CLAT PG Company Law
Sample Paper – 1

Duration: 20 Minutes | Max Marks: 20

Instructions

- This paper contains **20 Multiple Choice Questions (MCQs)**.
- Each correct answer carries **+1 mark**.
- Each wrong answer carries a **penalty of -0.25 marks** (negative marking).
- Only **one option** is correct for each question.
- Syllabus: **Companies Act, 2013** and related company law principles (LLB level).
- Use of calculators or any electronic devices is **strictly prohibited**.

SECTION A – Questions

Q1. Vidya Welfare Society is a not-for-profit organization incorporated as a company under the Companies Act, 2013. Its constitution states that each member undertakes to contribute up to Rs. 10,000 toward the company's liabilities in the event of winding up, but no share capital is subscribed. Sunrise Manufacturing Ltd., on the other hand, invites the public to purchase shares and its members' liability is limited to the unpaid amount on their shares. A law student is asked to classify both entities under the correct statutory definitions.

Which of the following best describes the legal classification of the two companies?

(A) Both Vidya Welfare Society and Sunrise Manufacturing Ltd. are companies limited by shares, since both enjoy limited liability

(B) Vidya Welfare Society is a company limited by guarantee under s.2(21) of the Companies Act, 2013, whose members are liable only up to the guaranteed amount; Sunrise Manufacturing Ltd. is a company limited by shares under s.2(22), whose members are liable only to the extent of unpaid share capital

(C) Vidya Welfare Society is an unlimited company because members bear a fixed personal obligation toward liabilities

(D) Sunrise Manufacturing Ltd. is a company limited by guarantee because share certificates act as a guarantee to third-party creditors

Q2. A group of businesspersons forms an association, registers it under the Companies Act, 2013, and commences trading. Mehta, a creditor of the association, is unhappy that the company cannot repay his dues. He argues that since the founding members are wealthy individuals, he should be entitled to sue them directly for the company's debts, bypassing the company's separate legal personality. The members contend that the very nature of a "company" under statute prevents this.

Which statement most accurately describes the definition of a "company" and the consequence for Mehta's claim?

(A) Mehta is correct – members of a registered company remain personally liable for all outstanding company debts

(B) An association is not a "company" unless it has a minimum paid-up capital of Rs. 1 lakh at the time of registration

(C) A "company" is any association of persons carrying on business together, regardless of registration with the Registrar

(D) Under s.2(20) of the Companies Act, 2013, a "company" means a company incorporated under the Act or under any previous company law; incorporation creates a body corporate with a separate legal personality and limited liability, so Mehta cannot sue the members directly for company debts

Q3. Apex Textiles Ltd. was incorporated with a Memorandum of Association restricting the company's objects to the manufacture and sale of textile goods. The Board of Directors, eager to diversify, passes a board resolution purporting to expand the company into real estate development and mining. The directors argue that the MOA is merely an internal constitutional document and can be modified by a board resolution without convening a general meeting or following any statutory procedure.

Which of the following correctly states the legal effect of the Memorandum of Association and the validity of the board's action?

(A) The Memorandum of Association is the charter and constitution of the company; it binds the company, its shareholders, and all persons dealing with it; the board cannot alter it by resolution – alteration requires the prescribed statutory procedure, including a special resolution and approval from the Registrar where necessary

(B) The Memorandum of Association is an internal operational document and may be amended by the Board of Directors through an ordinary resolution without further formality

(C) The Memorandum of Association loses legal force once the company is incorporated and is superseded entirely by the Articles of Association for all practical purposes

(D) The board resolution is valid since the Companies Act, 2013 grants the Board of Directors plenary authority over all company affairs, including constitutional documents

Q4. Zenith Private Ltd.'s Articles of Association contain a clause requiring unanimous consent of all shareholders before any new director is appointed. At a general meeting, the majority shareholders, who hold 75% of the voting rights, pass an ordinary resolution purporting to delete this clause, claiming that the majority will of the company should prevail and that a special resolution is not necessary for routine amendments to the Articles.

Which of the following correctly describes the legal position regarding alteration of Articles of Association?

(A) The alteration by ordinary resolution is valid because the majority shareholders have approved it at a duly convened general meeting

(B) Articles of Association can never be altered once registered under the Companies Act, 2013, regardless of the procedure followed

(C) Under s.14 of the Companies Act, 2013, Articles of Association can be altered only by a special resolution of the company; furthermore, the altered articles cannot conflict with or override any provision of the Memorandum of Association; the ordinary resolution passed here is legally ineffective

(D) An ordinary resolution is sufficient to amend the Articles, provided the alteration does not prejudice the rights of the minority shareholders

Q5. Omega Chemicals Ltd. is incorporated with an objects clause strictly limiting its business to the manufacture and supply of industrial chemicals. Without obtaining shareholder approval or amending the objects clause, its Managing Director enters into a large real estate acquisition contract with Builder Associates on behalf of Omega. When Omega defaults on payment, Builder Associates seeks to enforce the contract and recover the purchase price from the company.

Which of the following correctly states the legal consequence under the doctrine of ultra vires?

(A) The contract is valid and fully enforceable against Omega Chemicals Ltd. since the Managing Director had actual authority to execute documents on the company's behalf

(B) Under the doctrine of ultra vires, a contract entered into by a company that falls beyond the scope of its objects clause is void ab initio and cannot be ratified even by the unanimous consent of all shareholders; Builder Associates cannot enforce the contract against Omega Chemicals Ltd.

(C) The contract is voidable at the option of Omega Chemicals Ltd., which may choose to ratify it at a subsequent general meeting of shareholders

(D) Builder Associates may recover from Omega Chemicals Ltd. on the principle of unjust enrichment, even if the contract is found to be ultra vires

Q6. Priya, an outside investor, lends Rs. 50 lakh to Highrise Infrastructure Ltd. after being shown a certified copy of a board resolution purportedly authorising the company to borrow and to have the loan agreement signed by its Managing Director. After the company defaults, it is discovered that the board meeting that passed the resolution was not properly convened – the notice was defective and the required quorum was never assembled. Highrise Ltd. argues that the resolution is a nullity and therefore it is not bound to repay Priya.

Which of the following correctly describes Priya's legal position?

(A) Priya cannot recover the loan because she was obligated to independently verify that the board meeting was properly convened and quorate before advancing the money

(B) The loan agreement is void in its entirety since an irregularly constituted board meeting cannot bind the company to any obligation

(C) Priya is deemed to have had constructive notice of the internal procedural requirements regarding board meetings and therefore bears the risk of the procedural defect

(D) Under the indoor management rule established in *Royal British Bank v. Turquand*, an outsider dealing with a company in good faith and without notice of any internal irregularity is entitled to assume that all internal proceedings have been regularly complied with; Priya is protected and can enforce repayment against Highrise Infrastructure Ltd.

Q7. Ravi enters into a commercial contract with Metro Constructions Ltd. without consulting the company's Memorandum of Association or Articles of Association. The MOA contained an explicit restriction prohibiting the company from entering into contracts of this nature without a two-thirds majority shareholder resolution. The company later pleads the restriction to avoid the contract. Ravi argues that he had personally never read the MOA and cannot be bound by a document he was unaware of.

Which of the following correctly states the legal position?

(A) Under the doctrine of constructive notice, every person dealing with a company is deemed to have notice of the contents of the Memorandum of Association and Articles of Association, as these are public documents registered with the Registrar of Companies; Ravi's plea of personal ignorance will not succeed

(B) The doctrine of constructive notice applies only to shareholders and registered members of the company; outside contracting parties like Ravi are not bound by it

(C) Constructive notice applies only to the Articles of Association; the Memorandum of Association remains a private document not imputed to outsiders

(D) The doctrine of constructive notice has been entirely abolished by the Companies Act, 2013 and no longer operates in Indian company law

Q8. Sunlight IPO Ltd. issues a prospectus stating that the company has secured all requisite government and environmental approvals for a large industrial project. Relying on this statement, hundreds of retail investors subscribe for shares at the offer price. It subsequently transpires that no such approvals had been obtained, the project is unviable, and the company's share value collapses. The investors suffer substantial financial losses and seek legal redress.

Which of the following correctly describes civil liability for misstatement in a prospectus under the Companies Act, 2013?

(A) Only the company itself is liable under the Companies Act, 2013; its directors, promoters, and experts cannot be held personally liable for statements in the prospectus

(B) No civil liability arises for a misstatement in a prospectus if the person responsible can demonstrate that the statement was made without fraudulent intent

(C) Under s.35 of the Companies Act, 2013, every person who authorised the issue of the prospectus – including the company, its directors, promoters, and experts who consented to inclusion of their statements – is liable to compensate investors who subscribed on the basis of the untrue statement; investors may claim rescission or compensation

(D) Civil liability for prospectus misstatements is enforceable only if the investor proves that the responsible director personally knew of the falsity of the statement at the time of issue

Q9. Bright Star Ltd. offers shares to 350 persons by circulating a detailed "Information Memorandum" setting out the company's financials and the terms of the offer. The company argues that since it has not used the word "prospectus" in the document, and since the offer was not formally advertised to the general public, it is not subject to the statutory prospectus requirements under the Companies Act, 2013.

Which of the following correctly describes the concept of a deemed prospectus?

(A) Bright Star Ltd.'s Information Memorandum is entirely unregulated under the Companies Act, 2013, since no formal public advertisement was made

(B) Under s.25 of the Companies Act, 2013, any document by which an offer of shares or debentures is made to the public is treated as a deemed prospectus, attracting all the statutory requirements applicable to a prospectus; the labelling of the document as an "Information Memorandum" does not exempt it from compliance

(C) A deemed prospectus arises only when an offer of shares is made to more than 500 persons; an offer to 350 persons falls below this threshold and is exempt

(D) The regulation of deemed prospectuses falls exclusively within SEBI's jurisdiction; the Companies Act, 2013 does not contain any provision on deemed prospectuses

Q10. Galaxy Pharmaceuticals Ltd. is preparing for an Initial Public Offering. Its merchant banker advises that the company may file a preliminary offer document with SEBI that does not include the final issue price or the exact number of shares to be allotted, in order to gauge investor appetite and build a book before the final price is determined. A junior associate in the legal team questions whether a prospectus that omits such material details is legally permissible under Indian company law.

Which of the following correctly identifies and describes the relevant legal instrument?

(A) A prospectus that does not specify the issue price and number of shares is inherently invalid under the Companies Act, 2013 and cannot be filed with SEBI at any stage

(B) The document described is a shelf prospectus, governed by s.31 of the Companies Act, 2013, which permits a single prospectus to cover multiple tranches of issuance over a defined period

(C) A red herring prospectus is permitted only for issues of debentures and non-convertible instruments; it cannot be used for equity share offerings

(D) Under s.32 of the Companies Act, 2013, a red herring prospectus is a prospectus that does not disclose complete details of the quantum or price of the securities offered; it is filed with SEBI before the final prospectus and is a recognised pre-offer document, with the final particulars to be filed upon closing of the offer

Q11. Summit Infra Ltd. makes a public offer and specifies in its prospectus that the minimum subscription required to proceed with allotment is Rs. 100 crore. By the close of the subscription period, applications for only Rs. 68 crore worth of shares have been received. The Board of Directors, anxious to proceed, resolves to allot shares to the applicants for the amount received, arguing that market conditions justify flexibility.

Which of the following correctly states the legal consequence of failure to receive minimum subscription?

(A) Under s.39 of the Companies Act, 2013, if the amount of the minimum subscription stated in the prospectus is not received within the prescribed period, the company cannot proceed with any allotment; it must forthwith repay all application money received, and if repayment is not made within the prescribed time, the directors become jointly and severally liable to repay with interest

(B) The company may proceed with allotment for the amount actually received, provided it obtains approval by an ordinary resolution at a general meeting

(C) The minimum subscription requirement applies only to issues of debentures; for equity share public offers, allotment may proceed regardless of subscription levels

(D) SEBI has discretionary power to waive the minimum subscription requirement on an application by the company if it is satisfied that the shortfall is due to adverse market conditions

Q12. Kiran holds 2,000 shares in Crown Developers Ltd. on which the company has made a final call for payment of Rs. 5 per share. Despite receiving two proper notices in the manner prescribed by the Articles, Kiran fails to pay the call money. The Board of Directors, acting in accordance with the company's Articles of Association, passes a resolution declaring her shares forfeited. Kiran argues that she retains all membership rights in the forfeited shares until the company actually sells them.

Which of the following correctly describes the legal effect of forfeiture of shares?

(A) Forfeiture of shares is not permitted under the Companies Act, 2013; the company's only remedy for non-payment of calls is to institute a civil suit against the defaulting member

(B) Upon forfeiture, the shares must be immediately cancelled and cannot under any circumstances be reissued by the company

(C) On forfeiture being validly effected, Kiran's shares become the property of the company; she ceases to be a member with respect to those shares and loses all rights in them; the company may reissue the forfeited shares at a price not less than the amount already paid up on them before forfeiture

(D) Kiran retains full membership rights – including voting and dividend rights – in the forfeited shares until the Board of Directors formally resolves to sell them to a new member

Q13. Tech Innovate Solutions Ltd. wishes to reward a group of senior software engineers who, without additional remuneration, developed a proprietary data analytics platform that significantly enhanced the company's product portfolio and competitive position. The Board proposes to issue shares to these employees at a discount in recognition of their intellectual contribution. A director questions whether such an issue is permissible under the Companies Act, 2013.

Which of the following correctly describes the law relating to sweat equity shares?

(A) Sweat equity shares can only be issued to promoters and whole-time directors; they cannot be issued to ordinary employees of the company

(B) Under s.54 of the Companies Act, 2013, a company may issue sweat equity shares to its directors or employees in recognition of their contribution through know-how or intellectual property rights; the issue must be authorised by a special resolution of the company and must comply with the applicable SEBI (Issue of Sweat Equity Shares) Regulations

(C) Sweat equity shares must always be issued at the prevailing market price and cannot be issued at a discount or for non-cash consideration

(D) A company may freely issue sweat equity shares at any time and in any quantity without any restriction on the number, frequency, or value of such issuance

Q14. Prosperity Industries Ltd. has accumulated substantial free reserves and a large balance in its securities premium account over several profitable years. A group of shareholders demands that the company distribute these reserves as a special cash dividend. The Board instead proposes a bonus issue of fully paid-up shares. A minority shareholder challenges the issue on the ground that the company had, in the previous quarter, defaulted on the payment of statutory dues including provident fund contributions of its employees.

Which of the following correctly describes the conditions for issue of bonus shares under the Companies Act, 2013?

(A) Bonus shares can only be issued out of profits earned during the current financial year; accumulated free reserves from previous years cannot be used as a source for bonus issue

(B) Bonus shares may be issued only out of the securities premium account; free reserves and capital redemption reserve are not permissible sources

(C) A company can validly issue bonus shares even if it has defaulted in payment of statutory dues, provided it obtains a special resolution and SEBI's prior approval

(D) Under s.63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares out of its free reserves, the securities premium account, or the capital redemption reserve account; however, a company cannot issue bonus shares if it has defaulted in payment of interest or principal on fixed deposits, or in payment of statutory dues such as employees' provident fund contributions; the minority shareholder's challenge has merit

Q15. Rajan acted as the chief promoter of Nova Developers Pvt. Ltd. during the pre-incorporation stage. In his personal capacity, he purchased a commercial plot for Rs. 12 lakh and, after the company was incorporated, sold it to the company for Rs. 22 lakh without disclosing to the company's Board or its independent shareholders the profit of Rs. 10 lakh he had secretly made. The company later discovers the arrangement and seeks legal advice on whether it can recover the profit.

Which of the following correctly describes the promoter's legal obligations and the company's remedy?

(A) A promoter stands in a fiduciary relationship with the company he promotes; he owes a duty of full disclosure of any profit made from transactions involving company property or the company's assets; if he fails to disclose such profit, the company is entitled to rescind the contract and/or recover the secret profit from the promoter

(B) Rajan's profit is legally unimpeachable because he acted as an independent owner of the property and not as an agent or trustee of the company during the purchase

(C) The company can recover Rajan's secret profit only if it succeeds in proving fraudulent misrepresentation beyond reasonable doubt in a criminal court

(D) Since Nova Developers Pvt. Ltd. was not in existence at the time Rajan purchased the plot, it has no legal standing to claim any profit made before its incorporation

Q16. Several creditors of Greenfield Realty Ltd. file a petition challenging the validity of the company's incorporation. They allege that there were procedural irregularities in the documents filed with the Registrar of Companies – specifically, that certain mandatory declarations were not properly sworn and that one subscriber's signature on the Memorandum was obtained under duress. They seek a court order setting aside the certificate of incorporation issued by the Registrar.

Which of the following correctly states the legal effect of a certificate of incorporation?

(A) A certificate of incorporation may be challenged and set aside by any aggrieved party by filing a petition in the High Court within three years of its issuance

(B) A certificate of incorporation is only prima facie evidence of the company's registration and can be rebutted in court by demonstrating procedural defects in the filing process

(C) Under s.9 of the Companies Act, 2013, a certificate of incorporation issued by the Registrar of Companies is conclusive evidence that all the requirements of the Act in respect of registration have been complied with; the certificate cannot be challenged or set aside merely on the ground of procedural irregularities in the filing of incorporation documents

(D) The High Court possesses inherent jurisdiction to cancel a certificate of incorporation on a petition by a creditor if it finds that the incorporation was effected to defraud creditors

Q17. Mr. Dev, the promoter of Sunrise Hotels Ltd. (a company that had not yet been incorporated), entered into a formal written contract with Kumar and Company for the supply and installation of hotel furniture worth Rs. 45 lakh, signing the contract "on behalf of Sunrise Hotels Ltd. (in formation)." The company was subsequently incorporated but its Board of Directors, at its first meeting, formally resolved not to adopt or ratify the pre-incorporation contract. Kumar and Company now seeks to recover the contracted amount.

Which of the following correctly describes the legal position regarding pre-incorporation contracts?

(A) Sunrise Hotels Ltd. is bound by the contract because a company can ratify a pre-incorporation contract entered into on its behalf, just as a principal may ratify an agent's unauthorised act

(B) Under the principle established in *Kelner v. Baxter* (1866) and affirmed under Indian law, a company cannot ratify a pre-incorporation contract because the company was not in existence at the time the contract was made and therefore could not have been a party to it; Mr. Dev is personally liable to Kumar and Company on the pre-incorporation contract

(C) Kumar and Company has no remedy whatsoever because the contract was void ab initio – one of the contracting parties (Sunrise Hotels Ltd.) did not exist at the time of contracting

(D) Mr. Dev bears no personal liability on the contract; his liability, if any, is capped by the principle of limited liability applicable to the company after its incorporation

Q18. Pioneer Logistics Ltd. was incorporated on 1st January 2025. The company's founders were busy setting up operations and, as of 15th March 2025 (75 days after incorporation), had still neither established a physical registered office nor intimated any address to the Registrar of Companies. The company's legal consultant contends that the company is still within the legally permissible period for establishing its registered office and that no default has occurred.

Which of the following correctly states the requirement for a registered office under the Companies Act, 2013?

(A) A company must establish its registered office and notify its address to the Registrar before the certificate of incorporation is issued; no grace period is available after incorporation

(B) Under the Companies Act, 2013, a company has 60 days from the date of incorporation to establish its registered office and intimate the Registrar of the address

(C) There is no mandatory statutory time limit for establishing a registered office; the company must simply do so within a reasonable time, as assessed by the Registrar

(D) Under s.12 of the Companies Act, 2013, a company must have a registered office capable of receiving and acknowledging all communications and notices within 30 days of its incorporation; as of 15th March 2025, Pioneer Logistics Ltd. is already in default, and the legal consultant's advice is incorrect

Q19. Merlin Consulting Ltd. was incorporated in 2017, after the Companies (Amendment) Act, 2015 came into force. The Board of Directors resolves not to adopt a common seal and instead passes a resolution authorising two directors jointly to execute all deeds and contracts on the company's behalf. A counterparty to a significant contract executed by the two authorised directors argues that the contract is invalid and unenforceable because it does not bear the company's common seal.

Which of the following correctly describes the legal position regarding the *common seal after the Companies (Amendment) Act, 2015?*

(A) The Companies (Amendment) Act, 2015 made the common seal optional for all companies incorporated under the Companies Act, 2013; a company may now execute documents either by affixing its common seal or by having them signed by two authorised signatories; the counterparty's contention that the contract is invalid is incorrect

(B) The common seal remains mandatory for all companies incorporated under the Companies Act, 2013, irrespective of any subsequent amendment; all documents executed without a common seal are unenforceable

(C) The common seal was made optional only for public companies listed on a stock exchange; private companies like Merlin Consulting Ltd. continue to be required to maintain and use a common seal

(D) Any deed or contract executed without the affixation of the company's common seal is void and incapable of binding the company under any circumstances

Q20. Helping Hand Foundation Ltd. is registered as a Section 8 company under the Companies Act, 2013 with its objects stated as the promotion of primary education in rural areas. In a particularly successful year, the Foundation earns substantial surplus income through a government-funded project. Several members demand that this surplus be distributed as dividend among themselves on a pro-rata basis. The management refuses, citing statutory restrictions.

Which of the following correctly describes the restrictions applicable to a Section 8 company with regard to distribution of profits?

(A) A Section 8 company is permitted to distribute up to 50% of its annual surplus as dividend to members, provided the remainder is applied toward its charitable objects

(B) If a Section 8 company earns surplus income, it is obligated to distribute the surplus equally among all registered members as dividend at the end of each financial year

(C) Under s.8 of the Companies Act, 2013, a Section 8 company is prohibited from paying any dividend to its members; all income and profits must be applied solely toward the promotion and furtherance of the company's stated objects; any distribution of profits to members would violate the conditions of its licence and expose the company to cancellation of its licence

(D) A Section 8 company may distribute dividends out of profits earned from commercial or government-funded activities, but not out of any grants, donations, or charitable contributions received

DETAILED SOLUTIONS

Sol. 1.

Solution

Concept — Types of Companies (s.2(21) and s.2(22), Companies Act, 2013): The Companies Act, 2013 classifies companies by the nature of members' liability. A *company limited by guarantee* [s.2(21)] has no share capital; each member undertakes to contribute a stated sum toward liabilities upon winding up. A *company limited by shares* [s.2(22)] issues shares, and members' liability is restricted to unpaid amounts on those shares.

Analysis: Vidya Welfare Society has no share capital and members are liable only up to their guaranteed sum of Rs. 10,000 each – this is the hallmark of a company limited by guarantee under s.2(21). Sunrise Manufacturing Ltd. issues shares and members are liable only for unpaid call money – it is a company limited by shares under s.2(22).

Why other options are wrong:

- Option (A): Incorrect – a company limited by guarantee does not issue shares; classifying both as limited by shares is factually and legally wrong.
- Option (B): **Correct.** Vidya Welfare Society = company limited by guarantee (s.2(21)); Sunrise Manufacturing Ltd. = company limited by shares (s.2(22)).
- Option (C): Incorrect – a fixed obligation to contribute up to a ceiling on winding up is the defining feature of a guarantee company, not an unlimited company.
- Option (D): Incorrect – share certificates do not constitute a "guarantee" to creditors; this confuses the two statutory categories.

Final Answer: Vidya Welfare Society is a company limited by guarantee (s.2(21)); Sunrise Manufacturing Ltd. is a company limited by shares (s.2(22)). $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q1

Sol. 2.

Solution

Concept — Definition of "Company" under s.2(20), Companies Act, 2013: Section 2(20) defines a "company" as a company incorporated under the Companies Act, 2013 or under any previous company law. Incorporation creates a distinct body corporate with a separate legal personality, perpetual succession, and limited liability – the foundational principle enunciated in *Salomon v. Salomon & Co.* [1897] AC 22.

Analysis: Once an association is incorporated as a company, it becomes a separate legal entity distinct from its members. Mehta's claim that he can pierce the corporate veil and sue wealthy members directly is inconsistent with the statutory definition and the doctrine of corporate personality. Members are not personally liable for company debts beyond their agreed contribution.

Why other options are wrong:

- Option (A): Incorrect – limited liability is a core consequence of incorporation; members are not personally liable for company debts.
- Option (B): Incorrect – the Companies Act, 2013 has no general requirement of minimum paid-up capital for incorporation of a private or public company.
- Option (C): Incorrect – registration and incorporation are prerequisites; a mere association carrying on business is not a "company" under s.2(20).
- Option (D): **Correct.** Section 2(20) defines "company" as a body corporate incorporated under the Act; separate personality and limited liability defeat Mehta's claim.

Final Answer: A "company" under s.2(20) is an incorporated body corporate with separate legal personality; Mehta cannot sue members directly for company debts. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q2

Sol. 3.

Solution

Concept — Memorandum of Association as the Company's Charter: The Memorandum of Association (MOA) is the foundational constitutional document of a company. It defines the company's name, registered office, objects, liability of members, and share capital. The MOA binds the company and all its members as a statutory contract. Alteration of the MOA requires compliance with specific statutory procedures – objects clause alteration requires a special resolution and filing with the Registrar of Companies.

Analysis: Apex Textiles Ltd.'s objects clause restricts the company to textiles. Any activity beyond this scope is ultra vires. The Board of Directors has no power to alter the MOA by a board resolution – only the members in a general meeting, following the prescribed procedure, can alter the MOA. The board's resolution is therefore of no legal effect.

Why other options are wrong:

- Option (A): **Correct.** The MOA is the charter and constitution binding the company and all members; it cannot be altered by a board resolution alone.
- Option (B): Incorrect – the MOA cannot be amended by an ordinary board resolution; amendment requires a special resolution and statutory compliance.
- Option (C): Incorrect – the MOA does not lose force upon incorporation; it remains the supreme constitutional document coexisting with the AOA.
- Option (D): Incorrect – the Board of Directors has no plenary power to override the company's constitutional document; its powers are derived from and limited by the MOA and AOA.

Final Answer: The MOA is the company's charter and cannot be altered by a board resolution; the prescribed statutory procedure must be followed. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q3

Sol. 4.

Solution

Concept — Alteration of Articles of Association under s.14, Companies Act, 2013: Section 14 of the Companies Act, 2013 provides that a company may alter its Articles of Association by passing a *special resolution* (requiring 75% of votes cast). The power to alter is subject to two important limitations: (i) the alteration must not conflict with the provisions of the Memorandum of Association; and (ii) the alteration must not contravene the Companies Act, 2013.

Analysis: The majority shareholders purported to alter the AOA by an ordinary resolution, which is legally insufficient. Under s.14, only a special resolution can alter the Articles. The ordinary resolution passed by the 75% majority shareholders is therefore void and does not validly amend the AOA.

Why other options are wrong:

- Option (A): Incorrect – majority approval alone, through an ordinary resolution, is not the prescribed mechanism under s.14; a special resolution is mandatory.
- Option (B): Incorrect – Articles can be altered; s.14 expressly provides for alteration, subject to the procedure and limitations stated therein.
- Option (C): **Correct.** Under s.14, Articles can be altered only by special resolution and must not conflict with the MOA; the ordinary resolution is legally ineffective.
- Option (D): Incorrect – the statutory requirement is a special resolution; prejudice to minority shareholders is a separate consideration but does not replace the special resolution requirement.

Final Answer: Articles can be altered only by special resolution under s.14; the ordinary resolution passed here is legally invalid. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q4

Sol. 5.

Solution

Concept — Doctrine of Ultra Vires: The doctrine of ultra vires holds that any act or contract by a company that falls outside the scope of its objects clause as stated in the Memorandum of Association is void and of no legal effect. This principle, originating in *Ashbury Railway Carriage and Iron Co. v. Riche* (1875), means the contract is incapable of being ratified – even by unanimous shareholder consent – because it is a nullity and not merely an unauthorised act.

Analysis: Omega Chemicals Ltd.'s objects clause limits it to chemical manufacturing. A real estate acquisition contract is wholly outside this scope. Builder Associates cannot enforce the contract against the company, regardless of the apparent authority of the Managing Director, because the company itself lacks the legal capacity to enter such a contract.

Why other options are wrong:

- Option (A): Incorrect – the Managing Director's authority cannot extend to acts the company itself has no capacity to perform; apparent authority cannot override the ultra vires doctrine.
- Option (B): **Correct.** An ultra vires contract is void ab initio and cannot be ratified by any resolution; Builder Associates has no contractual remedy against Omega.
- Option (C): Incorrect – an ultra vires contract is not voidable; it is void and therefore incapable of ratification or adoption by any general meeting resolution.
- Option (D): Incorrect – while some courts allow restitutionary claims in limited circumstances, the general rule is that an ultra vires contract cannot found a claim; unjust enrichment claims are not straightforwardly available here under Indian company law principles.

Final Answer: Ultra vires contracts are void and unenforceable; Builder Associates cannot recover from Omega Chemicals Ltd. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q5

Sol. 6.

Solution

Concept — Indoor Management Rule (Turquand's Rule): The rule in *Royal British Bank v. Turquand* (1856) protects outsiders dealing with a company in good faith. An outsider is entitled to assume that all internal formalities required by the company's constitution have been duly complied with, even if they have not. The outsider is not required to investigate the internal workings of the company – only the public documents (MOA and AOA) impose constructive notice.

Analysis: Priya acted in good faith on a certified copy of a board resolution. She was not required to verify whether the board meeting was properly convened or quorate – those are internal procedural matters protected by the indoor management rule. Highrise Ltd.'s internal irregularity cannot be used to defeat Priya's legitimate claim for repayment.

Why other options are wrong:

- Option (A): Incorrect – outsiders are not required to verify internal proceedings; that is the very rationale of the indoor management rule.
- Option (B): Incorrect – an internal procedural irregularity does not render the loan agreement void against a bona fide outsider; the indoor management rule operates to protect Priya.
- Option (C): Incorrect – constructive notice relates to public documents (MOA and AOA), not to internal procedural compliance such as quorum or notice of board meetings.
- Option (D): **Correct.** The indoor management rule (*Turquand's* rule) protects Priya; she can enforce repayment since she relied on the resolution in good faith without notice of the irregularity.

Final Answer: The indoor management rule protects Priya; she can enforce repayment against Highrise Infrastructure Ltd. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q6

Sol. 7.

Solution

Concept — Doctrine of Constructive Notice: The doctrine of constructive notice is a limitation on the indoor management rule. Since the Memorandum of Association and Articles of Association are public documents registered with and accessible from the Registrar of Companies, every person dealing with a company is deemed by law to have notice of their contents. Ignorance of those documents is not a valid defence for an outsider.

Analysis: Ravi is deemed to have constructive notice of the restriction in Metro Constructions Ltd.'s MOA that prohibited contracts of this type without a two-thirds majority resolution. His argument that he personally never read the MOA is legally untenable. The doctrine of constructive notice prevents him from claiming that the restriction does not bind him.

Why other options are wrong:

- Option (A): **Correct.** The doctrine of constructive notice imputes knowledge of the MOA and AOA to all persons dealing with the company; Ravi's personal ignorance is no defence.
- Option (B): Incorrect – the doctrine applies to all persons dealing with the company, not only to registered shareholders; outsiders are equally bound.
- Option (C): Incorrect – constructive notice applies to both the MOA and the AOA; both are registered public documents accessible to any person.
- Option (D): Incorrect – the doctrine of constructive notice has not been abolished by the Companies Act, 2013; it continues to operate alongside the indoor management rule as a counterbalancing principle.

Final Answer: Constructive notice imputes knowledge of MOA and AOA to all outsiders; Ravi's plea of ignorance fails. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q7

Sol. 8.

Solution

Concept — Civil Liability for Misstatement in Prospectus under s.35, Companies Act, 2013: Section 35 of the Companies Act, 2013 imposes civil liability on every person who authorised the issue of a prospectus containing an untrue statement. This includes the company, its directors, promoters, and experts (such as valuers or auditors) who authorised the inclusion of their statements. Subscribers who suffer loss due to reliance on the misstatement are entitled to claim compensation or rescission of their allotment.

Analysis: The prospectus of Sunlight IPO Ltd. contained the false statement that all government approvals had been obtained. Investors subscribed and suffered losses. Under s.35, all persons who authorised the prospectus – including directors, promoters, and relevant experts – are liable. The company cannot shield its directors and promoters from personal liability.

Why other options are wrong:

- Option (A): Incorrect – s.35 expressly extends civil liability to directors, promoters, and experts who authorised the inclusion of their statements, not just to the company.
- Option (B): Incorrect – absence of fraudulent intent may be a defence to criminal liability, but s.35 civil liability does not require proof of fraud; negligent or innocent misstatement can attract liability.
- Option (C): **Correct.** Section 35 makes every person who authorised the prospectus – the company, directors, promoters, and relevant experts – civilly liable to compensate investors for loss caused by untrue statements.
- Option (D): Incorrect – investors do not need to prove the director's personal knowledge of falsity for civil liability under s.35; the standard is the effect of the untrue statement on investors who subscribed in reliance.

Final Answer: Under s.35, all authorising persons – including directors, promoters, and experts – are civilly liable for prospectus misstatements; investors may claim compensation. $\Rightarrow \boxed{\text{C}}$

Answer: (C) **Go Back to Q8**

Sol. 9.

Solution

Concept — Deemed Prospectus under s.25, Companies Act, 2013: Section 25 of the Companies Act, 2013 provides that where a company allots or agrees to allot securities with a view to offering them to the public, any document by which such an offer to the public is made is treated as a "deemed prospectus." All provisions of the Act applicable to prospectuses apply equally to deemed prospectuses. This prevents companies from circumventing prospectus requirements by using alternative labels for the offering document.

Analysis: Bright Star Ltd.'s "Information Memorandum" is a document by which shares are offered to 350 persons. Regardless of what the company chooses to call it, if it constitutes an offer of shares to the public, it is a deemed prospectus under s.25 and must comply with all prospectus regulations. The company cannot escape statutory obligations by avoiding the word "prospectus."

Why other options are wrong:

- Option (A): Incorrect – s.25 specifically captures documents of this nature as deemed prospectuses; the document is regulated, not free from oversight.
- Option (B): **Correct.** Under s.25, any offer document for shares made to the public is a deemed prospectus; labelling it an "Information Memorandum" provides no exemption.
- Option (C): Incorrect – the Companies Act, 2013 does not prescribe a minimum of 500 persons for deemed prospectus provisions to apply; the relevant test is whether the offer is made to the public.
- Option (D): Incorrect – s.25 of the Companies Act, 2013 itself contains the deemed prospectus provision; both SEBI and the Act regulate public offer documents concurrently.

Final Answer: An offer document for shares made to the public is a deemed prospectus under s.25, regardless of its label; Bright Star Ltd. must comply with all prospectus requirements. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q9

Sol. 10.

Solution

Concept — Red Herring Prospectus under s.32, Companies Act, 2013: Section 32 of the Companies Act, 2013 defines a *red herring prospectus* as a prospectus that does not include complete particulars of the quantum of securities offered or the price at which such securities are offered. It is filed with SEBI prior to the final prospectus to enable book-building and gauge investor appetite. Once the offer closes, the final particulars must be filed as the complete prospectus.

Analysis: Galaxy Pharmaceuticals Ltd.'s merchant banker's advice is legally sound. The document described – a preliminary prospectus without final price or quantity – precisely matches the definition of a red herring prospectus under s.32. It is a recognised pre-offer document under Indian securities law and the Companies Act, 2013.

Why other options are wrong:

- Option (A): Incorrect – a red herring prospectus is expressly permitted by s.32; it is not invalid merely because it omits price or quantity details.
- Option (B): Incorrect – a shelf prospectus (s.31) permits a single prospectus for multiple tranches; it is a distinct concept from a red herring prospectus.
- Option (C): Incorrect – s.32 does not restrict the red herring prospectus to debenture issues; it applies equally to equity share offerings in book-building IPOs.
- Option (D): **Correct.** Under s.32, a red herring prospectus is a recognised pre-offer document without final price/quantity details, filed with SEBI before the final prospectus.

Final Answer: The document described is a red herring prospectus under s.32 – a lawful pre-offer document not disclosing final price or quantum. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q10

Sol. 11.

Solution

Concept — Minimum Subscription under s.39, Companies Act, 2013: Section 39 of the Companies Act, 2013 provides that no allotment of any securities of a company offered to the public shall be made unless the amount stated in the prospectus as the minimum amount has been subscribed, and the sum payable on application for the amount so stated has been received by the company. If the minimum subscription is not received within the time specified, the company must repay all application money forthwith. Failure to repay within the prescribed time renders the directors jointly and severally liable to repay with interest.

Analysis: Summit Infra Ltd. has received only Rs. 68 crore against a minimum subscription of Rs. 100 crore. The Board cannot proceed with allotment. The only legally prescribed course of action is to repay all application money. Any allotment made without receipt of minimum subscription would be void under s.39.

Why other options are wrong:

- Option (A): **Correct.** Under s.39, failure to receive minimum subscription bars allotment; all application money must be refunded promptly or directors become liable with interest.
- Option (B): Incorrect – there is no provision permitting partial allotment for the amount received upon ordinary resolution approval; s.39 is a mandatory prohibition.
- Option (C): Incorrect – minimum subscription requirements under s.39 apply to all public offers of securities, including equity shares; there is no exemption for equity as opposed to debentures.
- Option (D): Incorrect – SEBI has no power to waive the statutory minimum subscription requirement under the Companies Act, 2013; the provision is mandatory.

Final Answer: Under s.39, minimum subscription must be received before allotment; failure requires full refund of application money, failing which directors are personally liable with interest. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q11

Sol. 12.

Solution

Concept — Forfeiture of Shares: Forfeiture of shares is the remedy available to a company when a member fails to pay calls on shares. It is a drastic remedy that can be exercised only if the Articles of Association expressly authorise it and the company follows the prescribed procedure – proper notice with a stated time for payment and the consequence of forfeiture. Upon valid forfeiture, the shares become the property of the company. The former member loses all rights. The company may reissue the forfeited shares at a price not less than the amount already paid up before forfeiture.

Analysis: Kiran received proper notices but failed to pay the call money. The Board's forfeiture resolution was in accordance with the AOA. The forfeiture is valid. Kiran's contention that she retains membership rights until the shares are actually sold is incorrect – forfeiture immediately extinguishes her membership rights.

Why other options are wrong:

- Option (A): Incorrect – forfeiture of shares is a well-recognised remedy; both the Articles and the common law permit it when procedures are properly followed.
- Option (B): Incorrect – forfeited shares need not be immediately cancelled; the company may reissue them, which is a commonly exercised option.
- Option (C): **Correct.** Valid forfeiture vests the shares in the company; Kiran loses all membership rights immediately; the company may reissue the shares at a price not less than the previously paid-up amount.
- Option (D): Incorrect – forfeiture extinguishes membership rights on the date the forfeiture resolution is passed; rights do not continue until a subsequent sale.

Final Answer: Valid forfeiture transfers shares to the company; Kiran immediately loses membership rights; the company may reissue the shares. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q12

Sol. 13.

Solution

Concept — Sweat Equity Shares under s.54, Companies Act, 2013: Section 54 of the Companies Act, 2013 permits a company to issue sweat equity shares to its *directors or employees* at a discount or for consideration other than cash, for providing know-how or making available intellectual property rights or value additions. The issue must be authorised by a special resolution. SEBI (Issue of Sweat Equity Shares) Regulations, 2021 govern listed companies. There is no restriction confining sweat equity solely to promoters or directors.

Analysis: Tech Innovate Solutions Ltd.'s software engineers who developed proprietary technology fall squarely within the category of "employees" under s.54. The issue is permissible, provided the company passes a special resolution and complies with applicable SEBI regulations. The directors' concern about legality is unfounded if these conditions are met.

Why other options are wrong:

- Option (A): Incorrect – s.54 expressly includes "employees" in addition to directors; the provision is not confined to promoters and directors.
- Option (B): **Correct.** Under s.54, sweat equity shares may be issued to directors or employees for know-how or intellectual property; a special resolution is required and SEBI regulations must be followed.
- Option (C): Incorrect – the very rationale of sweat equity is that it compensates non-cash contributions; s.54 permits issuance at a discount or for non-cash consideration.
- Option (D): Incorrect – s.54 and SEBI regulations impose restrictions on quantity (e.g., limits as a percentage of paid-up share capital) and frequency of issuance; free issuance without restriction is not permitted.

Final Answer: Section 54 permits sweat equity shares to directors or employees for know-how/IP; a special resolution and SEBI compliance are mandatory. $\Rightarrow$ $\boxed{\text{B}}$

Answer: (B) Go Back to Q13

Sol. 14.

Solution

Concept — Bonus Shares under s.63, Companies Act, 2013: Section 63 of the Companies Act, 2013 permits a company to issue fully paid-up bonus shares out of: (i) free reserves; (ii) the securities premium account; or (iii) the capital redemption reserve account. However, a company cannot issue bonus shares if it has defaulted in repayment of deposits, payment of interest thereon, payment of dividends, or in meeting statutory obligations such as employees' provident fund contributions or interest on debentures.

Analysis: Prosperity Industries Ltd. proposes to issue bonus shares from free reserves and the securities premium account – both are permissible sources under s.63. However, the company has defaulted on payment of statutory dues (provident fund contributions). This default bars the company from issuing bonus shares, regardless of the availability of reserves. The minority shareholder's challenge is legally well-founded.

Why other options are wrong:

- Option (A): Incorrect – s.63 expressly permits bonus shares from accumulated free reserves, not just current year profits.
- Option (B): Incorrect – free reserves and capital redemption reserve are equally valid sources for bonus issue under s.63, in addition to the securities premium account.
- Option (C): Incorrect – default in payment of statutory dues is a specific disqualification under s.63; SEBI approval cannot override this statutory bar.
- Option (D): **Correct.** Section 63 allows bonus shares from free reserves, securities premium, or capital redemption reserve; default in statutory dues (including provident fund contributions) bars the issue; the shareholder's challenge is valid.

Final Answer: Bonus shares may be issued from free reserves or securities premium, but default in statutory dues under s.63 bars the issue; the minority shareholder's challenge succeeds. $\Rightarrow \boxed{\text{D}}$

Answer: (D) **Go Back to Q14**

Sol. 15.

Solution

Concept — Promoter's Fiduciary Duty and Obligation to Disclose Secret Profit: A promoter stands in a fiduciary relationship with the company being promoted. This fiduciary status imposes a duty of full and frank disclosure of all material interests and profits made in connection with the promotion, particularly in transactions involving property sold to the company. If a promoter makes a secret profit without disclosure, the company may rescind the contract, recover the profit, or sue for damages. This principle was affirmed in *Erlanger v. New Sombrero Phosphate Co.* (1878) and is well-settled in Indian company law.

Analysis: Rajan purchased the plot for Rs. 12 lakh and sold it to Nova Developers Pvt. Ltd. for Rs. 22 lakh – a secret profit of Rs. 10 lakh. His failure to disclose this to the Board or independent shareholders is a clear breach of his fiduciary duty as promoter. Nova Developers is entitled to rescind the sale and recover the Rs. 10 lakh secret profit.

Why other options are wrong:

- Option (A): **Correct.** A promoter's fiduciary duty requires full disclosure of profits; failure entitles the company to rescind and/or recover the secret profit.
- Option (B): Incorrect – a promoter's fiduciary obligation is not neutralised by his acting as an "independent owner" before incorporation; the duty attaches to the role of promoter throughout the promotion process.
- Option (C): Incorrect – the company's right to recover a secret profit is a civil equitable remedy; it does not require proof beyond reasonable doubt, which is the criminal standard.
- Option (D): Incorrect – the company's right to sue the promoter for breach of fiduciary duty is not extinguished merely because the property was acquired before incorporation; the duty is owed in the context of the promotion.

Final Answer: A promoter owes a fiduciary duty of disclosure; failure to disclose the Rs. 10 lakh secret profit entitles the company to rescind the contract and recover the profit. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q15

Sol. 16.

Solution

Concept — Certificate of Incorporation as Conclusive Evidence under s.9, Companies Act, 2013: Section 9 of the Companies Act, 2013 provides that from the date of incorporation mentioned in the certificate of incorporation, the subscribers to the memorandum and all subsequent members shall be a body corporate capable of exercising all the functions of an incorporated company. The certificate of incorporation is *conclusive evidence* that all the requirements of the Act have been complied with in respect of registration. This principle prevents perpetual challenges to a company's existence.

Analysis: The creditors of Greenfield Realty Ltd. seek to challenge the certificate of incorporation on grounds of procedural irregularities. Section 9 forecloses this avenue – once issued, the certificate is conclusive. Procedural defects in filing cannot be used to attack the validity of the certificate. Courts cannot set aside a certificate of incorporation on such grounds.

Why other options are wrong:

- Option (A): Incorrect – the Companies Act, 2013 does not provide a three-year window for challenging a certificate of incorporation; s.9 makes the certificate conclusive upon issue.
- Option (B): Incorrect – the certificate is not prima facie evidence (rebuttable); it is *conclusive* evidence that all requirements were met; this is the explicit statutory standard.
- Option (C): **Correct.** Under s.9, the certificate of incorporation is conclusive evidence of due compliance with registration requirements; it cannot be challenged on the ground of procedural irregularities in the filing.
- Option (D): Incorrect – while courts have jurisdiction over fraud, the certificate itself under s.9 is made conclusive; a creditor's petition on the ground of procedural irregularity in filing would not succeed.

Final Answer: Under s.9, the certificate of incorporation is conclusive evidence of due registration; it cannot be set aside on the ground of procedural irregularities in filing. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q16

Sol. 17.

Solution

Concept — Pre-Incorporation Contracts and Personal Liability of Promoter (*Kelner v. Baxter*): A company cannot enter into a contract before it is incorporated because it does not yet exist as a legal person. In *Kelner v. Baxter* (1866) LR 2 CP 174, it was held that where a person purports to contract on behalf of a company yet to be formed, that person is personally liable on the contract and the company cannot, after incorporation, ratify a pre-incorporation contract. Ratification requires that the principal existed at the time the agent acted; since the company did not exist, ratification is legally impossible.

Analysis: Mr. Dev signed the contract with Kumar and Company for Sunrise Hotels Ltd. (in formation). The company was not in existence. After incorporation, Sunrise Hotels Ltd. cannot ratify the contract. Mr. Dev is personally liable to Kumar and Company for the Rs. 45 lakh. Kumar and Company's claim must be directed against Mr. Dev personally.

Why other options are wrong:

- Option (A): Incorrect – ratification requires a pre-existing principal; a company cannot ratify a contract made before it came into existence, unlike an unauthorised but otherwise lawful act of an agent.
- Option (B): **Correct.** Under *Kelner v. Baxter*, the company cannot ratify a pre-incorporation contract; the promoter (Mr. Dev) is personally liable to Kumar and Company.
- Option (C): Incorrect – Kumar and Company is not without remedy; Mr. Dev is personally liable; the contract is not void but is binding on the promoter who signed it.
- Option (D): Incorrect – limited liability is a protection of the company's members against company debts; it does not shield the promoter from personal liability on pre-incorporation contracts he personally executed.

Final Answer: Under *Kelner v. Baxter*, a company cannot ratify pre-incorporation contracts; Mr. Dev is personally liable to Kumar and Company for the contracted amount. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q17

Sol. 18.

Solution

Concept — Registered Office Requirement under s.12, Companies Act, 2013: Section 12 of the Companies Act, 2013 requires that a company must have a registered office capable of receiving and acknowledging all communications and notices as may be addressed to it. The registered office must be established within *30 days* of the date of its incorporation, and the Registrar of Companies must be notified of the address within this period. Failure to comply constitutes a default attracting penalties.

Analysis: Pioneer Logistics Ltd. was incorporated on 1st January 2025. The 30-day statutory deadline expired on 31st January 2025. As of 15th March 2025 (75 days after incorporation), the company had not established a registered office or intimated the Registrar. This is a clear default under s.12. The legal consultant's advice that the company is within the permissible period is incorrect.

Why other options are wrong:

- Option (A): Incorrect – s.12 does not require the registered office to be established before incorporation; the 30-day period commences from the date of the certificate of incorporation.
- Option (B): Incorrect – the statutory period is 30 days, not 60 days; Option (B) misstates the statutory requirement.
- Option (C): Incorrect – "reasonable time" is not the statutory standard; s.12 prescribes a mandatory 30-day period; there is no discretion on this point.
- Option (D): **Correct.** Under s.12, the registered office must be established within 30 days of incorporation; Pioneer Logistics Ltd. is in default as of 15th March 2025; the legal consultant's advice is wrong.

Final Answer: Section 12 mandates a registered office within 30 days of incorporation; Pioneer Logistics Ltd. is already in default as of 15th March 2025 (75 days after incorporation). $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q18

Sol. 19.

Solution

Concept — Common Seal after the Companies (Amendment) Act, 2015: Prior to the Companies (Amendment) Act, 2015, the common seal was mandatory for all companies incorporated under the Companies Act. The 2015 Amendment made the common seal *optional*. A company incorporated after the amendment may execute documents either: (i) under its common seal, or (ii) by having the document signed by two directors, or by one director and the Company Secretary. Both modes of execution are equally valid under the amended Act.

Analysis: Merlin Consulting Ltd. was incorporated in 2017 – after the 2015 Amendment came into force. The company resolved not to have a common seal and authorised two directors to execute documents jointly. This is a legally valid mode of execution under the amended Companies Act, 2013. The counterparty's objection that the contract is invalid without a common seal has no legal basis.

Why other options are wrong:

- Option (A): **Correct.** The 2015 Amendment made the common seal optional; execution by two authorised directors is equally valid; the counterparty's objection fails.
- Option (B): Incorrect – the 2015 Amendment expressly made the common seal optional for all companies; the mandatory requirement was specifically removed.
- Option (C): Incorrect – the amendment applies to all companies, both public and private; the optional status is not limited to listed public companies.
- Option (D): Incorrect – the Companies (Amendment) Act, 2015 specifically provides for execution by authorised signatories as an alternative to the common seal; such execution creates fully valid and binding obligations.

Final Answer: The 2015 Amendment made the common seal optional; Merlin Consulting Ltd.'s documents executed by two authorised directors are fully valid; the counterparty's objection is legally unsustainable. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q19

Sol. 20.

Solution

Concept — Section 8 Companies and Prohibition on Dividend Distribution: Section 8 of the Companies Act, 2013 provides for companies with charitable objects – such as the promotion of commerce, art, science, education, religion, charity, or any other useful object. Such companies are granted a licence by the Central Government on the condition that they apply their income and profits solely toward the promotion of their stated objects. Section 8 companies are expressly prohibited from paying dividends to their members. Any violation of these conditions may result in cancellation of the licence.

Analysis: Helping Hand Foundation Ltd. is a Section 8 company incorporated for the promotion of education. Its surplus income, however earned, must be channelled entirely toward its charitable objects. The members demanding dividend distribution are legally incorrect. The management's refusal is fully in accordance with s.8 and the conditions of the company's licence.

Why other options are wrong:

- Option (A): Incorrect – Section 8 does not permit any distribution of profit as dividend, whether 50% or any other proportion; the prohibition is absolute.
- Option (B): Incorrect – there is no statutory obligation to distribute surplus as dividend; on the contrary, s.8 prohibits dividend distribution entirely.
- Option (C): **Correct.** Section 8 companies must apply all income toward their stated objects; payment of dividend to members is prohibited; violation risks cancellation of the licence.
- Option (D): Incorrect – the prohibition on dividend applies regardless of the source of profit – commercial activities, government funding, grants, or donations; the source is irrelevant to the prohibition.

Final Answer: Under s.8, a Section 8 company is absolutely prohibited from paying dividends; all profits must be applied toward the company's charitable objects. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q20

ANSWER KEY

1	B	2	D	3	A	4	C	5	B
6	D	7	A	8	C	9	B	10	D
11	A	12	C	13	B	14	D	15	A
16	C	17	B	18	D	19	A	20	C