CLAT PG Company Law
Sample Paper – 2

Duration: 20 Minutes | Max Marks: 20

Instructions

1. This paper contains **20 multiple-choice questions** carrying **1 mark each**.
2. Total duration is **20 minutes**.
3. Each correct answer carries **+1 mark**; each incorrect answer carries a penalty of **–0.25 marks**.
4. Unattempted questions carry **no marks**.
5. All questions are based on the **Companies Act, 2013** and relevant judicial principles.
6. Topics covered: Directors (Appointment, Duties, Disqualification), Board Meetings, General Meetings, Debentures, and Charges.
7. Click the question number in the Answer Key to jump directly to the solution.

Questions

Q1. Mahesh Kumar was convicted by a Sessions Court four years ago for an offence of cheating under the Indian Penal Code and was sentenced to 9 months of imprisonment. The sentence has been fully served and the conviction has attained finality. He now applies to be appointed as a director of Vista Technologies Ltd. The company's legal counsel raises an objection under the Companies Act, 2013.

Which of the following correctly states the legal position regarding Mahesh Kumar's eligibility as a director?

(A) Mahesh is disqualified under s.164(1)(d) as he was sentenced to imprisonment for not less than 6 months and five years have not yet elapsed from the date of expiry of his sentence.

(B) Mahesh is not disqualified as the conviction was for a general criminal offence and not specifically a company law offence under the Companies Act, 2013.

(C) Mahesh can be appointed as an additional director since the disqualification under s.164 does not apply to additional directors appointed under s.161.

(D) Mahesh is disqualified only if the Central Government issues a specific notification identifying him as a disqualified director.

Q2. Priya is a non-executive director of Gemstone Ltd. Due to a prolonged illness, she has not attended any of the twelve board meetings held over the past 14 months. She did not formally apply for leave of absence from the board. The company secretary now seeks a legal opinion on whether her office as director has become vacant.

Which of the following best describes the legal position under the Companies Act, 2013?

(A) Priya's office has not become vacant as the board was aware of her medical condition, and the absence is therefore excused by implied leave of absence.

(B) Priya's office has automatically become vacant under s.167(1)(b) as she has been absent from all board meetings held during a period of twelve months, whether or not leave of absence was sought or granted.

(C) Priya can cure the default by attending the very next board meeting before the board formally passes a resolution declaring her office vacant.

(D) Vacation of office under s.167 requires a formal resolution passed by a two-thirds majority of the remaining directors of the company.

Q3. Anand Sharma is being considered for appointment as an independent director of Sunrise Corp Ltd., a listed public company. He holds 2.5% of the total paid-up share capital (and thereby 2.5% of the total voting power) of the company. He has no other pecuniary, professional, or familial relationship with the company, its promoters, or management. The nomination and remuneration committee is evaluating his eligibility under the Companies Act, 2013.

Which of the following correctly describes Anand's eligibility as an independent director?

(A) Anand qualifies as an independent director since he has no professional or pecuniary relationship with the promoters or management of the company.

(B) Anand can be appointed as an independent director provided the appointment is ratified by a special resolution passed in the general meeting.

(C) Anand does not qualify as an independent director under s.149(6)(c) as he holds, together with relatives, 2% or more of the total voting power of the company, which is the maximum permissible limit.

(D) Anand is eligible since the shareholding ceiling for independent directors is 5% of total voting power and his holding of 2.5% is within that threshold.

Q4. The board of Nexus Pharma Ltd is evaluating a lucrative export contract that would significantly benefit shareholders. However, executing the contract requires deep cuts in employee welfare expenditure and the disposal of manufacturing assets in a manner likely to harm the local community and the environment. Director Vikram Mehta votes in favour of the contract, arguing that directors owe duties exclusively to shareholders as the beneficial owners of the company.

Which of the following correctly evaluates Director Vikram Mehta's legal position under the Companies Act, 2013?

(A) Director Mehta is correct; under the Companies Act, 2013, directors owe fiduciary duties solely to shareholders as they are the owners of the company.

(B) Director Mehta's position is partially correct; duties are owed to shareholders and creditors, but not expressly to employees or the community at large.

(C) Director Mehta can legitimately act in the exclusive interest of shareholders if a majority of shareholders authorise such action at a general meeting.

(D) Director Mehta's position is incorrect; s.166(2) requires directors to act in good faith to promote the company's objects for the benefit of its members as a whole, and in the best interests of the company, its employees, shareholders, the community, and for the protection of the environment.

Q5. Suresh Kumar is a director of Alpha Constructions Ltd. He is also the sole proprietor of Suresh Builders, a firm from which Alpha Constructions is planning to purchase construction materials worth Rs. 2 crore. Suresh did not disclose his interest in the proposed transaction at the board meeting where the contract was approved. The contract has since been executed.

What is the legal consequence of Suresh Kumar's non-disclosure under the Companies Act, 2013?

(A) The contract is voidable at the option of the company; Suresh has violated s.184(2) by failing to disclose his interest and is also liable to a statutory penalty.

(B) Since Suresh is both a director and the owner of the supplying firm, his interest is deemed to be known to the board, and no formal disclosure was required.

(C) The contract is void ab initio and cannot be enforced by either party because Suresh failed to disclose his interest before execution.

(D) The contract remains fully enforceable unless the company can demonstrate actual financial loss caused by the non-disclosure.

Q6. Precision Tools Ltd has a total board strength of 9 directors. Three of the nine directors are interested in a particular contract on the meeting's agenda and are therefore excluded from counting towards quorum for that specific item. The company secretary needs to determine the minimum number of directors who must be present to constitute a valid quorum for the board meeting under the Companies Act, 2013.

What is the quorum required for the board meeting of Precision Tools Ltd?

(A) The quorum is 2 directors, as that is the minimum statutory quorum under the Companies Act, 2013, regardless of board size.

(B) The quorum is 3 directors under s.174(1), being one-third of the total board strength of 9, which is higher than the minimum of 2 directors.

(C) The quorum is 5 directors, being more than half the total board strength, since majority presence is required for valid deliberations.

(D) The quorum is 6 directors because the 3 interested directors cannot be counted, so a fresh quorum of one-third of the remaining 6 must separately be satisfied.

Q7. The board of Skyline Hotels Ltd wishes to approve the annual financial statements and the board's report through a resolution passed by circulation among the directors, so as to avoid convening a physical board meeting. The CFO consults the company secretary on the legality of this procedure under the Companies Act, 2013.

Which of the following correctly states the legal position?

(A) Any matter can be resolved by circulation if approved by a majority of directors entitled to vote, including approval of financial statements and board's report.

(B) Financial statements can be approved by circulation provided at least three-fourths of the total number of directors sign the circular resolution.

(C) Approval of financial statements and the board's report cannot be passed by circulation; s.175 read with the Companies (Meetings of Board and its Powers) Rules, 2014 expressly prohibit these matters from being resolved by circulation.

(D) Circular resolutions are valid only for routine administrative matters costing less than Rs. 1 crore; financial statement approvals must always be transacted at a physical board meeting.

Q8. Omega Technologies Ltd was incorporated on 15 March 2024. Its first financial year closes on 31 March 2025. The board of directors is deliberating on the latest permissible date by which the first Annual General Meeting must be held under the Companies Act, 2013.

What is the last date by which the first AGM of Omega Technologies Ltd must be held?

(A) 30 September 2025, being 6 months from the close of the first financial year ending 31 March 2025.

(B) 15 September 2025, being 18 months from the date of incorporation on 15 March 2024.

(C) The company must hold its first AGM within 6 months of incorporation; since incorporation was in March 2024, the AGM must have been held by September 2024.

(D) 31 December 2025, being 9 months from the close of the first financial year (31 March 2025), as the extended 9-month period applies to the first AGM under s.96(1).

Q9. A group of shareholders holding 8% of the paid-up share capital carrying voting rights of Marathon Retail Ltd submits a written requisition to the board of directors to convene an Extraordinary General Meeting for transacting a specific item of special business. The board declines to call the meeting within 21 days of receiving the requisition. The shareholders seek legal advice.

Which of the following correctly states the legal position under the Companies Act, 2013?

(A) The requisition is invalid as the shareholders hold only 8%, which is below the minimum threshold of one-tenth (10%) of paid-up share capital with voting rights required under s.100(2); the board's refusal is legally justified.

(B) The shareholders holding 8% can proceed to call the EGM themselves since the board failed to convene it within 45 days of the requisition.

(C) Any shareholder, regardless of the percentage of shareholding, can requisition an EGM provided the matter to be discussed is of a special nature affecting minority interests.

(D) The board must convene the EGM within 45 days of receiving any written requisition from shareholders; failure to do so renders directors personally liable under the Act.

Q10. The Annual General Meeting of Crystal Glass Pvt Ltd, a private company with 15 members, is convened as per due notice. When the meeting is scheduled to commence, only 1 member is personally present in the meeting hall. The chairman is uncertain whether to proceed with the meeting.

What is the quorum requirement for a general meeting of a private company under s.103 of the Companies Act, 2013?

(A) The quorum for a general meeting of a private company is 5 members personally present, the same as for a small public company.

(B) The quorum for a general meeting of a private company is 2 members personally present; since only 1 member is present, quorum is not met and the meeting cannot validly proceed.

(C) A quorum equal to one-fourth of the total membership is required; for a company with 15 members, the quorum is therefore 4 members.

(D) The quorum requirement for a private company's general meeting is 3 members personally present for any business to be transacted.

Q11. Devika, a member of Crestview Ltd, appoints her friend Rajan (who is not himself a member of the company) as her proxy to attend the AGM in her absence. She instructs Rajan to actively participate in debates on proposed amendments to the Articles of Association and to vote on all resolutions put before the meeting.

Which of the following correctly describes the rights of a proxy under s.105 of the Companies Act, 2013?

(A) Rajan cannot validly act as proxy since the Companies Act, 2013 requires a proxy to be a member of the same company.

(B) A proxy can speak at the meeting and vote on a show of hands but cannot demand a poll or vote on a poll.

(C) Rajan can attend and vote on behalf of Devika but cannot speak at the meeting; s.105(1) grants a proxy the right to vote but not the right to address or speak at the meeting.

(D) A proxy enjoys all the rights of a member at the meeting, including the right to speak, vote, and demand a poll on any resolution.

Q12. At the AGM of Resolve Ltd, the shareholders are voting on two separate matters: (i) declaration of a final dividend for the year, and (ii) alteration of the company's Articles of Association to increase the notice period for board meetings. The company secretary must identify the type of resolution required and the majority threshold applicable to each matter.

Which of the following correctly identifies the type of resolution and the required majority for each matter?

(A) Both declaration of dividend and alteration of articles require a special resolution passed by a three-fourths majority of votes cast.

(B) Declaration of dividend requires an ordinary resolution, while alteration of articles can be effected by a board resolution without requiring shareholder approval.

(C) Alteration of articles requires a special resolution, but the three-fourths majority is calculated on the basis of total paid-up share capital, not votes actually cast.

(D) Under s.114, declaration of dividend requires an ordinary resolution (more than 50% of votes cast), while alteration of articles under s.14 requires a special resolution (not less than three-fourths of votes cast).

Q13. Pioneer Infrastructure Ltd is planning to make a public issue of non-convertible debentures by publishing a prospectus. The CFO proposes that the company skip the appointment of a debenture trustee to reduce administrative costs, reasoning that the debentures are fully secured by company assets and debenture holders are adequately protected. The company secretary is asked to advise on the legal position.

Which of the following correctly states the legal requirement under the Companies Act, 2013?

(A) A debenture trustee must be appointed before the issue of a prospectus for debentures; under s.71(5), failure to do so makes the issue of the prospectus impermissible, and the CFO's suggestion violates a mandatory statutory requirement.

(B) A debenture trustee is required only for privately placed debentures and is entirely optional when debentures are offered to the public through a prospectus.

(C) Appointment of a debenture trustee may be waived if the debenture offer document contains a SEBI-approved disclaimer indemnifying the debenture holders against default.

(D) A debenture trustee is required to be appointed within 30 days of allotment of debentures; pre-issue appointment before the prospectus is issued is not a statutory requirement.

Q14. Sunrise Energy Ltd issues fully convertible debentures to the public. The debenture trust deed provides that the debentures shall carry voting rights equivalent to those of equity shareholders, exercisable at all general meetings until the debentures are converted into equity shares. Mr. Das, a debenture holder, questions whether granting voting rights to debenture holders is lawful under the Companies Act, 2013.

Which of the following correctly states the law on debentures and voting rights?

(A) Fully convertible debentures are not recognised under the Companies Act, 2013; only partly convertible and non-convertible debentures are permissible.

(B) Under s.71(2), no company shall issue debentures carrying voting rights; the provision in the trust deed granting voting rights to debenture holders is illegal, even though fully convertible debentures per se are permissible.

(C) Debentures with voting rights are permissible if specifically authorised by the articles of association and approved by a special resolution in the general meeting.

(D) Debenture holders automatically acquire voting rights proportional to their debenture holding once the board of directors declares the debentures convertible.

Q15. Meridian Hotels Ltd has borrowed from two different banks. For Loan 1, it mortgaged its specific hotel property in Pune as security. For Loan 2, it created security over its entire stock-in-trade, book debts, and current assets, which fluctuate in value and composition day to day in the ordinary course of business. The bank manager asks a legal expert to classify these two securities under the Companies Act, 2013.

Which of the following correctly classifies the two types of security?

(A) Both securities are floating charges since they are created over the general assets and undertaking of the company as a whole.

(B) The security over the Pune hotel property is a pledge, while the security created over the current assets is a fixed charge.

(C) The mortgage over the specific Pune hotel property is a fixed charge (attaching to a clearly identified specific asset), while the security over the fluctuating stock-in-trade and receivables is a floating charge (hovering over a changing class of assets until crystallisation).

(D) Both securities are fixed charges since both are created by written instruments duly registered with the Registrar of Companies.

Q16. Cascade Industries Ltd had created a floating charge in favour of Bank A and, subsequently, a fixed charge in favour of Bank B, both over its assets. The National Company Law Tribunal thereafter orders compulsory winding up of Cascade Industries Ltd. Bank A claims priority over Bank B on the ground that its floating charge was created earlier in time.

Which of the following correctly describes the priority of charges upon winding up?

(A) Bank A's floating charge has priority because it was created earlier in time and was duly registered with the Registrar, giving it first ranking over all subsequent charges.

(B) Both charges rank equally (pari passu) and the proceeds from realisation of assets will be distributed proportionately between Bank A and Bank B.

(C) The floating charge in favour of Bank A crystallises only upon formal written notice by Bank A to the company, and until such notice is given, Bank A retains priority over subsequent creditors.

(D) A fixed charge has inherent priority over a floating charge irrespective of chronological order of creation; on winding up, the floating charge crystallises but ranks after Bank B's pre-existing fixed charge.

Q17. Delta Electronics Ltd creates a charge over its plant and machinery in favour of HDFC Bank on 1 June 2025. The company neglects to register the charge with the Registrar of Companies within the prescribed statutory period. By the time the company seeks to enforce the charge, it has been ordered into liquidation. The liquidator refuses to recognise the charge in the distribution of assets.

What is the legal consequence of non-registration of a charge under s.77 of the Companies Act, 2013?

(A) An unregistered charge is void as against the liquidator and any creditor of the company under s.77(3); the money secured by the charge becomes immediately payable, and the liquidator's refusal to recognise the charge is legally correct.

(B) Non-registration of a charge is merely a procedural irregularity; the charge remains valid and enforceable as between the company and the charge-holder even if unregistered.

(C) An unregistered charge can be enforced against the company if the charge-holder proves that all creditors had actual notice of the existence of the charge at the time of their dealing.

(D) An unregistered charge can be retrospectively validated by a resolution passed at a general meeting of the company, provided no winding-up petition is pending.

Q18. Radiant Steel Ltd fully repays its term loan to State Bank of India on 15 July 2025, and the bank acknowledges the complete discharge of the outstanding debt. The charge created over the company's assets as security for the loan has accordingly been satisfied. The company's legal team asks whether any statutory filing is required following satisfaction of the charge and, if so, within what time limit.

What is the correct legal position under the Companies Act, 2013?

(A) No filing is required; a charge automatically ceases to appear on the register of charges once the underlying loan is fully repaid, without any intimation to the Registrar.

(B) Under s.82(1), the company must intimate the Registrar of Companies within 30 days of the date of satisfaction of the charge, and the Registrar will then record a memorandum of satisfaction in the register of charges (Form CHG-4).

(C) The company must intimate the Registrar within 60 days of repayment and pay a prescribed condonation fee; failure results in the charge remaining live on the register indefinitely.

(D) It is the exclusive responsibility of the charge-holder (State Bank of India) to intimate the Registrar about satisfaction of the charge; the company has no statutory obligation in this regard.

Q19. The board of Sterling Textiles Ltd, at a board meeting held in September 2025, appoints Ms. Kavitha as an additional director under s.161(1) of the Companies Act, 2013, as the articles of association permit such appointment. The company's next Annual General Meeting is scheduled for December 2025. Certain board members assume that Ms. Kavitha will automatically continue as a regular director after the AGM unless a specific resolution is passed to remove her.

Which of the following correctly describes the tenure of an additional director under the Companies Act, 2013?

(A) Ms. Kavitha holds office as additional director until the end of the current financial year, after which the board must pass a fresh resolution to continue her appointment.

(B) Once appointed as an additional director, Ms. Kavitha continues in office unless the board specifically passes a resolution for her removal or she vacates office under s.167.

(C) Under s.161(1), Ms. Kavitha holds office only up to the date of the next AGM or the last date on which the AGM ought to have been held, whichever is earlier; she must be appointed as a regular director by shareholders at the December 2025 AGM to continue.

(D) Additional directors can serve indefinitely since the Companies Act, 2013 does not impose a statutory tenure limit; only the articles of association can restrict their term of office.

Q20. The board of Pinnacle Constructions Ltd passes a unanimous resolution appointing Mr. Arvind as Managing Director for a term of 7 years. The company's legal advisor raises an objection to the validity of the appointment, citing provisions of the Companies Act, 2013 and Schedule V.

Which of the following correctly states the legal position on the tenure of a Managing Director under the Companies Act, 2013?

(A) The appointment is valid; unanimous board approval is sufficient to fix both the appointment and the tenure of a managing director for any period.

(B) A managing director can be appointed for any tenure the board deems fit, provided the appointment is further approved by a special resolution at a general meeting.

(C) The maximum permissible tenure for a managing director is 10 years at a time; a 7-year appointment is therefore lawful under the Companies Act, 2013.

(D) The appointment for 7 years is invalid; s.196(2) read with Schedule V caps the tenure of a managing director at a maximum of 5 years at a time, though reappointment for a further term of up to 5 years is permissible upon expiry.

Solutions

Sol 1.

Solution

Concept — Director Disqualification under s.164: Section 164(1)(d) of the Companies Act, 2013 disqualifies a person from being appointed as director if he has been convicted by a court of any offence and sentenced to imprisonment for not less than 6 months, and a period of five years has not elapsed from the date of expiry of the sentence. The disqualification applies to any offence, whether or not it is a company law offence.

Analysis: Mahesh was convicted four years ago and sentenced to 9 months' imprisonment. The sentence would have expired approximately three years and three months ago (i.e., nine months after the conviction four years ago). Five years have not yet elapsed from the expiry of his sentence. He therefore remains disqualified under s.164(1)(d).

Why other options are wrong:

- Option (A): **Correct.** Disqualification under s.164(1)(d) covers any conviction with a sentence of 6 months or more; five years from expiry of sentence have not passed.
- Option (B): The statute does not restrict disqualification to company law offences; any court conviction with a sentence of 6 months or more triggers s.164(1)(d).
- Option (C): Disqualification under s.164 applies to all categories of directorship, including additional directors under s.161; no exception exists.
- Option (D): Disqualification operates by force of statute upon the occurrence of the specified event; no Central Government notification is required to activate it.

Final Answer: Mahesh remains disqualified under s.164(1)(d) as five years have not elapsed from the expiry of his 9-month sentence. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q1

Sol 2.

Solution

Concept — Vacation of Office under s.167: Section 167(1)(b) of the Companies Act, 2013 provides that the office of a director shall become vacant if he "absents himself from all the meetings of the Board of Directors held during a period of twelve months with or without seeking leave of absence of the Board." The vacation is automatic and occurs by operation of law — no board resolution is required to declare the vacancy.

Analysis: Priya has been absent from all 12 board meetings held over 14 months, covering the statutory period of 12 consecutive months. The provision expressly applies "with or without seeking leave of absence," so the board's informal knowledge of her illness does not save her directorship. Her office has automatically become vacant.

Why other options are wrong:

- Option (A): Implied or informal board awareness does not substitute for the statutory requirement; the provision operates "with or without" leave.
- Option (B): **Correct.** Vacation is automatic on absence from all board meetings across any 12-month period, regardless of leave or illness.
- Option (C): There is no statutory cure provision in s.167; vacation occurs automatically and cannot be remedied by subsequent attendance.
- Option (D): No board resolution is needed under s.167; vacation of office occurs by operation of law without any formal declaration.

Final Answer: Priya's office automatically vacates under s.167(1)(b) upon absence from all board meetings during a 12-month period. $\Rightarrow \boxed{B}$

Answer: (B) Go Back to Q2

Sol 3.

Solution

Concept — Independent Director Criteria under s.149(6): Section 149(6) of the Companies Act, 2013 prescribes the conditions an independent director must satisfy. Clause (c) provides that an independent director shall not hold, together with his relatives, two percent or more of the total voting power of the company. This is a mandatory eligibility condition and cannot be waived by any resolution.

Analysis: Anand Sharma holds 2.5% of the total voting power of Sunrise Corp

Ltd. This exceeds the 2% ceiling under s.149(6)(c). He is therefore ineligible for appointment as independent director, regardless of his absence of other disqualifying relationships with the company.

Why other options are wrong:

- Option (A): Absence of a pecuniary or professional relationship is necessary but not sufficient; the 2% shareholding cap is a separate mandatory condition that Anand fails.
- Option (B): A special resolution in the general meeting cannot override the mandatory statutory eligibility criteria under s.149(6); the conditions are set by Parliament.
- Option (C): **Correct.** Section 149(6)(c) caps the threshold at 2% of total voting power; Anand's 2.5% exceeds it and he is disqualified.
- Option (D): The 5% threshold has no statutory basis under the Companies Act, 2013; the correct ceiling is 2%, and Anand's holding exceeds it.

Final Answer: Anand's 2.5% holding exceeds the 2% limit under s.149(6)(c); he is ineligible as independent director. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q3

Sol 4.

Solution

Concept — Directors' Duties under s.166: Section 166(2) of the Companies Act, 2013 imposes a statutory duty on every director to act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community, and for the protection of the environment. This reflects a pluralist stakeholder model, moving beyond the traditional shareholder-centric approach.

Analysis: Director Vikram Mehta's assertion that directors owe duties exclusively to shareholders is contrary to the express text of s.166(2). The statute includes employees, the community, and the environment as express beneficiaries. A decision that harms employees and the community constitutes a breach of s.166(2), even if it benefits shareholders.

Why other options are wrong:

- Option (A): Incorrect; s.166(2) expressly extends the duty beyond shareholders to employees, community, and the environment.

- Option (B): Incorrect; employees and the community are named beneficiaries under s.166(2); the statement that duties run only to shareholders and creditors has no statutory basis.
- Option (C): Incorrect; shareholder authorisation cannot override a mandatory statutory duty; the duty in s.166(2) is imposed by Parliament and binds directors independently.
- Option (D): **Correct.** Section 166(2) mandates directors to act in the best interests of the company, its employees, shareholders, the community, and the environment.

Final Answer: Director Mehta's position is incorrect; s.166(2) mandates directors to promote the interests of a wider set of stakeholders. $\Rightarrow \boxed{D}$

Answer: (D) Go Back to Q4

Sol 5.

Solution

Concept — Disclosure of Interest by Director under s.184: Section 184(2) of the Companies Act, 2013 requires every director who is directly or indirectly interested in a proposed contract or arrangement to disclose the nature of his concern or interest at the board meeting in which the contract is discussed. Where a director fails to disclose his interest, the contract entered into is voidable at the option of the company, and the director is also liable to a penalty.

Analysis: Suresh Kumar, as sole proprietor of Suresh Builders, has a direct financial interest in the contract between Alpha Constructions Ltd and Suresh Builders. His failure to disclose this interest at the board meeting where the contract was approved is a violation of s.184(2). The contract is therefore voidable at Alpha Constructions' option, and Suresh is liable to a penalty under the Act.

Why other options are wrong:

- Option (A): **Correct.** Non-disclosure under s.184(2) renders the contract voidable at the company's option and exposes the director to a statutory penalty.
- Option (B): There is no doctrine of deemed disclosure for interested directors; formal disclosure at the board meeting is a mandatory statutory requirement.
- Option (C): The consequence is not void ab initio but voidable; the company exercises a choice to avoid it, and until it does, the contract subsists.

- Option (D): Proof of actual loss is not a precondition to avoidance; non-disclosure alone is sufficient to trigger the voidable status under s.184(2).

Final Answer: The contract is voidable at the company's option under s.184(2); Suresh is liable for non-disclosure of interest. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q5

Sol 6.

Solution

Concept — Quorum for Board Meeting under s.174: Section 174(1) of the Companies Act, 2013 provides that the quorum for a meeting of the board shall be one-third of its total strength or two directors, whichever is higher. Fractions are rounded up to the nearest whole number. The total strength is the total number of directors on the board as constituted.

Analysis: Precision Tools Ltd has a total board strength of 9 directors. One-third of 9 equals 3 directors. The statutory floor is 2 directors. Since 3 exceeds 2, the quorum for the board meeting is 3 directors. The existence of interested directors may affect whether quorum is met for a specific agenda item, but the general quorum for the meeting itself is 3.

Why other options are wrong:

- Option (A): 2 is the statutory floor applicable only when one-third of total strength falls below 2; for a 9-member board, one-third yields 3, which is the applicable quorum.
- Option (B): **Correct.** One-third of 9 is 3 directors, which is higher than the minimum of 2; hence the quorum is 3 under s.174(1).
- Option (C): More than half (5 directors) is the standard for a general meeting quorum in public companies, not for board meetings; s.174 specifies one-third.
- Option (D): Section 174 does not recalculate the quorum by excluding interested directors from the total strength; the total strength remains 9 and the quorum remains 3.

Final Answer: The quorum for Precision Tools Ltd's board meeting (9 directors) is 3 directors under s.174(1). $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q6

Sol 7.

Solution

Concept — Circular Resolution under s.175: Section 175 of the Companies Act, 2013 permits the board to pass resolutions by circulation without convening a physical meeting, subject to the condition that such resolution is approved by a majority of directors. However, the Companies (Meetings of Board and its Powers) Rules, 2014 expressly prohibit certain matters from being transacted by circular resolution, including the approval of financial statements and the board's report, which must be considered at a physical board meeting.

Analysis: Approval of annual financial statements and the board's report are matters specifically excluded from the scope of circular resolutions under the applicable Rules. These matters require deliberation at a properly convened board meeting. The CFO's proposal is therefore legally impermissible, regardless of the number of directors who sign.

Why other options are wrong:

- Option (A): Not every matter can be resolved by circulation; the Rules specifically exclude certain categories including financial statement approval.
- Option (B): The three-fourths majority threshold does not cure the substantive prohibition; financial statements simply cannot be approved by circulation under any majority.
- Option (C): **Correct.** Financial statements and board's report are excluded from circular resolution under s.175 read with the Board Meetings Rules; a physical meeting is mandatory.
- Option (D): The Act does not impose a monetary threshold to distinguish what can be resolved by circulation; the exclusion is category-based, not value-based.

Final Answer: Approval of financial statements cannot be passed by circulation; a physical board meeting is mandatory under s.175 read with the Rules. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q7

Sol 8.

Solution

Concept — Annual General Meeting under s.96: Section 96(1) of the Companies Act, 2013 provides that the first AGM of a company must be held within nine months from the end of the first financial year. For subsequent AGMs, the period is six months from the end of the financial year, with not more than fifteen months between two AGMs. Importantly, no AGM is required to be held in the calendar year of incorporation.

Analysis: Omega Technologies Ltd was incorporated on 15 March 2024 and its first financial year ends on 31 March 2025. The first AGM must be held within nine months from 31 March 2025, i.e., by 31 December 2025. No AGM was required in 2024 (the year of incorporation).

Why other options are wrong:

- Option (A): The six-month period applies to subsequent AGMs; the first AGM has the extended period of nine months from the close of the first financial year.
- Option (B): The Act does not use eighteen months from incorporation as the measure; the first AGM is measured from the close of the first financial year under s.96(1).
- Option (C): Companies are not required to hold an AGM in the year of incorporation; the obligation arises from the close of the first financial year.
- Option (D): **Correct.** The first AGM must be held within nine months of 31 March 2025, i.e., by 31 December 2025 under s.96(1).

Final Answer: The first AGM of Omega Technologies Ltd must be held by 31 December 2025 (nine months from 31 March 2025). $\Rightarrow \boxed{\text{D}}$

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

Sol 9.

Solution

Concept — Extraordinary General Meeting under s.100: Section 100(2) of the Companies Act, 2013 requires the board to call an EGM upon receipt of a requisition from members holding, as on the date of deposit of requisition, not less than one-tenth of the paid-up share capital carrying voting rights (for companies having share capital). The right to call the EGM themselves (by requisitionists) arises only if the board fails to call the meeting within 21 days of receiving a *valid* requisition, and the EGM must then be held within 45 days of the requisition.

Analysis: The shareholders in this case hold only 8% of the paid-up share capital with voting rights. This falls below the mandatory threshold of 10% (one-tenth) required under s.100(2). The requisition is therefore invalid. The board was under no legal obligation to call the EGM, and its refusal is legally justified.

Why other options are wrong:

- Option (A): **Correct.** The requisition threshold is 10%; 8% is insufficient, so the requisition is invalid and the board's refusal is lawful.
- Option (B): The right to call the EGM themselves arises only after a *valid* requisition is ignored; an invalid requisition does not trigger that right.
- Option (C): There is no provision permitting any shareholder regardless of holding to requisition an EGM; the 10% threshold is mandatory.
- Option (D): The 45-day period is for holding the EGM after a valid requisition, not merely for the board to acknowledge it; moreover, the requisition here is invalid.

Final Answer: The requisition is invalid as 8% is below the mandatory 10% threshold under s.100(2); the board's refusal is justified. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q9

Sol 10.

Solution

Concept — Quorum for General Meeting under s.103: Section 103(1) of the Companies Act, 2013 prescribes different quorum requirements for public and private companies. For a *private company*, the quorum is 2 members personally present. For a *public company*, the quorum is 5 members (if total members do not exceed 1,000), 15 members (if total members are between 1,001 and 5,000), or 30 members (if total members exceed 5,000). Proxies are not counted for quorum purposes.

Analysis: Crystal Glass Pvt Ltd is a private company. The statutory quorum for its general meeting is 2 members personally present. Since only 1 member is present, quorum is not met. The meeting must be adjourned in accordance with s.103(2).

Why other options are wrong:

- Option (A): 5 members is the quorum for a public company with up to

1,000 members; private companies have a lower requirement of 2 members.

- Option (B): **Correct.** The quorum for a private company's general meeting is 2 members personally present; with only 1 present, the meeting cannot proceed.
- Option (C): Section 103 prescribes fixed numbers for quorum, not fractional calculations; no one-fourth rule exists under the Act.
- Option (D): 3 members is not the statutory quorum for any category of company under s.103; the private company requirement is 2 members.

Final Answer: The quorum for Crystal Glass Pvt Ltd is 2 members; with only 1 present, the meeting must be adjourned under s.103. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q10

Sol 11.

Solution

Concept — Proxy under s.105: Section 105(1) of the Companies Act, 2013 provides that any member entitled to attend and vote at a meeting may appoint another person as a proxy to attend and vote instead of him, and that such proxy need not be a member of the company. However, a proxy is not entitled to speak at the meeting. The right to address the meeting is personal to the member and is not delegable through a proxy.

Analysis: Rajan is validly appointed as Devika's proxy even though he is not a member of Crestview Ltd, since the Act expressly permits non-members to act as proxies. Rajan may attend the AGM and vote on all resolutions. However, he cannot participate in oral debates or address the meeting, as the right to speak is reserved for members themselves.

Why other options are wrong:

- Option (A): Section 105 expressly states that a proxy "need not be a member of the company"; Rajan's non-membership does not invalidate his proxy appointment.
- Option (B): A proxy cannot speak at the meeting at all; this option incorrectly grants speech rights to a proxy while restricting poll voting, which is the reverse of the legal position.
- Option (C): **Correct.** A proxy may attend and vote but cannot speak at the meeting; Devika's instruction to Rajan to debate is beyond the scope of proxy rights.

- Option (D): A proxy does not enjoy all the rights of a member; specifically, the right to speak and address the meeting is not conferred on a proxy by s.105.

Final Answer: Rajan can attend and vote on Devika's behalf but cannot speak at the meeting under s.105(1). ⇒ $\boxed{\text{C}}$

Answer: (C) Go Back to Q11

Sol 12.

Solution

Concept — Ordinary and Special Resolutions under s.114: Section 114(1) of the Companies Act, 2013 defines an ordinary resolution as one where votes cast in favour (by members entitled to vote, in person or by proxy) exceed votes cast against. Section 114(2) defines a special resolution as one where the votes cast in favour are not less than three times the votes cast against, i.e., at least three-fourths of votes cast. Alteration of the Articles of Association under s.14 requires a special resolution.

Analysis: Declaration of dividend is ordinary business at an AGM and requires only an ordinary resolution (simple majority). Alteration of the Articles of Association is a fundamental change requiring a special resolution (at least three-fourths of votes cast in favour). The company secretary must apply the correct majority threshold to each item.

Why other options are wrong:

- Option (A): Declaration of dividend does not require a special resolution; an ordinary resolution suffices for this item of business.
- Option (B): Alteration of articles is exclusively a shareholder matter requiring a special resolution; the board of directors alone has no power to alter the articles.
- Option (C): The three-fourths majority for a special resolution is calculated on votes *cast*, not on total paid-up share capital; this option mis-states the denominator.
- Option (D): **Correct.** Dividend declaration requires an ordinary resolution (simple majority of votes cast); alteration of articles requires a special resolution (three-fourths majority of votes cast).

Final Answer: Dividend declaration needs an ordinary resolution; alteration of articles needs a special resolution (three-fourths of votes cast). ⇒ $\boxed{\text{D}}$

Answer: (D) Go Back to Q12

Sol 13.

Solution

Concept — Debenture Trustee under s.71(5): Section 71(5) of the Companies Act, 2013 provides that a company shall not issue a prospectus or make an invitation to the public for the subscription of its debentures, unless it has, before such issue or invitation, appointed one or more debenture trustees. The appointment of a debenture trustee is a mandatory pre-condition to the public issue; it is not optional and cannot be waived on grounds of security or any other basis.

Analysis: Pioneer Infrastructure Ltd's proposed public issue via prospectus is subject to s.71(5). The obligation to appoint a debenture trustee before issuing the prospectus is unconditional. The CFO's suggestion to skip the appointment is contrary to statute, regardless of the adequacy of asset security.

Why other options are wrong:

- Option (A): **Correct.** Appointment of a debenture trustee before issuing the prospectus is a mandatory pre-condition under s.71(5); the CFO's suggestion violates this requirement.
- Option (B): The Act requires a debenture trustee specifically for public issues via prospectus; private placement also requires a trustee, making this option doubly wrong.
- Option (C): No provision in the Companies Act, 2013 or SEBI regulations allows waiver of the debenture trustee requirement through any disclaimer; it is a mandatory statutory requirement.
- Option (D): The Act requires pre-issue appointment, not post-allotment appointment; a 30-day post-allotment period has no statutory basis.

Final Answer: A debenture trustee must be appointed before issuing the prospectus; this is a mandatory pre-condition under s.71(5). $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q13

Sol 14.

Solution

Concept — Debentures and Voting Rights under s.71: Section 71(2) of the Companies Act, 2013 contains an absolute prohibition: "no company shall issue debentures carrying voting rights." This prohibition applies regardless of whether the debentures are convertible or non-convertible. Fully convertible debentures are a recognised category under the Act, but until actual conversion into equity shares, the debenture holders have no voting rights whatsoever.

Analysis: Sunrise Energy Ltd's issue of fully convertible debentures is lawful. However, the trust deed provision granting voting rights to debenture holders until conversion is directly contrary to s.71(2) and is therefore illegal and void. Mr. Das's concern is well-founded: the voting rights clause violates an express statutory prohibition.

Why other options are wrong:

- Option (A): Fully convertible debentures are indeed recognised under the Companies Act, 2013 and are lawfully issuable; this option incorrectly states otherwise.
- Option (B): **Correct.** Section 71(2) prohibits debentures with voting rights; the trust deed clause is illegal. Fully convertible debentures per se are valid.
- Option (C): Voting rights for debenture holders cannot be authorised even by the articles or by special resolution; the prohibition in s.71(2) is absolute.
- Option (D): Debenture holders acquire voting rights only upon actual conversion into equity shares; declaration of convertibility by the board does not confer voting rights.

Final Answer: Debentures cannot carry voting rights under s.71(2); the trust deed clause is illegal, though convertible debentures per se are valid. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q14

Sol 15.

Solution

Concept — Types of Charges under s.2(16): Section 2(16) of the Companies Act, 2013 defines "charge" as an interest or lien created on the property or assets of a company as security. A *fixed charge* (specific charge) attaches immediately to a specific identified asset; the company cannot deal with that asset without the charge-holder's consent. A *floating charge* hovers over a class of changing assets (typically circulating assets) and allows the company to deal with them in the ordinary course of business until crystallisation, at which point it converts into a fixed charge.

Analysis: Loan 1: The mortgage over the specific Pune hotel property is a fixed charge — it is attached to a clearly defined, immovable, identifiable asset. Loan 2: The security over stock-in-trade, book debts, and current assets is a floating charge — these assets fluctuate in composition and value and are used in the ordinary course of business; no specific asset is earmarked at the time of creation.

Why other options are wrong:

- Option (A): The hotel mortgage is not a floating charge; it attaches to a specific, identified immovable property and is a fixed charge.
- Option (B): A pledge requires actual delivery of possession, which is not applicable here; the hotel mortgage is a fixed charge, and the current assets security is a floating charge, not a fixed charge.
- Option (C): **Correct.** The specific hotel property mortgage is a fixed charge; the fluctuating current assets security is a floating charge.
- Option (D): Registration determines the legal validity and priority of a charge but does not determine its classification as fixed or floating; both types must be registered.

Final Answer: Loan 1 (specific hotel mortgage) is a fixed charge; Loan 2 (fluctuating current assets) is a floating charge. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q15

Sol 16.

Solution

Concept — Priority: Fixed Charge over Floating Charge: A well-established principle of company law provides that a fixed charge has priority over a floating charge, irrespective of the chronological order in which they were created. A floating charge crystallises upon the occurrence of specified events such as commencement of winding up, appointment of a receiver, or cessation of business. Upon crystallisation, the floating charge converts into a fixed charge, but it cannot displace or supersede a pre-existing fixed charge.

Analysis: Upon the commencement of compulsory winding up ordered by the NCLT, the floating charge in favour of Bank A crystallises. However, Bank B holds a fixed charge. The fixed charge of Bank B has inherent priority over Bank A's floating charge (now crystallised) regardless of the order of creation. Bank A's claim to chronological priority is legally unsound.

Why other options are wrong:

- Option (A): Chronological priority does not give a floating charge precedence over a subsequently created fixed charge; fixed charges are inherently superior in priority.
- Option (B): Fixed and floating charges do not rank equally; fixed charges have higher priority as a matter of settled law.
- Option (C): A floating charge crystallises automatically upon the occurrence of winding-up; formal written notice from the charge-holder is not a prerequisite for crystallisation on insolvency.
- Option (D): **Correct.** Fixed charges rank ahead of floating charges regardless of creation sequence; Bank B's fixed charge has priority over Bank A's crystallised floating charge.

Final Answer: Bank B's fixed charge has priority over Bank A's floating charge regardless of chronological order of creation. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q16

Sol 17.

Solution

Concept — Mandatory Registration of Charge under s.77: Section 77(1) of the Companies Act, 2013 requires every company creating a charge to register particulars of the charge with the Registrar of Companies within 30 days of creation (extendable to 300 days on payment of additional fees). Section 77(3) provides the consequence of non-registration: the charge is void as against the liquidator and any creditor of the company, and the money secured thereby becomes immediately payable upon the charge becoming void.

Analysis: Delta Electronics Ltd failed to register the charge within the prescribed period. Upon liquidation, the unregistered charge is void against the liquidator under s.77(3). HDFC Bank loses its secured creditor status and can only claim as an unsecured creditor. The liquidator's refusal to recognise the charge is fully supported by statute.

Why other options are wrong:

- Option (A): **Correct.** An unregistered charge is void against the liquidator and creditors under s.77(3); the money secured becomes immediately payable.
- Option (B): Non-registration is not a mere procedural defect; s.77(3) expressly renders the charge void against the liquidator and creditors, not merely the company.
- Option (C): The Companies Act, 2013 does not recognise actual notice as a substitute for statutory registration; registration provides constructive notice to all.
- Option (D): No provision in the Act permits retrospective validation of an unregistered charge by a general meeting resolution; the statutory consequence is automatic.

Final Answer: An unregistered charge is void against the liquidator under s.77(3); the liquidator correctly refuses to recognise it. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q17

Sol 18.

Solution

Concept — Satisfaction of Charge under s.82: Section 82(1) of the Companies Act, 2013 requires a company to give intimation to the Registrar of Companies within **30 days** of the date of payment or full satisfaction of a charge. The intimation is made in the prescribed form (Form CHG-4). On receipt of the intimation and being satisfied thereof, the Registrar records a memorandum of satisfaction in the register of charges. This is a statutory obligation of the company, not of the charge-holder.

Analysis: Radiant Steel Ltd repaid the loan to SBI on 15 July 2025. The company must file Form CHG-4 with the Registrar within 30 days, i.e., by 14 August 2025. Failure to do so results in the charge remaining live on the register despite actual satisfaction, which can mislead future creditors and lenders.

Why other options are wrong:

- Option (A): Charges do not automatically disappear from the register upon repayment; a formal filing with the Registrar is mandatory to achieve satisfaction on record.
- Option (B): **Correct.** The company must intimate the Registrar within 30 days of satisfaction in Form CHG-4 under s.82(1).
- Option (C): The prescribed period is 30 days, not 60 days; this option states an incorrect time limit.
- Option (D): The obligation to intimate the Registrar about satisfaction of charge is cast on the *company* by s.82(1), not on the charge-holder.

Final Answer: The company must intimate the Registrar in Form CHG-4 within 30 days of satisfaction of the charge under s.82(1). $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q18

Sol 19.

Solution

Concept — Additional Directors under s.161(1): Section 161(1) of the Companies Act, 2013 empowers the board of directors, if authorised by the articles of association, to appoint additional directors. An additional director holds office only up to the date of the next Annual General Meeting or the last date on which the AGM ought to have been held, whichever is earlier. To continue as a director beyond that date, the person must be appointed as a regular director by the shareholders at the AGM.

Analysis: Ms. Kavitha was appointed as additional director in September 2025. The next AGM is in December 2025. Her office as additional director will automatically lapse at the December 2025 AGM. She cannot continue as a director unless the shareholders duly appoint her as a regular director at that meeting. The assumption that she continues automatically after the AGM is incorrect.

Why other options are wrong:

- Option (A): An additional director's tenure is linked to the next AGM, not to the end of the financial year; this option incorrectly states the governing trigger.
- Option (B): The tenure ends automatically at the AGM by operation of s.161(1); the office does not continue unless shareholders reappoint her; removal is not the relevant consideration.
- Option (C): **Correct.** Under s.161(1), Ms. Kavitha's office as additional director lapses at the next AGM; shareholders must appoint her as a regular director to continue.
- Option (D): Section 161(1) itself imposes the AGM-linked tenure limit; this is a mandatory statutory provision that applies regardless of what the articles say.

Final Answer: Ms. Kavitha's office as additional director automatically lapses at the December 2025 AGM under s.161(1). $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q19

Sol 20.

Solution

Concept — Managing Director: Tenure under s.196: Section 2(54) of the Companies Act, 2013 defines a "managing director" as a director entrusted with substantial powers of management. Section 196(2) read with Schedule V limits the tenure of a managing director (or whole-time director or manager) to a maximum of **5 years at a time**. Reappointment for a further term of up to 5 years is permissible upon expiry, but no single term may exceed 5 years. This limit is mandatory and cannot be overridden by board resolution or shareholder approval.

Analysis: Pinnacle Constructions Ltd's board has resolved to appoint Mr. Arvind as Managing Director for 7 years. This exceeds the statutory maximum of 5 years per term under s.196(2). The appointment for 7 years is invalid by operation of law, regardless of the board's unanimity. The company must restrict the tenure to a maximum of 5 years and may reappoint for a further term upon expiry.

Why other options are wrong:

- Option (A): Board approval, however unanimous, cannot override a mandatory statutory tenure limit; s.196(2) is not a default rule that can be contracted out of.
- Option (B): Even a special resolution in the general meeting cannot extend the tenure beyond the statutory maximum of 5 years; mandatory provisions cannot be waived by shareholders.
- Option (C): The maximum tenure is 5 years per term, not 10 years; a 7-year appointment violates s.196(2) read with Schedule V.
- Option (D): **Correct.** Section 196(2) caps a single term at 5 years; Mr. Arvind's 7-year appointment is invalid notwithstanding unanimous board approval.

Final Answer: A managing director's single term cannot exceed 5 years under s.196(2); the 7-year appointment is invalid. $\Rightarrow \boxed{D}$

Answer: (D) **Go Back to Q20**

Answer Key

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