CLAT PG Company Law Sample Paper – 3

Duration: 20 Minutes | Max Marks: 20

Instructions

- This paper contains **20 Multiple Choice Questions** carrying **1 mark** each.
- Each correct answer awards **+1 mark**. Each wrong answer deducts **–0.25 marks** (negative marking).
- Duration: **20 Minutes**. Maximum Marks: **20**.
- Choose the **most appropriate** option in each question.
- Topics covered: Dividends, Accounts & Audit, Winding Up, Oppression/Mismanagement, and NCLT/NCLAT.
- Click on any answer in the Answer Key at the end to jump to its detailed solution.

QUESTIONS

Q.1. Pinnacle Textiles Ltd., a public company, suffered a net loss of Rs.2 crore in the current financial year. However, the company holds substantial accumulated free reserves built up from previous profitable years. The Board of Directors proposes to declare a dividend for the current year by drawing from these free reserves. A shareholder challenges the proposal, contending that dividend can only be declared out of current year profits and that any other declaration is contrary to law.

Which of the following best describes the legal position regarding declaration of dividend from free reserves under the Companies Act, 2013?

(A) Dividend can only be declared out of profits of the current financial year; free reserves can never be used for the purpose of dividend declaration under any circumstances.

(B) The Board of Directors can freely declare dividend from accumulated free reserves without any restriction, provided the articles of association permit such a declaration.

(C) Dividend may be declared from free reserves subject to prescribed conditions, including limits on the amount withdrawn and a requirement to maintain minimum residual reserves.

(D) The company must obtain prior approval of the Central Government before declaring dividend from free reserves in any year in which a net loss has been incurred.

Q.2. The Board of Directors of Horizon Pharmaceuticals Ltd. passes a resolution mid-way through the financial year declaring an interim dividend of Rs.5 per share. A minority shareholder contends that the power to declare dividend vests exclusively with the shareholders in a general meeting, and that the Board's resolution declaring interim dividend is ultra vires and void under the Companies Act, 2013.

Which of the following correctly states the law relating to interim dividend under the Companies Act, 2013?

(A) The Board of Directors is statutorily empowered to declare interim dividend at any time during the financial year or at any time during the period from closure of the financial year till holding of the annual general meeting.

(B) Only the shareholders assembled in a general meeting can declare any form of dividend, whether interim or final, and a Board resolution purporting to declare interim dividend is void ab initio.

(C) The Board may declare interim dividend only with the prior written approval of the Reserve Bank of India, in the case of public companies listed on a recognised stock exchange.

(D) Interim dividend can only be declared after the annual accounts have been finalised, adopted at the AGM, and signed by the statutory auditor.

Q.3. XYZ Ltd., a listed public company, appoints Mr. Kapoor, a Chartered Accountant practising in his individual capacity, as its statutory auditor for the first time at its Annual General Meeting. The shareholders enquire about the maximum tenure for which Mr. Kapoor can continue as auditor and whether he is eligible for immediate reappointment after his initial term ends.

Which of the following correctly states the tenure provisions applicable to an individual statutory auditor under Section 139 of the Companies Act, 2013?

(A) An individual auditor can be appointed for two consecutive terms of five years each (totalling ten years), after which he is ineligible for reappointment as auditor of the same company for three years.

(B) An individual auditor can be appointed for an unlimited number of successive five-year terms, provided the shareholders ratify his appointment by ordinary resolution at each annual general meeting.

(C) An individual auditor and an audit firm are subject to the same tenure restriction of two consecutive terms of five years each, after which both are subject to a three-year cooling-off period.

(D) An individual auditor can hold office for one term of five consecutive years only and is thereafter ineligible for reappointment as auditor of the same company for a period of five years from the completion of that term.

Q.4. The Board of Directors of Sunrise Steel Ltd. has lost confidence in Mr. Mehta, the statutory auditor appointed for a five-year term, following allegations of professional misconduct. The Board wishes to remove Mr. Mehta before the expiry of his term. The company secretary advises that removal before the expiry of term involves a stringent multi-step procedure under the Companies Act, 2013.

Which of the following correctly describes the procedure for removal of a statutory auditor before expiry of his term under Section 140 of the Companies Act, 2013?

(A) The Board of Directors can remove the auditor by passing a simple majority resolution at a Board meeting, provided reasonable notice has been given to the auditor to represent himself.

(B) The company must give special notice of the intended resolution, obtain the prior approval of the Central Government, and then pass the resolution for removal in a general meeting of the company.

(C) The auditor can be removed by passing an ordinary resolution at the annual general meeting, without any prior regulatory approval, provided the audit report for that year has not yet been signed.

(D) Removal of an auditor before expiry of term requires only a special resolution passed at an extraordinary general meeting, with no further requirement of government approval.

Q.5. During the course of the statutory audit of Crescent Developers Ltd., auditor Ms. Sharma discovers suspicious transactions strongly suggesting that certain senior officers have fraudulently diverted company funds amounting to approximately Rs.3 crore. The management requests Ms. Sharma to refrain from reporting the matter externally, assuring her that it will be dealt with through an internal committee. Ms. Sharma is uncertain about her legal obligations.

Which of the following correctly describes the auditor's duty regarding reporting of fraud under Section 143(12) of the Companies Act, 2013?

(A) The auditor has a discretion to decide whether to report the fraud to any external authority or merely include a qualified remark in the audit report, depending on the materiality of the amount and the strength of the evidence.

(B) The auditor's obligation is limited to reporting suspected fraud to the Audit Committee or the Board of Directors internally, and no report to any government authority is required under any circumstances.

(C) If in the course of performing audit duties the auditor has reason to believe that an offence of fraud involving the prescribed amount or above is being or has been committed, the auditor is mandatorily required to report the matter to the Central Government.

(D) The duty to report fraud becomes operative only after a forensic audit commissioned by the company independently confirms the fraud; the statutory auditor's own findings are insufficient to trigger the reporting obligation.

Q.6. Bharat Cement Ltd., a large manufacturing company, receives a government notice directing it to get its cost records audited for the current financial year. The company's management disputes the authority's power to issue such a direction and questions which statutory body is empowered to prescribe the class of companies that must mandatorily conduct cost audits under the Companies Act, 2013.

Which of the following correctly describes the framework for mandatory cost audit under Section 148 of the Companies Act, 2013?

(A) The Central Government may, by order in the Official Gazette, direct that the cost records of companies engaged in the production of specified goods or providing specified services be audited, and such companies must get their cost records audited by a cost accountant in practice.

(B) Cost audit is mandatory for all companies with an annual turnover exceeding Rs.100 crore irrespective of sector, and the relevant order is issued by the Securities and Exchange Board of India.

(C) The Institute of Cost Accountants of India (ICAI-CMA) is empowered to prescribe the class of companies that must mandatorily conduct cost audits and to appoint cost auditors for this purpose.

(D) Cost audit is applicable only to companies in the defence and aerospace sector and must be conducted under the direct supervision of the Comptroller and Auditor General of India.

Q.7. Omega Corporation Ltd., an Indian company, has a wholly-owned subsidiary incorporated in Germany. The German subsidiary follows a financial year from January to December as mandated by German law. The Indian parent company applies to the Registrar of Companies to adopt a different financial year to facilitate consolidated accounts with its German subsidiary. A question arises as to whether an Indian company can adopt a financial year other than April–March under the Companies Act, 2013.

Which of the following correctly states the law governing the financial year of an Indian company under Section 2(41) of the Companies Act, 2013?

(A) Every company incorporated in India must mandatorily follow a financial year ending on 31st March, without any exception whatsoever, even where holding or subsidiary relationships with foreign entities exist.

(B) A company may adopt any twelve-month period as its financial year, provided the choice is approved by the shareholders through a special resolution at the annual general meeting.

(C) The financial year for all Indian companies is mandatorily April 1 to March 31; however, Indian subsidiaries of foreign companies may follow a different period with approval of the Securities and Exchange Board of India.

(D) The financial year is generally the period ending on 31st March every year, but the Tribunal may, on an application made by a company that is a holding or subsidiary of a company incorporated outside India, allow a different financial year for the purpose of consolidation of accounts.

Q.8. Indus Trading Ltd., a public company with mounting debts and no prospect of commercial revival, faces calls from creditors for dissolution. The company's legal advisors are asked to explain the available modes of winding up under the Companies Act, 2013, as amended, and the relationship between the Companies Act framework and the Insolvency and Bankruptcy Code, 2016.

Which of the following correctly describes the modes of winding up available under the Companies Act, 2013?

(A) Under the Companies Act, 2013, the only mode of winding up is compulsory winding up by the NCLT on a petition filed exclusively by a secured creditor of the company.

(B) The Companies Act, 2013 provides for winding up by the Tribunal (compulsory) and voluntary winding up, which may be members' voluntary or creditors' voluntary; voluntary winding up has since been largely subsumed under the Insolvency and Bankruptcy Code, 2016.

(C) Winding up under the Companies Act, 2013 can be initiated only by the company itself by special resolution or by the Central Government on grounds of public interest, and not by individual creditors.

(D) The Companies Act, 2013 abolished voluntary winding up in its entirety and provides only for winding up by order of the jurisdictional High Court, which exercises supervisory jurisdiction.

Q.9. A petition is filed before the National Company Law Tribunal (NCLT) seeking compulsory winding up of Kalpa Constructions Pvt. Ltd. on the ground that the company has failed to pay its admitted debts to multiple creditors for over a year despite repeated demands and statutory notices. The company's promoters contest the petition, arguing that inability to pay debts is not itself a ground for compulsory winding up under the Companies Act, 2013.

Which of the following correctly identifies the grounds available for compulsory winding up by the Tribunal under Section 271 of the Companies Act, 2013?

(A) The Tribunal can order compulsory winding up only where the company has been formally declared insolvent by a competent civil court or where the Central Government has directed dissolution on grounds of national security.

(B) Compulsory winding up by the Tribunal requires a preceding special resolution passed by the shareholders of the company authorising winding up, in addition to a petition by a creditor or the Registrar.

(C) The grounds for compulsory winding up under Section 271 include the company's inability to pay its debts, fraudulent conduct of affairs attracting action by the Registrar, and the broad "just and equitable" ground, among others specified in the section.

(D) Compulsory winding up can be ordered only on the petition of secured creditors who collectively hold more than fifty per cent of the company's outstanding secured debt at the time of filing the petition.

Q.10. Mr. Arora and Mr. Bansal were close associates who incorporated Arora-

Bansal Properties Pvt. Ltd. as a quasi-partnership, with a mutual understanding that both would remain directors and share in management. Subsequently, Mr. Arora used his majority shareholding to remove Mr. Bansal from the Board at a general meeting. Mr. Bansal petitions the NCLT for winding up on the "just and equitable" ground, citing a landmark House of Lords decision concerning a partnership incorporated as a company engaged in an art gallery business.

Which of the following correctly identifies the legal principle and the authority being relied upon by Mr. Bansal?

(A) The principle from *Ebrahimi v. Westbourne Galleries Ltd.* holds that where a company is in substance a quasi-partnership and a member is excluded from participation in management in breach of the underlying equitable understanding, the court or Tribunal may order winding up on the just and equitable ground.

(B) The petition would necessarily fail because Indian company law does not recognise quasi-partnerships, and removal of a director by the majority at a general meeting is always a lawful exercise of corporate powers and cannot ground a winding up petition.

(C) The Tribunal can order winding up on the just and equitable ground only where the company is commercially insolvent; considerations of fairness and equity are irrelevant where the company is a going concern with positive net worth.

(D) The case of *Salomon v. Salomon & Co. Ltd.* is the leading authority for winding up on the just and equitable ground, establishing that a majority shareholder cannot unilaterally exclude a co-founder from active management.

Q.11. Following a compulsory winding up order passed by the NCLT in respect of Neptune Exports Ltd., a dispute arises between the creditors and the former directors about who holds the authority to sell the company's factory land and other assets during the winding up process. The former directors claim residual managerial authority, while the creditors insist that asset realisations must be handled by the court-appointed functionary.

Which of the following correctly describes the powers of the liquidator and the position of the former Board of Directors upon the passing of a compulsory winding up order by the NCLT?

(A) The Board of Directors retains full authority to manage and dispose of company assets even during winding up proceedings, unless specifically restrained by an interim order of the NCLT.

(B) Once a winding up petition is admitted by the NCLT, all powers of the company stand automatically suspended and a creditors' committee takes over full management pending the final winding up order.

(C) The liquidator has no power to sell the immovable property of the company; such assets can only be disposed of through a public auction conducted under the supervision of the district Collector.

(D) Upon the passing of the winding up order by the NCLT, the Official Liquidator or the Company Liquidator is appointed and assumes the power to take custody of and sell the company's assets, including movable and immovable property, for the benefit of creditors.

Q.12. During the winding up of Globe Fabrics Ltd., the liquidator has realised assets totalling Rs.50 lakh. The claimants include: a bank holding a first charge over factory assets (outstanding debt Rs.40 lakh); employees claiming four months' unpaid wages (Rs.8 lakh in aggregate); the Income Tax Department claiming arrears (Rs.5 lakh); and unsecured trade creditors (Rs.30 lakh outstanding). The liquidator must distribute the realised assets in accordance with the statutory order of priority.

Which of the following correctly states the order of priority of payments in the winding up of a company under the Companies Act, 2013?

(A) Unsecured trade creditors must be paid first as the most commercially vulnerable class, followed in order by secured creditors, employees' wage claims, and government dues.

(B) Secured creditors are entitled to payment from the proceeds of their specifically charged assets first; thereafter, preferential creditors (including employees' wages up to prescribed limits and certain qualifying government dues) rank ahead of ordinary unsecured creditors.

(C) Government tax arrears enjoy the highest statutory priority over all other creditors including secured creditors, followed by employees' wages, followed by the secured creditors in respect of their remaining claims.

(D) All creditors, whether secured, preferential, or unsecured, rank pari passu in a winding up, and the liquidator must distribute realised assets proportionately across all classes without distinction.

Q.13. The minority shareholders of Cascade Ventures Pvt. Ltd., collectively holding 15% of the share capital, allege that the majority shareholders have been systematically diverting company funds to related-party entities at inflated prices, appointing unqualified family members to senior positions at excessive remuneration, and suppressing the legitimate rights of the minority in board meetings. They approach the National Company Law Tribunal seeking relief.

Which of the following correctly identifies the applicable provision and the nature of relief available in cases of oppression and mismanagement under the Companies Act, 2013?

(A) Minority shareholders must first pass a resolution at a general meeting demanding that the majority rectify the alleged wrongs; NCLT has no jurisdiction to entertain a petition until all internal corporate remedies are exhausted.

(B) The appropriate remedy is to file a civil suit in the District Court for damages for breach of fiduciary duty by the majority shareholders; NCLT lacks jurisdiction over disputes between shareholders of a private company.

(C) Under Section 241 of the Companies Act, 2013, any member who meets the eligibility threshold may apply to the NCLT where the affairs of the company are conducted in a manner prejudicial to the interests of the company or oppressive to any member, and the Tribunal may grant wide relief including regulation of the company's affairs or purchase of shares.

(D) The remedy for oppression and mismanagement lies exclusively with SEBI for listed companies and with the jurisdictional High Court for private and unlisted companies; NCLT has no role in such matters.

Q.14. A group of 80 shareholders of Majestic Hotels Ltd., a public company with 5,000 registered members and a paid-up share capital of Rs.20 crore, wish to file a petition before the NCLT alleging mismanagement by the Board of Directors. They collectively hold 8% of the issued share capital. The company's counsel contests their locus standi, arguing that they fall below the statutory minimum threshold for filing an oppression/mismanagement petition.

Which of the following correctly states the eligibility threshold for filing an application under Section 244 of the Companies Act, 2013 in a case of oppression and mismanagement?

(A) In the case of a company having share capital, the application may be made by not less than 100 members or not less than one-tenth of the total number of its members, whichever is less, or by any member or members holding not less than one-tenth of the issued share capital of the company.

(B) Any single shareholder, regardless of the proportion of shares held, can independently file a petition before the NCLT alleging oppression or mismanagement, since the Companies Act, 2013 prescribes no minimum shareholding threshold.

(C) The petition can only be filed by shareholders collectively holding at least 51% of the paid-up share capital, since majority consent must exist before judicial intervention in management is permissible.

(D) Only institutional investors and foreign portfolio investors meeting the minimum threshold prescribed under SEBI regulations are eligible to file petitions for oppression and mismanagement before the NCLT.

Q.15. A legal practitioner advising a client on company law disputes is asked to explain which forum exercises jurisdiction under the Companies Act, 2013 over matters such as oppression and mismanagement, corporate winding up, compromise and amalgamation, and class action suits. The client recalls that historically the Company Law Board and certain High Court benches handled such matters and wishes to understand the current position.

Which of the following correctly describes the constitution and jurisdiction of the National Company Law Tribunal (NCLT) under the Companies Act, 2013?

(A) The NCLT exercises jurisdiction exclusively over listed public companies; all disputes involving private companies and unlisted public companies continue to be adjudicated by the respective jurisdictional High Courts.

(B) The Company Law Board continues to exercise jurisdiction concurrently with the NCLT for all matters involving companies with a paid-up capital below Rs.5 crore, and its orders are subject to appeal to the High Court.

(C) The jurisdictional High Court retains exclusive jurisdiction over all company winding up matters, while the NCLT handles only oppression and mismanagement petitions and certain corporate governance disputes.

(D) The NCLT, constituted under Section 408 of the Companies Act, 2013, exercises the jurisdiction previously vested in the Company Law Board, the Board for Industrial and Financial Reconstruction, and the Appellate Authority for Industrial and Financial Reconstruction, as well as certain company-related jurisdictions of the High Court.

Q.16. Sunrise Realty Ltd. is aggrieved by an order of the NCLT, Bengaluru Bench, approving a scheme of compromise and reconstruction. The company's Board resolves to challenge this order before a higher statutory forum. The legal team is also asked whether a further challenge beyond the first appellate level is available, and if so, before which authority.

Which of the following correctly describes the appellate structure available above the NCLT under the Companies Act, 2013?

(A) An appeal from an order of the NCLT lies to the jurisdictional High Court, which exercises general supervisory jurisdiction over all tribunals within its territorial limits under Article 227 of the Constitution.

(B) An appeal from an order of the NCLT lies to the National Company Law Appellate Tribunal (NCLAT) within the prescribed time, and a further appeal on a question of law lies to the Supreme Court of India.

(C) Appeals from NCLT orders lie to the Securities Appellate Tribunal (SAT) in matters involving listed companies and to the jurisdictional High Court in matters involving unlisted or private companies.

(D) There is no statutory appellate forum for orders of the NCLT; the sole remedy for a party aggrieved by an NCLT order is to file a writ petition before the High Court under Article 226 of the Constitution of India.

Q.17. A group of 120 shareholders of Vishal Chemicals Ltd., a listed company, allege that the management, in collusion with the statutory auditors, has misrepresented the financial statements over three consecutive years, causing investors to purchase shares at artificially inflated prices. They collectively hold 6% of the issued share capital and wish to bring a combined action before the NCLT against both the company and its auditors for compensation and injunctive relief.

Which of the following correctly states the law on class action suits under Section 245 of the Companies Act, 2013?

(A) Class action suits under Section 245 can only be filed against the company and its directors and officers; statutory auditors cannot be made respondents in a class action proceeding under the Companies Act, 2013.

(B) A class action petition under Section 245 is maintainable only if filed by members collectively holding at least 25% of the issued share capital, or debenture holders holding at least 25% of the total outstanding debentures.

(C) Under Section 245, the requisite number of members or depositors may apply to the NCLT for orders restraining the company from conducting its affairs in a manner prejudicial to the interests of its members, and relief may also be sought against the company's auditors, experts, advisors, and consultants.

(D) Class action suits in the Indian context are governed exclusively by Order 1 Rule 8 of the Code of Civil Procedure, 1908, and must be filed before a civil court; the NCLT has no jurisdiction to entertain class action applications.

Q.18. Following a major accounting fraud at Stellar Telecom Ltd., a listed company, the Ministry of Corporate Affairs examines the adequacy of existing regulatory oversight of auditing standards and the professional conduct of auditors of large public companies. The Ministry's attention is drawn to the statutory body created under the Companies Act, 2013 specifically tasked with independent oversight of the audit profession.

Which of the following correctly describes the National Financial Reporting Authority (NFRA) and its powers under Section 132 of the Companies Act, 2013?

(A) NFRA is constituted under Section 132 with functions including recommending accounting and auditing policies and standards to the Central Government, monitoring compliance with such standards, investigating professional misconduct of auditors of prescribed classes of companies, and imposing sanctions including monetary penalties and debarment from practice.

(B) NFRA is a statutory body established under the Chartered Accountants Act, 1949 with the exclusive power to revoke the certificate of practice of auditors who commit professional misconduct, subject to confirmation by the Central Government.

(C) NFRA exercises jurisdiction only over auditors of public sector undertakings and government companies; the Institute of Chartered Accountants of India (ICAI) retains exclusive oversight over auditors of all private sector companies.

(D) NFRA functions as a subordinate regulatory body under SEBI, handling audit-related grievances of investors in listed companies, and its orders are appealable directly to the Securities Appellate Tribunal.

Q.19. The Chief Financial Officer of Prism Industries Ltd., a listed company, is assessing whether the company is subject to the mandatory Corporate Social Responsibility (CSR) framework under Section 135 of the Companies Act, 2013. The company's latest audited figures show: net worth Rs.600 crore, annual turnover Rs.900 crore, and net profit Rs.4.5 crore for the preceding financial year. The CFO seeks legal advice on the applicable thresholds and the nature of the spending obligation.

Which of the following correctly states the applicability and obligations under Section 135 of the Companies Act, 2013 relating to Corporate Social Responsibility?

(A) Every company incorporated in India, irrespective of its net worth, turnover, or profitability, must mandatorily spend 2% of its average net profit on CSR activities as prescribed by the Central Government.

(B) Section 135 applies only to listed public companies that have posted a net profit of not less than Rs.10 crore during the preceding financial year; unlisted and private companies are entirely outside its scope.

(C) A company becomes subject to the CSR obligation under Section 135 only if it simultaneously satisfies all three criteria – net worth of at least Rs.500 crore, turnover of at least Rs.1,000 crore, and net profit of at least Rs.5 crore – during the preceding financial year.

(D) Section 135 applies to every company having net worth of Rs.500 crore or more, or turnover of Rs.1,000 crore or more, or a net profit of

Rs.5 crore or more during the immediately preceding financial year; qualifying companies must spend at least 2% of the average net profits of the three immediately preceding financial years on CSR activities.

Q.20. The Corporate Governance team of Triumph Auto Ltd., a listed company, is constituting the Nomination and Remuneration Committee (NRC) as mandated under Section 178 of the Companies Act, 2013. The HR Director proposes a committee of four non-executive directors, of whom only one is an independent director. The Company Secretary raises a compliance concern, noting that the proposed composition does not meet the statutory requirement for independent director representation on the NRC.

Which of the following correctly states the composition requirement for the Nomination and Remuneration Committee under Section 178(1) of the Companies Act, 2013?

(A) The Nomination and Remuneration Committee must consist of at least five directors, all of whom must be independent directors, so as to ensure complete independence from executive management and controlling shareholders.

(B) The Committee must consist of three or more non-executive directors, out of which not less than one-half shall be independent directors; the Chairperson of the Committee shall be an independent director.

(C) The Committee must consist of at least four directors, of which at least one-fourth must be independent directors, while the remaining positions may be occupied by executive or non-executive directors at the Board's discretion.

(D) There is no statutory prescription on the composition of the Nomination and Remuneration Committee; the number and category of directors on the Committee is entirely within the discretion of the Board of Directors.

SOLUTIONS

Sol.1.

Solution

Concept — Dividend Declaration (Section 123, Companies Act 2013): Section 123(1) of the Companies Act, 2013 permits a company to declare dividend out of the profits of the current year (after providing for depreciation), out of the profits of any previous financial year or years remaining undistributed, or out of both. The Companies (Declaration and Payment of Dividend) Rules, 2014 additionally permit use of free reserves subject to conditions.

Analysis: The Rules require that: (i) the rate of dividend drawn from reserves shall not exceed the average rate of dividends declared in the preceding three years; (ii) the total amount drawn from free reserves shall not exceed one-tenth of the paid-up share capital and free reserves; and (iii) the balance of reserves after withdrawal shall not fall below fifteen per cent of the paid-up share capital. These are prescribed conditions that must be satisfied. The shareholder's contention that current-year losses bar any dividend declaration is incorrect – free reserves can be used subject to compliance with these conditions.

Why other options are wrong:

- Option (A): Incorrect – Section 123 and the Rules expressly permit dividend from accumulated free reserves of prior profitable years.
- Option (B): Incorrect – use of free reserves is subject to specific statutory conditions under the Rules and is not left to unfettered Board or AOA discretion.
- Option (C): **Correct.** Dividend from free reserves is permitted but must satisfy the prescribed conditions including quantitative caps and minimum residual reserve maintenance.
- Option (D): Incorrect – Central Government approval is not a condition; compliance with the Rules is all that is required.

Final Answer: Dividend from free reserves is permissible subject to prescribed conditions under Section 123 and the Dividend Rules. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q1

Sol.2.

Solution

Concept — Interim Dividend (Section 123(3), Companies Act 2013): Section 123(3) expressly provides that the Board of Directors of a company may declare an interim dividend during any financial year or at any time during the period from closure of the financial year till holding of the annual general meeting out of the surplus in the profit and loss account or out of profits of the financial year for which the interim dividend is sought to be declared. This is a distinct statutory power vested in the Board, not the general meeting.

Analysis: The minority shareholder's objection is legally misconceived. The Companies Act bifurcates dividend declaration powers: the final dividend is declared by shareholders at the AGM, while interim dividend is declared by the Board under Section 123(3). The Board of Horizon Pharmaceuticals Ltd. is acting within its statutory authority. The RBI has no role in dividend declarations by Indian companies under the Companies Act. Option (A) accurately restates the statutory position.

Why other options are wrong:

- Option (A): **Correct.** Section 123(3) vests the power to declare interim dividend in the Board of Directors, not the general meeting.
- Option (B): Incorrect – the general meeting declares the final dividend; interim dividend is the exclusive preserve of the Board.
- Option (C): Incorrect – no RBI approval is required for dividend declarations by companies under the Companies Act.
- Option (D): Incorrect – interim dividend is declared during the financial year, well before the accounts are finalised and adopted at the AGM.

Final Answer: Interim dividend is declared by the Board of Directors under Section 123(3), not by shareholders in a general meeting. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q2

Sol.3.

Solution

Concept — Statutory Auditor Tenure – Individual vs. Firm (Section 139, Companies Act 2013): Section 139 introduced mandatory rotation of auditors to strengthen independence. The section distinguishes between individual auditors and audit firms. An individual auditor may be appointed for one term of five consecutive years. After completion of one term, the individual is ineligible for reappointment as auditor of the same company for a period of five years. An audit firm, by contrast, may be appointed for two consecutive terms of five years each (totalling ten years), after which it is ineligible for reappointment for five years.

Analysis: Mr. Kapoor, acting in his individual capacity, can hold office for a single term of five consecutive years. He cannot be immediately reappointed for a second term. After his five-year term, he must observe a mandatory five-year cooling-off period before any reappointment by the same company. Option (D) is the only option that correctly distinguishes the individual auditor's tenure (one term of five years) from that of an audit firm (two terms of five years).

Why other options are wrong:

- Option (A): Incorrect – two terms of five years (ten years total) is the tenure available to an audit firm, not to an individual auditor.
- Option (B): Incorrect – unlimited reappointment directly contradicts the mandatory rotation framework under Section 139.
- Option (C): Incorrect – individual auditors and audit firms are treated differently; individuals get one term, firms get two terms.
- Option (D): **Correct.** Individual auditor: one term of five consecutive years, followed by a mandatory five-year cooling-off period.

Final Answer: An individual statutory auditor holds office for one term of five consecutive years and is then ineligible for five years under Section 139. $\Rightarrow \boxed{\text{D}}$

Answer: (D) **Go Back to Q3**

Sol.4.

Solution

Concept — Removal of Auditor Before Expiry of Term (Section 140, Companies Act 2013): Section 140(1) prescribes a mandatory three-step procedure for removal of an auditor before the expiry of the term: (i) special notice of the proposed resolution must be given; (ii) prior approval of the Central Government must be obtained by the company before moving such a resolution; and (iii) the resolution for removal must be passed in a general meeting. This stringent procedure is designed to safeguard auditor independence and prevent arbitrary or motivated removals.

Analysis: The Board cannot unilaterally remove the auditor. A simple Board resolution is wholly inadequate. Central Government approval is a mandatory pre-condition and cannot be dispensed with. A special resolution at an EGM, without the requisite government approval, is also legally deficient. The correct position – special notice, CG approval, and general meeting resolution – is set out in Option (B).

Why other options are wrong:

- Option (A): Incorrect – a Board resolution is insufficient; Central Government approval and a general meeting resolution are mandatory.
- Option (B): **Correct.** Special notice + prior Central Government approval + general meeting resolution is the correct three-step procedure under Section 140(1).
- Option (C): Incorrect – there is no exception permitting removal by ordinary resolution merely because the audit report is unsigned; the full procedure applies.
- Option (D): Incorrect – a special resolution alone at an EGM is insufficient; prior approval of the Central Government is an indispensable requirement.

Final Answer: Removal of auditor before term requires special notice, prior Central Government approval, and a general meeting resolution under Section 140(1). $\Rightarrow \boxed{\text{B}}$

Answer: (B) **Go Back to Q4**

Sol.5.

Solution

Concept — Auditor's Mandatory Duty to Report Fraud (Section 143(12), Companies Act 2013): Section 143(12) imposes a positive and mandatory duty on the auditor. If in the course of performing audit duties the auditor has reason to believe that an offence of fraud involving an amount at or above the prescribed threshold is being or has been committed in the company by its officers or employees, the auditor must immediately report the matter to the Central Government in the prescribed form. For amounts below the threshold, reporting to the Audit Committee or Board of Directors is required. The duty is non-waivable and cannot be overridden by management instructions.

Analysis: Ms. Sharma has discovered transactions amounting to Rs.3 crore that indicate fraud by officers. This exceeds the prescribed reporting threshold. The management's request to suppress the report and deal with the matter internally is legally irrelevant. The duty under Section 143(12) is statutory and mandatory; it arises as soon as the auditor has "reason to believe" and does not require a confirmed forensic finding. Option (C) correctly captures this mandatory obligation and identifies the Central Government as the reporting authority.

Why other options are wrong:

- Option (A): Incorrect – reporting is mandatory, not discretionary; the auditor has no latitude to weigh materiality against the statutory duty.
- Option (B): Incorrect – for fraud at or above the prescribed threshold, the report must go to the Central Government, not merely to the Audit Committee or Board.
- Option (C): **Correct.** Section 143(12) imposes a mandatory duty to report fraud of the prescribed amount to the Central Government; management cannot waive this.
- Option (D): Incorrect – the duty arises upon the auditor having "reason to believe"; it is not conditioned on confirmation by a subsequent forensic audit.

Final Answer: When an auditor has reason to believe fraud of the prescribed amount exists, mandatory reporting to the Central Government under Section 143(12) is required. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q5

Sol.6.

Solution

Concept — Cost Audit (Section 148, Companies Act 2013): Section 148(1) provides that the Central Government may, if it considers necessary, direct that the cost records maintained by a company under the proviso to Section 148(1) relating to such class of companies engaged in the production of goods or providing services as may be prescribed shall be audited. The cost audit is conducted by a cost accountant in practice appointed by the Board. The Central Government is the sole authority empowered to prescribe which companies must conduct cost audits.

Analysis: The power to prescribe the class of companies subject to mandatory cost audit vests exclusively with the Central Government. SEBI, ICAI-CMA, and the CAG have no role under Section 148 in prescribing cost audit applicability. The Government issues sector-specific and turnover-based notifications (covering sectors such as cement, pharmaceuticals, power, etc.). The notice received by Bharat Cement Ltd. is consistent with such a Central Government direction. Option (A) correctly identifies the Central Government as the authority.

Why other options are wrong:

- Option (A): **Correct.** Section 148 empowers the Central Government to direct cost audits for prescribed classes of companies engaged in specified activities.
- Option (B): Incorrect – there is no universal turnover-based threshold; sector-specific notifications are issued by the Central Government, and SEBI has no role.
- Option (C): Incorrect – ICAI-CMA is the professional body for cost accountants but has no statutory power to prescribe mandatory cost audit applicability.
- Option (D): Incorrect – cost audit is not restricted to the defence sector, and the CAG oversees government accounts, not cost audits of private sector companies.

Final Answer: The Central Government is empowered under Section 148 to direct mandatory cost audit for prescribed classes of companies. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q6

Sol.7.

Solution

Concept — Financial Year (Section 2(41), Companies Act 2013): Section 2(41) defines "financial year" as the period ending on the 31st day of March every year, making April 1 to March 31 the mandatory financial year for all companies incorporated in India. However, a specific exception is provided: where a company or body corporate which is a holding company or a subsidiary or associate company of a company incorporated outside India is required to follow a different financial year for the purpose of consolidation of its accounts outside India, the Tribunal may, on an application made by the company, allow such different period as the financial year.

Analysis: Omega Corporation Ltd. is the Indian holding company of a German subsidiary. It falls squarely within the exception carved out in Section 2(41). It may apply to the NCLT (Tribunal) – not merely to the Registrar of Companies or SEBI – for permission to adopt a different financial year to facilitate consolidated accounts with its German subsidiary. The application must be made to the Tribunal and not any other authority. Option (D) correctly identifies this exception and the appropriate authority.

Why other options are wrong:

- Option (A): Incorrect – Section 2(41) itself carves out an exception for holding-subsidiary relationships with foreign entities.
- Option (B): Incorrect – companies cannot choose their financial year by shareholder resolution; the default is mandatory and exceptions require Tribunal approval.
- Option (C): Incorrect – the approving authority is the Tribunal (NCLT), not SEBI; SEBI has no role in this determination.
- Option (D): **Correct.** The Tribunal may permit a different financial year for an Indian holding/subsidiary of a foreign company upon application for consolidation purposes.

Final Answer: Financial year is April–March; NCLT may permit a different year for Indian holding or subsidiary companies of foreign entities under Section 2(41). $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q7

Sol.8.

Solution

Concept — Modes of Winding Up (Companies Act 2013 and IBC 2016): The Companies Act, 2013 as originally enacted provided for two broad modes of winding up: (1) winding up by the Tribunal (compulsory winding up) under Chapter XX Part I, and (2) voluntary winding up under Chapter XX Part II, which itself comprised members' voluntary winding up and creditors' voluntary winding up. Following the enactment of the Insolvency and Bankruptcy Code, 2016, the voluntary winding up mechanism for companies has largely migrated to the IBC framework, but the conceptual classification remains relevant for examination purposes.

Analysis: A petition for winding up can be filed by the company, its creditors, contributories, the Registrar, or the Central Government. It is not limited to secured creditors alone. Option (B) accurately describes both modes – winding up by Tribunal (compulsory) and voluntary winding up – and correctly notes the contemporary IBC dimension. The other options either misstate the available modes or attribute them to abolished forums.

Why other options are wrong:

- Option (A): Incorrect – petitioners are not limited to secured creditors; the company, contributories, and the Registrar may also petition.
- Option (B): **Correct.** Winding up by the Tribunal (compulsory) and voluntary winding up (members'/creditors') are the two modes under the Companies Act, 2013; voluntary winding up now largely falls under IBC.
- Option (C): Incorrect – creditors, contributories, and the Registrar can all petition; the modes are not limited to petitions by the company or the Central Government.
- Option (D): Incorrect – voluntary winding up was not abolished by the Companies Act, 2013 itself; it was reorganised under the IBC, 2016.

Final Answer: Companies Act 2013 provides two modes: winding up by Tribunal (compulsory) and voluntary winding up; voluntary winding up is now largely under IBC. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q8

Sol.9.

Solution

Concept — Grounds for Compulsory Winding Up (Section 271, Companies Act 2013): Section 271 enumerates the grounds on which the Tribunal may order winding up of a company. These include: (a) special resolution of the company resolving for winding up; (b) action against sovereignty, integrity, or security of India; (c) Tribunal order under Chapter XIX (revival); (d) Registrar's application on grounds of fraudulent conduct or unlawful purpose; (e) default in filing financial statements or annual returns for five consecutive years; and (f) the Tribunal's opinion that it is just and equitable that the company be wound up. While inability to pay debts was a stand-alone ground under the 1956 Act, under the 2013 Act it is typically addressed under the just and equitable ground or through IBC proceedings.

Analysis: The promoters' contention that inability to pay debts is not a ground is overly technical. The inability to pay debts can form the factual basis for the "just and equitable" ground under Section 271(f), among other grounds. Option (C) correctly identifies the plurality of grounds including fraudulent conduct (Registrar's action), inability to pay debts, and the just and equitable ground.

Why other options are wrong:

- Option (A): Incorrect – formal insolvency declaration by a civil court is not a precondition; the Tribunal adjudicates this independently.
- Option (B): Incorrect – a preceding special resolution is one ground for winding up, not a precondition for petitions on other grounds.
- Option (C): **Correct.** Section 271 grounds include fraudulent conduct (Registrar's application), inability to pay debts, and the just and equitable ground, among others.
- Option (D): Incorrect – no 50% threshold for secured creditors is prescribed; any creditor with a qualifying debt may petition.

Final Answer: Section 271 grounds include Registrar action for fraud, the just and equitable ground, default in filings, and other specified grounds. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q9

Sol.10.

Solution

Concept — Just and Equitable Winding Up: ***Ebrahimi v. Westbourne Galleries Ltd.*** **[1973] AC 360:** The House of Lords (per Lord Wilberforce) in *Ebrahimi v. Westbourne Galleries Ltd.* established that where a company is in substance a quasi-partnership – formed between individuals on the basis of personal relationship, mutual trust, and a shared understanding of participation in management – and one quasi-partner is excluded from management in breach of the underlying equitable obligation, the court may grant a winding up order on the just and equitable ground even if the majority's act was strictly lawful under company law. The principle recognises that equity must supplement the legal powers of majority shareholders in appropriate cases.

Analysis: Arora-Bansal Properties Pvt. Ltd. is precisely the type of quasi-partnership envisaged in *Ebrahimi*. The removal of Mr. Bansal as director by Mr. Arora's use of majority voting power, while technically lawful, violates the underlying equitable understanding between the two. Mr. Bansal is entitled to rely on *Ebrahimi* to seek winding up on the just and equitable ground. Indian courts and the NCLT have consistently recognised and applied this principle. Option (A) is correct.

Why other options are wrong:

- Option (A): **Correct.** *Ebrahimi v. Westbourne Galleries Ltd.* – exclusion of a quasi-partner from management entitles the excluded party to seek just and equitable winding up.
- Option (B): Incorrect – Indian company law recognises quasi-partnership principles; *Ebrahimi* has been applied in numerous Indian cases.
- Option (C): Incorrect – the just and equitable ground is not limited to insolvent companies; commercial solvency is irrelevant to the equitable analysis.
- Option (D): Incorrect – *Salomon v. Salomon* is the authority for the separate corporate personality doctrine, not for just and equitable winding up.

Final Answer: *Ebrahimi v. Westbourne Galleries Ltd.* – exclusion of a quasi-partner from management in breach of an underlying understanding grounds just and equitable winding up. $\Rightarrow \boxed{\text{A}}$

Answer: (A) **Go Back to Q10**

Sol.11.

Solution

Concept — Liquidator's Powers and Status of Directors on Winding Up Order: Upon the passing of a compulsory winding up order by the NCLT, the court-appointed Official Liquidator (attached to the NCLT) or a Company Liquidator takes charge of the company's assets and affairs. The powers of the Board of Directors are effectively extinguished upon the winding up order. The liquidator is vested with the power to take into custody or under his control all the property, effects, and actionable claims to which the company is or appears to be entitled. The liquidator may sell the company's movable and immovable property by public auction or private contract and take all steps necessary to realise the estate.

Analysis: The former directors of Neptune Exports Ltd. have no residual authority over asset disposals after the winding up order. Their authority vested in the Board is extinguished the moment the Tribunal passes the winding up order. The Official Liquidator or Company Liquidator takes exclusive control. There is no requirement for the district Collector to conduct the auction; the liquidator exercises this power directly subject to Tribunal oversight. Option (D) accurately states the legal position.

Why other options are wrong:

- Option (A): Incorrect – the Board's powers cease upon the winding up order; directors have no residual authority over asset management or disposal.
- Option (B): Incorrect – a creditors' committee does not automatically assume management upon admission of the petition; the liquidator is appointed for this purpose.
- Option (C): Incorrect – the liquidator has broad statutory powers to sell immovable property; the district Collector has no such role in company winding up.
- Option (D): **Correct.** The Official/Company Liquidator appointed by NCLT has the power to take custody of and sell all company assets for the benefit of creditors.

Final Answer: Upon NCLT's winding up order, the Official Liquidator has exclusive power to sell the company's movable and immovable assets. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q11

Sol.12.

Solution

Concept — Priority of Payments in Winding Up: In the winding up of a company, there is a well-settled statutory order of priority. Secured creditors are entitled to be paid from the proceeds of the assets specifically charged in their favour, in priority to all others. After satisfying secured creditors, preferential debts rank next; these include (subject to prescribed limits) employees' wages for a specified period and certain government dues. Unsecured (ordinary) creditors rank after preferential creditors. This hierarchy ensures that employees and secured creditors are protected before trade creditors.

Analysis: In Globe Fabrics Ltd.'s winding up, the bank (secured creditor) is paid from the proceeds of its factory charge. Thereafter, employees' unpaid wages (preferential debt) are paid. The Income Tax Department's qualifying dues also rank as preferential. Unsecured trade creditors rank last. Option (B) correctly reflects this hierarchy. Note: under the IBC, the order has been recalibrated, but for Companies Act examination purposes, the traditional priority framework applies.

Why other options are wrong:

- Option (A): Incorrect – unsecured creditors rank last, not first; secured creditors have priority over the charged assets.
- Option (B): **Correct.** Secured creditors (from charged assets) first, then preferential creditors (employees' wages, qualifying government dues), then unsecured creditors.
- Option (C): Incorrect – government tax dues do not rank above secured creditors in the Companies Act framework; secured creditors have priority over their charged assets.
- Option (D): Incorrect – pari passu operates within a class of creditors, not across all classes; secured, preferential, and unsecured creditors do not share equally.

Final Answer: Priority order: secured creditors from charged assets, then preferential creditors (employees/government), then unsecured creditors. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q12

Sol.13.

Solution

Concept — Oppression and Mismanagement (Section 241, Companies Act 2013): Section 241 of the Companies Act, 2013 empowers any member who meets the eligibility threshold to apply to the Tribunal where the affairs of the company are being conducted in a manner prejudicial to public interest or in a manner prejudicial or oppressive to any member or members or prejudicial to the interests of the company. The Tribunal has very wide remedial powers under Section 242, including terminating or modifying any agreement, regulating the conduct of the company's affairs in future, purchasing the shares of any member by other members, and any other relief it deems fit.

Analysis: The conduct of the majority shareholders of Cascade Ventures – siphoning funds through related-party transactions, nepotistic appointments, and suppression of minority rights – constitutes textbook oppression and mismanagement. There is no requirement to exhaust internal remedies before approaching NCLT. The NCLT (not the District Court or SEBI) is the proper forum for all companies, listed or unlisted. Option (C) correctly identifies Section 241 and NCLT's wide remedial powers.

Why other options are wrong:

- Option (A): Incorrect – the Companies Act does not mandate prior exhaustion of internal corporate remedies before approaching NCLT under Section 241.
- Option (B): Incorrect – NCLT is the designated forum under Section 241; the District Court's jurisdiction is excluded for such statutory company law remedies.
- Option (C): **Correct.** Section 241 empowers eligible members to approach NCLT for relief against oppression and mismanagement; the Tribunal has wide powers under Section 242.
- Option (D): Incorrect – SEBI's jurisdiction is over securities law violations; NCLT is the forum for oppression/mismanagement under Companies Act for all classes of companies.

Final Answer: Section 241 allows eligible members to apply to NCLT for relief against oppressive or prejudicial conduct; NCLT has broad remedial powers under Section 242. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q13

Sol.14.

Solution

Concept — Eligibility Threshold for Oppression/Mismanagement Application (Section 244, Companies Act 2013): Section 244(1) prescribes the minimum number of members required to file an application under Section 241. For a company having share capital, the application may be made by: (a) in the case of a company having a share capital, not less than 100 members or not less than one-tenth of the total number of its members, whichever is less; or by any member or members holding not less than one-tenth of the issued share capital of the company provided they have paid all calls and other sums due on their shares. The Tribunal has the power under Section 244(2) to waive these requirements in appropriate cases.

Analysis: In Majestic Hotels Ltd., with 5,000 members, one-tenth of members = 500 members. The threshold is thus the lower of 100 and 500, i.e., 100 members. The petitioner group of 80 members falls below 100, and they hold only 8% (below 10% of issued share capital). They appear to fall short on both limbs. However, they may apply to NCLT for a waiver under Section 244(2). Regardless, Option (A) correctly states the legal threshold – 100 members or one-tenth of total members (whichever is less), or holders of one-tenth of issued share capital.

Why other options are wrong:

- Option (A): **Correct.** Section 244(1): 100 members or one-tenth of total members (whichever is less); or holders of one-tenth of issued share capital.
- Option (B): Incorrect – a single shareholder cannot individually petition for oppression/mismanagement; Section 244 prescribes minimum thresholds.
- Option (C): Incorrect – a 51% majority by definition controls management and would never need to petition for protection against oppression.
- Option (D): Incorrect – the eligibility threshold is set by the Companies Act, 2013, not by SEBI regulations; institutional investor status is irrelevant.

Final Answer: Section 244 threshold: 100 members or one-tenth of total members (whichever is less), or holders of one-tenth of issued share capital. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q14

Sol.15.

Solution

Concept — Constitution and Jurisdiction of NCLT (Section 408, Companies Act 2013): The National Company Law Tribunal (NCLT) was constituted under Section 408 of the Companies Act, 2013. It became operational with effect from June 1, 2016. The NCLT absorbed the jurisdictions previously exercised by: (i) the Company Law Board (CLB) constituted under the Companies Act, 1956; (ii) the Board for Industrial and Financial Reconstruction (BIFR); (iii) the Appellate Authority for Industrial and Financial Reconstruction (AAIFR); and (iv) certain jurisdictions of the High Court in company law matters (including winding up, compromises, and amalgamations). The NCLT has national jurisdiction over all classes of companies – listed, unlisted, public, and private.

Analysis: The NCLT now handles the entire spectrum of company law adjudication that was previously dispersed across multiple forums. The Company Law Board has been dissolved. High Courts no longer exercise jurisdiction over company winding up and similar matters under the Companies Act. Option (D) is the only option that correctly identifies all three predecessor bodies (CLB, BIFR/AAIFR, and High Court) whose jurisdictions were absorbed by NCLT.

Why other options are wrong:

- Option (A): Incorrect – NCLT exercises jurisdiction over all companies regardless of listing status; private companies are equally within its ambit.
- Option (B): Incorrect – the Company Law Board was dissolved upon operationalisation of NCLT; no parallel jurisdiction exists.
- Option (C): Incorrect – winding up jurisdiction was transferred from High Courts to NCLT; High Courts no longer exercise original jurisdiction in company winding up.
- Option (D): **Correct.** NCLT absorbed the jurisdictions of CLB, BIFR, AAIFR, and the company-related jurisdiction of the High Court under Section 408.

Final Answer: NCLT, constituted under Section 408, absorbed the jurisdictions of CLB, BIFR/AAIFR, and relevant High Court company law jurisdictions. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q15

Sol.16.

Solution

Concept — NCLAT and Supreme Court Appellate Jurisdiction (Section 421, Companies Act 2013): Section 421 of the Companies Act, 2013 provides that any person aggrieved by an order of the NCLT may prefer an appeal to the National Company Law Appellate Tribunal (NCLAT) within forty-five days of the date of the order, with provision for condonation of delay in appropriate cases. Section 423 further provides that any person aggrieved by any order of the NCLAT may file an appeal to the Supreme Court of India within sixty days of the NCLAT's order, on a question of law.

Analysis: The appellate chain is linear and statutory: NCLT $\rightarrow$ NCLAT $\rightarrow$ Supreme Court (on question of law). The High Court exercises no appellate role in the Companies Act appellate hierarchy. The Securities Appellate Tribunal (SAT) handles appeals in SEBI-related matters and has no jurisdiction over NCLT orders under the Companies Act. A writ petition to the High Court is an extraordinary constitutional remedy, not the statutory appeal route. Option (B) correctly states the two-tier appellate structure.

Why other options are wrong:

- Option (A): Incorrect – appeals from NCLT under the Companies Act do not lie to the High Court; they lie to NCLAT.
- Option (B): **Correct.** NCLT $\rightarrow$ NCLAT (Section 421) $\rightarrow$ Supreme Court on question of law (Section 423) is the correct statutory appellate chain.
- Option (C): Incorrect – SAT has no jurisdiction over NCLT orders under the Companies Act; its jurisdiction is confined to SEBI, IRDAI, and PFRDA matters.
- Option (D): Incorrect – a statutory appeal to NCLAT exists under Section 421; writ jurisdiction is an extraordinary remedy, not the primary appellate route.

Final Answer: NCLT orders are appealed to NCLAT (Section 421); further appeal on a question of law lies to the Supreme Court (Section 423). $\Rightarrow \boxed{\text{B}}$

$\boxed{\textbf{Answer: (B)}}$ Go Back to Q16

Sol.17.

Solution

Concept — Class Action Suits (Section 245, Companies Act 2013): Section 245, a significant addition in the Companies Act, 2013, introduces representative or class action proceedings before the NCLT. Members or depositors fulfilling the prescribed threshold may apply to the Tribunal for an order to restrain the company from committing an act contrary to the provisions of law or its memorandum and articles, or an act which is ultra vires any resolution passed by the members or depositors. Critically, Section 245(1)(f) extends the scope of class action to include relief against the company's auditors (including the audit firm), experts, advisors, and consultants for any incorrect or misleading statement made.

Analysis: The group of 120 shareholders meets the threshold for listed companies (100 members or 5% of total members, whichever is less). Their claim involves misrepresentation of financial statements in collusion with the statutory auditors, which is precisely the type of conduct addressed by Section 245(1)(f). Both the company and its auditors can be made respondents in the class action. Option (C) correctly captures the scope of Section 245, including relief against auditors.

Why other options are wrong:

- Option (A): Incorrect – Section 245 expressly extends to auditors, experts, advisors, and consultants; they are expressly within the scope of class action relief.
- Option (B): Incorrect – the threshold is 100 members or 5% of total members (for listed companies), not 25% of issued share capital.
- Option (C): **Correct.** Section 245 allows NCLT applications against the company and also against its auditors, experts, advisors, and consultants for misleading statements.
- Option (D): Incorrect – class action under Section 245 is a statutory remedy before NCLT; the CPC's Order 1 Rule 8 is a different representative suit mechanism before civil courts.

Final Answer: Section 245 class action before NCLT can target the company, its auditors, experts, advisors, and consultants for misleading conduct. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q17

Sol.18.

Solution

Concept — National Financial Reporting Authority – NFRA (Section 132, Companies Act 2013): Section 132 of the Companies Act, 2013 provides for the constitution of the National Financial Reporting Authority (NFRA) as an independent body to oversee accounting and auditing standards. NFRA's statutory functions include: (a) making recommendations to the Central Government on formulation and laying down of accounting and auditing policies and standards; (b) monitoring and enforcing compliance with such standards; (c) overseeing the quality of service of professionals associated with ensuring compliance; and (d) having jurisdiction over auditors of prescribed class of companies (listed entities and large unlisted companies). NFRA can investigate professional misconduct and impose sanctions including monetary penalties and debarment of auditors from practice.

Analysis: NFRA is an independent statutory body under the Companies Act, 2013, distinct from ICAI and not subordinate to SEBI. It was established to provide robust independent oversight of auditors of significant companies – addressing regulatory gaps exposed by accounting scandals. It operates independently of ICAI, which retains oversight over auditors of smaller companies not falling within NFRA's prescribed jurisdiction. Option (A) is the only option that correctly describes NFRA's constitution, powers, and sanctioning authority.

Why other options are wrong:

- Option (A): **Correct.** NFRA is established under Section 132 with powers to recommend standards, monitor compliance, investigate auditor misconduct, and impose sanctions including debarment.
- Option (B): Incorrect – NFRA is constituted under the Companies Act, 2013, not the Chartered Accountants Act, 1949; it operates independently of ICAI.
- Option (C): Incorrect – NFRA has jurisdiction over auditors of listed companies and large prescribed unlisted companies, not only PSUs/government companies.
- Option (D): Incorrect – NFRA is not subordinate to SEBI; it is an independent authority under the MCA, and its orders are appealed to the Appellate Authority for NFRA (not SAT).

Final Answer: NFRA under Section 132 provides independent oversight of auditing standards, investigates misconduct, and can impose sanctions including auditor debarment. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q18

Sol.19.

Solution

Concept — Corporate Social Responsibility (Section 135, Companies Act 2013): Section 135(1) applies to every company having: (a) net worth of Rs.500 crore or more; or (b) turnover of Rs.1,000 crore or more; or (c) a net profit of Rs.5 crore or more during the immediately preceding financial year. The conditions are disjunctive – satisfaction of any one is sufficient to trigger the CSR obligation. A qualifying company must constitute a Corporate Social Responsibility Committee and spend, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial years on CSR activities as per the CSR policy.

Analysis: Prism Industries Ltd. has a net worth of Rs.600 crore, which exceeds the Rs.500 crore threshold. This alone is sufficient to trigger the CSR obligation under Section 135(1)(a), even though the turnover (Rs.900 crore) falls below Rs.1,000 crore and the net profit (Rs.4.5 crore) falls below Rs.5 crore. Option (C) is wrong because it treats the three conditions as cumulative (AND); the Act uses "or" (disjunctive). Option (D) correctly states the disjunctive thresholds and the 2% spending requirement.

Why other options are wrong:

- Option (A): Incorrect – CSR is not universal; it applies only to companies meeting at least one of the three specified thresholds.
- Option (B): Incorrect – Section 135 applies to all qualifying companies (listed or unlisted); the net profit threshold is Rs.5 crore, not Rs.10 crore.
- Option (C): Incorrect – the three conditions in Section 135(1) are disjunctive (OR), not conjunctive (AND); meeting any one triggers the obligation.
- Option (D): **Correct.** Section 135 applies if ANY ONE threshold is met; the obligation is 2% of average net profits of the three immediately preceding financial years.

Final Answer: Section 135 CSR obligation is triggered by net worth Rs.500 crore OR turnover Rs.1,000 crore OR net profit Rs.5 crore; spending obligation is 2% of average net profits. $\Rightarrow \boxed{D}$

Answer: (D) Go Back to Q19

Sol.20.

Solution

Concept — Nomination and Remuneration Committee Composition (Section 178, Companies Act 2013): Section 178(1) of the Companies Act, 2013 requires the Board of Directors of every listed company (and certain other prescribed companies) to constitute a "Nomination and Remuneration Committee" consisting of three or more non-executive directors, out of which not less than one-half shall be independent directors. The chairperson of the company – whether executive or non-executive – may be appointed as a member of the Committee but shall not chair it. The Committee's functions include identifying persons qualified to become directors, recommending to the Board their appointment and removal, and formulating the criteria for determining qualifications and remuneration of directors.

Analysis: The HR Director's proposal of a four-member NRC with only one independent director (25%) is non-compliant. Section 178(1) requires not less than one-half of the members to be independent directors. For a four-member NRC, at least two must be independent directors. The proposal violates the statutory minimum. Option (B) correctly states: three or more non-executive directors, with not less than one-half being independent directors. The requirement that the Chairperson be an independent director is also a standard good governance requirement read alongside the provision.

Why other options are wrong:

- Option (A): Incorrect – there is no requirement that all members be independent directors; the statute requires at least half to be independent, and they must be non-executive.
- Option (B): **Correct.** Three or more non-executive directors; not less than one-half shall be independent directors – this is the correct statutory composition under Section 178(1).
- Option (C): Incorrect – the statute does not permit executive directors on the NRC; members must be non-executive directors, and one-fourth is an insufficient proportion of independent directors.
- Option (D): Incorrect – Section 178(1) mandates minimum composition requirements; the Board has no discretion to constitute the NRC without the required proportion of independent directors.

Final Answer: NRC under Section 178(1) must have three or more non-executive directors, with not less than one-half being independent directors. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q20

ANSWER KEY

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