of Directors of Grow Skills Pvt Ltd have a view that there is no need to report this activity to ROC as there is no change in state of company's place. You are a consultant of Grow Skills Pvt Ltd, advise company regarding compliance of this activity as per the companies act, 2013

(a) Company shall pass special resolution and give notice to ROC within 30 Days of such change

(b) Company shall pass Board resolution and give notice to ROC within 30 Days of change

(c) Company shall pass special resolution and seek permission of Regional Director and give notice to ROC within 30 Days of change

(d) Company shall pass special resolution and approval of central government and give notice to ROC within 30 Days of change

Question 22: [Section 19]

Win Limited bought 15% shares of Om Limited in the year 2018. In the year 2020 it formed a trust for its employees and donated its 15% shares of Om Limited along with Rs. 10,00,000 to the trust and became its trustee. In February 2023, Om Limited acquired 55% stake in Win Limited through an in-house deal. Can a subsidiary company hold shares in its holding company justifiably in this situation?

(a) Win Limited cannot represent itself as a trustee after it becomes a subsidiary of Om Limited.

(b) Win Limited can represent itself as a trustee only after it was a holding company of Om Limited.

(c) Win Limited cannot hold shares as a trustee even though it is a subsidiary company.

(d) Win Limited can do so as it is holding shares in Om Limited prior to becoming a subsidiary of it.

(RTP Nov'23)

Question 23: [Section 8]

In which company, a Partnership Firm is eligible to become a member of company:

(a) Any Public Limited Company (b) Any Private Limited Company

(c) Any Public Limited Company which is registered under section 8 of the Companies Act, 2013

(d) Any One Person Company

(ICAI BOS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
20.	(c)	21.	(a)	22.	(d)	23.	(c)

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Question 24: [Section 12]

A and B, architects by profession and residents of Delhi, have formed a company by the name A&B Private Limited, whose registered office is situated in a somewhat less inhibited market area of Haryana. They do not consider it to be a safe place. Therefore, to be on safer side they have kept all the documents and information relating to incorporation of their company (that were originally filed with Registrar for registration of Company) at A's residence. Is their action justified?

(a) It is their prerogative to keep all the documents and information relating to incorporation of their company at a place which they think is quite safe even if it is Delhi.

(b) Considering registered office to be unsafe, they can keep all the documents and information relating to incorporation of their company at any place in Haryana only but for this purpose they must seek permission of the ROC.

(c) If they do not want to seek permission of ROC, considering registered office to be unsafe, they can keep all the documents and information relating to incorporation of their company at any place which should be within three kms. of their registered office but in Haryana only.

(d) They have to keep all the documents and information relating to incorporation of their company at the registered office only.

(May'23)

Question 25: [Section 3]

Today, it's July 2024. Mr. Nilanjan Chattopadhyay a 24 years old Indian youngster, who returned back to India in January month of 2024 after completing his education in bio-nutrient and willing to form an OPC; but not sure about the requirements or pre-conditions regarding eligibility. He read some articles on provisions related to OPC and concluded:

(i) OPC can be formed by Indian Citizen only

(ii) He can't form OPC because in immediate previous year he was not resident in India

(a) Both the conclusions are valid

(b) None of the conclusion is valid

(c) First conclusion is invalid

(d) Second conclusion is invalid

[ICAI Module]

Question 26: [Section 5]

Entrenchment enhance the protection. ABC Limited, an existing private company willing to insert the provisions for entrenchment; it

(a) Can amend the article by passing an ordinary resolution

(b) Can amend the article by passing a special resolution

(c) Can amend the article agreed by all the members

(d) Can't amend article to make the provisions for entrenchment.

(MTP Sep'25, MTP May'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
24.	(d)	25.	(d)	26.	(c)

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3 Prospectus and Allotment of Securities

Question 1: [Section 25]

An issuing house (share broker) has issued an advertisement in two leading newspapers for selling a large number of shares allotted to it by a company under a private placement. In which of the following conditions will the advertisement NOT be deemed to be a prospectus:

(a) Advertisement was given within six months from the date of allotment.
(b) Advertisement was given after six months from the date of allotment and the issuing house has paid the entire consideration to the company.
(c) The issuing house did not pay the entire consideration to the company till the date of allotment.
(d) Advertisement was given within three months from the date of allotment.

Question 2: [Section 42]

Shripad Religious Publishers Limited received application money of Rs. 20,00,000 (2,00,000 equity shares of Rs. 10 each) on 10th October 2019 from the applicants who applied for allotment of shares in response to a private placement offer of securities made by the company to them. Select the latest date by which the company must allot the shares against the application money so received.

(a) 9th Nov 2019
(b) 24h Nov 2019
(c) 9th December 2019
(d) 8th January 2020 (MTP May'25)

Question 3: [Section 29]

The amount that an unlisted public company is required to maintain as security deposit, at all times, with the respective depository when it dematerializes its securities shall be:

(a) Equal to not less than one year's fees payable to the depository
(b) Equal to not less than two years' fees payable to the depository
(c) Not less than two and a half years' fees payable to the depository
(d) Equal to not less than three years' fees payable to the depository

Question 4: [Section 40]

The time limit within which a copy of the contract for the payment of underwriting commission is required to be delivered to the Registrar is:

(a) Three days before the delivery of the prospectus for registration
(b) At the time of delivery of the prospectus for registration
(c) Three days after the delivery of the prospectus for registration
(d) Five days after the delivery of the prospectus for registration

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(b)	2.	(c)	3.	(b)	4.	(b)

@teamxalpha

Question 5: [Section 23]

A Private Company cannot issue securities:

(a) By way of rights issue

(b) By way of bonus issue

(c) By way of private placement

(d) By issue of prospectus in Public

(MTP Nov'22, MTP Nov'23)

Question 6: [Section 42(6)]

Trident Limited is in process of making private placement of securities. It received application money on 2nd March 2023. It shall allot its securities by__, if failed then repay application money to the subscribers by _____, else liable to repay that money with interest at the rate of .

(a) 1st April, 16th April, and 12% respectively

(b) 1st May, 16th May, and 12% respectively

(c) 1st April, 16th April, and 6% respectively

(d) 16th April, 1st May, and 12% respectively

(ICAI Module)

Question 7: [Section 25(3)]

Modern Furniture Limited, issued a document containing offer of securities for sale that is considered as deemed prospectus under section 25, which requires such document must contains certain matters/ disclosures in addition to those required under section 26. Which of following are correct requirements:

i. A statement of the net amount received or to be received as consideration for the securities to which the offer relates

ii. The persons making the offer were named in the prospectus as promoters of the company.

iii. The time and place at which the underlying contract for allotment may be inspected.

(a) i or ii only

(b) i or iii only

(c) ii or iii only

(d) All of i, ii and iii

(ICAI Module)

Question 8: [Section 40]

Section 40 of the Companies Act, 2013 requires every company shall make an application to one or more Recognized Stock Exchange or Exchanges before making public offer. Madhav Casting Limited filed an application to three exchanges for the securities to be dealt with in such stock exchanges, it received permission from couple of them and proceed with public issue. There will be:

(a) No penalty, as application has been filed

(b) Penalty on Madhav Casting Limited ranging from Rs. 5 lakhs to Rs. 50 lakhs

(c) Penalty on Madhav Casting Limited ranging from Rs. 5 lakhs to Rs. 50 lakh and every officer of the company who is in default ranging from Rs. 50 thousand to Rs. 3 lakhs

(d) Penalty on Madhav Casting Limited ranging from Rs. 5 lakhs to Rs. 50 lakhs and every officer of the company who is in default ranging from Rs. 50 thousand to Rs. 3 lakh and/or Imprisonment upto one year.

(ICAI Module)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
5.	(d)	6.	(b)	7.	(b)	8.	(c)

@teamxalpha

Question 9: [Section 42]

Which of the following statement is contrary to the provisions of the Companies Act, 2013?

(a) A private company can make a private placement of its securities.

(b) The company has to pass an SR for private placement.

(c) Minimum offer per person should have a Market Value of Rs. 20,000.

(d) A public company can make a private placement of its securities

(MTP May'23)

Question 10: [Section 31]

A shelf prospectus filed with the ROC shall remain valid for a period of:

(a) one year from the date of registration

(b) one year from the date of closing of the first issue

(c) one year from the date of opening of the first issue

(d) 90 days from the date on which a copy was delivered to ROC

Question 11: [Section 42]

Innovative Tech Sol Limited intends to invite subscriptions for 1.10 crores equity shares of Rs.10 each on a private placement basis. The persons identified as potential subscribers are within the statutory limit and also include the two other categories to which such statutory limit is not applicable. One such category is employees of the company who are offered equity shares under Employees' Stock Option Scheme. The other excluded category is:

(a) Quality Institutional Buyers

(b) Qualified Institutional Buyers.

(c) Qualificational Institutional Buyers.

(d) Qualified Investing Institutional Buyers.

Question 12: [Section 29]

Neptune Metal Tools Limited was incorporated on 2nd December, 2018 with 25 subscribers and authorized capital of Rs.50,00,000 (5,00,000 equity shares of Rs.10 each). The directors of the company are in a dilemma whether to issue share certificates to the subscribers in physical form or in dematerialized form. Advise them correctly on this matter:

(a) Being an unlisted company, Neptune may either issue physical share certificates to the subscribers or alternatively, issue them in dematerialized form.

(b) Neptune needs to issue shares to the subscribers only in dematerialized form.

(c) A company having more than 100 shareholders needs to issue shares in dematerialized form and therefore, Neptune may issue physical share certificates to the subscribers.

(d) A company having authorized capital of >= 50 lakhs needs to issue shares in dematerialized form and therefore, Neptune may issue physical share certificates to the subscribers.

(May'23)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
9.	(c)	10.	(c)	11.	(b)	12.	(b)

@teamxalpha

Question 13: [Section 40]

Commission is permitted to be paid to any underwriter by the company only in respect of an offer of securities:

(a) where securities are offered on rights basis

(b) where securities are offered in the form of bonus issue

(c) where securities are offered on private placement basis

(d) where securities are offered to the public for subscription

Question 14: [Section 28 + Rule 8]

In case of offer of sale of shares by certain members of the co., which options is applicable:

(a) The provisions relating to minimum subscription are not applicable

(b) Entire minimum subscription amount is required to be received within 3 days of the opening date.

(c) 25% of the minimum subscription amount is required to be received on the opening date and the remaining 75% within three days thereafter

(d) 50% of the minimum subscription is required to be received by the second day of the opening date and the remaining 50% within next three days after the second day.

Question 15: [Section 40]

Which of the following statements is not true?

(a) In case of shares, the rate of underwriting commission to be paid shall not exceed five percent of the issue price of the share.

(b) Underwriting commission should not be more than the rate specified by the Article of Association.

(c) In case of debentures, the rate of underwriting commission shall not exceed five percent of the issue price of the debentures.

(d) Amount of commission may be paid out of profits of the company. (RTP Jan'26)

Question 16: [Section 31]

Rig Exploration and Refinery Limited (RERL) decided to raise capital through issue of a shelf prospectus. Company secretary explains the requirement to board that RERL shall be required to file an information memorandum with the Registrar within _____, prior to the issue of a second or subsequent offer of securities under the shelf prospectus.

(a) 15 days (b) 21 days

(c) 30 days (d) 1 month (ICAI Module)

Question 17: [Section 26(4)]

Modern Furniture decided to raise capital by issue for which prospectus need to be issued. The copy of prospectus submitted with registrar for filling need to be duly signed by:

(a) Any two directors including managing directors

(b) Majority of directors

(c) Majority of directors including proposed directors

(d) Every director or proposed director (ICAI Module)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
13.	(d)	14.	(a)	15.	(c)	16.	(d)	17.	(d)

@teamxalpha

Question 18: [Section 32]

A prospectus which does not include complete particulars of the quantum or price of the securities included therein is called:

(a) A Deemed Prospectus
(b) A Shelf Prospectus
(c) An Abridged Prospectus
(d) A Red Herring Prospectus

(MTP Nov'21)

Question 19: [Section 39]

The minimum amount of subscription in a public issue shall be received within __days from the date of issue of the prospectus.

(a) 30 days
(b) 60 days
(c) 90 days
(d) 120 days

(MTP Nov'21)

Question 20: [Section 31]

Swastik Runners Ltd is a company engaged in manufacturing of trade mill. The company plans to issue equity shares to the public in a phased manner during the time period of one year. The company do not want to issue prospectus every time. What is the best option available to the company:

(a) Issue Red-herring Prospectus
(b) Issue Shelf Prospectus
(c) Issue Abridged Prospectus
(d) Issue any other document

(ICAI BoS)

Question 21: [Section 2(81)-Securities]

Which of following shall be considered as securities for purpose of section 23 of the Companies Act, 2013;

(i) Unit linked insurance policy
(ii) Actionable claim regarding mortgaged debt
(iii) Securities issued by National Asset Reconstruction Ltd

(a) (iii) only
(b) Both (i) and (iii) only
(c) Both (ii) and (iii) only
(d) None of the (i), (ii), and (iii)

(ICAI BoS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
18.	(d)	19.	(a)	20.	(b)	21.	(c)

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Question 22: [Section 40 - Rule 13]

A Limited made a public issue of Debentures. The articles of the company authorises the payment of underwriting commission at 2 per cent of the issue price. The company has negotiated with the proposed underwriters, Gama Brokers and has finalised the rate at 2.25 per cent. The amount that the company is eligible to pay as underwriting commission is:

(a) 5%
(b) 2%
(c) 2.50%
(d) 2.25%

(ICAI BOS, MTP Sept'24, MTP May'25)

Question 23: [Section 2(1)]

Abridged prospectus means a memorandum containing such salient features of a prospectus as may be specified by:

(a) The Company issuing such prospectus
(b) The Auditor of the company
(c) The Promoter of the Company
(d) The SEBI by making regulations in this behalf

(ICAI BOS)

Question 24:

Any instrument in the form of depository receipt created by a Domestic Depository in India and authorized by a company incorporated outside India making an issue of such depository receipts, is called as:

(a) American Depository Receipt
(b) Global Depository Receipt
(c) European Depository Receipt
(d) Indian Depository Receipt

(May'25)

Question 25: [Section 31]

An applicant who made application for allotment along with advance payment ofsubscription, if he expresses a desire to withdraw his application after changes reported in information memorandum came to his knowledge. The company;

(a) May refund the monies at discretion of Board of Directors
(b) Shall refund the monies after deducting the administrative charges within fifteen days
(c) Shall refund all the monies received as subscription within fifteen days
(d) Shall refund the monies after deducting the administrative charges within 30 days

[ICAI Module]

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
22.	(b)	23.	(d)	24.	(d)	25.	(c)

@teamxalpha

4 Share Capital and Debentures

Question 1: [Section 43]

The Articles of Association of a private limited company state that the company may issue preference shares which will have preference with respect to payment of dividend only but no preference as to the repayment of capital, in the case of winding up. Is it possible for the company to issue such preference shares?

(a) No; as per section 43 preference shares should have both preferences.
(b) No; this will become an equity share as per section 43.
(c) Yes; because as per section 43 preference shares should have any one preference.
(d) Yes; because AoA of co. allow issue of such preference shares and issuing co. is a Pvt. limited co.

(May'23)

Question 2: [Section 55]

Rajesh Infrastructure Limited wants to issue preference shares for a period exceeding 20 years for financing its proposed infrastructure project. On the basis of which statement, company can do so?

(a) Yes, the company can issue irredeemable preference shares by passing a special resolution
(b) Yes, company can issue preference shares for period exceeding 20 years with prior approval of CG
(c) Yes, the company can issue irredeemable preference shares for infrastructure project
(d) Yes, the company can issue preference shares for financing an infrastructure project for a period exceeding to 20 years.

Question 3: [Section 43 + Rule 4]

Swagat Hospitality Limited defaulted in the repayment of last two instalments of term loan availed from National Commercial Bank. On 30th September, 2019, they cleared all the dues by repaying it. When can it issue equity shares with differential voting rights?

(a) Upon expiry of five years from the date on which the default was made good
(b) Upon expiry of three years from the end of the financial Year in which the default was made good
(c) Upon expiry of five years from the end of the financial Year in which the default was made good
(d) Upon expiry of seven years from the end of the financial Year in which the default was made good

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(d)	2.	(d)	3.	(c)

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Question 4: [Section 58]

Keshika, the original allottee and owner of 1000 equity shares of Rs. 50 each in Modern Biscuits Private Limited, wanted to transfer these shares to her younger sister Vanshika by way of gift. She completed the transfer deed in all respects and delivered the same to the company along with the share certificates on 17th July, 2020. However, the company did not register the transfer even after the expiry of more than one month nor did it send any notice of refusal. The lone reminder to the company remained unanswered. An appeal is to be filed against the company with the National Company Law Tribunal (NCLT) against this failure to register transfer of the said shares. Who has the right to file the appeal in this regard?

(a) Keshika, who continues to remain owner and transferor of the said equity shares till they are registered in the name of Vanshika, has the right to file an appeal with NCLT against the company.

(b) Vanshika, as transferee and potential owner of equity shares, has the right to file an appeal with NCLT against the company.

(c) Both Keshika and Vanshika have to file a joint appeal with NCLT against the company, for neither Keshika nor Vanshika are authorized to file the appeal individually.

(d) As per its discretion, NCLT may allow either Keshika or Vanshika to file an appeal against the co.

Question 5: [Section 54]

Vanita Watches Limited has proposed to issue sweat equity shares to five of its employees for the 'value additions' made by them in term of economic benefits which proved beneficial to the company. The period for which the employees who have been allotted the said sweat equity shares cannot transfer them is:

(a) One year from the date of allotment
(b) Three years from the date of allotment
(c) Five years from the date of allotment
(d) Six months from the date of allotment

Question 6: [Section 66]

While making an application to the Tribunal for seeking its confirmation in respect of extinguishing the liability of Rs. 3 per equity share, Medhavi Publishers Ltd. has to file a certificate along with the application, that the accounting treatment proposed by it for such reduction of share capital is in conformity with the accounting standards. Advise the company as to who can issue such certificate?

(a) Any of the directors of the company as authorized by the Board may issue such certificate
(b) A practicing company secretary is authorized to issue such certificate
(c) The auditor of the company is authorized to issue such certificate
(d) The legal advisor of the company is authorized to issue such certificate

Question 7: [Section 68]

Goals Limited, a listed co. has authorized share capital of Rs. 25,00,000 (issued, subscribed and paid-up capital of Rs.20,00,000). The company has planned to buy back shares worth Rs. 10,00,000. What is the max amount of equity shares that the company is allowed to buy back based on the total amt of equity shares?

(a) Rs. 2,00,000
(b) Rs. 5,00,000
(c) Rs. 6,25,000
(d) Rs. 8,00,000

(MTP May'22)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(b)	5.	(b)	6.	(c)	7.	(b)

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Question 8 [Section 47]:

Sarvodhaya Urban Nidhi Limited has Rs. 14 Crore and Rs. 6 Crore as paid-up equity and preference share capital respectively. Balance in retain earnings account is Rs. 2.4 Crore. Equity share capital having face value of Rs. 10 each, while preference share has face value of 100 each. Mr. Surya and Mr. Chandan own 11,20,000 and 5,60,000 shares respectively. In context of resolution placed before the company which directly affect the rights attached to his preference shares, the voting right of Mr. Surya and Mr. Chandan in percentage term shall be:

(a) 8% and 4% respectively
(b) 5.6% and 2.8% respectively
(c) 5% and 2.8% respectively
(d) 5% and 2.5% respectively

(ICAI Module)

Question 9 [Section 46]:

In a litigation regarding title of shares, a share certificate issued in physical form by Modern Furniture Limited, an unlisted private company that doesn't have a common seal submitted as evidence of the title. The same shall be clear and convincing evidence of title, if signed by;

i. two directors
ii. two directors, out of which one shall be managing director
iii. two directors and the Company Secretary, wherever the company has appointed a Company Secretary
iv. a director and the Company Secretary, wherever the company has appointed a Company Secretary

(a) By i or iii only
(b) By i or iv only
(c) By ii or iii only
(d) By ii or iv only

(ICAI Module)

Question 10 [Section 56]:

Mr. Bahu has received a notice from Mahishmati Private Limited on 2nd March, 2023 intimating that Mr. Bali has submitted a transfer deed duly signed by him for transfer of 1000 partly paid shares (Rs. 8 paid-up out of Face Value of Rs. 10 per share) in his (Mr. Bahu) name. Mr. Bahu as transferee must raise his objection to the proposed transfer of partly paid shares latest by

(a) 9th March, 2023
(b) 16th March, 2023
(c) 17th March, 2023
(d) 31st March, 2023

(ICAI Module)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
8.	(c)	9.	(b)	10	(b)

@teamxalpha

Question 11 [Section 67]:

Section 67 of the Companies Act, 2013 impose a restriction on public company from giving any financial assistance whether directly or indirectly and whether by means of a loan, guarantee, the provision of security or otherwise for the purpose of, or in connection with, a purchase or subscription made or to be made, by any person of or for any shares in the company or in its holding company. Star Engineering Limited which is not covered by any of exemptions specified under said section, contravene the restrictive provisions stated above. Every officer of the company who is in default shall be liable for;

(a) Fine which shall not be less than one lakh rupees but may extend to twenty- five lakh rupees

(b) Fine which shall not be less than one lakh rupees but may extend to twenty- five lakh rupees or Imprisonment for a term which may extend to three years or both

(c) Fine which may extend to twenty-five lakh rupees or Imprisonment for a term which may extend to three years or both

(d) Fine which shall not be less than one lakh rupees but may extend to twenty- five lakh rupees and Imprisonment for a term which may extend to three years

(ICAI Module)

Question 12 [Section 46(2)]:

Modern Furniture an unlisted company receive a request for issue of duplicate share certificate. Complete documents in this regard submitted with the company on 30th December 2022. Modern furniture shall issue the duplicate share certificates by:

(a) 29th January 2023

(b) 13th February 2023

(c) 28th February 2023

(d) 29th March 2023

(ICAI Module)

Question 13: [Section 47]

A general meeting of the company is to be held on 30th August, 2020. The co. has not paid dividend in respect of its preference shares for FY 2018-19 as well as 2019-20. In such case preference shareholders:

(a) will not have the right to vote because preferential shareholders have no right to vote

(b) will have the right to vote because dividend has not been paid for the last two years

(c) will not have the right to vote because only equity shareholders can vote in general meetings

(d) will have right to vote because preference shareholders have the right to vote in general meetings

Question 14: [Section 48]

Where there is a change in the rights of one class of shareholders of a company that also affects the rights of another class therein, then:

(a) A special resolution should be passed at a general meeting in this regard

(b) The company need not to do anything further

(c) the consent in writing of three-fourths of such other class of shareholders shall also be obtained

(d) A resolution at a joint meeting of both the classes should be passed

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
11.	(d)	12.	(d)	13.	(b)	14.	(c)

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Question 15: [Section 62]

If a company has Authorized Share Capital of Rs.6,00,000, Paid-up Share Capital of Rs. 5,00,000 and a loan of Rs. 2,00,000 obtained from the State Government. The State Government has directed the company to convert its loan into equity shares, then such order shall have the effect of increasing:

(a) The subscribed share capital of the company
(b) The paid-up share capital of the company
(c) The authorized Share Capital of the company
(d) All of the above

Question 16: [Section 68]

A company bought back 10% of its equity shares in August 2020. Due to certain miscalculations during the first buy-back, it again bought back another 10% equity shares in Sep 2020. Is second buy-back valid?

(a) It can do so subject to the fulfilment of other conditions because maximum buy-back in a financial year is up to 25%
(b) It cannot do so because there must be a time gap of 12 months between two buy-backs
(c) It can buy back shares within one year but the company should pass an ordinary resolution at a meeting of its board
(d) It can buy back shares within one year but the company will have to pass a special resolution

Question 17: [Section 56]

Shreem Lakshmi Private Limited was incorporated on 27th August, 2020 with 30 persons as subscribers to the MoA and with an ASC of Rs. 1 crore divided into equal number of shares of Rs. 1 each. Each subscriber subscribed for Rs. 1 lac share. Advise the date by which it needs to deliver share certificates to subscribers.

(a) 17th September, 2020.
(b) 30th September, 2020.
(c) 27th October, 2020.
(d) 27th November, 2020

Question 18: [Section 71]

Prithvi Cements Limited is desirous of issuing debentures carrying voting rights. Choose the right option:

(a) Prithvi Cements Limited can issue debentures carrying voting rights by passing an OR.
(b) Prithvi Cements Limited can issue debentures carrying voting rights by passing a SR.
(c) Prithvi Cements Limited can issue such debentures carrying voting rights only if it mortgages its land and buildings worth two times the amount of the debentures.
(d) Prithvi Cements Limited cannot issue debentures carrying voting rights.

Question 19: [Section 2(88)]

Shares issued by a company to its directors or employees at a discount or for a consideration other than cash for their providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called are known as:

(a) Equity Shares
(b) Preference Shares
(c) Sweat Equity Shares
(d) Redeemable preference shares

(MTP May'22)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
15.	(d)	16.	(b)	17.	(c)	18.	(d)	19.	(c)

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Question 20: [Section 48]

Where a share capital of the company is divided into different classes of shares, the rights attached to the shares of any class may be varied with the consent in writing of the holders of not less than _____ of the issued shares of that class or by means of a SR passed at a separate meeting of the holders of that class:

(a) One-fourth
(b) 50%
(c) Three-fourths
(d) 75%

(RTP Nov'22)

Question 21: [Section 54]

Such shares which are issued by a company to its directors or employees at a discount or for a consideration other than cash for working extraordinary hard and achieving desired output is honoured with:

(a) Equity Shares
(b) Preference Shares
(c) Sweat Equity Shares
(d) Redeemable preference shares

Question 22: [Section 56]

Raman, the original allottee of 2000 equity shares in ABC Limited has transferred the same to Ruchi. The instrument of transfer dated 21st August, 2022, duly stamped and signed by Raman was handed over to Ruchi. Advise Ruchi regarding the latest date by which the instrument of transfer along with share certificates must be delivered to the company, to register the transfer in its register of members.

(a) 21st August, 2022
(b) 20th September, 2022
(c) 20th October, 2022
(d) 19th November, 2022

Question 23: [Section 52]

Ruchir Developers Ltd issued shares of face value of 10 rupees each to the public at a price of 200 rupees per share. The Share Premium Account was credited for 190 rupees. Now the company want to utilise this Share Premium Account. Which of the following mode is permitted under the Companies Act, 2013:

(a) Share Premium Account can be utilised only at the time of winding up of the company
(b) It can be used for distribution of dividend
(c) It can be used for the purpose of buying back of its own shares
(d) It can be used for spending on CSR Activities

Question 24: [Section 54]

A company may issue sweat equity shares of a class of shares already issued if the issue is authorised by:

(a) An Ordinary Resolution passed by the company
(b) A Special Resolution passed by the company
(c) A Resolution passed by the Board of Directors of the company
(d) A Resolution passed by the Audit Committee of the Board of the company

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
20.	(c)	21.	(c)	22.	(c)	23.	(c)	24.	(b)

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Question 25: [Section 71]

Green Tree Limited is planning to issue debentures to the public and, as per the legal requirements, must appoint a debenture trustee before making an offer. The company is considering several individuals for this role:

1. Mr. Sharma, who owns a small number of shares in Green Tree Limited as an investor.
2. Ms. Kapoor, who previously lent ₹ 5,000 to Green Tree Limited and is currently a lender.
3. Mr. Verma, who has provided a personal guarantee to ensure the repayment of the debentures issued by Green Tree Limited.

Based on the provisions of the Companies Act, 2013 and relevant rules, who among the following is eligible to be appointed as a Debenture Trustee for Green Tree Limited?

(a) Only Mr. Sharma.
(b) Only Ms. Kapoor
(c) Only Mr. Verma
(d) None of Mr. Sharma, Ms. Kapoor or Mr. Verma are eligible to be appointed as Debenture trustee of Green Tree Limited.

(MTP Jan'25)

Question 26: [Section 48]

DBS Chemicals Limited issue ordinary share of different classes. DBS planned to vary rights of one the class wherein there were only 105 holders. 100 out of 105 holders own 0.5% shares of that class, whereas each of remaining 5 holders hold 10% shares of that class. Presuming 100 holder who own 0.5% shares already signed/ authorised the consent letter sanctioning the variation, how many holders out of such 5 need to authorise the said letter to approve the variation.

(a) 0
(b) 1
(c) 3
(d) 5

[ICAI Module]

Question 27: [Section 43]

Super Brain Coaching Limited was engaged in offline coaching of students for various competitive examinations. It was one of the pioneer in its field. It suffered losses due to various social and government restrictions imposed on study centers. On account of this, it defaulted in the repayment of term loan for the first two quarters of the financial year 2023-24. However, Super Brain Coaching Limited adapted itself to the changing circumstances and shifted to online mode of coaching and revived its financial conditions. On 31st December 2023, it cleared all the dues and regularized the term loan. Super Brain Coaching Limited wants to issue equity shares with differential rights. When can the issue be made?

(a) On or after January 1st 2029
(b) On or after April 1st 2029
(c) On or after April 1st 2027
(d) On or after January 1st 2027

(Sep'24)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
25.	(d)	26.	(c)	27.	(b)

@teamxalpha

5 Acceptance of Deposit by Company

Question 1: [Section 76]

Dream World Entertainment Limited, has accepted deposits worth Rs.50.00 lacs from public on 1st April 2019 for a period of 24 months i.e., repayment of deposit would be made on 31st March 2021. The rate of interest payable on such deposits is 9% p.a. One of the depositors Mr. Aman requested the company on 1st June 2020 for premature repayment of his deposit of Rs. 6.00 lacs along with interest. Advise the company in the said matter.

(a) The company can make premature repayment of deposits only with an intention to reduce the total amount of deposits to bring it within permissible limits. Hence, in the given case, the company cannot repay the deposit before the actual maturity.

(b) The company can prematurely repay the deposit along with interest @9% p.a. for the period of 12 months (from 1st April 2019 to 31st March 2020).

(c) The company can prematurely repay the deposit along with interest @8% p.a. for the period of 12 months (from 1st April 2019 to 31st March 2020).

(d) The company can prematurely repay the deposit along with interest @8% p.a. for the period of 14 months (from 1st April 2019 to 31st May 2020).

Question 2: [Section 76]

Ruchita wants to renew her deposit of Rs.5.00 lakh with Kewal Constructions Limited before the expiry of original period for availing higher rate of interest. The fresh period, for which Ruchita is required to renew her deposit to be eligible for the higher rate shall be:

(a) One and a half times the unexpired period of original deposit.

(b) Double the unexpired period of original deposit.

(c) Six months more in addition to the unexpired period of deposit.

(d) Longer than the unexpired period of deposit.

Question 3: [Section 73]

A reserve A/c that shall not be used by the co. for any purpose other than repayment of deposits is called:

(a) Debenture redemption reserve account

(b) Deposit repayment reserve account

(c) Capital redemption reserve account

(d) Free reserve account

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(d)	2.	(d)	3.	(b)

@teamxalpha

Question 4: [Section 76]

Normally no deposits are repayable earlier than _____ from the date of such deposits or renewal thereof.

(a) 3 months
(b) 6 months
(c) 12 months
(d) 1 year

Question 5: [Section 73]

Bhumi Real Estate Developers Limited has accepted deposits from its members. There is no default in repayment of such deposits on their maturity. The statutory amount to be deposited by the company on or before 30th April of each year in a specified account opened with its bankers, till the deposits are fully repaid is:

(a) Not less than 50% of the amount of its deposits maturing during the following financial year.
(b) Not less than 30% of the amount of its deposits maturing during the following financial year.
(c) Not less than 20% of the amount of its deposits maturing during the following financial year.
(d) Not less than 10% of the amount of its deposits maturing during the following financial year.

Question 6: [Section 76]

A Limited Company is accepting deposits of various tenures from its members from time to time. The current Register of Deposits, maintained at its registered office is complete. State the mandatory minimum period for which it should be preserved in good order.

(a) Normally no deposits latest entry is made in the Register.
(b) Six years from the financial year in which the latest entry is made in the Register.
(c) Eight years from the financial year in which the latest entry is made in the Register.
(d) Ten years from the latest date of entry.

(ICAI Module, MTP Nov'23)

Question 7: [Section 76]

Suneet Spices Limited decides to raise deposits of Rs.20.00 lacs from its members. However, it proposes to secure such deposits partially by offering a security worth Rs. 15.00 lacs. Which of the following options best describe such deposits:

(a) Fully secured deposits (except a small portion)
(b) Unsecured deposits
(c) Partially secured deposits
(d) These cannot be classified as deposits

(ICAI Module, MTP May'23, MTP Nov'23, ICAI BoS)

Question 8: [Section 76]

What is the maximum tenure for which a co. can accept or renew deposits from its members as well as public?

(a) 12 months
(b) 24 months
(c) 36 months
(d) 48 months

(ICAI Module)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(b)	5.	(c)	6.	(c)	7.	(b)	8.	(c)

@teamxalpha

Question 9: [Section 73+ Rule 3(2)]

As per the provisions of the Companies Act, 2013 and relevant rules made thereunder, an eligible company can, in case the depositors so desire, may accept deposits in joint names not exceeding _____. A joint deposit may Survivor, "First named or Survivor", "Anyone or Survivor". These clauses operate on _____.

(a) Three, maturity
(b) Two, maturity
(c) Five, accepting the deposits
(d) Five, maturity

(Nov'22)

Question 10: [Sec 76 - Tenure]

As per the provisions of the Companies Act, 2013 and relevant rules made thereunder, an eligible company is not permitted to accept from public or renew the same deposits (whether secured or unsecured) which is repayable on demand or in less than _____ months. Further, the maximum period of acceptance of deposit cannot exceed _____ months. But, for the purpose of meeting any of its short-term requirements of funds, a company may accept or renew deposits for repayment earlier than _____ months subject to certain conditions.

(a) Six, thirty-six, six
(b) Three, twenty-four, three
(c) Six, sixty, six
(d) Three, sixty, six

(ICAI Module)

Question 11: [Companies (acceptance of deposits) Rule 2014]

Every company shall pay a penal rate of interest of___ per annum for the overdue period in case of deposits, whether secured or unsecured, matured and claimed but remaining unpaid:

(a) 9%
(b) 14%
(c) 18%
(d) 24%

(MTP May'23, MTP Nov'23, MTP-2 Nov'23)

Question 12: [Rule 2]

Which among the following is a deposit within the provisions of the Companies Act, 2013:

(a) Any amount received by a company from any other company
(b) Any amount received by a company against issue of commercial paper
(c) Any amount received as a loan from a Bank
(d) Any amount received from a person as an advance for the supply of goods but appropriated after a year

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
9.	(a)	10.	(a)	11.	(c)	12.	(d)

@teamxalpha

Question 13: [Rule 2]

Mr. Mudit works as an employee at ABC Private Limited with an annual salary of ₹3,00,000, as specified in his employment contract. Mr. Mudit paid to the company ₹ 3,50,000 in the nature of non-interest-bearing security deposit. Giving regard to the provisions of the Companies Act, 2013, choose the correct option out of the following:

(a) The deposit is a valid transaction since it is a non-interest-bearing security deposit provided under the terms of his employment.

(b) The deposit violates the Companies Act, 2013, because companies cannot accept deposits from their employees.

(c) The deposit violates the Companies Act, 2013, as the amount exceeds Mr. Mudit's annual salary.

(d) The deposit is invalid unless approved by the company's shareholders in a general meeting

(MTP Jan'25)

Question 14: [Rule 2]

Super Tork Engineering Ltd. is a public sector company engaged in the manufacture of domestic and commercial automobiles. The company has been providing automobile dealerships in and across the country to various business entrepreneurs. Out of 56 such dealerships, LD Motors Ltd. situated in the city of Jaipur, Rajasthan, is one of the prime selling joints for domestic automobiles namely sedan and hatchback cars.

Super Tork Engineering Ltd. has entered into a contract with the above said dealer for the provision of warranty services to its customers at local level and has provided the advances namely of 1.20 Crore and Rs. 1.25 Crore to the aforesaid dealer. The former advance being for provision of warranty relating to engine fault repair within a period of 2 years from the date of purchase and the latter being for providing general services on domestic cars for a period of 6 years. A period of 7 years of provision of such warranty and maintenance services is taken as a common business practice in the automobiles sector. In consonance with the provision of the Companies Act, 2013, decide which of the above advances be treated as deposits by LD Motors Ltd.?

(A) Neither of the above two advances be treated as deposit as both are being valid for providing warranty services to vehicle owners within a period of 6 years, being common business practice in this regard.

(B) The advance of Rs. 1.25 Crore can only be treated as deposit within the meaning of the Companies Act, 2013.

(C) Both the above advances of Rs. 1.20 Crore and Rs. 1.25 Crore be treated as deposits within the meaning of the Companies Act, 2013.

(D) DLD Motors Ltd. has the sole discretion of treating any of the above advances as deposits in compliance with the provisions of the Companies Act, 2013.

(Sep'25)

Q. No.	Answer	Q. No.	Answer
13.	(c)	14.	(b)

@teamxalpha

6 Registration of Charges

Question 1: [Section 2(16)]

An interest or lien created on the property or assets of a company or any of its undertakings or both as security is known as:

(a) Debt
(b) Charge
(c) Liability
(d) Hypothecation

(MTP May'22/ICAI Module)

Question 2: [Section 80]

Any person acquiring property, on which charge is registered under section 77, shall be deemed to have notice of the charge from:

(a) the expiry of thirty days of such charge
(b) the date of application for registration of the charge
(c) the date of acquiring the property
(d) the date of such registration

(ICAI Module)

Question 3: [Section 77]

A charge was created by C Limited on its office premises to secure a term loan of Rs.1 cr. availed from Next Bank Limited through an instrument of charge executed by both parties on 16th Feb, 2019. Inadvertently, the co. could not get the charge registered with concerned RoC within first statutory period permitted by law and default was made known to it by lending banker with a stern warning to take immediate steps for rectification. Latest date within which co. must register the charge to avoid paying ad valorem fees is:

(a) 27th April, 2019
(b) 17th April, 2019
(c) 2nd May, 2019
(d) 16th June 2019

(ICAI Module, MTP Sept'24)

Question 4: [Section 81]

The registrar shall keep a register of charges which shall be open to inspection by ___ on payment of fee:

(a) the company
(b) the charge holder
(c) holder
(d) any person

(MTP May'22)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(b)	2.	(d)	3.	(b)	4.	(d)

@teamxalpha

Question 5: [Section 82]

The instrument creating a charge or modification thereon shall be preserved for a period of _____ years from the date of satisfaction of charge by the company.

(a) 5
(b) 7
(c) 8
(d) 15

(MTP Nov'22, ICAI Module, MTP Nov'23)

Question 6: [Section 85]

Who cannot inspect the register of charges and instrument of charges, during business hours, without paying any fees:

(a) Any member of the company
(b) The Creditor of the company
(c) Persons other than member and creditor of the company
(d) No person is allowed to inspect the register of charges

Question 7: [Section 77]

Vijay Ltd has created a charge on 01-6-2023 in favour of Bank. Advise Vijay Ltd in how many days they have to register this charge with ROC?

(a) 16.6.2023
(b) 1.7.2023
(c) 16.7.2023
(d) 31.7.2023

Question 8:

Abhinav Garments Ltd availed loan from Axis Bank against the mortgage of its Administrative Office. Later on, the Company availed another loan from Kotak Bank by offering the collateral security of the same Office, for which the Axis Bank issue NOC. The right of the Kotak Bank in this situation shall be called as:

(a) Floating Charge
(b) Exclusive Charge
(c) Subsequent Charge
(d) Pari-passu charge

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
5.	(c)	6.	(c)	7.	(b)	8.	(c)

@teamxalpha

Question 9: [Section 83]

Raj Limited purchased a property from ABC Limited which was mortgaged to DEF Bank against a loan of Rs. 50 lakhs. Raj Limited settled the dues to DEF Bank and the same was registered with the sub-registrar. However, neither the ABC Limited nor DEF Bank has filed particulars of satisfaction of charge with the Registrar of Companies. In this particular case what will Raj Limited do to file particulars of satisfaction of charge with the Registrar of Companies?

(a) Raj Limited needs to approach DEF Bank or ABC Limited to file a memorandum of satisfaction as they were the party to mortgage.

(b) Raj Limited can directly request the Registrar to file a particulars of satisfaction noting the release of charge.

(c) Raj Limited needs to approach DEF Bank (mortgagee) to file particulars of satisfaction of charge with the Registrar of Companies.

(d) Raj Limited needs to approach ABC Limited (mortgagor) to file particulars of satisfaction of charge with the Registrar of Companies.

Question 10: [Section 82]

XYZ Ltd., a manufacturing company, had taken a loan from ABC Bank and registered a charge on its assets on January 1, 2022. On April 1, 2024, XYZ Ltd. paid off the entire loan to ABC Bank. According to Section 82 of the Companies Act, 2013, XYZ Ltd. was required to file an intimation with the Registrar of Companies (ROC) regarding the satisfaction of the charge within 30 days from the date of the payment.

However, due to an oversight, the company did not submit the intimation until July 15, 2024. To rectify this, the company decided to take advantage of the extended period for intimation provided under the proviso to Section 82 (1), which allows for an extension up to 300 days with the payment of additional fees.

The additional fee for late intimation was Rs.5,000, and the company's compliance officer needed to calculate the total fee to be paid for the delayed filing.

As per the given facts, examine by how many days XYZ Ltd. was late in submitting the intimation of satisfaction of charge? What additional fee should the company pay for this delay?

(a) 90 days , Fee = 1,000

(b) 76 days , Fee = 5,000

(c) 90 days , Fee = 5,000

(d) 300 days , Fee = 10,000

(MTP Sept'24)

Q. No.	Answer	Q. No.	Answer
9.	(b)	10.	(b)

@teamxalpha

Question 11: [Section 79]

Best Limited initially created a charge in favor of LKJ Bank for a financial facility. This charge was duly registered. A few months later, LKJ Bank enhanced the credit facility by an additional ₹ 40 crore. However, due to an oversight, Best Limited failed to register the modification to the original charge with the Registrar of Companies. The company has now realized this error and is concerned about the potential impact on its records and compliance. As per the provisions of the Companies Act, 2013, what steps should Best Limited take to correct the situation regarding the unregistered modification of the charge?

(a) Ignore the oversight since the original charge was registered.

(b) Re-register only the original charge with the updated facility amount.

(c) File an application with the Central Government for rectification of the Register of Charges.

(d) Contact LKJ Bank to withdraw the enhanced facility until the registration is completed.

(MTP Jan'25)

Q. No.	Answer
11.	(c)

@teamxalpha

7 Management and Administration

Question 1: [Section 121]

The Annual General Meeting (AGM) of Green Limited was held on 31.8.2022. Suppose the Chairman of the company after two days of AGM went abroad for next 31 days. Due to the unavailability of the Chairman, within time period prescribed for submission of copy of report of AGM with the registrar, the report as required was signed by two Directors of the company, of which one was additional Director of the company. Comment on the signing of this report of AGM.

(a) Yes, the signing is in order as the report can be signed by any director in the absence of Chairman.
(b) No, the signing is not in order as only the Chairman is authorized to sign the report
(c) Yes, the signing is in order, as in absence of Chairman at least two directors should sign the report.
(d) No, the signing is not in order, since in case the Chairman is unable to sign, the report shall be signed by any two directors of the company, one of whom shall be the Managing director, if there is one and company secretary of the company.

(MTP Nov'22, ICAI Module, MTP Nov'23, MTP Jan'25)

Question 2: [Section 101]

The AGM shall be called by giving 21 clear days' notice. However, it can be called by giving shorter notice if members entitled to vote at that meeting give their consent in writing or by electronic mode. In such cases how many members have to give their consent?

(a) 75% of members entitled
(b) 90% of members entitled
(c) 91% of members entitled
(d) 95% of members entitled

(ICAI Module, MTP Nov'23)

Question 3: [Section 97]

Due to the management disputes, FWI Limited could not hold its current Annual General Meeting by the latest due date. Even after lapse of the due date, it seemed rather impossible to convene the AGM. In such a grim situation, one option available was to approach NCLT and seek direction for the calling of AGM. Out of the following four options, which one is applicable in the given case:

(a) Any member of the company can make an appln. to the NCLT and seek direction for the calling of AGM.
(b) A member of the company holding at least 1% of the total paid- up share capital must make an application to the National Company Law Tribunal (NCLT) and seek direction for the calling of AGM.
(c) Minimum two members of the company holding at least 1% of the total paid-up share capital must make a joint application to the NCLT and seek direction for the calling of AGM.
(d) Minimum 5 members of the co. holding at least 1% of the total paid-up share capital must make a joint application to the NCLT and seek direction for the calling of AGM.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(d)	2.	(d)	3.	(a)

@teamxalpha

Question 4: [Section 114]

A resolution shall be a special resolution when the votes cast in favour of the resolution by members are not less than _____ the number of votes, if any, cast against the resolution.

(a) Twice
(b) Three times
(c) Three fourth of
(d) Two third of

Question 5: [Section 121]

Every listed company shall file with the Registrar a copy of the report on each AGM within _____ of the conclusion of the annual general meeting.

(a) 7 days
(b) 30 days
(c) 60 days
(d) 90 days

Question 6: [Section 92]

Rema formed and occupied the office of director in Rem Stationers (OPC) Private Limited which deals in manufacturing and trading of various items of stationery. Rema noticed a changed provision which mandates that from the Financial Year 2020-21 onwards, an OPC shall file its Annual Return in MGT - 7A. Rema is also one of the directors in another company which too is required to file its Annual Return in MGT-7A. Which is that 'other co' where Rema also occupies the office of director in addition to OPC.

(a) That other company is a 'small company'.
(b) That other company is an 'associate company'.
(c) That other company is a 'subsidiary company'.
(d) That other company is a 'dormant company'.

Question 7: [Section 119]

Awareness Limited's General Meetings are held at its registered office situated in Delhi. The minute book of General meetings of Awareness Limited will be kept at:

(a) That place where members of Awareness Limited will decide.
(b) That place where all employees of Awareness Limited will decide.
(c) Registered office of Awareness Limited.
(d) That place where senior officials of Awareness Limited will decide.

(MTP May'22, MTP Nov'22, MTP Nov'23)

Question 8: [Section 121]

The Annual General Meeting of Yellow Limited was held on 25th June 2022. According to the provisions of Companies Act, 2013, till what date the company should submit report on AGM to the registrar?

(a) 30.06.2022
(b) 10.07.2022
(c) 24.07.2022
(d) 25.07.2022

(MTP Nov'22, MTP Nov'23)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(b)	5.	(b)	6.	(a)	7.	(c)	8.	(d)

@teamxalpha

Question 9: [Section 91]

Amber Limited is a manufacturer of glassware. Its paid-up share capital is divided into 20,0000 shares of Rs. 100 each. The company is maintaining its register of members as per the provisions of the Companies Act, 2013. The company wanted to close its register of members for declaring dividend. It may do so by giving minimum days' notice.

(a) 7 days
(b) 10 days
(c) 15 days
(d) The register of members cannot be closed.

(ICAI BoS, RTP May'22)

Question 10: [Section 108]

Which among the following companies is not required to provide its members the facility to exercise right to vote by electronic mode under the provisions of the Companies Act, 2013?

a) B Limited, whose equity shares (the Company is having both equity as well as preference shares) are listed on a recognized stock exchange;
b) A Limited, whose equity shares (only type of share the Company is having) are listed on a recognized stock exchange;
c) C Limited, whose preference shares (the Company is having both equity as well as Preference shares) are listed on a recognized stock exchange;
d) D limited, whose equity shares as well as preference shares are listed on a recognized stock exchange.

(ICAI BoS, ICAI Nov 2022, ICAI Module, MTP1 May 2023)

Question 11: [Section 94]

The Register of members of a company along with the index shall be preserved for a period of __ and shall be kept in custody of __

(a) 8 years; Company secretary or any other person authorized by the Board for such purpose.
(b) 10 years; Company secretary or any other person authorized by the Board for such purpose.
(c) 6 years; Company secretary of the company.
(d) Permanently; Company secretary or any other person authorized by the Board for such purpose.

(ICAI Nov'22)

Question 12: [Section 105]

The Annual General Meeting of QRT Limited was scheduled on 22nd January 2022. Mr. A, shareholder of QRT Limited desires to inspect proxy forms lodged with the company. He requires to put notice in writing for inspection at least on or before _____.

(a) 7th January 2022
(b) 22nd December 2021
(c) 15th January 2022
(d) 19th January 2022

(ICAI Nov'22)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
9.	(a)	10.	(c)	11.	(d)	12.	(d)

@teamxalpha

Question 13: [Section 96]

First AGM of the company should be held within_____from the closing of the first financial year.

(a) 6 months
(b) 9 months
(c) 12 months
(d) 18 months

Question 14: [Section 103]

In case of a private company, quorum of Annual General Meeting is:

(a) 1 member personally present
(b) 2 members personally present
(c) 3 members personally present
(d) 5 members personally present

(MTP May'23)

Question 15: [Section 92]

Vichar Vimarsh Limited called its Annual General Meeting on 20th September, 2022 to consider and adopt the financial result as of 31st March, 2022. Due to want of quorum the meeting was adjourned and the adjourned meeting was held on 27th September, 2022. What is the last date of filing of Annual Return with the Registrar of Companies:

(a) 60 days from the date of 31st March, 2022
(b) 60 days from the date of 20th September, 2022
(c) 60 days from the date of 27th September, 2022
(d) 60 days from the date of 30th September, 2022

(RTP Nov'23, RTP Sep'25)

Question 16: [Section 88]

Popat Ram Comics Ltd is a company engaged in publishing of comic journals for the entertainment of the children. The company have its Registered Office at Gandhinagar, Gujarat. However, according to the addresses of the shareholders it is revealed that more than 10% shareholders are from Jaipur. The company also have its branch office at Jaipur. Which among the following statement is correct:

(a) The Registers or copies of return may be kept at Jaipur with the order of the Managing Director
(b) The Registers or copies of return may be kept at Jaipur with the approval of the Board of Directors
(c) The Registers or copies of return may be kept at Jaipur if approved by an ordinary resolution passed at the General Meeting of the Company
(d) The Registers or copies of return may be kept at Jaipur if approved by a Special resolution passed at the General Meeting of the Company

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
13.	(b)	14.	(b)	15.	(c)	16.	(d)

@teamxalpha

Question 17: [Section 103]

Apple Limited is an unlisted public company. It has 3500 members. What shall be the quorum for the General Meeting of the Shareholders:

(a) 05
(b) 15
(c) 30
(d) 45

Question 18: [Section 101]

Namesake Limited, an unlisted public limited company finalized its accounts for the financial year ending on 31st March, 2023. The meeting of the Board of Directors was convened and approved the financial accounts of the company and proposed to convene the Annual General Meeting of the shareholders on Thursday, the 25th August, 2023 at 10 am.

In the light of the given facts, the General Meeting of the shareholders was decided to be scheduled. Determine by which date the notices to the shareholder should have been given to the members:

(a) 1st August, 2023
(b) 2nd August, 2023
(c) 3rd August, 2023
(d) 4th August, 2023

Question 19: [Section 96 & 99]

Blue Leaf Limited, an Indian company with a total paid-up share capital of ` 50 crore, has a wide base of shareholders, including a large number residing in the Middle East. Out of its total capital, ` 15 crore worth of shares are held by members residing in Kuwait.

To facilitate better maintenance of records and communication with its overseas shareholders, the company decides to open a foreign register in Kuwait containing the names and particulars of those members and other security holders residing there. The foreign register is formally opened on November 1, 2024.

Which of the following actions is Blue Leaf Limited required to take in this context?

(a) File a resolution passed by the Board approving the foreign register with the Registrar of Companies within 60 days from November 1, 2024.
(b) Send an intimation to the Ministry of External Affairs within 15 days of opening the foreign register.
(c) File with the Registrar of Companies a notice of the situation of the Kuwait office within 30 days from November 1, 2024, along with the prescribed fee.
(d) Apply to the Reserve Bank of India for approval to maintain a foreign register outside India.

(RTP Sep'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
17.	(b)	18.	(c)	19.	(c)

@teamxalpha

Question 20: [Section 96 & 99]

Boro-tuff Glasses Ltd. is a public limited company engaged in the manufacturing of doors and panels made from toughened glass. The company was incorporated on 01.11.2022 with the requisite members and capital. The first Annual General Meeting was held on 01.05.2023. Mr. F, the Company Secretary has decided to call the next Annual General Meeting for the Financial Year 2023-24 on 01.08.2024.

On 31.07.2024, the company applied to the Registrar of Companies (RoC) for an extension of 4 days to hold the meeting on 05.08.2024 on the grounds that the accounts department was asking for another couple of days more for finalizing the annual accounts, but plea was rejected by the RoC. The company went on to hold and conducted the aforesaid meeting on 05.08.2024. Considering the provisions of the Companies Act, 2013, resultant effect of convening meeting on the above date shall be:

(a) The Company and every officer in default shall be liable to total penalty of₹ 1,30,000 for delay in the convening of Annual General Meeting.

(b) The Company and every officer in default shall be liable to total penalty of 1,00,000 for delay in the convening of Annual General Meeting.

(c) The Company and every officer in default shall be liable to total penalty of ₹ 1,20,000 for delay in the convening of Annual General Meeting.

(d) The convening of meeting on the above date shall not attract any penalty as the same has been convened within the prescribed time limits.

(Sep'25)

Q. No.	Answer
20.	(c)

@teamxalpha

8 Declaration and Payment of Dividend

Question 1: [Section 125]

Which of the following amount need not be credited to Investor Education and Protection Fund A/C (IEPF)?

(a) Amount in unpaid dividend account (UDA) of company

(b) Amount of matured deposits with the company

(c) Profit on sale of asset

(d) Amount of matured debentures with the company other than banking company.

Question 2: [Section 124]

The Directors of Silver tongue Solutions Limited proposed dividend at 18% on equity shares for the financial year 2018-2019. The same was approved at the Annual general body meeting held on 30th September 2019. Mr. Jagan was the holder of 2000 equity of shares on 31st March, 2019, but he transferred the shares to Mr. Rajiv on 8th August 2019. Mr. Rajiv has sent the shares together with the instrument of transfer to the company for registration of the shares in his favour only on 25th September 2019. The registration of the transfer of shares is pending on 30th September 2019. With respect to the dividend declared the correct action to be taken by the company is:

(a) Pay the dividend to Mr. Jagan

(b) Pay the dividend to Mr. Rajiv

(c) Transfer the dividend in relation to such shares to the Unpaid Dividend Account

(d) Transfer the dividend in relation to such shares to the Investor Education and Protection Fund.

Question 3: [Section 123]

The Board of Directors of Vidyut Limited are contemplating to declare interim dividend in the last week of July, 2022 but the company has incurred loss during the current financial year up to the end of June, 2022. However, it is noted that during the previous five financial years i.e., 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22, the company had declared dividend at the rate of 8%, 9%, 12%, 11% and 10% respectively. Advise the Board as to the maximum rate at which they can declare interim dividend despite incurring loss during the current financial year.

(a) Maximum at the rate of 10%.

(b) Maximum at the rate of 11%.

(c) Maximum at the rate of 10.5%.

(d) Maximum at the rate of 11.5%.

(ICAI Module, MTP May'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(c)	2.	(c)	3.	(b)

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Question 4: [Section 123]

Which one of the following transactions requires the passing of an ordinary resolution?

(a) To change the name of the company

(b) To alter the articles of association

(c) To reduce the share capital

(d) To declare dividends.

Question 5: [Section 127]

Dividend once declared, should be paid within ____ days from the date of declaration.

(a) 14 days

(b) 21 days

(c) 30 days

(d) 45 days

Question 6: [Section 123]

Amount to be transferred to reserves out of profits before any declaration of dividend is _____

(a) 5%

(b) 7.5%

(c) 10%

(d) at the discretion of the company

(ICAI Module)

Question 7: [Section 123]

When the dividend is declared at the Annual General Meeting of the company, it is known as ....

(a) Final Dividend

(b) Interim Dividend

(c) Dividend on preference shares

(d) Scrip Divided

(MTP Nov'22, ICAI Module, MTP Nov'23)

Question 8: [Section 125]

The Amount accumulated in the investor Education and Protection Fund shall not be used for _____.

(a) Refunds in respect of unclaimed dividends, matured deposits, matured debentures, application money due for refund and interest thereon.

(b) Reimbursement of legal expenses incurred in pursuing class action suits under section 37 and 245.

(c) Grants or donation to the Central Government for the purpose of investor's education and training.

(d) Distribution of any disgorged amount among eligible and identifiable applicants who have suffered losses.

(ICAI Module)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(d)	5.	(c)	6.	(d)	7.	(a)	8.	(c)

@teamxalpha

Question 9: [Section 127]

In case a company fails to pay declared dividends or fails to post dividend warrants within 30 days of declaration, company shall be liable to pay simple interest at the rate of .....during the period for which such default continues.

(a) 6% p.a.
(b) 12% p.a.
(c) 15% p.a.
(d) 18% p.a.

(ICAI Module, May'23)

Question 10: [Section 124]

Annual General meeting of the shareholders of M Limited was convened on 1st September 2023, in which the annual accounts of the company were presented before the shareholders. The shareholders have approved dividend @ 3%.

By what date should the amount be deposited in a separate account maintained with the scheduled bank for dividend purposes?

(a) By 31st August 2023 (i.e. before the date of approval by shareholders)
(b) By 6th September 2023
(c) By 7th September 2023
(d) By 24th September 2023

(ICAI BoS)

Question 11:

Which one of the following transactions requires the passing of an ordinary resolution?

(a) To change the name of the company
(b) To alter the articles of association
(c) To reduce the share capital
(d) To declare dividends.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
9.	(d)	10.	(b)	11.	(d)

@teamxalpha

9 Accounts of Companies

Question 1: [Section 135]

CSR Committee of the Board of shall consist of:

(a) Directors forming 1/3rd of the total no of directors.

(b) At least 2 directors out of which one shall be independent director.

(c) 3 or more directors out of which one shall be managing director.

(d) 3 or more directors, out of which at least 1 director shall be an independent director.

Question 2: [Section 135]

Provisions of CSR are applicable to:

(a) Companies with net worth of Rs.250 crores or more but less than Rs. 500 crores.

(b) Companies with turnover of Rs. 1000 crores or more.

(c) Companies with net profit of Rs. 1 crore or more but less than Rs.5 crores in any financial year

(d) Co. having aggregate outstanding loans and deposits exceeding Rs. 50 crores or more in any FY.

Question 3: [Section 135]

Ayush Power Limited has reported a net profit of Rs.6 crore, Rs. 7.5 crore and Rs. 3 crores for the financial year(s) ended on March 2017, March 2018 and March 2019 respectively. The board's report of the company for the year ended March 2020 did not disclose the composition of the CSR Committee on the grounds that company is not required to constitute CSR committee as net profit during the immediately preceding financial year is less than the statutory requirements laid down in section 135.

You are required to examine in the given scenario whether the act of non-composition and non- disclosure of the composition of CSR committee in the Board's Report is valid in law?

(a) No, the act of the company is not valid in law as every company is required to constitute a CSR committee and disclose the constitution of same in the board's report in every financial year irrespective of the profits earned by the company.

(b) Yes, the act of the company is valid in law as the net profit of the company is less than Rs.5 crore in the immediately preceding financial year.

(c) No, the act of the company is not valid in law as composition and disclosure of composition of CSR Committee will be required only if the profits of the company are not less than Rs.5 crore for a consecutive period of 3 financial years.

(d) The act of the company is valid only to the extent of non- disclosure of the composition of CSR committee as the net profit of the company is less than Rs.5 crore in the immediately preceding financial year.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(d)	2.	(b)	3.	(b)

@teamxalpha

Question 4: [Section 131]

During the half year ended September 2019, the board of directors (BOD) of Vidyut Manufacturing Limited has made an application to the Tribunal for revision in the accounts of the company for the financial year ended as on March 2017. Further during the year ended March 2020, the BOD has again made an application to the Tribunal for revision in the board's report pertaining to the year ended March 2019. You are required to state the validity of the acts of the Board of directors.

(a) The act of the BOD is valid only to the extent of application made for revisions in accounts as board's report are not eligible for revision.

(b) The act of the BOD is valid as the applications made for revision in the accounts and board's report pertain to two different financial years.

(c) The act of the BOD is invalid as the law provides for only one time application to be made in a financial year for revision of accounts and boards report.

(d) The act of the BOD is invalid as the application made for revision in accounts pertains to a period beyond 2 years immediately preceding the year 2020. The application made for revision in the Board report is however valid in law.

(ICAI Module, MTP Nov'23)

Question 5: [Section 130]

Adani Enterprises Limited has its shares listed on a recognized stock exchange in India. During the current financial year ending on 31st March 2020, the securities and exchange board of India (SEBI) has found some irregularities in the filings made by the company. Accordingly, SEBI proposes to make an application to the Tribunal for reopening of the books of accounts of the Company. You, as an expert, are called upon by SEBI to advise with which last financial year for reopening of books of accounts an application can be made?

(a) 2015-2016

(b) 2013-2014

(c) 2010-2011

(d) 2011-2012

(ICAI Module, MTP Sep'25)

Question 6: [Section 137]

One Person Company shall file a copy of the duly adopted financial statements to the Registrar within:

(a) 30 days of the date of meeting at which it was adopted.

(b) 90 days of the date of meeting at which it was adopted.

(c) 90 days from the closure of the financial year.

(d) 180 days from the closure of the financial year.

(MTP Nov'23)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(b)	5.	(d)	6.	(d)

@teamxalpha

Question 7: [Section 128]

Ganesh Company Ltd, a public company incorporated under the Companies Act, 2013 has Mr. Jay- Director, Mr. Sagar - Independent Director, Mr. Abhishek - Nominee Director and Mr. Yash - Whole time director. Mr. Abhishek wants to inspect the books of account of Shankar Company Limited, subsidiary of Ganesh Co. Limited. You are required to state whether Mr. Abhishek is eligible to inspect the books of Ganesh Co. Ltd?

(a) Yes, but only on authorization of the public financial institution on whose behalf he has been so appointed in the board of the Ganesh Company Ltd.

(b) No. Mr. Abhishek being a nominee director can only inspect the books of account of Ganesh Company Ltd and not its subsidiary company.

(c) Yes, but only on authorization by way of resolution of the board of directors.

(d) Yes, but only on authorization by way of resolution of members holding >= 25% of PUSC

Question 8: [Section 135]

Which of the following statement is correct with respect to the surplus arising out of the CSR activities:

(a) The surplus cannot exceed 5% of the company for the financial year.

(b) The surplus shall not form part of the business profit of the company

(c) The surplus cannot exceed 10% of the company for the financial year.

(d) The surplus shall form part of the business profit of a company

(MTP May'22, ICAI Module)

Question 9: [Section 135]

Compute the minimum amount the company (ABC Limited) is required to spend on account of Corporate Social Responsibility in financial year 2022-23, if during the financial years 2019-20, 2020-21 and 2021-22 net profits are ₹ 30 crores, ₹ 25 crores and ₹ 32 crores respectively.

(a) ₹ 87 lakhs (b) ₹ 1.45 crores

(c) ₹ 1.64 crores (d) ₹ 58 lakhs

(MTP Nov'22, MTP May'23)

Question 10: [Section 135]

Shri Limited (a company having CSR Committee as per the provision of Section 135 of the Companies Act, 2013) decides to spend and utilize the amount of Corporate Social Responsibility on the activities for the benefit of all the employees of Shri Limited. As per the provision of Co. Act, 2013 this would mean that:

(a) This is the total amount spent on Corporate Social Responsibility activities by Shri Limited for that FY.

(b) No amount spent on Corporate Social Responsibility activities by Shri Limited for that financial year

(c) Only half of the total amount spent, shall be considered to be spent on Corporate Social Responsibility activities by Shri Limited for that financial year

(d) Only the amount that has been spent on the employees having salary of Rs. 20,000 per month or less, shall be considered be considered to be spent on Corporate Social Responsibility activities by Shri Limited for that financial year

(ICAI Module)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
7.	(c)	8.	(b)	9.	(d)	10.	(b)

@teamxalpha

Question 11: [Section 128]

ABC Limited dealing in Fast Moving Consumable Goods (FMCG) has its registered office at Mumbai. The composition of its Board of Directors and key Management Personnel are:

Mr. P (Managing Director), Mr. Q (Director), Mr. R (Director), Mr. S (Nominee Director), Mr. V (Chief Financial Officer), Mr. W (Whole time Company Secretary).

If any compliance relating to Maintenance and keeping of Books of Accounts of Companies Act, 2013, is not followed by the Company then penalty for contravention will be imposed on the following persons :-

(a) Mr. P & Mr. V

(b) Mr. P, Mr. Q, Mr. R & Mr. S

(c) Mr. P, Mr. S, Mr. V & Mr. W

(d) Mr. P, Mr. Q, Mr. R, Mr. S, Mr. V & Mr. W (Nov'22)

Question 12: [Section 135]

Pratham Limited has decided to spend Rs. 40 lakhs on project of CSR. The average net profit of the company is Rs. 10 crores. But due to some reasons, company was able to spend only Rs. 30 lakhs. Now what will be the option for the company for the rest Rs. 10 lakhs?

(a) Penal provision will be applicable for unspent amount of Rs. 10 lakhs.

(b) No penal provision but explanation is required in Board report for not spending Rs. 10 lakhs

(c) No penal provision

(d) The company is required to transfer the amount to separate fund. (MTP May'23)

Question 13: [Section 135]

The company X plans to cover its skilled as well as semi-skilled workers of its units under medical health insurance plan, for which the company X will bear the expenses. Will this expenditure be permissible under CSR activities as per the provisions of the Companies Act, 2013:

(a) only expenditure on skilled workers is allowed

(b) expenditure on both skilled and semi- skilled workers is allowed

(c) Resolution to be passed in board meeting before incurring this expenditure and in the board report it must be mentioned, so that the same will be permissible under CSR activities

(d) such expenditure is not permissible under eligible CSR activities (MTP May'23)

Question 14: [Section 133]

Who may prescribed the accounting standards or any addendum thereto?.

(a) The Central Government

(b) The Institute of Chartered Accountants of India

(c) The National Financial Reporting Authority

(d) The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

(May'23)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
11.	(a)	12.	(c)	13.	(d)	14.	(d)

@teamxalpha

Question 15: [Section 128]

As per provisions of the Companies Act, 2013, the act of the company in destruction of all books of account together with relevant vouchers was not correct because

(a) The books of accounts etc. relating to a period not less than 6 preceding financial years are required to be kept in good order.

(b) The books of accounts etc. relating to a period not less than 8 preceding financial years are required to be kept in good order.

(c) The books of accounts etc. relating to a period not less than 10 preceding financial years are required to be kept in good order.

(d) The books of accounts etc. relating to a period not less than 12 preceding financial years are required to be kept in good order.

(ICAI BoS)

Question 16: [Section 138]

Shine Ltd is an unlisted public company with a paid-up share capital of more than Rs. 40 crore, a turnover of less than 200 crores along with outstanding loans from XYZ bank of 105 crore rupees during the preceding financial year. The company has not appointed an internal auditor, citing that it is not mandatory for them to do so. Does Shine Ltd need to appoint an internal auditor as per the Companies Act, 2013?

(a) No, as the company is unlisted company.

(b) Yes, as the company share capital is more than 40 crore during the preceding financial year.

(c) No, as the company's turnover is less than 200 crore rupees during the preceding financial year.

(d) Yes, as the company has outstanding loans from banks exceeding 105 crore rupees preceding FY.

(ICAI BoS)

Question 17: [Section 135]

The financial particulars of ABC Limited in respect of immediately preceding financial year are as under:

S. No.	Particulars	Amount in Rs. crore
1	Net worth	280
2	Turnover	550
3	Net Profit	5.50
4	Borrowings	60

Choose the correct option in terms that whether the provisions of Corporate Social Responsibility are applicable to ABC Ltd.

(a) No, as ABC Ltd. is having net worth of more than Rs. 250 crore in the immediately preceding FY.

(b) Yes, as ABC Ltd. is having turnover of more than Rs. 500 crore but less than Rs. 800 crore in the immediately preceding FY.

(c) Yes, as ABC Ltd. is having net profit of more than Rs. 5 crore in the immediately preceding FY.

(d) Yes, as ABC Ltd. is having loans and borrowings of more than Rs. 50 cr. in the immediately preceding FY.

(MTP May '24)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
15.	(b)	16.	(d)	17.	(c)

@teamxalpha

Question 18: [Section 135]

Under what circumstances is the requirement for constituting a Corporate Social Responsibility (CSR) Committee waived, and who is responsible for discharging the functions of the CSR Committee in such cases?

(a) When the amount to be spent by a company does not exceed fifty lakh rupees; the Board of Directors assumes the responsibility of the CSR Committee's functions.

(b) When the amount to be spent by a company exceeds fifty lakh rupees; the Board of Directors assumes the responsibility of the CSR Committee's functions.

(c) When the amount to be spent by a company does not exceed fifty lakh rupees; the shareholders assume the responsibility of the CSR Committee's functions.

(d) When the amount to be spent by a company exceeds fifty lakh rupees; the shareholders assume the responsibility of the CSR Committee's functions.

(MTP May'24)

Question 19: [Section 136]

A copy of the financial statements, including consolidated FS, if any, auditor's report and every and every other doc. required by law to be annexed or attached to the FS, which are to be laid before a company in its general meeting, shall be sent to _____ not less than 21 days before the date of the meeting.

(a) Every member of the company, to every director of the company, to every debenture holder of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled;

(b) Every member of the company, to every director of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled;

(c) Every member of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled;

(d) Every member of the company, to every director debenture holder of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled;

(ICAI Nov'22)

Question 20: [Section 135]

Victory Limited was incorporated in January 2015. How much expenditure Victory Limited shall ensure to spend in pursuance of its Corporate Social Responsibility Policy:

(a) The company shall ensure to spend in every financial year, at least 2% of the average gross profits of the company made during the 2 immediately preceding financial years.

(b) The company shall ensure to spend in every financial year, at least 2% of the average net profits of the company made during the 3 immediately preceding financial years.

(c) The company shall ensure to spend in every financial year, at least 1% of the average net profits of the company made during the 2 immediately preceding financial years.

(d) The company shall ensure to spend in every financial year, at least 1% of the average net profits of the company made during the 3 immediately preceding financial years.

(MTP1 May'23)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
18.	(a)	19.	(c)	20.	(b)

@teamxalpha

Question 21:

Vinod is a director of Prem Limited. He intends to participate in the board meeting through video conferencing and has intimated the same to the chairperson at the beginning of calendar year. Advise, Vinod for how long such declaration shall be valid.

(a) 1 month

(b) 6 months

(c) 1 year

(d) She has to furnish declaration for each meeting separately

(MTP May'22, May'23, MTP Nov'23)

Q. No.	Answer
21.	(c)

@teamxalpha

10 Audit and Auditors

Question 1: [Section 140(4)]

For appointing an auditor other than the retiring auditor,

(a) Special notice is required.

(b) Ordinary notice is required.

(c) Neither ordinary nor special notice is required

(d) Approval of Central Government is required

(ICAI Module)

Question 2: [Section 144]

Which of the following is a service prohibited to be rendered by the auditor of the Company?

(a) Design and implementation of any financial information system

(b) Making report to the members of the company on the accounts examined by him.

(c) Compliance with the auditing standards

(d) Reporting of fraud against the company by officers or employees to the Central Government

(ICAI BoS, MTP May-23)

Question 3: [Section 139]

The word 'firm' for the purpose of Section 139 shall include-

(a) An individual auditor

(b) LLP

(c) Both an individual auditor and LLP

(d) A company

Question 4: [Section 139(5)]

The auditor of a Government Company shall be appointed or re- appointed by-

(a) The Central Government

(b) Comptroller and Auditor General of India (CAG).

(c) Central Government on the advice of Comptroller and Auditor General of India.

(d) Chairman of the Board of Directors

(ICAI BOS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(a)	2.	(a)	3.	(b)	4.	(b)

@teamxalpha

Question 5: [Section 139]

Birthday Card Limited, a listed company can appoint or re-appoint, Mishra & Associates (a firm of Chartered Accountants), as their statutory auditors for:

(a) One year only
(b) One term of 3 consecutive years only
(c) One term of 4 consecutive years only
(d) Two terms of 5 consecutive years

(ICAI BoS, MTP May 2022, ICAI Module, MTP1 May 2023)

Question 6: [Section 139]

Every company shall, at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its:

(a) Second annual general meeting
(b) Fourth annual general meeting
(c) Sixth annual general meeting
(d) Eight annual general meeting

(MTP Nov'22/ May'23/ MTP Nov'23)

Question 7: [Section 141]

Mr. Amit, a Chartered Accountant, is the appointed auditor of Grey Limited. Mrs. Anita, Mr. Amit's wife, recently acquired equity shares in Grey Limited with a face value of Rs. 1 lakh. Which of the following statements is correct regarding M/s Amit & Co. eligibility to continue as the auditor of Grey Limited?

(a) M/s Amit & Co. must vacate the position of auditor immediately due to the disqualification arising from his wife's holding of shares.
(b) M/s Amit & Co. can continue as the auditor only if Mrs. Anita divests her shares within 30 days.
(c) M/s Amit & Co. can continue as the auditor since the shares held by Mr. Amit's wife do not exceed the limit specified under the Companies (Audit and Auditors) Rules, 2014
(d) M/s Amit & Co. cannot continue as the auditor, as any acquisition of shares by a relative leads to automatic disqualification.

(RTP Jan'25)

Question 8: [Section 139]

XYZ Limited is a company with 51% of its equity shares held by the State Government of Maharashtra and 49% by private investors. The Board of XYZ Limited seeks to appoint an auditor for the upcoming financial year. As per the Companies Act, 2013, which of the following statements is correct regarding the appointment of the auditor?

(a) The Board of XYZ Limited has the authority to appoint the auditor through a board resolution.
(b) The Comptroller and Auditor General (CAG) of India will appoint the auditor for XYZ Limited.
(c) The shareholders of XYZ Limited will appoint the auditor in the annual general meeting.
(d) The State Government of Maharashtra, holding the majority stake, will appoint the auditor.

(RTP Jan'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
5.	(d)	6.	(c)	7.	(c)	8.	(b)

@teamxalpha

11 Companies Incorporate Outside India

Question 1: [Section 380]

Jackson Communications LLC, incorporated in Arizona, USA, has established a principal place of business at Kolkata, West Bengal. It is required to deliver requisite documents to the specified authority. You are required to select an appropriate option from the four given below which indicates the number of days within which such documents shall be delivered:

(a) Jackson Communications LLC shall, within 10 days of the establishment of a principal place of business in India, deliver the requisite documents to the specified authority.

(b) Jackson Communications LLC shall, within 15 days of the establishment of a principal place of business in India, deliver the requisite documents to the specified authority.

(c) Jackson Communications LLC shall, within 30 days of the establishment of a principal place of business in India, deliver the requisite documents to the specified authority.

(d) Jackson Communications LLC shall, within 45 days of the establishment of a principal place of business in India, deliver the requisite documents to the specified authority.

(ICAI Module)

Question 2: [Section 392]

Morgen Stern Digi Cables GmbH incorporated in Berlin, Germany, established a place of business at Mumbai to conduct its business of data interchange and other digital supply transactions online. However, Morgen Stern Digi Cables GmbH failed to deliver certain documents to the jurisdictional Registrar of Companies within the prescribed time period in compliance with the respective statutory provisions. Which option, out of the four given below, shall correctly indicate the amount of fine with which Morgen Stern Digi Cables GmbH shall be punishable for its failure to deliver certain documents:

(a) Morgen Stern Digi Cables GmbH is punishable with fine which shall not be less than 50,000 rupees but which may extend to 5,00,000 rupees and in the case of a continuing offence, with an additional fine upto 25,000 rupees for every day after the first during which the contravention continues.

(b) Morgen Stern Digi Cables GmbH is punishable with fine which shall not be less than 1,00,000 rupees but which may extend to 5,00,000 rupees and in the case of a continuing offence, with an additional fine upto 20,000 rupees for every day after the first during which the contravention continues.

(c) Morgen Stern Digi Cables GmbH is punishable with fine which shall not be less than 2,00,000 rupees but which may extend to 5,00,000 rupees and in the case of a continuing offence, with an additional fine upto 50,000 rupees for every day after the first during which the contravention continues.

(d) Morgen Stern Digi Cables GmbH is punishable with fine which shall not be less than 1,00,000 rupees but which may extend to 3,00,000 rupees and in the case of a continuing offence, with an additional fine upto 50,000 rupees for every day after the first during which the contravention continues.

(ICAI Module)

Q. No.	Answer	Q. No.	Answer
1.	(c)	2.	(d)

@teamxalpha

Question 3: [Section 2(42)]

Radix Healthcare Ltd., a company registered in Thailand, although has no place of business established in India, yet it is engaged in online business through remote delivery of healthcare services in India. Select the incorrect statement from those given below as to the nature of the Radix Healthcare Ltd. in the light of the applicable provisions of the Companies Act, 2013:

(a) Radix Healthcare Ltd. is not a foreign company as it has no place of business established in India.

(b) Radix Healthcare Ltd. is a foreign company being involved in business activity through telemedicine.

(c) Radix Healthcare Ltd. is a foreign company for conducting business through electronic mode

(d) Radix Healthcare Ltd. is a foreign company as it conducts business activity in India.

(ICAI Module)

Question 4 [Section 380]

Fam Software Company Inc., a company incorporated in Australia, proposes to establish a place of business at Mumbai. The list of the Directors includes (i) Mr. Arjun - Managing Director, (ii) Mr. Ranveer - Director, (iii) Mr. Ramesh Malik - Director and (iv) Mr. Arbaaz - Director. Ms. Lavina has been appointed as the Secretary of Fam Software Company Inc. It is to be noted that Mr. Ramesh Malik and Mr. Arbaaz, resident in India, are the persons who have been authorized by Fam Software Company Inc. to accept on behalf of the company service of process, notices or other documents required to be served on Fam Software Company Inc. In relation to the company's establishment, you are required to enlighten the Fam Company Inc. with respect to whose, a declaration will be required to be submitted to the Registrar of Companies by Fam Software Company Inc. for not being convicted or debarred from formation of companies in or outside India.

(a) Mr. Arjun, Mr. Ranveer, Mr. Ramesh Malik, Mr. Arbaaz and Ms. Lavina.

(b) Mr. Arjun, Mr. Ramesh Malik, Mr. Arbaaz and Ms. Lavina.

(c) Mr. Ramesh Malik and Mr. Arbaaz.

(d) Mr. Arjun, Mr. Ranveer, Mr. Ramesh Malik and Mr. Arbaaz. (ICAI Module)

Question 5: [Section 381]

5K Cosmetic Shop plc., a company incorporated in Switzerland, is involved in digital supply services through electronic mode, the server of which is located outside India. The company follows calendar year as its financial year. Every year the company is required to prepare a balance sheet and profit and loss account. You are required to choose the correct timeline within which such documents shall be filed with the Registrar of Companies considering the provisions of Chapter XXII of the Companies Act, 2013:

(a) Within a period of 30 days from the close of the financial year of 5K Cosmetic Shop plc.

(b) Within a period of 3 months from the close of the financial year of 5K Cosmetic Shop plc.

(c) Within a period of 60 days from the close of the financial year of 5K Cosmetic Shop plc.

(d) Within a period of 6 months from the close of the financial year of 5K Cosmetic Shop plc.

(ICAI Module)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
3.	(a)	4.	(d)	5.	(d)

@teamxalpha

Question 6: [Section 387]

Towering Mobiles Ltd., a company incorporated in Indonesia, proposes to establish a place of business in India through electronic mode, Towering Mobiles Ltd. issued prospectus to the citizens of India for subscription of its securities. The company has been into the business for more than 3 years since it received the commencement of business certificate. What should the prospectus issued by Towering Mobiles Ltd. include in addition to (i) date and signature on the prospectus; (ii) the instrument defining the constitution of company; (iii) the enactment under which the company is incorporated; (iv) address in India where documents mentioned at (ii) and (iii) can be inspected:

(a) Date and country of incorporation of company.
(b) Address of principal office in India, if any.
(c) Disclosure of all such matters which are specified u/s 26 of the Companies Act, 2013.
(d) All of the above.

Question 7: [Section 2(42)]

Modern Books Publishers plc., a company incorporated in United Kingdom (UK) has a wholly owned subsidiary by the name Beta Periodicals Limited whose Registered Office is situated at Mumbai and which is engaged in publishing scientific, technical and specialty magazines, periodicals and journals. Beta Periodicals Limited considers itself to be a foreign company since it is a wholly owned subsidiary of Modern Books Publishers plc. which is a foreign company. From the four options given below, you are required choose the one which appropriately indicates whether Beta Periodicals Limited can be considered as a foreign company

(a) Beta Periodicals Limited cannot be considered as a foreign company even if it is a wholly owned subsidiary of Modern Books Publishers plc. which is a foreign company.
(b) Beta Periodicals Limited shall be considered as a foreign company since it is a wholly owned subsidiary of Modern Books Publishers plc. which is a foreign company.
(c) Beta Periodicals Limited can be granted the status as a foreign company, if its holding company Modern Books Publishers plc. makes an application to the Regional Director having jurisdiction over New Delhi for considering its wholly owned subsidiary Beta Periodicals Limited a foreign company.
(d) Beta Periodicals Limited can be granted the status as a foreign company, if its holding company Modern Books Publishers plc. makes an application to the New Delhi Bench of National Company Law Tribunal for considering its wholly owned subsidiary Beta Periodicals Limited a foreign company

Question 8:

Top Footwear Limited, incorporated in Singapore, established a principal place of business at Chennai. It seeks to deliver various documents to the specified authority. Choose the correct option from those given below as to the authority to which Top Footwear Limited is required to deliver such documents:

(a) Top Footwear Ltd is required to deliver the relevant documents to the CG.
(b) Top Footwear Ltd is required to deliver the relevant docs to the RoC having jurisdiction over New Delhi.
(c) Top Footwear Ltd is required to deliver the relevant docs to the RoC having jurisdiction over Chennai.
(d) Top Footwear Limited is required to deliver the relevant documents to the NCLT, Chennai Bench.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
6.	(d)	7.	(a)	8.	(b)

@teamxalpha

Question 9: [Section 381]

X Ltd., a foreign company along with the financial statement of FY 2020-2021 of its Indian business operations have to file statement of related party transactions, repatriation of profits and statement of transfer of funds with the Registrar latest by:

(a) April 30,2021
(b) June 30,2021
(c) September 30, 2021
(d) December 31, 2021

Question 10:

Who may exempt any class of Foreign Company:

(a) The Registrar of Companies
(b) The Regional Director
(c) The Central Government
(d) The President of India (ICAI BoS)

Question 11:

A foreign company shall in every _____ make out a balance sheet and profit and loss account and the prescribed documents and deliver a copy those documents to the Registrar:

(a) Financial Year
(b) Calendar Year
(c) Fiscal Year
(d) Lunisolar Year (ICAI BoS)

Question 12:

Lavender International Entertainment Inc., headquartered and registered in New York City and a prominent name in lifestyle audio innovations, professional audio and lighting solutions, and digital transformation, is present in more than seventy countries including India. Due to certain mis- happenings, the company was unable to file its financial statements along with necessary documents for the year 2023 with the Registrar of Companies (in India) within the stipulated time as permitted by the Companies Act, 2013. It is observed that the ROC may, for any special reason and on an application made in writing by Lavender International Entertainment, extend the 'filing time' maximum up to a certain period. From the following options, choose the correct one in this respect:

(a) 'Filing time' in respect of filing of financial statements along with necessary documents by Lavender International Entertainment Inc. can be extended by ROC maximum by one month beyond the stipulated time period.
(b) 'Filing time' in respect of filing of financial statements along with necessary documents by Lavender International Entertainment Inc. can be extended by ROC maximum by two months beyond the stipulated time period.
(c) 'Filing time' in respect of filing of financial statements along with necessary documents by Lavender International Entertainment Inc. can be extended by ROC maximum by three months beyond the stipulated time period.
(d) 'Filing time' in respect of filing of financial statements along with necessary documents by Lavender International Entertainment Inc. can be extended by ROC maximum by six months beyond the stipulated time period.

(MTP Sept'24)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
9.	(c)	10.	(c)	11.	(b)	12.	(c)

@teamxalpha

Question 13:

Jade Suites LLC is a chain of hotels and restaurants all over the world. It is proposing to establish a Hotel at Goa. It has appointed a Chartered Accountant Mr. B for taking care of the registration formalities of the company. While the registration process was ongoing, the company entered into a lease agreement with a land owner for the construction of its Hotel. After few months, the Directors of Jade Suites LLC withdrew their interest in establishing a Hotel at Goa due to the news in social media regarding the fall in the tourism industry there. The land owner refused to repay the advance received by him. Can Jade Suites LLC sue the land owner in the capacity of a foreign company ? Referring to the provisions of the Companies Act, 2013, choose the correct

(A) Jade Suites LLC is a foreign company and can sue the land owner for the advance amount given in its capacity as a Foreign Company.

(B) Jade Suites LLC is incorporated as a foreign company, it can't sue the land owner.

(C) The Registration process is not yet complete and hence Jade Suites LLC cannot sue the land owner in its capacity as a Foreign Company.

(D) Once the registration process has started, the company is deemed to be incorporated as a foreign company and hence Jade Suites LLC can sue the land owner.

Q. No.	Answer
13.	(c)

@teamxalpha

12 The General Clauses Act, 1897

Question 1: [Basic understand of legislature]

The preamble is most important in any legislation, it:

(a) Provides definitions in the Act.

(b) Expresses scope, object and purpose of the Act.

(c) Provides summary of the entire Act.

(d) provides side notes often found at the side of a section.

Question 2: [Basic question]

As per the rules of an educational institution, every student may come on weekends for extra classes but every student shall appear on a weekly test conducted in the institute, which means:

(a) Attending extra classes on weekends is optional but appearing in weekly test is compulsory

(b) Attending weekend classes is compulsory but appearing in weekly test is optional

(c) Attending weekend classes and appearing in weekly test, both are compulsory for students

(d) Attending weekend classes and appearing in weekly test both are optional for students.

Question 3: [Section 3]

Which of the following is not an Immovable Property?

(a) Land

(b) Building

(c) Timber

(d) Machinery permanently attached to the land

(ICAI Module)

Question 4: [Section 5]

Where an act of parliament does not expressly specify any particular day as to the day of coming into operation of such Act, then it shall come into operation on the day on which:

(a) It receives the assent of the President.

(b) It receives the assent of the Governor General

(c) It receives assent of both the houses of Parliament.

(d) It receives assent of the Prime Minister

(ICAI Module, May'23, MTP Nov)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(b)	2.	(a)	3.	(c)	4.	(a)

@teamxalpha

Question 5:

Formal legal document which creates or confirms a right or records a fact is —

(a) a Document

(b) a Deed

(c) a Statute

(d) an Instrument

(May'23)

Question 6: [Section 2(20)]

The Best Dry Fruits Ltd was incorporated under the Companies Act, 1913. Whether the provisions of the Companies Act, 2013 shall apply on it:

(a) No, the provisions of the Companies Act, 2013 shall not apply on it.

(b) Yes, the provisions of the Companies Act, 2013 shall apply on it.

(c) The Companies Act, 1913 was enacted by the British Government, hence only an Act made by British Government shall apply on such company.

(d) Since, this company was incorporated by the British Government, hence the Companies Act of UK Govt shall apply.

(MTP Nov'22, MTP Nov'23)

Question 7: [Section 3]

What among the following could be considered in the term 'Immovable Property' as defined under section 3(26) of the General Clauses Act, 1897?

i. The soil for making bricks

ii. Right to catch fish

iii. Right to drain water

iv. Doors and Windows of the house

(a) Only (i) and (iv)

(b) Only (i), (ii) and (iv)

(c) Only (i) and (ii)

(d) Only (ii), (iii) and (iv)

(MTP Nov'22, ICAI Module, MTP Nov'23, RTP Sep'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
5.	(d)	6.	(b)	7.	(b)

@teamxalpha

Question 8: [Section 9]

Which among the following is correct as per the provisions of the General Clauses Act, 1897, regarding commencement and termination of Time?

(a) In any Central Act or Regulation made after the commencement of this Act, it shall be sufficient, to exclude the first in a series of Days or any other period of time, to use the word "from". As well as to exclude the last in a series of days or any other period of time, to use the word "to".

(b) In any Central Act or Regulation made after the commencement of this Act, it shall be sufficient, to exclude the first in a series of Days or any other period of time, to use the word "from", and, to include the last in a series of days or any other period of time, to use the word "to".

(c) In any Central Act or Regulation made after the commencement of this Act, it shall be sufficient, to include the first in a series of Days or any other period of time, to use the word "from". As well as to include the last in a series of days or any other period of time, to use the word "to".

(d) In any Central Act or Regulation made after the commencement of this Act, it shall be sufficient, to include the first in a series of Days or any other period of time, to use the word "from", and, to exclude the last in a series of days or any other period of time, to use the word "to".

Question 9: [Section 26]

An act or omission constitutes an offence under two enactments, referring to the provisions of the General Clauses Act, 1897, state which among the following is correct in such a situation?

(a) The offender shall be liable to be prosecuted and punished under that enactment only, which was enacted last and not under the other enactment.

(b) The offender shall be liable to be prosecuted and punished under that enactment only, which was enacted first and not under the other enactment.

(c) The offender shall be liable to be prosecuted and punished under both the enactment.

(d) The offender shall be liable to be prosecuted and punished under either or any of those enactments but shall not be punished twice for the same offence.

(ICAI Module, Nov'22, MTP Nov'23, MTP May'22, MTP Sep'25)

Question 10: [Basic understand of legislature]

Every Act has a _____ which expresses the scope, object and purpose of the Act. It is the main source for understanding the intention of lawmaker behind the Act.

(a) Definition

(b) Preamble

(c) Affidavit

(d) Document

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
8.	(b)	9.	(d)	10.	(b)

@teamxalpha

Question 11: [Section 13]

In all Central Acts and Regulations, unless there is anything repugnant in the subject or context, words importing the masculine gender shall be taken:

(a) To exclude females

(b) To exclude girl child

(c) To include females

(d) To exclude boy child

(MTP May'23, MTP Sept'24)

Question 12: [Section 25]

A company enter into process of reducing capital. Mr. Shah is concerned officer designated for preparing the list of creditor to records their reservation and reach to a settlement under section 66 of the Companies Act, 2013. Mr. Shah while preparing such list deliberately conceal the name of Ms. Ramya who is one of the company's creditor and object to the reduction, whereas make misstatement in context of some other creditors' claims. The offence committed by Mr. Shah is punishable under: (i) Under section 447 of the Companies Act, 2013 and (ii) Also under sections 417 read with 415 of Indian Penal Code 1860 (as dishonest concealment is involved). You are required to select the most appropriate option out of given below in context of offence committed by Mr. Shah:

(a) Mr. Shah shall be liable to be prosecuted under both of the Companies Act, 2013 and the IPC 1860, but shall be punished under either of the Companies Act, 2013 or the IPC, 1860.

(b) Mr. Shah shall be liable to be prosecuted under both of the Companies Act, 2013 and the IPC, 1860, but shall be punished under the Companies Act, 2013 or the IPC, 1860 where maximum punishment is lower.

(c) Mr. Shah shall be liable to be prosecuted and punished under either of the Companies Act, 2013 or the IPC, 1860.

(d) Mr. Shah shall be liable to be prosecuted and punished under both of the Companies Act, 2013 and the IPC, 1860.

[RTP Nov'23]

Question 13: [Application of GCA]

Which legislation authorises the use of the General Clauses Act, 1897:

(A) The Indian Penal Code, 1860

(B) The Constitution of India

(C) The Indian Evidence Act, 1872

(D) The Code of Civil Procedure, 1908

(ICAI BoS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
11.	(c)	12.	(c)	13.	(b)

@teamxalpha

Question 14: [Section 26 (additional points)]

Apex Manufacturing is an industrial company based in India. Recently, the company found itself embroiled in legal issues concerning two separate offences under different enactments. The first offence involved a violation of environmental regulations, for which the company was prosecuted and fined. Subsequently, Apex Manufacturing was charged under a different law for a similar but not identical environmental violation.

The first offence was under the Environment Protection Act, 1986, for failing to dispose of hazardous waste properly. The second offence, under the Water (Prevention and Control of Pollution) Act, 1974, involved discharging untreated wastewater into a river.

Mr. Sharma, the company's legal advisor, consulted on said issue. He determined the prosecution outlined in Section 26 of the General Clauses Act, 1897, and Article 20(2) of the Constitution of India, which protects against double jeopardy. Comment upon the validity of protection that can be given to the Apex Manufacturing.

(a) Yes valid, because both involve environmental violations.

(b) Not valid, because the specific actions and legal provisions violated are different.

(c) Its valid, because both result in environmental harm.

(d) Its valid, though were prosecuted under different Acts but nature of act is similar.

(RTP Sept'24)

Question 15: [Section 3]

X purchased a car from Y, believing that Y was the legitimate owner. Although X paid the full purchase price and took possession of the car, he did not check the Registration Certificate (RC) of the car to verify the authenticity of Y's ownership. Later, it was discovered that Y was not the rightful owner, and the car had been stolen. In the context of "good faith" as defined in the General Clauses Act, 1897, determine the validity of X's ownership claim over the car.

(a) X holds valid ownership of the car because he paid the full price and believed Y to be the legitimate owner.

(b) X does not hold valid ownership because his purchase was made without due care and attention, even though he acted honestly

(c) X holds valid ownership because he had no knowledge of the car being stolen, showing he acted in "good faith."

(d) X's ownership is valid because he did not act negligently, and his actions were deemed "in good faith."

(RTP Jan'25)

Question 16: [Intro to GCA]

The General Clauses Act, 1897 is applicable to:

(a) whole of India including the Union Territory of Jammu and Kashmir.

(b) whole of India excluding the Union Territory of Jammu and Kashmir.

(c) the act does not define any "territorial extent" clause.

(d) whole of India excluding the National Capital Region and other Union Territories.

(RTP Jan'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
14.	(b)	15.	(b)	16.	(c)

@teamxalpha

Question 17:

The term "Year" as per General Clauses Act, 1897 means:

(A) Financial year

(B) A year according to the British calendar which starts from January to December.

(C) 365 days

(D) Any period of 12 months

Question 18:

The General Clauses Act, 1897 (Act) was enacted on 11th March, 1897 to consolidate and extend the General Clauses Act,_____ and_____

(A) 1857 and 1887

(B) 1887 and 1893

(C) 1878 and 1880

(D) 1868 and 1887

Question 19: [Section 11]

ABC Limited operates a factory near a river. A recent Central Act mandates that factories must be located at least 3 kilometers away from any river. An environmental agency claims that ABC Limited's factory is only 2.5 kilometers away from the river, while ABC Limited argues that the distance is 4 kilometers, based on the road distance along a winding path leading to the river.

As per the General Clauses Act, 1897, how should the distance between ABC Limited's factory and the river be measured to determine compliance with the Central Act?

(a) The distance should be measured along the shortest possible straight line (horizontal plane) between the factory and the river.

(b) The distance should be measured along the road/ path actually travelled, as argued by ABC Limited.

(c) The environmental agency's estimate of 2.5 kilometres should be automatically accepted since it favors environmental protection.

(d) The distance should be measured based on any reasonable method, as long as it justifies the company's compliance.

(MTP Sep'24, May'25)

Question 20: [Section 3]

Mr. Mukhiya owned a land with fifty neem trees. He sold his land and the timber (obtained after cutting the trees) to Mr. Ambar. As per the General Clauses Act, 1897, does the sale of timber amount to the sale of immovable property?

(a) Yes, timber is part of the land, so its sale is a sale of immovable property.

(b) No, timber is considered movable property once it is cut from the land.

(c) Yes, since trees were earlier rooted in the land, selling timber is similar to selling land.

(d) No, because movable property only includes motor cars, jewellery and cash.

(MTP May'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
17.	(b)	18.	(d)	19.	(a)	20.	(b)

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Question 21: [Section 27]

Under the statutory rules, a notice is required to be sent by "registered post acknowledgment due." If the notice is instead sent only by "registered post," what is the legal implication as per provisions of the General Clauses Act, 1897?

(a) The service of notice is deemed valid, as registered post suffices under all circumstances.

(b) The service of notice is not valid, as the statutory rules specifically require "registered post acknowledgment due."

(c) The notice is considered served only if the recipient acknowledges receipt, regardless of mailing method.

(d) The mode of service is irrelevant as long as the notice is delivered eventually.

(MTP Sep'25)

Q. No.	Answer
21.	(b)

@teamxalpha

13 Interpretation of Statutes

Question 1:

Which rule of construction is applicable where there is a real and not merely apparent conflict between the provisions of an Act, and one of them has not been made subject to the other—

(a) Rule of Beneficial construction

(b) Rule of Literal construction

(c) Rule of Harmonious construction

(d) Rule of Exceptional construction

Question 2:

When the law is clear and unambiguous the court shall construe the meaning of a provision based on strict

(a) grammatical meaning

(b) logical meaning

(c) alternative interpretation

(d) hypothetical meaning

(MTP May'22)

Question 3:

According to _____ rule of interpretation, meaning of words should be known from its accompanying or associated words.

(a) Mischief rule

(b) Primary Rule

(c) Noscitur a Sociis.

(d) Golden Rule

(MTP May'22)

Question 4:

The Rule in Heydon's case is also known as—

(a) Purposive construction

(b) Mischief Rule

(c) Golden Rule

(d) Exceptional Construction

(ICAI Module, MTP May'22)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(c)	2.	(a)	3.	(c)	4.	(b)

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Question 5:

Pick the odd one out of the following aids to interpretation—

(a) Preamble

(b) Marginal Notes

(c) Proviso

(d) Usage

(ICAI Module, MTP May'22, MTP Nov'22, MTP May'23, MTP Nov'23)

Question 6:

An internal aid that may be added to include something within the section or to exclude something from it, is_____

(a) Proviso

(b) Explanation

(c) Schedule

(d) Illustrations

(ICAI Module)

Question 7:

According to the _____ rule, the words of the statute are to be given their plain and ordinary meaning.

(a) Literal rule

(b) golden rule

(c) natural rule

(d) mischief rule

(MTP May'22)

Question 8:

When there is a conflict between two or more statues or two or more parts of a statute then which rule is applicable:

(a) Welfare construction

(b) Strict construction

(c) Harmonious construction

(d) Mischief Rule

(MTP May 2022, ICAI Module, MTP Nov'23)

Question 9:

Which among the following is an External Aid to interpretation:

(a) Illustrations

(b) Dictionary

(c) Proviso clause

(d) Title

(MTP May'23, RTP Nov'23)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
5.	(d)	6.	(b)	7.	(a)	8.	(c)	9.	(b)

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Question 10:

____ is the cardinal rule of construction that words, sentences and phrases of a statute should be read in their ordinary, natural and grammatical meaning so that they may have effect in their widest amplitude.

(a) Rule of Literal Construction
(b) Rule of Harmonious Construction
(c) Rule of Beneficial Construction
(d) Rule of Exceptional Construction

(MTP Nov'22, ICAI Module, MTP Nov'23, May'23 RTP and MTP-2 Nov'23)

Question 11:

_____means that when two or more words that are susceptible of analogous meaning, are coupled together they are understood to be used in their cognate sense.

(a) Noscitur a Sociis
(b) Contemporanea Expositio
(c) prima facie
(d) absoluta sententia expositore non indigent

(MTP Nov'22, May'23, MTP Nov'23)

Question 12:

A clause that begins with the words "Notwithstanding anything" contained is called:

(a) An obstacle clause
(b) A non- obstante clause
(c) An objectionable clause
(d) A superior clause

(RTP Nov'22, MTP May'23)

Question 13:

_____ interpretation concerns itself with "what the law says" and _____ interpretation, seeks to ascertain "what the law means".

(a) Grammatical, Logical
(b) Legal, usual
(c) Usual, legal
(d) Logical, grammatical

(RTP Nov'22)

Question 14:

_____ expresses the scope and object of the Act more comprehensively than the _____.

(a) Preamble; Short title
(b) Short title; Long title
(c) Long title; Preamble
(d) Preamble; Long title

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
10.	(a)	11.	(a)	12.	(b)	13.	(a)	14.	(d)

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Question 15:

Which among the following cannot be considered as an internal aid for interpretation of a statute?

(a) Illustrations (b) Explanation

(c) Previous Law (d) Schedules

Question 16:

Choose the correct meaning of the term "Ut res magis valeat quam pereat" from among the following:

(a) Words of statute must be construed so as to lead to a sensible meaning.

(b) Statutes should be construed grammatically.

(c) Notwithstanding anything contained.

(d) When two or more words that are susceptible of analogous meaning, are coupled together they are understood to be used in their cognate sense.

Question 17:

As per Rule of Literal Construction, Technical words are to understood in:

(a) Normal sense (b) Ordinary sense

(c) Technical sense (d) Legal sense (MTP May'23)

Question 18:

Calendar year starts from:

(a) January (b) April

(c) June (d) September (MTP May'23)

Question 19:

Doctrine of Mischief Rule was given under:

(a) Foss vs. Harbottle

(b) Thomson vs. Clan Morris

(c) Foster vs. DiphwysCasson

(d) Heydon's Case (MTP May'23)

Question 20:

Which amongst the following is not a the cardinal rule of construction that words, sentences and phrases of a statute should be read in their ordinary, natural and grammatical meaning so that they may have effect in their widest amplitude.

(a) Rule of Literal Construction

(b) Rule of Grammatical Construction

(c) Rule of Plain Construction

(d) Rule of logical Construction

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
15.	(c)	16.	(a)	17.	(c)	18.	(a)	19.	(d)
20.	(a)								

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Question 21:

Statutory interpretation is a practice through which the courts break down the words of a legislation and give true intent to it. While the legislature makes the laws, the judiciary performs the art of interpretation to give meaning to the words of the law maker. It is correctly said that The purpose of Interpretation of Statutes is to help the Judge to ascertain the intention of the Legislature not to control that intention or to confine it within the limits, which the Judge may deem reasonable or expedient. For interpretation of statutes various tools are used, you are required to pick the option depicting correct sequence of tools in order their application.

(a) Internal Aids to Construction, External Aids to Constructions, and Literal Construction
(b) Literal Construction, Internal Aids to Construction, and External Aids to Constructions
(c) Internal Aids to Construction, Literal Construction, and External Aids to Constructions
(d) External Aids to Constructions, Internal Aids to Construction, and Literal Construction

(ICAI BOS)

Question 22:

A method of interpretation which brings into effect provisions for improving the conditions of certain classes of people who are under privileged or who have not been treated fairly in the past.

(a) Rule of Literal Construction
(b) Rule of Harmonious Construction
(c) Rule of Beneficial Construction
(d) Rule of Exceptional Construction

(ICAI BOS)

Question 23:

Regal Textiles, a well-established fabric manufacturing company, has been operating under the Textile Regulations Act of 1980 for several decades. Over the years, various provisions of this Act have been subject to interpretation by both the company and the industry at large. One such provision pertains to the definition of "sustainable practices," which has been a point of contention. "Sustainable practices" to include the use of organic materials and recycling waste products. This interpretation has been widely accepted and acted upon without any legal challenges. Recently, a new regulatory body has argued that "sustainable practices" should be strictly defined to include only carbon-neutral processes, excluding the use of non-organic recycled materials. This new interpretation has created confusion and potential compliance issues for Regal Textiles, which has long adhered to the established understanding of the term. He prepares to argue that the long-standing interpretation of "sustainable practices" should be upheld. What principle will Mr. Kumar likely rely on to argue against the new interpretation proposed by the regulatory body?

(a) The principle of judicial activism.
(b) The principle of strict construction.
(c) The principle of historical usage.
(d) The principle of prospective overruling

(RTP Sep'24)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
21.	(b)	22.	(c)	23.	(c)

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Question 24:

An Act has been passed by the government and though sufficient time has elapsed since the Act was passed, it has not been brought into force by the Government.

Which of the following is correct in the light of the provisions of the General Clauses Act, 1897?

(a) The court can issue a mandamus with a view to compel the government to bring the Act into operation on a particular day.

(b) The court can through a writ direct the government to consider the question as to when the Act should begin to operate.

(c) The court can publish a date in Official Gazette as an effective date for enforcement of the Act.

(d) The court cannot direct the government to consider the question as to when Act should begin to operate.

(MTP Sept'24)

Question 25:

ABC Real Estate Ltd., a prominent real estate company, has recently acquired a piece of land in a suburban area. The land has a small lake that is expected to generate significant tourism revenue in the future. Additionally, the land has several old structures that are permanently fastened to the earth, such as a stone pavilion and a historical monument. ABC Real Estate Ltd. plans to develop the area by refurbishing the existing structures and enhancing the natural surroundings to attract tourists.

Considering the above scenario, identify which of the following components are classified as "Immovable Property" under the General Clauses Act, 1897:

(a) Only the land and the stone pavilion.

(b) Only the land and the benefits arising from the lake.

(c) The land, benefits arising from the lake, and the stone pavilion.

(d) The land, the benefits arising from the lake, the stone pavilion, and the historical monument.

(MTP Sept'24)

Question 26:

The Ministry of Transport is planning to construct a new highway that will connect City A and City B. According to the initial plan, the highway is expected to cover a distance of 150 kilometers. During the survey, the engineers measure the distance between the two cities as the crow flies, without considering the natural terrain and existing road curves. This method is in line with the provisions of the General Clauses Act, 1897 regarding the measurement of distance for the purposes of any Central Act or Regulation.

Considering the above scenario, which statement is correct about the measurement of distance as per the General Clauses Act, 1897?

(a) The distance should be measured along the existing roadways and curves.

(b) The distance should be measured considering the natural terrain and obstacles.

(c) The distance should be measured in a straight line on a horizontal plane unless otherwise specified.

(d) The distance should be measured as a combination of straight lines and natural curves.

(MTP Sept'24)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
24.	(b)	25.	(d)	26.	(c)

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14 The Foreign Exchange Management Act, 1999

Question 1:

In September, 2021, Mr. Purshottam Saha visited Atlanta as well as Athens and thereafter, London and Berlin on a month-long business trip, for which he withdrew foreign exchange to the extent of US$ 50,000 from his banker State Bank of India, New Delhi branch. In December, 2021 he further, withdrew US$ 50,000 from SBI and remitted the same to his son Raviyansh Saha who was studying in Toronto, Canada. In the first week of January, 2022, he sent his ailing mother Mrs. Savita Saha for a specialized treatment along with his wife Mrs. Rashmi Saha to Seattle where his younger brother Pranav Saha, holder of Green Card, is residing. For the purpose of his mother's treatment and to help Pranav Saha to meet increased expenses, he requested his banker SBI to remit US$ 75,000 to Pranav Saha's account maintained with Citibank, Seattle. In February, 2022, Mr. Purshottam Saha's daughter Devanshi Saha got engaged and she opted for a 'destination marriage' to be held in August, 2022 in Zurich, Switzerland. While on a trip to Dubai in the last week of March, 2022, he again withdrew US$ 35,000 to be used by him and Devanshi Saha for meeting various trip expenses including shopping in Dubai. Later, the event manager gave an estimate of US$ 2,50,000 for the wedding of Devanshi Saha at Zurich, Switzerland. Which option do you think is the correct one in the light of applicable provisions of Foreign Exchange Management Act, 1999 including obtaining of prior approval, if any, from Reserve Bank of India since Mr. Purshottam Saha withdrew foreign exchange on various occasions from his banker State Bank of India.

(a) In respect of withdrawal of foreign exchange on various occasions from his banker State Bank of India and remitting the same outside India during the financial year 2021-22, Mr. Purshottam Saha is not required to obtain any prior approval.

(b) In respect of withdrawal of US$ 35,000 in the last week of March, 2022, for a trip to Dubai, Mr. Purshottam Saha must have obtained prior approval of Reserve Bank of India since the maximum amount of foreign exchange that can be withdrawn in a financial year is US$ 1,75,000.

(c) After withdrawing US$ 1,00,000, Mr. Purshottam Saha must have obtained prior approval of Reserve Bank of India for the remaining remittances made during the financial year 2021-22, otherwise SBI would not have permitted further withdrawals.

(d) After withdrawing US$ 50,000, Mr. Purshottam Saha must have obtained prior approval of Reserve Bank of India for the remaining remittances made during the financial year 2021-22, otherwise SBI would not have permitted further withdrawals.

(ICAI Module, MTP Sep'25)

Q. No.	Answer
1.	(a)

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Question 2:

M/s. Kedhar Sports Academy, a private coaching club, provides coaching for cricket, football and other similar sports. It coaches sports aspirants pan India. It also conducts various sports events and campaigns across the country. In 2022, to mark the 25th year of its operation, a cricket tournament (akin to the format of T-20) is being organized by M/s. Kedhar Sports Academy in Lancashire, England, in the first half of April. The prize money for the 'winning team' is fixed at USD 40,000 whereas in case of 'runner-up', it is pegged at USD 11,000. You are required to choose the correct option from the four given below which signifies the steps to be taken by M/s. Kedhar Sports Academy for remittance of the prize money of USD 51,000 (i.e., USD 40,000+USD 11,000) to England keeping in view the relevant provisions of Foreign Exchange Management Act, 1999:

(a) For remittance of the prize money of USD 51,000, M/s Kedhar Sports Academy is required to obtain prior permission from the Ministry of Human Resource Development (Department of Youth Affairs & Sports).

(b) For remittance of the prize money of USD 51,000, M/s Kedhar Sports Academy is required to obtain prior permission from the Reserve Bank of India.

(c) For remittance of the prize money of USD 51,000, M/s Kedhar Sports Academy is not required to obtain any prior permission from any authority, whatsoever, and it can proceed to make the remittance.

(d) For remittance of the prize money of USD 51,000, M/s Kedhar Sports Academy is required to obtain prior permission from the Ministry of Finance (Department of Economic Affairs).

(ICAI Module, MTP Sept 24)

Question 3:

Akash Ceramics Limited, an Indian company, holds a commercial plot in Chennai which it intends to sell. M/s. Super Seller, a real estate broker with its Head Office in the USA, has been appointed by Akash Ceramics Limited to find some suitable buyers for the said commercial plot in Chennai which is situated at a prime location. M/s. Super Seller identifies Glory Estate Inc., based out of USA, as the potential buyer. It is to be noted that Glory Estate Inc. is controlled from India and hence, is a 'Person Resident in India' under the applicable provisions of Foreign Exchange Management Act, 1999. A deal is finalized and Glory Estate Inc. agrees to purchase the commercial plot for USD 600,000 (assuming 1 USD= Rs. 70). According to the agreement, Akash Ceramics Limited is required to pay commission @ 7% of the sale proceeds to M/s. Super Seller for arranging the sale of commercial plot to Glory Estate Inc. and commission is to remitted in USD to the Head Office of M/s. Super Seller located in USA. Considering the relevant provisions of Foreign Exchange Management Act, 1999, which statement out of the four given below is correct (ignoring TDS implications arising under the Income-tax Act, 1961):

(a) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 25,000 by Akash Ceramics Limited to M/s. Super Seller but for the balance commission of USD 17,000, prior permission of RBI is required to be obtained.

(b) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 30,000 by Akash Ceramics Limited to M/s. Super Seller but for the balance commission of USD 12,000, prior permission of RBI is required to be obtained.

(c) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 42,000 by Akash Ceramics Limited to M/s. Super Seller.

(d) It is mandatory to obtain prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 42,000 by Akash Ceramics Limited to M/s. Super Seller. (ICAI Module, MTP Sep'25)

Q. No.	Answer	Q. No.	Answer
2.	(c)	3.	(d)

@teamxalpha

Question 4:

Mohita Periodicals and Mags Publications Limited, having registered office in Chennai, has obtained consultancy services from an entity based in France for setting up a software programme to strengthen various aspects relating to publications. The consideration for such consultancy services is required to be paid in foreign currency. The compliance officer of Mohita Periodicals and Mags Publications Limited, Mrs. Ritika requires your advice regarding the foreign exchange that can be remitted for the purpose of obtaining consultancy services from abroad without prior approval of Reserve Bank of India. Out of the following four options, choose the one which correctly portrays the amount of foreign exchange remittable for the given purpose after considering the provisions of the Foreign Exchange Management Act, 1999 and regulations made thereunder:

(a) Permissible amount of foreign exchange that can be remitted by Mohita Periodicals and Mags Publications Limited for obtaining consultancy services from an entity based in France without prior approval of RBI is US$ 50,000,000.

(b) Permissible amount of foreign exchange that can be remitted by Mohita Periodicals and Mags Publications Limited for obtaining consultancy services from an entity based in France without prior approval of RBI is US$ 10,000,000.

(c) Permissible amount of foreign exchange that can be remitted by Mohita Periodicals and Mags Publications Limited for obtaining consultancy services from an entity based in France without prior approval of RBI is US$ 5,000,000.

(d) Permissible amount of foreign exchange that can be remitted by Mohita Periodicals and Mags Publications Limited for obtaining consultancy services from an entity based in France without prior approval of RBI is US$ 1,000,000.

(ICAI Module)

Question 5:

After five years of stay in USA, Mr. Umesh came to India at his paternal place in New Delhi on October 25, 2021, for the purpose of conducting business with his two younger brothers Rajesh and Somesh and contributed a sum of 10,00,000 as his capital. Simultaneously, Mr. Umesh also started a proprietary business of selling artistic brass ware, jewellery, etc. procured directly from the manufacturers based at Moradabad. Within a period of two months after his arrival from USA, Mr. Umesh established a branch of his proprietary business at Minnesota, USA. You are required choose the appropriate option with respect to residential status of Mr. Umesh and his branch for the financial year 2022-23 after considering the applicable provisions of the Foreign Exchange Management Act, 1999:

(a) For the financial year 2022-23, Mr. Umesh and his branch established at Minnesota, USA, are both persons resident outside India.

(b) For the financial year 2022-23, Mr. Umesh is a resident in India but his branch established at Minnesota, USA, is a person resident outside India.

(c) For the financial year 2022-23, Mr. Umesh and his branch established at Minnesota, USA, are both persons resident in India.

(d) For the financial year 2022-23, Mr. Umesh is a person resident outside India but his branch established at Minnesota, USA, is a person resident in India.

(ICAI Module, MTP May'25)

Q. No.	Answer	Q. No.	Answer
4.	(d)	5.	(c)

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Question 6:

Mr. Raman, a non-resident Indian, has a SIP with a prominent Indian mutual fund. Due to some impending financial difficulties, he requested his elder brother Mr. Raghav, a resident Indian currently working as Manager in a multi-national company at Mumbai, to make payment of a few subsequent instalments of SIP on his behalf. Which option, do you think, correctly signifies whether Mr. Raghav is permitted to undertake such transaction of paying a few instalments of SIP on behalf of his non- resident brother considering the applicable provisions of the FEMA, 1999:

(a) Mr. Raghav is not permitted to undertake such transaction of paying a few instalments of SIP on behalf of his non-resident brother since it amounts to payment for the credit of a non- resident person.

(b) Mr. Raghav is permitted to undertake such transaction of paying a few instalments of SIP on behalf of his non-resident brother since Mr. Raman is his real brother.

(c) Mr. Raghav is permitted to undertake such transaction of paying a few instalments of SIP on behalf of his non-resident brother only if his employer permits.

(d) Mr. Raghav is permitted to undertake such transaction of paying a few instalments of SIP on behalf of his non-resident brother only if he obtains prior permission of Reserve Bank of India.

Question 7:

Nandeesh, a resident Indian, remitted USD 1,00,000 on 7th June, 2021, to his son Ishaan who is settled in California, USA, since he urgently required funds. On 9th July, 2021, Nandeesh again remitted USD 71,000 to meet expenses to be incurred in respect of his ailing wife, Medhavi who had recently gone to USA to meet his son Ishaan but had developed serious coronary disease. For specialized treatment of Medhavi at a specialized hospital, a sum of USD 79,000 was remitted for the second time on 30th July, 2021 by Nandeesh. Within next 10 days, Medhavi recovered and was allowed to return to her son's residence from the hospital. Choose the correct option from those stated below as to when Nandeesh can send further foreign exchange to his son Ishaan for the purpose of purchasing a house without obtaining the prior approval of RBI:

(a) Without obtaining the approval of Reserve Bank of India, Nandeesh can send further foreign exchange to his son Ishaan only in the month of April, 2022 or thereafter.

(b) Without obtaining the approval of Reserve Bank of India, Nandeesh can send further foreign exchange to his son Ishaan only in the month of January, 2022 or thereafter.

(c) Without obtaining the approval of Reserve Bank of India, Nandeesh can send further foreign exchange to his son Ishaan only in the month of July, 2022 or thereafter.

(d) Without obtaining the approval of Reserve Bank of India, Nandeesh can send further foreign exchange to his son Ishaan only in the month of November, 2021 or thereafter.

Q. No.	Answer	Q. No.	Answer
6.	(a)	7.	(a)

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Question 8:

Mr. V, brother of Mr. R, is a resident of Singapore and he owns an immovable property in Chennai which he inherited from his father, who was a resident of India, Can Mr. V continue to hold the property?

(a) No, he cannot hold transfer or invest In India, since he is resident outside India.

(b) Yes, he can continue to hold in India, since he is person of India Origin and the property is located In India

(c) Yes, he can continue to hold the property, since this was inherited from a person who was resident in India.

(d) Yes, he can continue to hold the property, since his brother (Mr. R) uses the property whenever he travels to Chennai.

Question 9

No person shall draw foreign exchange for a transaction included in of the FEM (Current Account Transactions) Rules, 2000 without the prior approval of Government of India:

(a) Schedule I

(b) Schedule II

(c) Schedule III

(d) Schedule IV

(ICAI BOS)

Question 10

No person shall draw foreign exchange for a transaction included in the Schedule II of the FEM (Current Account Transactions) Rules, 2000 without prior approval of:

(a) The Authorised Person

(b) The Reserve Bank of India

(c) The Government of India

(d) The Foreign Exchange Dealers Association of India

(ICAI BOS)

Question 11

Making any payment to, or for the credit of any person, or receiving any payment for, by order or on behalf of any person, or drawing, issuing or negotiating any bill of exchange or promissory note, or transferring any security or acknowledging any debt, is called as:

(a) Financial Commitment

(b) Financial Instruments

(c) Financial Transaction

(d) Financial Promises

(ICAI BOS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
8.	(c)	9.	(b)	10.	(c)	11.	(c)

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Question 12

Which among the following is not treated as Capital Account Transaction:

(a) A transaction which alters the assets outside India of persons resident in India

(b) A transaction which alters the contingent liabilities outside India of persons resident in India

(c) A transaction which alters the liabilities in India of persons resident outside India

(d) A transaction of remittance for living expenses of parents residing abroad

(ICAI BOS)

Question 13

Which among the following is not prohibited under the FEM (Current Account Transactions) Rules, 2000:

(a) Remittance for purchase of lottery tickets, banned / proscribed magazines, football pools, sweepstakes etc.

(b) Expenses of USD 2,00,000 in connection with medical treatment abroad

(c) Payment related to "Call Back Services" gf telephones

(d) Remittance of interest income on funds held in Non-Resident Special Rupee Account Scheme

(ICAI BOS)

Question 14

Which among the following transaction is not prohibited:

(a) Remittance out of lottery winnings

(b) Remittance of income from racing

(c) Availment of foreign exchange of USD 250000 for private visit to Europe

(d) Remittance of dividend by any company to which the requirement of dividend balancing is applicable

(ICAI BOS)

Question 15

A requires U.S. $ 2,000 for payment related to call back services of telephones. Choose the correct option:

(a) A cannot obtain US $ 2,000 for the said purpose as withdrawal of foreign exchange for payment related to call back services of telephone is a prohibited transaction.

(b) A can freely withdraw the amount freely for the said purpose

(c) A can obtain US $ 2,000 for the said purpose as withdrawal of foreign exchange for payment related to call back services of telephone can be done with the prior approval of Central Government.

(d) A can obtain US $ 2,000 for the said purpose as withdrawal of foreign exchange for payment related to call back services of telephone can be done since the amount is less than USD 2,50,000.

(ICAI BOS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
12.	(d)	13.	(b)	14.	(c)	15.	(a)

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Question 16

Every drawal of foreign exchange for transactions included in Schedule III of the FEM (Current Account Transactions) Rules, 2000 shall require prior approval of RBI. Which among the following transaction no approval of RBI is required:

(a) Where the payment is made out of funds held in Resident Foreign Currency (RFC) Account of the remitter.
(b) Where the remittance of USD 275000 is made for maintenance of close relatives abroad
(c) Where the drawal of foreign currency of USD 400000 is for studies abroad
(d) Drawal of USD 260000 for private visit to USA

(ICAI BOS)

Question 17

Which among the following transaction is not termed as Current Account Transaction:

(a) Payments due in connection with foreign trade, other current business, services, and short- term banking and credit facilities in the ordinary course of business
(b) Payments due as interest on loans and as net income from investments
(c) Expenses in connection with foreign travel, education and medical care of parents, spouse and children
(d) Changes in alteration of contingent liabilities outside India of persons resident in India

(ICAI BOS)

Question 18

HBL Private Limited is a project engineering, procurement and construction company. The company has bagged a contract from the Government of State of Tamil Nadu for construction of Water Dam. The company has involved a project consultancy firm situated in Netherlands for preparing techno-economic feasibility report to enable it to start construction work of dam. The company had paid USD 7,000,000 to vendor of Netherlands.

The company also availed the services of Software Company situated in UK for the migration of its accounting software from SAP to Oracle for which the Company had paid USD 2,000,000 to the software company.

Considering the provisions of Foreign Exchange Management Act, 1999, which of the below mentioned statement is correct:

(a) The company can make payment of USD 7,000,000 and USD 2,000,000 without any approval.
(b) The company can make payment of USD 7,000,000 without any approval and USD 2,000,000 after obtaining prior approval of the Reserve Bank of India (RBI).
(c) The company can make payment of USD 7,000,000 and USD 2,000,000 after obtaining prior approval of RBI.
(d) The company can make payment of USD 7,000,000 after obtaining prior approval of RBI and USD 2,000,000 without any approval.

(MTP May'24, MTP Jan'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
16.	(a)	17.	(d)	18.	(b)

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Question 19

Ms. Shalini Gupta had enrolled her for management course of three years with IIM, Ahmedabad. Out of three years, two years of educational course would be provided at the campus of IIM, Ahmedabad and one year of educational course would be provided at University of Auckland under student exchange program. Ms. Shalini Gupta is required to pay tuition fee of Rs.10 lakh directly to IIM, Ahmedabad for two years course and USD 200,000 to University of Auckland.

Ms. Shalini had left India on 20th August 2022 to complete her degree from University of Auckland. In the last month of final year of the course, she got an offer from one of the reputed company situated in Auckland and had accepted the offer and she decided to work there. On 1st September 2023, Ms. Shalini had visited India for 30 days to meet her family and on 1st October 2023 had left India to carry on her employment.

Considering the provisions of Foreign Exchange Management Act, 1999, which of the below mentioned options correctly determined the residential status of Ms. Shalini Gupta:

(a) Ms. Shalini Gupta to be treated as resident in India for Financial Year 2023-2024 and FY 2024-2025.

(b) Ms. Shalini Gupta to be treated as resident in India for FY 2022-2023 and FY 2023-2024.

(c) Ms. Shalini Gupta to be treated as non-resident for FY 2023-2024 and FY 2024-2025 as she left India for higher studies.

(d) Ms. Shalini Gupta to be treated as resident in India for FY 2023-2024 since she stays in India for more than 182 days and non-resident for FY 2024-2025.

(ICAI MTP May'24, MTP Jan'25)

Question 20

Mr. Amar (a resident individual) want to remit US$ 60,000 to his son in the USA after winning a big lottery. Considering the provisions of the Foreign Exchange Management Act, 1999, choose the correct action which Mr. Amar would take to remit the said amount to his son in the USA.

(a) Visit a local bank and request a direct transfer to his son's US bank account.

(b) Cannot remit the said amount as remittance out of lottery winnings is prohibited.

(c) Travel to the USA personally with the cash winnings, to give it to his son.

(d) Convert the US Dollar winnings into a different currency before sending it to his son.

Question 21

Mr. Prakhar, an Indian Resident individual, wishes to obtain Foreign Exchange for a gift remittance totaling US$ 50,000. Which of the following statements accurately reflects the regulatory requirement under the Foreign Exchange Management Act, 1999 (FEMA)?

(a) Mr. Prakhar can freely remit US$ 50,000 for the gift as it is a current account transaction and the amount of gift remittance is less than US$ 2,50,000.

(b) Mr. Prakhar must seek prior approval from the RBI for the remittance exceeding US$ 50,000.

(c) Mr. Prakhar must seek prior approval from the RBI for any gift remittance, regardless of the amount.

(d) Mr. Prakhar does not need to comply with any FEMA requirements as gift remittance does not fall under the purview of the FEMA 1999.

(ICAI MTP May'24)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
19.	(c)	20.	(b)	21.	(a)

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Question 22

Mr. X had resided in India for less than 182 days during the financial year 2022-2023. He arrived in India on April 1, 2023, to conduct business and intends to leave the business on April 30, 2024, with plans to depart from India on June 30, 2024. What is Mr. X's residential status for the financial year 2023-2024 under the FEMA, 1999? How many days did Mr. X stay in India during the financial year 2023-2024?

(a) Non-Resident, 182 days

(b) Resident, 365 days

(c) Resident but Not Ordinarily Resident (RNOR), 240 days

(d) Resident, 91 days

(RTP Sep'24, MTP May'25)

Question 23

Athlete Rajiv Sharma, a professional tennis player from India, achieved remarkable success by winning a prestigious international tennis tournament held in Paris, France. As a result of his victory, he received a prize money of $150,000 from the event organizers. Rajiv was excited about his winnings and planned to use a portion of the prize money to fund his training and future tournaments abroad.

Rajiv decided to remit $150,000 to his personal account in France to manage his finances and cover his training expenses. However, before proceeding, he needed to ensure that the remittance complied with the Foreign Exchange Management Act (FEMA), 1999, specifically concerning the remittance of prize money or sponsorship of sports activities abroad.

Under FEMA regulations, individuals other than international, national, or state-level sports bodies are subject to specific guidelines when remitting amounts exceeding $100,000. Rajiv was aware that the amount involved in his case exceeded this threshold and sought advice on the necessary steps and compliance.

Enumerate in the given instance, according to FEMA regulations, what must Rajiv Sharma do if he wishes to remit prize money exceeding US $100,000 abroad?

(a) Remit the amount directly without any additional requirements.

(b) Obtain approval from Paris Government before remitting the amount

(c) Only provide proof of winning the prize

(d) Require prior approval of Ministry of Human Resource Development (Department of Youth Affairs and Sports)

(RTP Sept'24)

Q. No.	Answer
23.	(d)

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Question 24:

Rahul, a resident of India and an avid horse-racing enthusiast, earns ₹ 5 lakh as prize money from an international horse-racing event held in Dubai. He wants to remit this amount to his personal foreign bank account for future international race entries and training. He consults his banker to confirm if this transaction is permissible under the Foreign Exchange Management Act (FEMA), 1999. Can Rahul remit his income from the international horse-racing event to his foreign bank account under FEMA, 1999?

(a) Yes, as it is his earned income.

(b) No, as remittance of income from racing, riding, or any other hobby is prohibited.

(c) Yes, but only with prior approval from the Reserve Bank of India (RBI).

(d) No, unless it is for charitable purposes.

(MTP Jan'25)

Question 25:

Sneha, a resident of India, wants to invest her savings. She considers buying shares of a US-based company to benefit from the growing tech market. She is unsure if such an investment is allowed under the Foreign Exchange Management Act, 1999. Advise whether Sneha can invest in shares of the US-based company?

(a) Yes, such investments are allowed.

(b) No, such investments are not allowed.

(c) Yes, but only if the investment is for US$ 5000.

(d) No, unless she is a non-resident Indian (NRI).

(MTP Jan'25)

Question 26: [Section 6]

Pranab, an Indian citizen and a software engineer, was working for a multinational IT firm based in Singapore for over eight years. During his tenure, he accumulated substantial savings in his Singapore bank account and invested in a few properties there. With a plan to permanently return to India, he decided to sell one of his properties and transfer the proceeds to his newly opened bank account in India. Simultaneously, Pranab's employer deputed him to India for a critical software development project for three years, effective from January 2023. His salary was credited to his Indian bank account.

Now, Pranab wishes to transfer the proceeds from selling his property in Singapore to his bank account in India. As per the provisions of the Foreign Exchange Management Act, 1999, which of the following statements is most accurate regarding his ability to do so?

(a) He can freely transfer the full amount without any restrictions as he is now an Indian resident.

(b) He cannot transfer the amount at all since the property was acquired outside India.

(c) He can freely transfer the funds if the property was purchased while he was a resident outside India.

(d) He needs prior RBI approval irrespective of how the property was acquired. (RTP May'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
24.	(b)	25.	(a)	26.	(c)

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Question 27: [Section 5]

Ms. Kanika Tripathi, an accomplished classical dancer, has been invited by Oxford University to perform at a cultural event. She seeks to withdraw USD 75,000 for tour expenses. What is the most likely restriction on this transaction under the Foreign Exchange Management Act, 1999 (FEMA) and its guidelines?

(a) She must obtain prior approval from the Reserve Bank of India (RBI) before withdrawing foreign exchange for cultural tours.

(b) She can withdraw foreign exchange freely within the limits prescribed under the Liberalized Remittance Scheme (LRS) or relevant FEMA guidelines.

(c) Foreign exchange withdrawal for cultural performances is prohibited under FEMA.

(d) She must first obtain a visa before withdrawing foreign exchange. (RTP May'25)

Question 28: [Section 5]

Ms. Smriti, an Indian national, recently won ` 41 lakh in an international online lottery. She now wishes to remit an equivalent of US $50,000 abroad to a foreign account using her lottery winnings. She approached her authorized dealer bank to request foreign exchange for this purpose.

As per the provisions of the Foreign Exchange Management Act, 1999 and the relevant Rules, what is the correct position regarding Ms. Smriti's request to remit foreign exchange out of her lottery winnings?

(a) The remittance is allowed under the Liberalised Remittance Scheme (LRS) without any approval.

(b) The remittance is allowed only with prior approval of the Reserve Bank of India.

(c) The remittance is allowed only with prior approval of the Central Government.

(d) The remittance is prohibited, as it falls under the First Schedule to the FEM (Current Account Transactions) Rules, 2000. (RTP Sep'25)

Q. No.	Answer	Q. No.	Answer
27.	(b)	28.	(d)

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15 The Limited Liability Partnership Act, 2008

Question 1: [Basic]

Which of the following cannot be converted into LLP?

(a) Partnership firm

(b) Private company

(c) Listed company

(d) Unlisted company

Question 2: [Section 16]

The approved name of LLP shall be valid for a period of ___ from the date of approval:

(a) 1 Month

(b) 2 Months

(c) 3 months

(d) 6 months

(ICAI Module)

Question 3: [Section 15]

Name of the Limited Liability Partnership shall be ended by:

(a) Limited

(b) Limited Liability partnership or LLP

(c) Private Limited

(d) OPC

(ICAI Module)

Question 4: [Section 58]

Which one of the following statements about limited liability partnerships (LLPs) is incorrect?

(a) An LLP has a legal personality separate from that of its members.

(b) The liability of each partner in an LLP is limited.

(c) Members of an LLP are taxed as partners.

(d) A listed company can convert to an LLP

(ICAI Module)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(c)	2.	(c)	3.	(b)	4.	(d)

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Question 5: [Section 7]

For the purpose of LLP, Resident in India means:

(a) Person who has stayed in India for a period of not less than 182 days during the current year.

(b) Person who has stayed in India for a period of not less than 180 days during the immediately preceding one year.

(c) Person who has stayed in India for a period of not less than 181 days during the immediately preceding one year

(d) Person who has stayed in India for a period of not less than 120 days during the financial year.

Question 6: [Intro to LLP]

Ministry of Corporate Affairs enforced the LLP Act, with effect from-

(a) 31st March, 2008

(b) 1st April 2008

(c) 31st March, 2009

(d) 1st April 2009

Question 7: [Section 4]

Whether partnership law applies to the LLP-

(a) Yes (b) No

Question 8: [Characteristics of LLP]

State which of the statement is correct under the Limited Liability Partnership Act, 2008-

(a) All partners have unlimited liability

(b) All partners have limited liability

Question 9: [Section 5]

Whether a HUF can become partner in LLP:

(a) HUF may become partner of LLP provided the Registrar may grant permission in this behalf

(b) No, HUF can't become partner in the LLP

(c) Yes, HUF may become partner of LLP

(d) None of the above

(ICAI BoS)

Question 10: [Section 17]

CG may direct such LLP to change its name, and LLP shall comply with the said direction within _____ after the date of the direction or such longer period as CG may allow.

(a) 1 month

(b) 3 months

(c) 6 months

(d) 9 months

(ICAI BoS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
5.	(d)	6.	(c)	7.	(b)	8.	(b)	9	(b)
10.	(b)								

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Question 11: [Section 25]

In case of any change in name or address of any partner, that partner shall inform LLP within

(a) 7 days
(b) 10 days
(c) 15 days
(d) 30 days

(ICAI BoS)

Question 12: [Section 7]

How many designated partners are required in LLP:

(a) At least two designated partners
(b) Seven designated partners
(c) Two designated partners
(d) At least seven designated partners

(ICAI BoS)

Question 13: [Section 12]

When the requirements of section 11 of LLP Act, 2008 have been complied with, the Registrar shall give incorporation certificate within

(a) 7 Days
(b) 10 Days
(c) 14 Days
(d) 30 Days

(ICAI BoS)

Question 14: [Section 25]

In case of any change in name or address of any partner, LLP shall inform Registrar within

(a) 7 days
(b) 10 days
(c) 15 days
(d) 30 days

(ICAI BoS)

Question 15: [Section 6]

What is the maximum limit of number of partners in LLP?

(a) 20
(b) 50
(c) 100
(d) No Limit

(ICAI BoS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
11.	(c)	12.	(a)	13.	(c)	14.	(d)	15.	(d)

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Question 16:

What is the minimum required capital for formation of LLP?

(a) Rs.1,00,000

(b) Rs.2,00,000

(c) Rs.5,00,000

(d) No such requirement

(ICAI BoS)

Question 17:

A LLP shall be governed by the provisions of:

(a) The Companies Act, 2013

(b) The Limited Liability Partnership Act, 2008

(c) The Co-operative Societies Act, 1912

(d) The Indian Partnership Act, 1932

(ICAI BoS)

Question 18: [Section 34]

What is the periodicity of preparing the Statement of Account and Solvency by the LLP:

Within 3 months from the end of each F.Y.

Within 9 months from the end of each F.Y.

Within 12 months from the end of each F.Y.

Within 6 months from the end of each F.Y.

(ICAI BoS)

Question 19: [Introduction to LLP]

LLP Bill was passed by the Parliament on

(a) 9th January 2007

(b) 12th December, 2008

(c) 31st March, 2009

(d) 1st July, 2008

(ICAI BoS)

Question 20: [Section 34]

Who shall sign the Statement of Account and Solvency prepared by the LLP:

(a) By any one partner, authorised in this behalf

(b) By at least two partners, authorised in this behalf

(c) By all the partners

(d) By the designated partners

(ICAI BoS)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
16.	(d)	17.	(b)	18.	(d)	19.	(b)	20.	(d)

@teamxalpha

Question 21: [Section 30]

Mr. Mohit had purchased Food items from Balak Food court LLP amounting to 5,00,000. He made a claim of 5,00,000 against the LLP as he was supplied with all expired food items, this transaction was done by Mr. Heera (one of the partners of LLP), but LLP was unaware of this transaction.

Mr. Mohit also claimed for compensation as this transaction was done with intention to defraud him. The worth of the assets of LLP are only 2,00,000.

Now Mr. Mohit wants to make all the partners of LLP personally liable for the deficiency of 3,00,000. What is the correct option as per the Limited Liability Partnership Act, 2008?

(a) As this act is done with intent to defraud Mr. Mohit by supplying expired food items in such case the liability of partners who has done such act, shall be unlimited for all or any of the debts or other liabilities of the LLP. Hence Liability of Mr. Heera is unlimited. It can be extended up to the personal assets of Mr. Heera.

(b) The LLP itself will be liable for such act to the full extent of its assets. In other words, Mr. Mohit cannot claim personally from partners. The liability of the partners will be limited to their agreed contribution in the LLP.

(c) All Partners, whether or not aware about this act will be liable equally, their liability will be unlimited.

(d) Mr. Heera, who has done this transaction with intension to defraud Mr. Mohit, will be liable to compensate him but his liability will be limited to his contribution in LLP only. Hence, Mr. Heera will not be personally liable for the same

(ICAI BoS)

Question 22: [Section 25]

Bhavesh, Yash and Chirag incorporated a Limited Liability Partnership for doing the business of trading of timber under the name Solid Lakkad LLP. Chirag has shifted his residence from 12, Block C, Kamla Nagar, Agra to 808, Sector 1, Bodla, Agra on 16th November, 2023. Chirag informed the firm about change of his address on 20th November, 2023 sending a written notice. Now, by which date Solid Lakkad LLP is required to file a notice with the registrar?

(a) 01st December, 2023

(b) 05th December, 2023

(c) 16th December, 2023

(d) 20th December, 2023

(RTP May'24)

Q. No.	Answer	Q. No.	Answer
21.	(a)	22.	(c)

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Question 23: [Section 27]

XYZ LLP is a consulting firm where four partners—A, B, C, and D—are responsible for various functions. Partner B, without consulting the other partners, enters into a contract with a third party, Mr. P, for a high-value procurement deal on behalf of XYZ LLP. It is later found that Partner B did not have authority to engage in such deals, and XYZ LLP has no history of involvement in procurement. Mr. P, who is an experienced business- person, was aware that Partner B was not authorized to enter into procurement deals for XYZ LLP. In this scenario, which of the following is correct based on the Limited Liability Partnership Act, 2008?

(a) XYZ LLP is bound by the contract because partner B is a partner in the LLP.

(b) XYZ LLP is bound by the contract as Mr. P believed partner B was authorized to act on behalf of the LLP.

(c) XYZ LLP is bound by the contract because Mr. P is a third party and was not aware of the internal matters of XYZ LLP.

(d) XYZ LLP is not bound by the contract as partner B lacked authority, and Mr. P knew of this lack of authority.

(RTP Jan'25)

Question 24: [Section 6]

ABC LLP was incorporated with two partners, Mr. Raj and Ms. Rani. Due to certain differences, Ms. Rani resigned from the LLP on 1st January, 2024, leaving Mr. Raj as the sole partner. Mr. Raj continued running the business without admitting a new partner and was aware that he was the only remaining partner. On 1st August of the same year, ABC LLP incurred a debt of Rs. 5 lakh from a vendor. Given the provision in the Limited Liability Partnership Act, 2008, which of the following statements correctly describes Mr. Raj's liability in this situation?

(a) Mr. Raj will not be personally liable for the Rs. 5 lakh debt as the debt was incurred by the LLP.

(b) Mr. Raj will be personally liable for the Rs. 5 lakh debt since he was the sole partner of the LLP for more than six months.

(c) Mr. Raj and Ms. Rani will both be liable for the Rs. 5 lakh debt as they were originally partners.

(d) The LLP will be automatically dissolved after six months, and no personal liability will arise for Mr. Raj.

(RTP Jan'25)

Question 25: [Section 29]

Where after a partner's death the business is continued in the same Limited Liability Partnership name, the continued use of that name or of the deceased partner's name as a part thereof:

(a) shall make his legal representative liable for any act of the limited liability partnership done after his death.

(b) shall make his estate liable for any act of the limited liability partnership done after his death.

(c) shall make his legal representative or his estate liable for any act of the limited liability partnership done after his death.

(d) shall not by itself make his legal representative or his estate liable for any act of the limited liability partnership done after his death.

(RTP Jan'25)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
23.	(d)	24.	(b)	25.	(d)

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Question 30: [Section 7]

XYZ LLP, a well-established limited liability partnership, had two designated partners, Aditi and Rajiv. On 15th January, 2025, Rajiv resigned due to personal reasons, leaving Aditi as the only designated partner in the LLP. The remaining partners were aware of their responsibility to appoint a new designated partner as per the requirement of the Limited Liability Partnership (LLP) Act, 2008. However, due to internal disagreements, they failed to appoint a new designated partner within the prescribed time frame.

On 20th February 20, 2025, the Registrar of Companies (ROC) issued a notice to XYZ LLP, seeking clarification on its compliance status regarding the appointment of the designated partner.

As per the LLP Act, 2008, choose the correct option if XYZ LLP fails to appoint a second designated partner within the prescribed time period.

(a) The LLP will automatically be dissolved by the ROC, if one more designated partner is not appointed by 30th January 2025.

(b) Aditi will be removed as the designated partner, and the LLP will be treated as a normal partnership firm.

(c) If one more designated partner is not appointed within 30 days of a vacancy, each partner of XYZ LLP will be deemed a designated partner and will be held responsible for compliance requirements.

(d) XYZ LLP will be fined ₹ 10,00,000 immediately for non-compliance, and the ROC will appoint all new designated partners. (RTP May'25)

Question 31: [Section 24]

KLP & Associates LLP comprises of three partners Kamlesh; Luvkush and Pradeep and was incorporated under agreement in the year 2020. Mr. Pradeep one of the partners has decided to leave the LLP and start his own business. He has informed Mr. Luvkush, one of the Designated Partner of the LLP, of his decision to leave and has urged to proceed with the formalities. Even past one month of leaving the LLP, Mr. Pradeep was continuously receiving phone calls from creditors of LLP for payment of the dues thus convincing him to believe that the LLP has neither informed the outsiders nor the Registrar about his leaving the LLP. The LLP was also not responding to Mr. Pradeep's queries. Referring to the provisions of the Limited Liability Partnership Act, 2008 what is the step that Mr. Pradeep can take to escape his liability post quitting the LLP?

(a) Mr. Pradeep should further follow-up with LLP and ask it to submit Form 4 to the registrar informing about the above event as he himself cannot file Form 4 with the Registrar.

(b) Mr. Pradeep should himself file Form-4 to the Registrar who would then send a show-cause notice to the LLP.

(c) Mr. Pradeep can himself issue a public notice in the one English and one vernacular newspaper disclosing his status as an outsider to the LLP.

(d) The Registrar would himself contact the LLP and enquire about Mr. Pradeep's status. (Sep'25)

Q. No.	Answer	Q. No.	Answer
30.	(c)	31.	(b)

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16 Previous Attempt Case Scenarios

SEPTEMBER 2025

Case Scenario 1:

Mr. Lepang an Indian having knowledge of tea-farming went to China in the year 2006 and established his tea manufacturing business by the name of Sweet Leaf Ltd. The business has grown since then and he has been persistently trying to connect to his original roots in India. Kadak Chai Ltd. is an Indian public limited company established in Darjeeling owning two tea estates and engaged in the manufacture and sale of Darjeeling tea throughout the country. On 20.06.2024 Kadak Chai Ltd. was bought by the Sweet Leaf Ltd. for redesigning the existing production facility and expand the cultivation and processing of flavored tea by Mr. Lepang.

Thus, the above production facility earlier owned by Kadak Chai Ltd. gained the status of foreign company and filed Form FC-1 declaring the details of its incorporation and the information as laid therein the above-mentioned form with Registrar of Companies situated at New-Delhi. As a result of the acquisition, the details of the company including new name and address of the head office were updated outside the office of the acquired company at Darjeeling. The details were mentioned in English, Mandarin and in local language Assamese. The Indian Subsidiary (formerly Kadak Chai Ltd.) updated the above details in other documents including business letters, billheads, and letter paper in English language only and neither local language nor Mandarin was used. The Legal team made an objection on such non-usage of local language and Mandarin. It further suggested that other than the provisions of Chapter XXII of the Companies Act, 2013 no other provision in the aforesaid act would be applicable to such newly registered foreign company situated at Darjeeling.

The foreign company has recently entered a contract with Speed Robotics Ltd. engaged in the manufacture of robotic machinery and other facilities, to be installed in tea processing plant to enhance the pace of production. The foreign company has planned to raise money in India through the issue of Indian Depository Receipts (IDR). The IDR are thus planned to be issued by DDL Bank to act as a depository bank to such instrument. As the IDR is a new issue, the same must be accompanied with a prospectus as well. The prospectus contained details of the company, its board of directors and other annexures including the comments of Mr. Jack an expert in the field of finance on the current financial matters affecting the company. Mr. Renzo one of the members in the legal team at the Darjeeling production facility have suggested that the prospectus for issue of such IDR should also contain details of the contract entered in with Speed Robotics Ltd. and the copy of power of attorney as the above prospectus has been signed by Mr. Rick on behalf of directors. The officials at the Head-Office have opposed inclusion of the details as above on the pretext that the same is not required as per the law.

The prospectus thus drafted has been sent to the Registrar of Companies situated as New Delhi for approval so that the IDR can be issued thereafter for inviting investments from the public in India.

Based on the facts given in above case scenario and by applying the relevant provisions of the Companies Act, 2013, choose the correct answer of the following questions : (Q. No. 1 to Q. No. 3)

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1. Whether the legal team was correct in suggesting that only provisions of Chapter XXII of the Companies Act, 2013 shall apply for the foreign company ?
   (A) The Legal Team is incorrect as provisions of Chapter XXII shall not apply to foreign company.
   (B) The Legal Team is correct in its view that only Chapter XXII provisions shall apply to the foreign company.
   (C) The Legal Team is incorrect as provisions of Chapter XXII shall apply to Chinese Company with no applicability for the foreign company situated in India.
   (D) The Legal Team is incorrect as provisions of Chapter XXII shall apply to foreign company along with other provision as may be prescribed regarding business carried on by it as if it were an Indian Company.

2. Whether the act of mentioning of name of the newly formed foreign company and other details at outside the office in English, local and Mandarin, as well as, on other documents including business letters, billheads, and letter paper only in English is in correct compliance of the related provisions under the Companies Act, 2013 ?
   (A) The name of company has been correctly written in English, local and Mandarin outside the office at Darjeeling. The other documents can mention the details in English only and there is no requirement for usage of other languages on the same.
   (B) The name of company has been correctly written in English, local and Mandarin outside the office at Darjeeling but even the other documents should mention the details in all the three languages.
   (C) Details in documents as well as at outside the office can be given in local language only and there is no compulsion regarding usage of other languages.
   (D) The company can give details of company on both outside the office as well in the documents in the language of its choice after obtaining permission from the Registrar of Companies.

3. Choose the correct option from the following on the validity and adequacy of the details mentioned in the prospectus prior to issue of IDR, and whether it will be accepted or rejected by the Registrar of Companies at New Delhi.
   (A) The details of contract with Speed Robotics Ltd. as well as the copy of power of attorney should be mandatorily annexed along with other documents without which the prospectus shall be rejected by Registrar at New Delhi
   (B) Details mentioned in the prospectus about the company and other credentials including non-filing of power of attorney are correct and sufficient and the same shall be accepted by Registrar of companies at New Delhi
   (C) The details of contract with Speed Robotics Ltd. can be skipped as being entered in the ordinary course of business but the copy of power of attorney should be mandatorily annexed along with other documents without which the prospectus shall be rejected by Registrar of companies at New Delhi
   (D) No need to issue the prospectus as the company Kadak Chai Ltd is an existing company and only the status from domestic to foreign company has changed.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(b)	2.	(b)	3.	(b/c)

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4. Super Tork Engineering Ltd is a public sector company engaged in the manufacture of domestic and commercial automobiles. The company has been providing automonile dealerships in and across the country to varous business enterpreneurs. Out of 56 such dealerships, LD Motors Ltd, situated in the city of Jaipur, Rajasthan is one of the prime selling joints for domestic automobiles namely sedan and hatchback cars.

Super Tork Engineering Ltd. has entered into a contract with the above said dealer for the provision of warranty services to its customers at local level and has provided the advances namely of ₹ 1.20 Crore and ₹ 1.25 Crore to the aforesaid dealer. The former advance being for provision of warranty relating to engine fault repair within a period of 2 years from the date of purchase and the latter being for providing general services on domestic cars for a period of 6 years. A period of 7 years of provision of such warranty and maintenance services is taken as a common business practice in the automobiles sector. In consonance with the provision of the Companies Act, 2013, decide which of the above advances be treated as deposits by LD Motors Ltd.?

(A) The advance of ₹ 1.25 Crore can only be treated as deposit within the meaning of the Companies Act, 2013.

(B) Neither of the above two advances be treated as deposit as both are being valid for providing warranty services to vehicle owners within a period of 6 years, being common business practice in this regard.

(C) Both the above advances of ₹ 1.20 Crore and ₹ 1.25 Crore be treated as deposits within the meaning of the Companies Act, 2013.

(D) LD Motors Ltd. has the sole discretion of treating any of the above advances as deposits in compliance with the provisions of the Companies Act, 2013.

5. Boro-tuff Glasses Ltd. is a public limited company engaged in the manufacturing of doors and panels made from toughened glass. The company was incorporated on 01.11.2022 with the requisite members and capital. The first Annual General Meeting was held on 01.05.2023. Mr. F, the Company Secretary has decided to call the next Annual General Meeting for the Financial Year 2023-24 on 01.08.2024.

On 31.07.2024, the company applied to the Registrar of Companies (RoC) for an extension of 4 days to hold the meeting on 05.08.2024 on the grounds that the accounts department was asking for another couple of days more for finalizing the annual accounts, but plea was rejected by the RoC. The company went on to hold and conducted the aforesaid meeting on 05.08.2024. Considering the provisions of the Companies Act, 2013, resultant effect of convening meeting on the above date shall be:

(A) The Company and every officer in default shall be liable to total penalty of ₹ 1,00,000 for delay in the convening of Annual General Meeting.

(B) The Company and every officer in default shall be liable to total penalty of ₹ 1,30,000 for delay in the convening of Annual General Meeting.

(C) The Company and every officer in default shall be liable to total penalty of ₹ 1,20,000 for delay in the convening of Annual General Meeting.

(D) The convening of meeting on the above date shall not attract any penalty as the same has been convened within the prescribed time limits.

Q. No.	Answer	Q. No.	Answer
4.	(b)	5.	(c)

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6. KLP & Associates LLP comprises of three partners Kamlesh; Luvkush and Pradeep and was incorporated under agreement in the year 2020. Mr. Pradeep one of the partners has decided to leave the LLP and start his own business. He has informed Mr. Luvkush, one of the Designated Partner of the LLP, of his decision to leave and has urged to proceed with the formalities. Even past one month of leaving the LLP, Mr. Pradeep was continuously receiving phone calls from creditors of LLP for payment of the dues thus convincing him to believe that the LLP has neither informed the outsiders nor the Registrar about his leaving the LLP. The LLP was also not responding to Mr. Pradeep's queries. Referring to the provisions of the Limited Liability Partnership Act, 2008 what is the step that Mr. Pradeep can take to escape his liability post quitting the LLP?

(A) Mr. Pradeep should himself file Form-4 to the Registrar who would then send a show-cause notice to the LLP.

(B) Mr. Pradeep should further follow-up with LLP and ask it to submit Form 4 to the registrar informing about the above event as he himself cannot file Form 4 with the Registrar.

(C) Mr. Pradeep can himself issue a public notice in the one English and one vernacular newspaper disclosing his status as an outsider to the LLP.

(D) The Registrar would himself contact the LLP and enquire about Mr. Pradeep's status.

Q. No.	Answer
6.	(b)

Case Scenario 2:

Mr. David an Indian doctor residing in Panjim, Goa was married to Ms. Ruby another resident in the same profession in 1996. The couple had three children by the name of Christopher, Sebastian, and Aliana. Mrs. Ruby left India in 2020 with her daughter Aliana and son Sebastian to the United States of America to pursue her Master Degree in the field of medicine leaving behind Mr. David in India along with Christopher.

In 2021 Sebastian purchased a piece of land in the city of Chicago as an investment. Meanwhile, Christopher had incorporated a public limited company in India engaged in medical research and manufacture of life-saving drugs with its head office in Panjim, Goa having earned foreign exchange worth USD 12,500,000 in the past three years and was also planning to extend business by collaborating with an American Company engaged in the same field. Hence, he called back Sebastian to India on 31.05.2023 to help him in his business venture after being inducted as a director in his company.

The American company has offered to purchase the land owned by Sebastian in Chicago wherein the production facility can be set-up. Mr. John, the CEO of the Chicago wherein the production facility can be set-up. Mr. John, the CEO of the American company, acting on advice of Mr. Christopher has shown interest to invest USD 150,000 in Bio-Seeds Ltd., an Indian company engaged in plantation and harvest of medicinal plants and herbs in the hills of Kangra in Himachal Pradesh.

Mr. John suggested that the Company owned by Christopher should donate an amount towards sponsoring of annual salary of a professor at the Chicago Institute of Medical Sciences to gain popularity and fame amongst the medical fraternity in Chicago, thereby creating a chair in medicine, which would ultimately help him and his newly formed venture in the same city to gain a foot-hold.

Meanwhile, Mr. David now being aged, had been suffering with a life-threatening disease himself and has urged his wife residing in Chicago, USA to search a suitable hospital where he can be treated for his ailments and get cured. Mrs. Ruby being a doctor herself has suggested the name of Pennsylvania Institute of Research

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and Medicine. She has consulted the specialized doctors in the institute who are of the view that the cure of disease of Mr. David is possible but the patient must spend a minimum of six months in the hospital of the above research institute.

The institute has given an estimate of expenses of USD 269,000 for the treatment and the said estimate has been provided on the letterhead of hospital under seal. The cost of emigration as certified by the authorities for Mr. David has been calculated at USD 15,000. Mr. David has urged the Pennsylvania Institute of Research and Medicine to reduce his treatment expenses to USD 200,000 but the same has been refused by the above Institute. Mrs. Ruby decided to help her husband and is willing to sell a property owned by her in Panjim, Goa which was earlier bought while she was in India along with Mr. David.

Based on the facts given in above case scenario and by applying the relevant provisions of the Foreign Exchange Management Act, 1999 (FEMA, 1999), choose the correct answer of the following questions: (Q. No. 7 to Q. No. 9)

7. Whether Mr. Sebastian as well his mother Mrs. Ruby can be allowed to transfer their respective properties in Chicago, USA and Panjim, India towards achievement of their separate motive?
   (A) Mr. Sebastian and Mrs. Ruby must apply to the Reserve Bank of India for its approval prior to selling their respective properties.
   (B) Mr. Sebastian would be allowed to sell his property in Chicago to the American company but Mrs. Ruby would not be allowed to sell her property in India as its being sold for non-commercial purposes.
   (C) Mr. Sebastian and Mrs. Ruby can only sell their properties to each other and not to third parties.
   (D) Both Mr. Sebastian and Mrs. Ruby can freely sell their respective properties to buyers of their choice without any intervention or approval of the Reserve Bank of India.

8. Decide whether both Mr. John and Mr. Christopher can act on the advice of each other for an investment of USD 150,000 in Bio-Seeds Ltd. as well as donating one year salary to a medical chair abroad respectively?
   (A) Mr. John would be able to invest USD 150,000 in Bio-Seeds Ltd. although Mr. Christopher cannot donate a year's salary to the medical chair abroad.
   (B) Mr. John would not be able to invest USD 150,000 in Bio-Seeds Ltd. although Mr. Christopher can very well donate a year's salary to the medical chair abroad without approval.
   (C) Both Mr. John and Mr. Christopher would not be able to act on advice of each other as the same are in defiance of the provision of the FEMA, 1999.
   (D) Mr. John would not be able to invest USD 150,000 in Bio-Seeds Ltd. although Mr. Christopher can only donate a year's salary to the medical chair abroad after prior approval from the Reserve Bank of India.

Q. No.	Answer	Q. No.	Answer
7.	(b)	8.	(a/d).

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9. Whether it is possible to pay Pennsylvania Institute of Research and Medicine and the emigration authorities the respective amounts of money for the purpose of medical treatment of Mr. David?
   (A) Pennsylvania Institute of Research and Medicine cannot be paid USD 269,000 under any circumstances. Emigration expenses of USD 15,000 can be paid under the LRS Scheme.
   (B) Pennsylvania Institute of Research and Medicine can be paid USD 269,000 against a certificate to be issued under seal that the medical procedure would require the above stated amount. Emigration expenses of USD 15,000 can be paid under the LRS Scheme.
   (C) There is no limit towards payment for medical expenses hence Pennsylvania Institute of Research and Medicine can be paid USD 269,000 without any certificate from the Institute. Emigration expenses of USD 15,000 can be paid under the LRS Scheme.
   (D) No Payments for the above concerns can be allowed under the Act.

Q. No.	Answer
9.	(a)

Case Scenario 3:

Adolescent Ltd., a public limited company is an Indian multinational retail company focused on infant, maternity, and child-care products. The company was founded in 2009 and is headquartered in Valsad, Gujarat. It sells products through its website, mobile app and over 256 stores, which operate under Busy Baby and Brainy Baby brands. It has a paid up capital of ₹126.00 Crore in Equity shares issued at a premium of ₹6 per share as well as ₹112 Crore in Preference shares redeemable after 7 years of issue.

Toddler Ltd. another Gujarat based company was founded by Mr. Toddler an Anglo-Indian gentleman with no legal heir. Toddler Ltd. was engaged in the manufacture of medicine specifically focused to children under the age of 3 months. Adolescent Ltd. acquired 100% equity in Toddler Ltd. in the year 2011 thereby becoming its holding company. In 2024, Mr. Toddler purchased 5% stake in equity shares of Adolescent Ltd. in his individual capacity and decided to assign trustee rights to Toddler Ltd. which would take care of his stake after his death as he did not have any legal heir. In July 2024, Mr. Toddler died leaving behind the company as well as his 5% stake in Adolescent Ltd.

Toddler Ltd., being the trustee to the 5% stake of Mr. Toddler, claimed its stake in the shares earlier held by Late Mr. Toddler. Mr. Quick, one of the directors of Adolescent Ltd. opposed the transmission of shares of Adolescent Ltd. held by Mr. Toddler to its subsidiary company on the plea that the subsidiary company cannot purchase the shares of the holding company with voting rights.

Adolescent Ltd. is planning to enhance its production capacity by installation of plants in various parts of the country including Jamnagar, Pune, Hissar and other Industrial cities. The banks have refused to fund the projects and hence the company is planning to raise money from the public by issue of fully paid equity share capital. A Shelf Prospectus was thus issued to raise ₹76.00 Crore from the public for the Jamnagar Plant in December 2024. Such prospectus had mentioned the contracts entered by Adolescent Ltd. for development of plant infrastructure in Jamnagar.

Meanwhile Adolescent Ltd. is also planning to commence the development of the Hissar Plant in January 2025 thereby raising ₹95 Crore through the same Shelf Prospectus. An information memorandum was thus issued containing details of the contract for development of the Hissar plant infrastructure, with no mention of the earlier contract for Jamnagar Plant. The Registrar rejected the information memorandum as incomplete.

The Board of Directors of Adolescent Ltd. has called a meeting of Preference Shareholders of the company to resolve upon changing of the conversion ratio of preference shares into equity share. The meeting was called

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and consent in writing favoring such variation has been obtained from preference shareholders worth ₹84 Crores although a special resolution towards the same could not be passed. No separate consent of equity shareholders was obtained despite that they argued such conversion shall cast an effect on their rights as well. The equity shareholders on the other hand have argued that changing of the conversion ratio would affect the number of equity shares that preference shareholders receive after conversion and hence have shown their dissent towards the above decision and are planning to apply to the Tribunal for redressal of their grievance. Based on the facts given in above case scenario and by applying the relevant provisions of the Companies Act, 2013, choose the correct answer of the following questions: (Q. No. 10 to Q. No 12)

10. Whether in the current scenario Toddler Ltd. can become the assignee to the shares of Adolescent Ltd. in transmission from Mr. Toddler after his death as well as get rights to vote in the meetings of the holding company?
    (A) Toddler Ltd. can enjoy the rights of an assignee or legal representative in the event of death of Mr. Toddler and would also get the right to vote in the meetings of Adolescent Ltd.
    (B) Toddler Ltd. can enjoy the rights of an assignee or legal representative in the event of death of Mr. Toddler but would not get the right to vote in the meetings of Adolescent Ltd.
    (C) The contention of Mr. Quick opposing the transmission is correct as a subsidiary company cannot acquire share in the holding company.
    (D) Toddler Ltd. can itself acquire the shares in Adolescent Ltd. but cannot become an assignee.

11. Whether the Registrar is justified in rejecting the Information Memorandum as incomplete?
    (A) The Registrar cannot reject the Information Memorandum as the same has been correctly filed with details of the latest contract.
    (B) The Registrar is correct as the Information Memorandum should have contained not only the details of latest contract for the Hissar Plant but also details of contract of Jamnagar Plant.
    (C) The Registrar is correct as a new Shelf Prospectus should have been filed for money raised for every new project as in the present issue filing of information memorandum is not the correct compliance.
    (D) The Registrar is incorrect as there is no requirement for issue of a Shelf Prospectus for any money raised within a period of one year.

12. Whether Adolescent Ltd. be allowed towards variation of class rights of the preference shareholders considering the fact that a special resolution could not be passed by the preference shareholders in background of the provision of the Companies Act, 2013?
    (A) The Registrar of companies shall not order the variation as although requisite number of preference shareholders have agreed but consent of dissenting equity shareholders has not been obtained whose rights are affected by such variation.
    (B) The Registrar of companies shall not order the variation as special resolution has not been passed by the preference shareholders.
    (C) The Registrar of companies shall order the variation of class rights of Preference shareholders as 75% of Preference shareholders have agreed to such variation.
    (D) The Registrar of companies shall refer the matter to the Tribunal rather than passing an order itself.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
10.	(b)	11.	(a/b)	12.	(b)

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Case Scenario 4:

Mr. Famous owned a firm operating a fleet of eighteen taxis engaged in the transportation of passengers in and across the state of Madhya Pradesh. The business had started way back in 1986 wherein the vehicle permits were obtained and the business was being run successfully. The registration for the vehicle expired in the year 1988 and the firm applied for renewal of registration of the vehicles under section 58 of the Motor Vehicles Act, 1939. The application under the aforesaid Act was still pending when such Act was replaced by the Motor Vehicles Act, 1988. To get the application processed, Mr. Famous applied to the authorities to consider the application under the Motor Vehicles Act, 1988 taking plea of section 6(c) of the General Clauses Act, 1897. The application was not entertained by the authorities on the pretext that since the application was filed under the repealed law, the old application would not be considered and that the application should have been filed within time. Later, Mr. Famous died leading to the closure of business. The family of Mr. Famous still lives in one of the flat bought by Mr. Famous during his life-time from Mr. Rich, a builder and contractor dealing in construction and selling of flats.

Mr. Rich was the owner of six flats in the city of Indore. He was advised by one of his finance consultants to rent his unoccupied flats and thereby earn handsome passive income in form of monthly rents. The advice was given to him in the year 2017 and he has been renting out the properties since then. Deebee Motors Ltd., an automobile dealer opened his office in one of the flats for commercial purposes in the year 2019 for a rent of ₹3.15 Lakh per month. Initially the rental dues were timely paid by the dealer but later the automobile dealer defaulted in paying the above resulting in cumulative arrears of rent being ₹1.20 Crores as on latest date. Mr. Rich, filed a suit for recovery of rental arrears on immovable property pleading the court to treat such arrears as benefit out of land as defined in under Section 3(26) of the General Clauses Act, 1897 under the head of "Immovable Property". The defendant submitted that arrears of land revenue in this case cannot be termed as "benefits from Land".

Deebee Motors Ltd. offered Mr. Rich a passenger family car worth ₹3.00 Crores at ₹1.80 Crores to compensate the loss incurred by Mr. Rich on rental dues. Unfortunately, color selected by Mr. Rich was unavailable at the selected purchase date. The marketing manager informed and assured that the color will be available after a waiting period of 3 months. Deebee Motors Ltd. further asked Mr. Rich for an advance cheque of minimum 50% of the sale value to shield the purchaser from any future price enhancement. A postdated cheque of ₹90 Lakhs was handed over to the dealer as the booking amount.

The cheque was kept with the showroom owners but could not be deposited by them in their account until the last day of third month when Mr. Rich came to know about the above failure on part of the car dealer. The car dealer insisted that Sunday being the last day of the third month, the bank was closed and the cheque could not be deposited thus showing his inability to deliver the car which had arrived on Saturday. The dealer insisted on issuing of fresh cheque.

Based on the facts given in above case scenario and by applying the relevant provisions of the General Clauses Act, 1897, choose the correct answer of the following questions: (Q. No. 13 to Q. No. 15)

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Which of the following is true on the validity of the rejection of the application made by the firm of Mr. Famous regarding renewal of registration of the vehicles under section 58 of the Motor Vehicles Act, 1939?

(A) The rejection was justified as Mr. Famous should have filed a fresh application for renewal in this case.

(B) The rejection was not justified and the same old application should have been considered as per the new Motor Vehicles Act, 1988.

(C) The form can either be accepted or rejected at the discretion of the authorities which in this case have opined to reject the form.

(D) The form will be rejected in case the delay in filing cannot be justified by Mr. Famous.

14. Whether the plea of Deebee Motors Ltd. towards refusal to treat arrears of rent as "Immovable Property" as per the General Clauses Act, 1897, shall hold good? Whether the future rental income be included under the above definition as provided in the aforesaid Act?

(A) The plea of Deebee Motors Ltd. shall hold good as rent have already been arisen and hence cannot be termed as benefits from land although future rent can be included in the definition of immovable property.

(B) The plea of Deebee Motors Ltd. shall not hold valid in this case and arrears of land revenue shall be included in the definition of immovable property under the aforesaid Act. Future rent payable cannot be treated as immovable property under the Act.

(C) Neither the arrears nor the future rent shall qualify within the definition of "Immovable Property" as provided in the aforesaid Act.

(D) Both Arrears and future rent shall qualify within the definition of "Immovable Property" under the aforesaid Act.

15. Which of the following is true on the validity of cheque which could not be deposited on the last day of the third month being a holiday?

(A) The old cheque is invalid as the period of three-month validity would expire by the day when the bank would open.

(B) The cheque is valid as the last day of the third month being a Sunday hence the same can be deposited on the next working day.

(C) The cheque can only be deposited only if the dealer applies to the bank for condonation of delay.

(D) The cheque can only be accepted by the bank, in case the issuer files a suit against the dealer.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
13.	(a)	14.	(b)	15.	(a)

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Case Scenario 1:

Classical Diagnostics Ltd. (CDL) is a company engaged in the business of providing diagnostic services in all major cities of India. The CDL has paid-up capital of ₹700 crores. The face value of each of the shares is ₹10 only. As a staff welfare scheme, the CDL has taken Group Mediclaim Policy for all its employees from Bharosa Insurance Company Ltd. (BICL).

BICL was incorporated in 2015 and was having paid-up capital of ₹1,500 crores. In order to raise further funds, BICL has issued Bonds, Unit Linked Insurance Plan and debentures to the public. The BICL had also issued Preference Shares on private placement basis and were offered to the employees of the CDL.

The CDL proposed to change the rights associated with the present shareholders. Out of the 700 crores of the paid-up capital, the promoter's holding was 60% and rest of the 40% was with public and other financial institutions. The shareholders of the CDL were given right that if whatsoever surrenders their right to vote in the meeting will be given higher dividend (by the company) which shall be 2% more than the shareholders who retain their right to vote.

The CDL called an Extra-ordinary General Meeting (EGM) for passing of the special resolution. Some of the shareholders did not consent to the proposal of the company and filed a petition in the Tribunal.

Based on the facts given in the above case and by applying the relevant provisions of the Companies Act, 2013 and the applicable rules thereon, choose the correct answer of the following MCQs (Q. No. 1 to Q. No. 3):

1. CDL proposed to alter the rights attached with the members holding voting right. How much percentage of issued shares of that class shall be required for consent for passing such resolution?
   (A) The holders of at least 51% of the issued shares of that class.
   (B) The holders of at least 66% of the issued shares of that class.
   (C) The holders of at least 71% of the issued shares of that class.
   (D) The holders of at least 75% of the issued shares of that class.

2. Where the holders of at least ___ of the issued shares of a class who did not consent to or vote in favour of the resolution for the variation, may apply to the Tribunal to have the variation cancelled, and where any such application is made, the variation shall not have effect unless and until it is confirmed by the Tribunal.
   (A) 1% (B) 10%
   (C) 66% (D) 95%

3. Bharosa Insurance Company Ltd. (BICL) has issued certain instruments. Which among the following shall not be covered under the definition of "Securities"?
   (A) Bonds (B) Debentures
   (C) Preference Shares (D) Unit Linked Insurance Plan

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(d)	2.	(b)	3.	(d)

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Case Scenario 2:

Dr. Ronak Mosay, a renowned lyricist and a folk singer wants to perform with his musicians across the world on a Cultural tour, partially sponsored by Youth Welfare Department of his local government. His next show is in the city of Vancouver, Canada. Dr. Ronak Mosay is an Indian citizen and a person resident in India. Dr. Ronak Mosay is also having his brother living in Canada. Dr. Ronak Mosay is also promoting and sponsoring Cricket tournaments in Canada. For his forthcoming tour to Canada, he wants to remit foreign exchange for hotel and other touring expenses.

Based on the facts given in the above case and by applying the relevant provisions of the Foreign Exchange Management Act, 1999 and the applicable rules (if any) thereunder, choose the correct answer of the following MCQs (Q. No. 4 to Q. No. 6):

4. Dr. Ronak Mosay has earned from you tube. For which of the following purposes, is he allowed to draw foreign exchange?
   (A) For his own travel abroad.
   (B) Remittance of US $50,000 out of lottery winnings to his son in US.
   (C) Remittance for purchase of sweepstakes.
   (D) Gift of US $10,000 to his brother in Canada.

5. Dr. Ronak Mosay desires to remit US $ 1,50,000 for payment of prize money to winning teams in a cricket tournament in Canada. He needs to obtain prior approval from which of the following?
   (A) His bank only, as the amount is less than US $ 2,50,000.
   (B) No approval is required.
   (C) RBI approval is needed.
   (D) Ministry of Human Resources Development (Department of Youth Affairs and Sports).

6. For his show in Canada, he needs to obtain prior approval for remittance of foreign exchange from:
   (A) Ministry of Finance
   (B) Ministry of Information and Broadcasting
   (C) Ministry of Communication and Information Technology
   (D) Ministry of Human Resources Development (Department of Education and Culture)

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(d)	5.	(d)	6.	(d)

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Case Scenario 3:

Rohit and Anushka after passing out the CA examination, incorporated an LLP to work as the practicing Chartered Accountant. Rohit and Anushka were also titled as designated partners. After sometime, Rohit got an opportunity to provide consultancy services on an ongoing basis to a company based in Singapore. Rohit will be staying in Singapore for 240 days, during the Financial Year 2023-24. The LLP is continuing its operations from India with Anushka whereas Rohit participates in decision making remotely.

Based on the facts given in the above case and by applying the relevant provisions of the LLP Act, 2008 and the applicable rules thereon, choose the correct answer of the following MCQs (Q. No. 7 and Q. No. 8):

7. As per the LLP Act, 2008, whether above LLP fulfills the requirements of designated partner?
   (A) No, as both of the designated partners Rohit and Anushka should be resident in India.
   (B) Yes, as one of the designated partners should be non-resident.
   (C) Yes, as Rohit is a designated partner though non-resident.
   (D) Yes, as at least one of the designated partners should be resident in India and Anushka is a resident of India.

8. As per the provisions of LLP Act, 2008, "Resident in India" means a person who has stayed in India for a period of not less than _____ during the immediately preceding one year.
   (A) 60 days (B) 90 days
   (C) 120 days (D) 182 days

Q. No.	Answer	Q. No.	Answer
7.	(d)	8.	(c)

Case Scenario 4:

XYZ Technologies Ltd. is a public limited company registered under the Companies Act, 2013 and has a diverse shareholder base. Due to large number of shareholders and the fact that many of them reside in different parts of the country, attendance at meetings has often been difficult.

The Board of Directors of XYZ Technologies Limited, desire to conduct an Extra-ordinary General Meeting (EGM) to discuss an important fund raising proposal. The meeting is scheduled to be held at 3 p.m. on 2nd February, 2025, and the notice of the meeting is sent to all the members as required by the provisions of the Companies Act, 2013.

As per the notice, the members who are unable to attend the meeting can appoint proxies. The duly filled proxy forms should be sent to the company so as to reach the company at least 48 hours before the meeting.

Mr. Praveen, a shareholder and experienced investor has often represented many shareholders in prior meetings. This time he has been approached by 52 members to act as their proxy.

Based on the facts choose the correct answer of the following MCQs (Q. No. 9 to 11)

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9. Mr. Rajan, a member of the company, entitled to vote at a meeting of the company shall be entitled to inspect the proxies lodged provided he gives notice to the company. Such notice must be given:
   (A) Not less than 7 days' notice to the company in writing of the intention so as to inspect the proxies lodged with the company.
   (B) Not less than 3 days' notice to the company in writing of the intention so as to inspect the proxies lodged with the company.
   (C) Not less than 2 days' notice to the company in writing of the intention so as to inspect the proxies lodged with the company.
   (D) Not less than 24 hours' notice to the company in writing of the intention so as to inspect the proxies lodged with the company.

10. As the Company Secretary of the Company, advise the Board of Directors to reply to the question raised by a member in the meeting with respect to the prescribed period for which the company shall preserve the register of members and copies of documents filed with ROC respectively.
   (A) 8 years, 8 years
   (B) 8 years, Permanently
   (C) Permanently, 8 years
   (D) Permanently, Permanently

11. Mr. Praveen has approached you to seek guidance that for how many members he can accord his confirmation to act as proxy as per the provisions of Section 105 of the Companies Act, 2013?
   (A) Mr. Praveen can accord his confirmation to act as proxy for 52 members, if they are holding in aggregate more than 10 percent of the total share capital of the co. carrying voting rights.
   (B) Mr. Praveen can accord his confirmation to act as proxy for 52 members, if they are holding in aggregate not more than 10 percent of the total share capital of the co. carrying voting rights.
   (C) Mr. Praveen can accord his confirmation to act as proxy for 50 members, if they are holding in aggregate not more than 10 percent of the total share capital of the co. carrying voting rights.
   (D) Mr. Praveen can accord his confirmation to act as proxy for 50 members, if they are holding in aggregate more than 10 percent of the total share capital of the co. carrying voting rights.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
9.	(b)	10.	(c)	11.	(c)

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Case Scenario 1:

Aces High Builders Ltd. (AHBL) is a Dehradun based public limited construction company engaged in the business of developing high-end flats and villas across prime locations in Uttarakhand, India. The company had procured land in the hills of Mussoorie in the year 2019. Since then, it has been engaged in the development of the above site thereby building a set of 12 villas and 75 flats. The builders have also tied-up with one of the U.S. based commission agents, Mr. Cooper, who would be promoting the above property amongst Non-Residents who would like to own their private accommodation in the above location. Mr. Cooper has successfully sealed a deal with a non-resident based in Las Vegas, U.S.A. for the purchase of one of the villas costing USD 600,000, for which he is to be paid a suitable commission on the above remitted amount.

The last year landslides and other geographical disruptions in the region during monsoon season have compelled the builders to obtain expert consultancy regarding shaping and curing of the land in and around the constructed site including designing the roads, power facilities in the region and other infrastructural backup so that the area can be made safe for living all around the year. Accurate Consultants Ltd., a U.S.A. based consultancy services company, has been hired to provide such services.

AHBL has lately started another unit engaged in the manufacturing and export of mortar mixing machines. During the current year it has received a sale order for two such machines from Italy. The machines have been packed in containers and shipped via sea to the Italian customers. Such containers have reached the Italian port. The detention charges to be paid by the sellers are well above the rate as prescribed by the Director General of Shipping.

The company has also explored areas near Rishikesh for developing farm houses. At the initial stage, it has selected a piece of land at the outskirts of the city for the above purpose. Since the development requires huge investments, it has issued advertisements regarding the same in an electronic media which has a worldwide coverage. Mr. Tony, a man of Indian origin, having migrated to U.S.A. in 1977, is much influenced by the above advertisement and has contacted the company with the condition that 50% of the payment shall be made by him immediately and the rest shall be paid on delivery of the keys to the fully developed farm house. The company has agreed to his terms and is currently inviting suggestions from its legal team regarding the various nuances and feasibility of the same.

Based upon the above case scenario, you are required to opt the correct answer w.r.t. the following questions (Q. No. 1 to Q. No. 3) in light of the applicable provisions of the FEMA, 1999:

1. Considering the provisions of FEMA, decide upon the maximum amount of commission that can be paid to Mr. Cooper as well as Consultancy charges to Accurate Consultants Ltd. for which approval of RBI would not be required under the above act.
   (A) USD 25,000 and USD 1,000,000 respectively
   (B) USD 30,000 and USD 10,000,000 respectively
   (C) USD 10,000 and USD 100,000 respectively
   (D) USD 15,000 and USD 10,000 respectively

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2. Considering the provisions of FEMA 1999 decide upon the process of releasing the containers from Italian ports by the Indian company, AHBL shall have to obtain prior permission of-
   (A) Ministry of Transport as well as Ministry of Finance, Department of Economic Affairs as the transaction involves payment of foreign exchange as detention charges.
   (B) AHBL shall have to obtain prior permission of Ministry of Surface Transport (DG Shipping) for payment of the detention charges as it exceeds the rates as prescribed by Director General of Shipping.
   (C) AHBL shall have to obtain prior permission of Ministry of Finance, Department of Economic Affairs for payment of the detention charges as it exceeds the rates as prescribed by Director General of Shipping.
   (D) AHBL need not obtain permission from any government authorities in India as now the ship is at the Italian ports away from Indian Jurisdiction.

3. Considering the provisions of the FEMA, 1999 the possible suggestion that can be given by the legal team regarding investment of USD 260,000 by Mr. Tony in the Rishikesh farmhouse project:
   (A) Mr. Tony can very well invest amount only up to USD 250,000 towards the farmhouse as being a person of Indian origin he is allowed to buy land in India.
   (B) Mr. Tony can very well invest USD 260,000 towards the farmhouse as being a person of Indian origin he is allowed to buy land in India.
   (C) Mr. Tony cannot invest USD 260,000 towards the farmhouse as being a non-resident.
   (D) Mr. Tony cannot invest USD 260,000 in instalments of 50%, but only after paying the full one-time amount.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(b)	2.	(b)	3.	(c)

Case Scenario 2:

JK Logistics Ltd. is one of the leading companies in the logistics industry. Five years ago, 75% equity shares of JK Logistics Ltd. were acquired by RK Logistics Ltd. RK Logistics Ltd. has a presence in Haryana, Punjab, and Rajasthan and is mainly into transporting agricultural produce. As timely transportation of agricultural produce is of strategic importance, the state governments of the above three states hold stake in JK Logistics Ltd. The State Governments' current stakes are as follows:

- State of Haryana: 19%
- State of Rajasthan: 20%
- State of Punjab: 18%

On 29th September, 2023, just after the conclusion of the AGM, Mr. Rohan, the auditor of JK Logistics Ltd., suffered a stroke and in order to reduce work load, resigned as the auditor of the company but unfortunately he forgot to inform the concerned authorities about his resignation. It is important to note that auditor's (i.e. Mr. Rohan) annual remuneration was ₹5 lakhs.

The company on the other hand appointed AG & Associates as their auditors after completing all the statutory formalities. Mr. Avinash, who is one of the partners of the audit firm, had borrowed a sum of ₹3.5 lakhs from RK Logistics Ltd. and has dues of ₹1.49 lakhs towards use of logistic services of the company. Both the borrowed sum and the service dues are not yet paid by Mr. Avinash. Mr. Avinash is not signing the financials of JK Logistics Ltd.

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Based upon the above case scenario, you are required to opt the correct answer w.r.t. the following questions (Q. No. 4 to Q. No. 6) in light of the applicable provisions of the Companies Act, 2013:

4. To whom should have Mr. Rohan informed about his resignation? What could be the possible consequence for his non-compliance?
   (A) He should have informed the registrar and JK Logistics Ltd. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 5 lakhs.
   (B) He should have informed the registrar. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 50,000.
   (C) He should have informed JK Logistics Ltd. as well as the registrar and C&AG. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 5 lakhs.
   (D) He should have informed JK Logistics Ltd. as well as the registrar and C&AG. As a consequence of his failure, he is liable to a penalty not exceeding ₹ 50,000.

5. Based on the shareholding pattern of JK Logistics Ltd. and RK Logistics Ltd., select the correct answer as to the classification of these companies:
   (A) RK Logistics Ltd. is a non-government company while JK Logistics Ltd. is a government company.
   (B) RK Logistics Ltd. is a government company while JK Logistics Ltd. is a non-government company.
   (C) RK Logistics Ltd. and JK Logistics Ltd. both are government companies.
   (D) RK Logistics Ltd. and JK Logistics Ltd. both are non-government companies.

6. With respect to the act carried out by Mr. Avinash, the partner of the new audit firm, what can you infer about the appointment of AG & Associates as auditors of JK Logistics Ltd.?
   (A) It is not valid since the indebtedness exceeds the prescribed limit of ₹1 lakh.
   (B) It is valid since the indebtedness is within the prescribed limit.
   (C) It is valid since Mr. Avinash is not signing the financials of the company.
   (D) It is not valid since Mr. Avinash is indebted to RK Logistics Ltd. and not to JK Logistics Ltd.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(d)	5.	(c)	6.	(b)

Case Scenario 3:

The notice for conducting the annual general meeting of XYZ Limited was sent on 3rd August, 2024 to all the stakeholders, who were eligible to receive the notice. The said notice specified that the Annual General Meeting (AGM) will be held on 5th September, 2024. But, due to want of quorum, said AGM was adjourned to 12th September 2024. In the said meeting held on the 12th September 2024 the financial statements of the Company could not be adopted due to some unavoidable circumstances. Since the financial statements of the Company could not be adopted in the above meeting, the directors did not file the financial statements relating to financial year 2023-2024 with the Registrar on the plea that the financial statements of the Company were not adopted in a general meeting and therefore there is no necessity to file any financial statement with the Registrar till the same are not adopted. On 2nd December, 2024, an extra-ordinary general meeting was conducted, in which the financial statements of the Company were adopted. Since the Company Secretary was on a business tour and was absent from India from 10th December, 2024 to 2nd January, 2025, the adopted financial statements were filed with the Registrar only on 3rd January, 2025.

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Based on the facts given in above case scenario and referring to the applicable provisions of the Companies Act, 2013 and Rules therein, choose the correct answer of the following questions (Q. No. 7 to Q. No. 10):

7. In the above case scenario, in case XYZ Limited could not convene the annual general meeting till 2nd December, 2024 and the meeting held on that date was the annual general meeting, what will be the obligation of the Company with regard to filing of the financial statements with the Registrar, before conducting the said meeting?

(A) Since the annual general meeting was not held, XYZ Limited was not required to file any financial statement with the Registrar, but the statement of facts and reasons for not holding the annual general meeting should have been filed with the Registrar within thirty days of the last date before which the annual general meeting should have been held.

(B) Since the annual general meeting was not held, XYZ Limited was not required to file any financial statement with the Registrar.

(C) Even if the annual general meeting was not held, XYZ Limited was required to file the financial statements only with the Registrar within thirty days of the last date before which the annual general meeting should have been held.

(D) Even if the annual general meeting was not held, XYZ Limited was required to file the financial statements along with the statement of facts and reasons for not holding the annual general meeting with the Registrar within thirty days of the last date before which the annual general meeting should have been held.

8. What is the course of action that XYZ Limited should take for filing of the financial statements with the Registrar with respect to the annual general meeting which could not be held on 5th September, 2024?

(A) XYZ Limited should inform the Registrar the fact that the AGM could not be held for want of quorum, but the un-adopted financial statements will be filed with the Registrar within a period of 30 days from 5th September, 2024.

(B) XYZ Limited should inform the Registrar the fact that the AGM could not be held for want of quorum and therefore the financial statements will be filed with the Registrar only when they are adopted in a general meeting.

(C) There is no obligation on the part of XYZ Limited to inform the Registrar that the AGM could not be held for want of quorum, but the un-adopted financial statements will be required to be filed with the Registrar within a period of 30 days from 5th September, 2024.

(D) There is no obligation on the part of XYZ Limited to inform the Registrar that the AGM could not be held for want of quorum. Also the un-adopted financial statements will not be required to be filed with the Registrar in this situation.

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9. What is the course of action that XYZ Limited should take for filing of the financial statements with the Registrar with respect to the adjourned annual general meeting held on 12th September, 2024?

(A) XYZ Limited is not required to inform the Registrar the fact that the AGM was held on 12th September, 2024 and since the financial statements were not adopted, the financial statements will also not be required to be filed with the Registrar.

(B) XYZ Limited should inform the Registrar the fact that the AGM was held on 12th September, 2024 and since the financial statements were not adopted, the financial statements will not be required to be filed with the Registrar.

(C) There is no obligation on the part of XYZ Limited to inform the Registrar the fact that the AGM was held on 12th September, 2024, but the un-adopted financial statements will be required to be filed with the Registrar within a period of 30 days from 12th September, 2024, which will be considered by the Registrar as the provisional financial statements.

(D) There is no obligation on the part of XYZ Limited to inform the Registrar the fact that the AGM was held on 12th September, 2024 but the un-adopted financial statements will be required to be filed with the Registrar within a period of 30 days from 12th September, 2024, which will be considered by the Registrar as the financial statements.

10. What is the course of action that XYZ Limited should take for filing of the financial statements with the Registrar with respect to the extraordinary general meeting held on 2nd December, 2024? (Controversial Question)

(A) XYZ Limited is not required to inform the Registrar the fact that the financial statements were not adopted in the adjourned AGM held on 12th September 2024; but the adopted financial statements will be required to be filed with the Registrar within a period of 30 days from 2nd December 2024, which will be treated as the financial statements of XYZ Limited for the financial year 2023-2024 and the previously filed un-adopted financial statements, if any, will be treated as provisional financial statements.

(B) XYZ Limited should inform the Registrar the fact that the financial statements were not adopted in the adjourned AGM held on 12th September 2024 and the adopted financial statements will be required to be filed with the Registrar within a period of 30 days from 2nd December 2024, which will be treated as the financial statements of XYZ Limited for the financial year 2023-2024.

(C) XYZ Limited is not required to inform the Registrar the fact that the financial statements were not adopted in the adjourned AGM held on 12th September 2024; but the adopted financial statements will be required to be filed with the Registrar within a period of 30 days from 2nd December 2024, and the previously filed un-adopted financial statements, if any, will be returned back to the Company.

(D) XYZ Limited is not required to inform the Registrar the fact that the financial statements were not adopted in the adjourned AGM held on 12th September 2024; but the adopted financial statements will be required to be filed with the Registrar within a period of 30 days from 2nd December 2024, which will be treated as the financial statements of XYZ Limited for the financial year 2023-2024 and the previously filed un-adopted financial statements, if any, will be considered as if no financial statements were filed earlier.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
7.	(d)	8.	(c)	9.	(c)	10.	(a/b)

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Case Scenario 4:

Natrajan Cleaners Limited (NCL), a corporate unlisted company, is a contract manufacturing company incorporated in 2017 with a primary objective of manufacturing a full range of residential, commercial and portable washing machines for established brands in India and other neighbouring countries. NCL is a family-owned company having its registered office in Bangalore. The company has its marketing office in all the major cities including port cities. All the members, as was the usual practice, were kept informed from time to time regarding all the important matters and issues relating to the company with the help of the CFO cum Company Secretary, Nirad.

Years passed. Size of the business and share capital of NCL substantially increased. NCL planned to go for expansion in its capacity, keeping in mind the export market, which required about ₹25 crores. NCL started looking for various options for financing. One of the options considered was offer or invitation for subscription of equity through private placement. The Board identified a select group of 50 persons and issued private placement offer and applications after passing a special resolution at a general meeting and also after duly following the required procedure under the applicable corporate laws. Monies received on application were kept in a separate bank account with Canara Bank. However, for some reasons NCL could not allot the equity shares within a period of 60 days from the date of receipt of the application money. The private placement plan was effectively cancelled duly following the required procedure. NCL later opted for bank loans to finance the expansion.

NCL is authorized by its Articles of Association to accept whole or any part of the amount of remaining unpaid calls from any member, although till date, no part of the amount has been called up. Yogesh, one of the shareholders, deposited in advance the remaining amount due on his shares without any calls made by NCL. NCL declared dividend during the year after such advance money was paid by Yogesh. Yogesh wanted to exercise his right in respect of call money paid in advance at the general meeting.

Bhisma Cleanser Private Limited (BCPL) has been holding 5% equity in NCL since February 2018. During the month of February 2022, NCL invested in 70% equity shares of BCPL.

Based on the facts given in the above case scenario and referring to the applicable provisions of the Companies Act, 2013 and Rules therein, choose the correct answer of the following questions: (Q. No. 11 to Q. No. 13)

11. The Board of Directors of NCL wants to understand from Nirad the implications of 5% holding of BCPL.
    (A) BCPL shall transfer its 5% equity holding to any nominees of NCL before it becomes subsidiary of NCL.
    (B) BCPL shall surrender its 5% equity holding to NCL immediately once it becomes the subsidiary of NCL.
    (C) BCPL shall immediately transfer its 5% equity holding to any other legal person or entity before investment by NCL.
    (D) BCPL may continue to hold 5% equity holding in NCL.

12. Yogesh, one of the shareholders of NCL, deposited in advance the remaining amount due on his shares without any calls made by NCL. NCL declared dividend during the year. What is Yogesh's entitlement in respect of call money paid in advance?
    (A) Yogesh is entitled to proportionate dividend in respect of call money paid in advance, if authorized by a Board Resolution.
    (B) Yogesh is not entitled to any dividend in respect of call money paid in advance.
    (C) Yogesh is entitled to proportionate dividend in respect of call money paid in advance, if authorized by an Ordinary Resolution in a general meeting.
    (D) Yogesh is entitled to proportionate dividend in respect of call money paid in advance, if authorized by Articles of Association.

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13. With reference to the Board identified select group of 50 persons and issued private placement offer and applications duly following the required procedure under the corporate laws, which of the following is correct?
    (A) A release of public advertisement in any local newspaper and one national newspaper informing private placement is sufficient.
    (B) Public at large is to be informed about such an issue through release of public advertisement through utilizing any media, marketing, distribution channels or agents.
    (C) No company issuing securities under private placement shall release any public advertisements or utilize any media, marketing or distribution channels or agents to inform the public at large about such an issue.
    (D) Informing the public at large through advertisement or otherwise is optional and the Board of Directors by passing a Board Resolution may decide the matter.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
11.	(d)	12.	(b)	13.	(c)

SEPTEMBER 2024

Case Scenario 1:

Mr. S is a well experienced technocrat in the field of manufacturing of computer hard discs and motherboard. He resigned from his job and wished to form a Limited Liability Partnership (LLP) with the object of manufacturing and trading of computer hardware. He wanted to include his close friends Mr. A, Mr. B, and Mr. C who are very familiar in the same field and worked in the foreign companies also.

All three friends had accepted the invitation of Mr. S to be partners of the LLP. Mr. S wanted to ensure whether all the three friends are resident of India and requested them to provide the details of their stay in India. During the previous financial year, Mr. A has stayed in India for a period of 170 days, Mr. B stayed in India for 110 days and Mr. C stayed in India for 100 days.

All the partners had given their consent to act as designated partners. He applied for the reservation of desired name to the Registrar and also paid the prescribed fees.

Based on above facts,answer the folowing questions :-

1. In how many days, a Limited Liability Partnership shall file with the Registrar, the particulars of every individual who has given his consent to act as designated partner?
    (A) Within thirty days of incorporation of LLP
    (B) Within thirty days of his appointment
    (C) After forty five days of incorporation of LLP
    (D) After sixty days of his appointment

2. The name applied for has been approved by the Registrar. The approved name of LLP shall be valid for a period of _____ from the date of intimation by the Registrar.
    (A) 2 months (B) 1 month
    (C) 3 months (D) 6 months

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3. Which of the following combinations of partners, if appointed as designated partners, will not be in accordance with the LLP Act, 2008?

(A) Mr. A, Mr. B and Mr. C
(B) Mr. B and Mr. C
(C) Mr. A and Mr. C
(D) Mr. A and Mr. B

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
1.	(b)	2.	(c)	3.	(b)

Case Scenario 2:

Progressive Management College have introduced a Global Management Diploma Course which is of 12 months duration. Out of 12 months, 11 months studies are held in India and rest of 1 month is earmarked for foreign tour. Rudra Pratap is the Principal of the college. After taking requisite permission from the competent Ministry, the cultural tour programme was chalked out and the team visited Malaysia, Singapore, Australia and New Zealand. Rudra Pratap's daughter Payal got admission in a medical college situated in California, United States of America. For fee and other expenses, Payal needs USD 2,25,000. Rudra Pratap contacted his banker to know the procedure for availing of foreign exchange and the authority to whom he shall apply.

Rudra Pratap's brother Sourya Pratap went to UK some years ago, where he joined a company in managerial position. He intermittently visits to India and maintains a Non-Resident Special Rupee Scheme Account (NRSR) in Mumbai. He wanted to make remittance of interest earned in the NRSR Account and asked his bankers for the required formalities.

Based on above facts,answer the folowing questions :-

4. The remittance of foreign exchange for arranging of cultural tour for the students is an example of:
   (A) Capital Account Transactions
   (B) Current Account Transactions
   (C) Hybrid Transactions
   (D) Amortised Transactions

5. For the purpose of cultural tours, approval of which Ministry is required to be obtained?
   (A) Ministry of Human Resources Development
   (B) Ministry of External Affairs
   (C) Ministry of Home Affairs
   (D) Ministry of Commerce and Industry

6. For availing foreign exchange for studying abroad, which of the following option is correct:
   (A) The transaction of withdrawal of USD 2,25,000 for studying abroad is prohibited.
   (B) The transaction requires prior approval of Government of India.
   (C) The transaction requires prior approval of RBI.
   (D) The transaction does not require prior approval of RBI.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
4.	(b)	5.	(a)	6.	(d)

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Case Scenario 3:

ABC Publications Limited accepted deposits from the public to the tune of ₹70 Lakh on 1st May 2021, for a period of 36 months at an interest rate of 10% per annum. The repayment would be made on 30th April 2024. It has complied with all the statutory requirements for the acceptance of deposits by a Public Limited Company. One of the depositors Mr. Y was in urgent need of money as his son wanted to pursue his higher education abroad. His total deposit with ABC Publications Limited was ₹10 lakh. On 1st June 2022, he sent his request to the company asking for premature repayment of his deposit along with interest.

Another depositor, Mr. U had deposited ₹6 lakh in his name. On 18th September 2022, he sent an application to the company to change the name on his deposit and make it a joint holding in the names of himself, his wife and two children. The company is contemplating the requests received from its depositors.

In addition to the deposits received from the public, the company had also raised funds by amount received from a Public Sector Bank, by issue of bonds and debentures and amounts against issue of commercial papers which were issued according to the guidelines issued by the Reserve Bank of India.

Based on above facts,answer the folowing questions :-

7. The Banker of ABC Publications Limited wanted a list of deposits accepted by the company. Advise the company on what among the following constitute deposit:
   (A) Amount raised through bonds and debentures
   (B) Any non-interest bearing amount received and held in trust
   (C) Amount received from Public
   (D) Amount raised through the issue of commercial paper as per RBI guidelines and amount raised through bonds and debentures

8. Advise ABC Publications Limited regarding the amount and the interest that can be repaid to Mr. Y:
   (A) The company cannot make premature repayment of the deposits.
   (B) The company can prematurely repay the deposit along with interest @ 10% for a period of 13 months (1st May 2021 to 31st May 2022)
   (C) The company can prematurely repay the deposit along with interest @ 9% for a period of 13 months (1st May 2021 to 31st May 2022)
   (D) The company can prematurely repay the deposit along with interest @ 9% for a period of 11 months (1st May 2021 to 31st March 2022)

9. Advise ABC Publications Limited regarding the request of Mr. U:
   (A) Mr. U cannot change his deposit to joint holding.
   (B) The deposits can be held jointly only by Mr. U and his wife.
   (C) The deposits can be held jointly by Mr. U, his wife and two children.
   (D) The deposits can be held jointly by Mr. U and any two members only.

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
7.	(c)	8.	(c)	9.	(d)

@teamxalpha

Case Scenario 4:

Combat Gaming Limited is a company incorporated outside India with a place of business in Rajasthan. To improve its gaming software, the company wanted to apply Artificial Intelligence technology. In order to raise more funds to meet out the investment cost, the company decided to issue shares.

It issued prospectus of the company which was properly dated and signed according to the provisions of the Companies Act, 2013 and delivered them to the Registrar of Companies on 16th August 2023. The Registrar on verification of the documents found that the particulars in the prospectus was incomplete and issued a notice to the company saying that the prospectus is invalid.

Hence, the directors scrutinized the documents and during the scrutiny it was observed by the CFO that there was a mistake in one of the documents delivered to the Registrar and hence altered that on 29th September 2023.

10. Combat Gaming Limited has to deliver the required documents along with the appropriate fees to:
    (A) The Registrar of Companies, Rajasthan
    (B) The Comptroller and Auditor General Office, New Delhi
    (C) The Registrar of Companies, New Delhi
    (D) The Company Law Board, New Delhi

11. According to the Companies (Registration of Foreign Companies) Rules, 2014, which of the following documents shall not be annexed to the prospectus?
    (A) Any consent to the issue of the prospectus required from any person as an expert
    (B) Statement of preliminary expenses
    (C) A copy of contracts for appointment of Managing Director or Manager and in case of a contract not reduced into writing, a memorandum giving full particulars thereof
    (D) A copy of underwriting agreement

12. Combat Gaming Limited has made alteration in documents delivered to the Registrar, they shall intimate to Registrar of Companies by __
    (A) 29th October
    (B) 13th November
    (C) 28th November
    (D) 9th October

Q. No.	Answer	Q. No.	Answer	Q. No.	Answer
10.	(c)	11.	(b)	12.	(a)