CLAT PG Company Law
Sample Paper – 5

Duration: 20 Minutes | Max Marks: 20

Instructions

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

SECTION A – Questions

Q1. Sunrise Apparels Ltd., a listed public company, resolved at a Board meeting to raise fresh capital by issuing 10,00,000 new equity shares. The Finance Director argued that since the company urgently needed institutional investors, the entire lot should be offered directly to a private equity fund without first offering any shares to existing shareholders. An existing shareholder holding 5% of the paid-up capital objected, contending that the company was required by statute to offer the new shares to him in proportion to his existing holding before approaching outside investors. The company's legal counsel was asked to advise on the correct procedure for the proposed issue.

Which of the following correctly states the legal requirement for a rights issue under the Companies Act, 2013?

(A) Under s.62(1)(a) of the Companies Act, 2013, where a company proposes to increase its subscribed share capital by the issue of further shares, such shares must first be offered to existing equity shareholders in proportion to their paid-up shareholding; the shareholder's objection is legally correct and the company cannot bypass this requirement by offering shares directly to outsiders without first issuing a rights offer notice

(B) The Finance Director's proposal is valid because a listed company may offer new shares to any person of its choosing at any time, without being under any statutory obligation to first offer them to existing shareholders

(C) A rights issue is mandatory only when the company is privately held; once a company is listed on a stock exchange, the obligation to offer shares to existing shareholders is superseded by SEBI's discretionary pricing norms

(D) The existing shareholder's objection has no legal basis because the obligation to offer shares pro-rata applies only when the company is issuing preference shares, not equity shares

Q2. Green Tech Solutions Ltd., a public company, wished to incentivise its senior engineers by granting them options to purchase equity shares of the company at a price lower than the prevailing market value, exercisable over a three-year vesting period. The HR Director proposed to implement the scheme through a simple Board resolution, arguing that since the scheme was for the benefit of employees it did not require shareholder approval. The Company Secretary disagreed and pointed out that a higher threshold of shareholder approval was prescribed for employee stock option plans. A dispute arose as to what approval was required under s.62(1)(b) of the Companies Act, 2013.

Which of the following correctly describes the approval required for an Employee Stock Option Plan (ESOP) under s.62(1)(b) of the Companies Act, 2013?

(A) An ESOP scheme may be validly approved by an ordinary resolution of the Board of Directors alone, as it pertains to service conditions of employees which fall within the Board's administrative domain

(B) Under s.62(1)(b) of the Companies Act, 2013, the issue of shares to employees under an employee stock option plan must be authorised by a **special resolution** of the company in a general meeting; a mere board resolution is legally insufficient, and the Company Secretary's position is correct

(C) A special resolution is required only if the options are granted at a discount of more than 25% below the prevailing market price; at a smaller discount, an ordinary resolution suffices

(D) SEBI's prior written approval is the only approval needed for an ESOP in a public company; no shareholder resolution of any kind is required under the Companies Act, 2013

Q3. Horizon Beverages Ltd. completed a successful IPO and collected Rs. 80 crore in securities premium, which was credited to the Securities Premium Account. At the next Annual General Meeting, a group of shareholders tabled a resolution proposing that the entire balance in the Securities Premium Account be distributed to shareholders as a special cash dividend, on the ground that the company already had sufficient free reserves for its operational needs. The Board of Directors sought legal advice on whether such a distribution was permissible under the Companies Act, 2013.

Which of the following correctly describes the permissible uses of the Securities Premium Account under s.52 of the Companies Act, 2013?

(A) The Securities Premium Account may be freely used for any purpose, including the payment of dividends, provided the use is approved by a special resolution of the company at a general meeting

(B) Under the Companies Act, 2013, the Securities Premium Account is treated as part of the company's distributable profits and may therefore be distributed as dividend without any statutory restriction

(C) Under s.52 of the Companies Act, 2013, the Securities Premium Account may only be applied toward: (i) issuing fully paid-up bonus shares; (ii) writing off preliminary expenses; (iii) writing off expenses of issue of shares or debentures; (iv) providing for the premium on redemption of preference shares or debentures; and (v) buyback of own securities – it **cannot** be used for payment of dividend; the shareholders' proposal is therefore impermissible

(D) The Securities Premium Account can be transferred to the Profit and

Loss Account at the end of each financial year and thereafter distributed as dividend in the usual manner

Q4. Valley Power Ltd., a public company, was finding it difficult to attract investors for a proposed rights issue. The Board of Directors resolved to offer 50,00,000 shares at Rs. 8 per share against a face value of Rs. 10 per share – a discount of 20% on face value – believing that a lower price would attract a broader investor base and stimulate subscriptions. The resolution was passed at a duly convened Board meeting and the company proposed to proceed with the issue. One independent director questioned whether the proposed issue was permissible under the Companies Act, 2013.

Which of the following correctly states the legal position regarding issue of shares at a discount under the Companies Act, 2013?

(A) A company may issue shares at a discount of up to 25% below face value without any restriction, provided the discount is approved by a special resolution of the shareholders

(B) Issue of shares at a discount is permissible if the company obtains prior approval from SEBI and the discount does not exceed 20% of the face value of the shares

(C) A listed company may issue shares at a price lower than face value if the market price of the shares has fallen below face value for at least 90 consecutive trading days preceding the issue

(D) Section 53 of the Companies Act, 2013 **prohibits** a company from issuing shares at a discount to their face value; the only statutory exceptions are sweat equity shares under s.54 and shares issued to employees under an ESOP at less than market price; Valley Power Ltd.'s proposal to issue shares at Rs. 8 against a face value of Rs. 10 is therefore unlawful, and the independent director's concern is justified

Q5. Kaleidoscope Textiles Ltd. needed additional working capital and the Board of Directors passed a resolution calling up the second instalment of Rs. 15 per share on 8,00,000 partly paid shares, specifying a payment date 30 days from the date of the notice. Mr. Arora, a shareholder holding 20,000 partly paid shares, refused to pay the call, arguing that the notice sent to him was addressed to his old address despite his having intimated the new address in writing to the Company Secretary three months earlier. He contended that the defective notice invalidated the call entirely, and that the Board had no power to make a call without first convening a general meeting.

Which of the following correctly describes the legal position regarding calls on shares and the effect of a defective notice?

(A) The Board of Directors has authority under the Articles of Association to make calls on partly paid shares by board resolution; the call is validly made and the company is not precluded from enforcing it; however, where a notice was delivered to an outdated address despite due intimation of the new address, the specific shareholder may challenge the notice as not properly served on him, though this affects only his personal liability and not the validity of the call as against other shareholders

(B) A defective notice of call renders the entire call void and unenforceable against all shareholders, including those who received proper notice and have already paid the call amount

(C) Under the Companies Act, 2013, calls on shares can only be made by an ordinary resolution of the shareholders in a general meeting; a Board resolution authorising a call is without legal effect

(D) Only the Managing Director has the authority to issue a call notice to shareholders; a resolution by the full Board is ultra vires the company's internal management structure

Q6. Mrs. Rekha Jain held 10,000 partly paid equity shares in Pinnacle Steel Ltd., on each of which Rs. 6 per share remained uncalled. In anticipation of the company's forthcoming call, she voluntarily deposited the entire uncalled amount of Rs. 60,000 with the company as calls in advance, as authorised by the company's Articles of Association. At the end of the financial year, Mrs. Jain formally demanded that the company pay her a dividend on the Rs. 60,000 advance, reasoning that since the money was held by the company she should receive a return equivalent to other shareholders. The Company Secretary declined her demand.

Which of the following correctly states the legal position regarding calls paid in advance?

(A) A shareholder who pays calls in advance is entitled to receive both interest on the advance amount and dividend equivalent to that payable on fully paid-up shares, from the date of payment of the advance

(B) A company that receives calls in advance may pay interest on such advance at the rate agreed upon or as specified in the Articles, but **no dividend** is payable on the advance amount; the money paid in advance does not carry dividend rights; the Company Secretary's refusal is correct

(C) Calls paid in advance must be refunded to the shareholder within 30 days of receipt if the company has not yet formally made the call, failing which the company becomes liable to pay the shareholder the prevailing bank deposit rate as damages

(D) A shareholder who pays calls in advance acquires additional voting rights proportional to the advance amount paid, in addition to dividend rights, from the date of payment

Q7. Brightway Industries Ltd., a company incorporated as a public limited company under the Companies Act, 2013, inserted a clause in its Articles of Association providing that the company shall have a first and paramount lien on every share registered in a member's name for all debts and liabilities of that member to the company, whether presently payable or not. Relying on this clause, the company sought to enforce a lien on 5,000 shares held by Mr. Kapoor to recover a general trade debt he owed to the company. Mr. Kapoor challenged the validity of the lien, arguing that the lien clause was impermissible for a public company.

Which of the following correctly describes the law on lien on shares as ap-

plicable to public companies?

(A) A public company may create a lien on its shares for any debt of a member, provided the lien clause is expressly included in its registered Articles of Association and approved by a special resolution

(B) All companies – whether public or private – are equally entitled to create a lien on shares held by their members for debts due, provided the relevant clause is incorporated in their Articles

(C) Table F of Schedule I to the Companies Act, 2013, which is the model Articles for a public company, **does not** permit a lien on shares for a general or unsecured debt; a public company cannot create a general lien on shares through its Articles; only private companies may lawfully create a lien on shares for any indebtedness of a member; Mr. Kapoor's challenge is legally sound

(D) A public company may enforce a lien on shares only after obtaining an order from the National Company Law Tribunal confirming the existence and validity of the debt owed by the member

Q8. Quantum Ceramics Ltd. made a final call of Rs. 20 per share on 2,00,000 partly paid shares, payable by 1st April 2025. Mr. Sharma, a shareholder holding 5,000 shares, failed to pay the call by the due date. The company's Board passed a resolution charging interest on the unpaid call amount at 14% per annum from the due date, claiming that the Articles of Association were silent on the rate and that a commercial rate was appropriate. Mr. Sharma objected that the interest rate charged exceeded the statutory maximum.

Which of the following correctly states the legal position regarding interest on calls in arrears?

(A) The Board of Directors may charge any rate of interest on calls in arrears that it considers commercially reasonable, since the Companies Act, 2013 does not prescribe any maximum rate for interest on unpaid calls

(B) No interest is chargeable on calls in arrears under the Companies Act, 2013; the company's only remedy for non-payment is to forfeit the shares after issuing the requisite notice

(C) The maximum rate of interest chargeable on calls in arrears is 8% per annum, and any interest in excess of this rate is void and unenforceable regardless of what the Articles may provide

(D) Table F of Schedule I to the Companies Act, 2013 provides that interest on calls in arrears shall not exceed **10% per annum**; where the Articles are silent, this statutory ceiling applies; the company's decision to charge 14% per annum is therefore unlawful, and Mr. Sharma's objection is well-founded

Q9. Meridian Infrastructure Ltd., an unlisted public company, issued secured non-convertible debentures of Rs. 50 crore to institutional investors in April 2024, with a redemption date of April 2027. As the redemption date approached, the company's CFO informed the Board that the company had not created any Debenture Redemption Reserve (DRR) at any point during the three-year tenure of the debentures, as the company had faced operational losses. The CFO proposed to proceed with redemption directly from the company's cash flows without creating the DRR, arguing that the DRR requirement applied only to listed companies.

Which of the following correctly describes the legal requirement for Debenture Redemption Reserve for an unlisted public company?

(A) Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014 requires an **unlisted public company** issuing secured debentures to create a Debenture Redemption Reserve of at least 10% of the outstanding debenture amount before redemption; the exemption granted by the 2019 amendment to the DRR requirement applies only to listed companies; Meridian Infrastructure Ltd. has violated the statutory requirement and cannot lawfully redeem without first creating the DRR

(B) The requirement to create a Debenture Redemption Reserve applies equally to all companies – listed and unlisted – and must be set aside at 25% of the outstanding debenture amount before redemption; the CFO's contention that only listed companies are covered is wrong, but so is the 10% figure

(C) The Debenture Redemption Reserve requirement was entirely abolished by the Companies (Amendment) Act, 2019 for all categories of companies, including unlisted public companies, and there is therefore no violation

(D) No Debenture Redemption Reserve is required for secured debentures regardless of the issuer's listed or unlisted status, since the security interest in the charged assets provides sufficient protection to debenture holders

Q10. Cascade Power Ltd. allotted secured debentures to 150 investors on 1st May 2025 but, due to administrative delays in finalising the terms with the proposed trustee, executed the Debenture Trust Deed only on 30th July 2025 – 90 days after the date of allotment. One of the debenture holders complained to the company that the execution of the trust deed beyond the prescribed statutory period constituted a default under the Companies Act, 2013. The company's legal team argued that 90 days was within a reasonable period and that the statute did not prescribe a strict deadline.

Which of the following correctly states the legal requirement regarding execution of the Debenture Trust Deed under s.71(4) of the Companies Act, 2013?

(A) The Companies Act, 2013 does not prescribe any mandatory time limit for execution of a Debenture Trust Deed; the deed must simply be executed within a "reasonable time" after allotment as may be determined by the Board

(B) Under s.71(4) of the Companies Act, 2013 read with Rule 18(2) of the Companies (Share Capital and Debentures) Rules, 2014, a Debenture Trust Deed must be executed within **60 days** of the allotment of debentures; Cascade Power Ltd.'s execution of the deed on the 90th day is a clear statutory default, and the debenture holder's complaint is well-founded

(C) The Debenture Trust Deed must be executed before the allotment of debentures; a company that allots debentures without first executing the trust deed commits an offence under s.71 of the Companies Act, 2013

(D) The 90-day period is within the statutory window because s.71 prescribes a period of three months from the date of allotment; the debenture holder's complaint is therefore baseless

Q11. Parkview Estates Pvt. Ltd., a private company with a paid-up share capital of Rs. 5 crore and a turnover of Rs. 40 crore, advertised on social media platforms inviting the general public to deposit funds with the company for a fixed tenure of two years at an interest rate of 10% per annum, promising assured returns. The company's promoter argued that accepting deposits from the public was a legitimate way to raise working capital and was not prohibited for private companies. A shareholder with knowledge of company law raised an objection to the scheme.

Which of the following correctly describes the restriction on acceptance of public deposits by a private company under the Companies Act, 2013?

(A) A private company may freely accept deposits from the public at any rate of interest, provided it files the prescribed return with the Registrar of Companies within 30 days of accepting each deposit

(B) A private company may accept deposits from the general public provided it obtains a credit rating from a recognised rating agency and complies with the disclosure norms prescribed by SEBI for deposit-taking entities

(C) Under s.73 of the Companies Act, 2013 and the Companies (Acceptance of Deposits) Rules, 2014, a private company is **not eligible** to accept deposits from the public (i.e., from persons who are not its members, directors, or relatives of directors); only eligible public companies under s.76 may invite deposits from the public after complying with prescribed conditions; Parkview Estates Pvt. Ltd.'s scheme is unlawful

(D) Private companies may accept public deposits up to a maximum of 25% of their paid-up share capital and free reserves combined, without any further regulatory requirement other than filing a return with the Registrar of Companies

Q12. Nova Spinning Mills Ltd. had accepted fixed deposits from the public in 2010 under the Companies Act, 1956, with varying maturity periods extending up to 2018. After the Companies Act, 2013 came into force, the company took the position that since the deposits were accepted and governed under the old Act, the 2013 Act's provisions on repayment did not apply to them, and the company had no obligation to comply with the new Act's repayment requirements. A group of deposit holders whose deposits had matured in 2016 had not been repaid and approached the Registrar of Companies.

Which of the following correctly states the legal obligation of Nova Spinning Mills Ltd. regarding repayment of existing deposits under s.74 of the Companies Act, 2013?

(A) Section 74 of the Companies Act, 2013 applies only to deposits accepted after the commencement of the 2013 Act; deposits accepted under the Companies Act, 1956 continue to be governed solely by the old Act and its rules, and there is no obligation to repay them under the 2013 framework

(B) The company may defer repayment of pre-existing deposits indefinitely, provided it continues to pay interest to deposit holders at the rate agreed upon at the time of acceptance and obtains annual ratification of the deferral by ordinary resolution

(C) Nova Spinning Mills Ltd. is required to repay the depositors only at the original maturity dates specified in the deposit receipts; it has no obligation to repay before maturity under the Companies Act, 2013

(D) Under s.74 of the Companies Act, 2013, all deposits accepted before the commencement of the Act and remaining unpaid must be repaid within three years from the commencement of the Act or on the date of maturity, whichever is earlier; the company cannot escape repayment by relying on the old Act; Nova Spinning Mills Ltd. is in default with respect to matured unpaid deposits, and the deposit holders' grievance is legally valid

Q13. Platinum Constructions Ltd., a public company, sanctioned a personal loan of Rs. 50 lakh to its Managing Director, Mr. Vivek Malhotra, to enable him to purchase a residential apartment. The sanction was approved by a majority of the Board of Directors, including independent directors. Mr. Malhotra argued that advancing loans to senior management was routine corporate practice across industry, that the interest rate was the same as the company's bank borrowing rate, and that the loan had been duly approved by the Board. A minority shareholder challenged the legality of the loan.

Which of the following correctly states the legal position regarding loans to directors under s.185 of the Companies Act, 2013?

(A) Section 185 of the Companies Act, 2013 **prohibits** a company from directly or indirectly advancing any loan to its directors or to any other person in whom the director is interested; board approval – however unanimous – does not validate such a loan; the minority shareholder's challenge is legally correct and Mr. Malhotra's argument about industry practice has no statutory basis

(B) A company may advance a personal loan to its Managing Director with the approval of at least two-thirds of the independent directors on the Board; once such approval is obtained, the transaction is valid under s.185

(C) Loans to Managing Directors are specifically exempted from the prohibition under s.185 because the Managing Director is a full-time employee of the company, not merely a non-executive director

(D) The loan is valid because it was made at the company's bank borrowing rate; s.185 only prohibits interest-free or concessional loans to directors, not loans made at commercial rates

Q14. Trustworthy Finance Ltd. is a non-banking finance company (NBFC) registered with the Reserve Bank of India and incorporated under the Companies Act, 2013, carrying on the business of lending and advancing money to customers in its ordinary course of business. It extended a loan of Rs. 30 lakh to one of its Directors, Mr. Suresh Agrawal, at the same rate of interest and on the same terms as offered to its other borrower-customers, following its standard credit appraisal process. Another director questioned whether the loan to Mr. Agrawal was permissible under s.185 of the Companies Act, 2013.

Which of the following correctly identifies the applicable exception under s.185 of the Companies Act, 2013?

(A) The prohibition under s.185 applies without exception to all companies, including NBFCs and money-lending companies; no loan to a director is permissible under any circumstances regardless of the company's business

(B) Under s.185(3)(c) of the Companies Act, 2013, the prohibition on loans to directors **does not apply** to a company that is in the ordinary course of its business engaged in providing loans, advances, or guarantees, where such loan is given to a director at the rate of interest at which similar loans are advanced to persons who are not directors; Trustworthy Finance Ltd.'s loan to Mr. Agrawal falls squarely within this exception and is lawful

(C) The exception under s.185 applies only if the loan to the director is first approved by a special resolution of the shareholders; board-level approval or the ordinary course of business exception alone is not sufficient

(D) Loans to a director of an NBFC are regulated exclusively by RBI guidelines and are outside the scope of s.185 of the Companies Act, 2013 entirely; the Companies Act has no application to such transactions

Q15. Nexus Holdings Ltd. has a paid-up share capital of Rs. 40 crore, free reserves of Rs. 30 crore, and a Securities Premium Account of Rs. 10 crore – an aggregate of Rs. 80 crore. The company's existing loans, guarantees, and investments under s.186 already totalled Rs. 52 crore (which is 65% of the aggregate of paid-up, free reserves, and securities premium). The Board proposed to extend an additional inter-corporate loan of Rs. 5 crore to a subsidiary. The CFO advised that the total exposure would then cross the 60% threshold and that the Board's approval alone would not be sufficient to authorise the additional loan.

Which of the following correctly states the legal requirement for inter-corporate loans and investments under s.186 of the Companies Act, 2013 when the prescribed limit is exceeded?

(A) A company may extend inter-corporate loans beyond the 60% threshold upon obtaining the approval of its Board of Directors by a resolution passed at a duly convened meeting; no further approval is required

(B) Inter-corporate loans and investments under s.186 are exempt from any limit where the loan is extended to a wholly owned subsidiary, regardless of the aggregate exposure as a percentage of paid-up capital and reserves

(C) Under s.186(3) of the Companies Act, 2013, where the aggregate of loans given, guarantees provided, and investments made exceeds the higher of (i) 60% of the paid-up share capital, free reserves, and securities premium account, or (ii) 100% of the free reserves and securities premium account, the company must obtain **prior approval by a special resolution** passed in a general meeting; Board approval alone is not sufficient for the additional loan; the CFO's advice is correct

(D) The company must obtain prior approval of the Central Government through an application to the Regional Director before extending any inter-corporate loan that crosses the 60% threshold under s.186

Q16. Lakshmi Holdings Ltd. holds 100% of the equity share capital of Lakshmi Properties Ltd., making it a wholly-owned subsidiary. Lakshmi Holdings Ltd. entered into a construction contract with Lakshmi Properties Ltd. valued at Rs. 200 crore for the development of a commercial complex. A minority shareholder of Lakshmi Holdings Ltd. demanded that the transaction be approved by the shareholders in a general meeting under s.188 of the Companies Act, 2013, contending that the contract between the two companies was a related party transaction requiring shareholder consent. The Board's legal counsel disagreed.

Which of the following correctly describes the applicability of the shareholder approval requirement under s.188 of the Companies Act, 2013 to transactions between a holding company and its wholly-owned subsidiary?

(A) All transactions between a company and its subsidiary – including wholly-owned subsidiaries – are related party transactions requiring shareholder approval under s.188, regardless of the degree of ownership, since both entities are under common control

(B) Transactions between a holding company and its wholly-owned subsidiary require approval by a simple majority of the minority shareholders (i.e., excluding the holding company) at a general meeting under s.188

(C) Related party transactions between a company and its subsidiary exceeding Rs. 100 crore in value require both shareholder approval under s.188 and SEBI's prior written concurrence if the company is listed

(D) The proviso to s.188(1) of the Companies Act, 2013 **expressly exempts** transactions entered into between a holding company and its wholly-owned subsidiary whose accounts are consolidated with that holding company and placed before the shareholders in general meeting for approval; the minority shareholder's demand for a separate s.188 resolution is legally misconceived, and the Board's counsel is correct

Q17. Everest Cement Ltd. had accumulated substantial losses and its assets were significantly less than its liabilities. The Board of Directors passed a resolution proposing to extinguish and reduce the paid-up share capital by cancelling the portion of share capital that was lost or unrepresented by available assets, in order to restore a realistic balance sheet position.

The Company Secretary advised that a Board resolution alone was insufficient to effectuate the reduction and that a specific statutory process had to be followed before the reduction could take legal effect.

Which of the following correctly describes the procedure for reduction of share capital under s.66 of the Companies Act, 2013?

(A) Under s.66 of the Companies Act, 2013, reduction of share capital requires a **special resolution** of the company confirmed by an order of the National Company Law Tribunal (NCLT); the NCLT must be satisfied that the reduction is fair and equitable and does not prejudice creditors; a Board resolution alone cannot reduce the share capital, and the Company Secretary's advice is correct

(B) A company may reduce its paid-up share capital by a Board resolution alone, provided the reduction does not involve repayment of any paid-up capital to shareholders and is effected solely to write off accumulated losses

(C) Reduction of share capital requires only an ordinary resolution of the shareholders in a general meeting; no involvement of the NCLT is required under the Companies Act, 2013

(D) A company wishing to reduce its share capital must file an application with SEBI (for listed companies) or the Registrar of Companies (for unlisted companies), without any requirement for a shareholder resolution or NCLT confirmation

Q18. Celestial Developers Ltd. had two classes of shares: equity shares carrying standard voting and dividend rights, and redeemable preference shares carrying a fixed dividend of 8% per annum with priority over equity in dividend and liquidation. The company proposed to amend its Articles to reduce the fixed dividend on preference shares from 8% to 5% per annum. At the general meeting, equity shareholders holding 80% of the total voting power voted in favour of the amendment by ordinary resolution. The preference shareholders, as a class, were not given a separate vote on the variation. Preference shareholders challenged the amendment.

Which of the following correctly states the legal requirement for variation of class rights under s.48 of the Companies Act, 2013?

(A) The amendment is valid because it was approved by equity shareholders holding 80% of the total voting power; under Indian company law, a majority decision of shareholders at a general meeting is binding on all classes of shareholders

(B) Under s.48 of the Companies Act, 2013, the rights attached to shares of any class may be varied only with the **consent in writing of the holders of not less than three-fourths** of the issued shares of that class, or by a special resolution passed at a separate meeting of the holders of that class; the equity shareholders' ordinary resolution cannot override or substitute for the consent of the preference class; the preference shareholders' challenge is legally sound

(C) Variation of preference shareholder rights requires confirmation by the National Company Law Tribunal in addition to any shareholder resolution; no variation is effective until the NCLT order is received and filed with the Registrar of Companies

(D) Once a class of shares is issued, the rights attached to that class are permanently unalterable and cannot be varied by any means, whether by shareholder resolution, NCLT order, or otherwise, under the Companies Act, 2013

Q19. Ms. Preethi Nair discovered that her original share certificate for 2,000 equity shares in Monarch Hotels Ltd. had been misplaced during a house move. She wrote to the Company Secretary requesting immediate issue of a duplicate share certificate. The Company Secretary explained that the company could not simply reissue a certificate on the basis of a verbal request and that a specific statutory and administrative procedure had to be followed to protect both the company and the shareholder before a duplicate could lawfully be issued.

Which of the following correctly describes the procedure for issue of a duplicate share certificate under the Companies Act, 2013 and applicable rules?

(A) The Company Secretary must issue a duplicate share certificate within 24 hours of receiving a written request from the shareholder without any further procedural formality, as delay in issuing a duplicate certificate constitutes an offence under s.46 of the Companies Act, 2013

(B) The shareholder must file a First Information Report (FIR) with the police and submit a certified copy of the FIR to the company; the company is then required to issue a duplicate certificate within 7 days of receiving the FIR copy

(C) A duplicate share certificate may be issued only after the shareholder: (i) furnishes an affidavit and an indemnity bond (in such form and on such stamp paper as prescribed or as the Board may require) indemnifying the company against any loss arising from issue of the duplicate; (ii) publishes an advertisement in a newspaper as required by the company or applicable rules; and (iii) obtains a Board resolution authorising the issue; the duplicate must be issued within the time prescribed by the Companies (Share Capital and Debentures) Rules, 2014

(D) Issue of a duplicate share certificate requires prior approval of the Registrar of Companies in every case, regardless of the circumstances of loss; the company cannot issue a duplicate on its own authority without the Registrar's written permission

Q20. Sapphire Realty Ltd. made an allotment of 5,00,000 equity shares to successful applicants following a rights issue that closed on 1st March 2025. Due to administrative backlogs in the share department, the company dispatched share certificates to allottees only on 5th July 2025 – approximately four months after the allotment date. Several shareholders complained to the company and subsequently to the Registrar of Companies, alleging that the company had defaulted on its statutory obligation to issue share certificates within the prescribed time.

Which of the following correctly states the statutory timeline for issue of share certificates after allotment under s.46 of the Companies Act, 2013?

(A) A company is required to issue share certificates within six months of the date of allotment; Sapphire Realty Ltd. dispatched certificates within four months and is therefore within the statutory period; the shareholders' complaint has no legal basis

(B) Under the Companies Act, 2013, a company must issue share certificates within three months of allotment; Sapphire Realty Ltd.'s dispatch of certificates four months after allotment constitutes a default but one that attracts only a minor administrative penalty

(C) Physical share certificates are not mandatory where shares are allotted in dematerialised form; since most modern rights issues result in credits to demat accounts, the question of a timeline for issue of share certificates does not arise and the shareholders' complaint is misconceived

(D) Under s.56 read with Rule 5 of the Companies (Share Capital and Debentures) Rules, 2014, a company must issue and dispatch share certificates within **two months** of the date of allotment; Sapphire Realty Ltd.'s dispatch after four months is a clear statutory default and the shareholders' complaint is legally valid; the company and its officers are liable for the default

SECTION B – Detailed Solutions

Sol. 1.

Solution

Concept — Rights Issue under s.62(1)(a), Companies Act, 2013: Section 62(1)(a) provides that where a company proposes to increase its subscribed share capital by the issue of further shares, those shares must first be offered to existing equity shareholders in proportion to their paid-up shareholding. This statutory pre-emption right exists to protect existing shareholders from dilution. The offer must be made by notice specifying the number of shares offered and the time (not less than 15 days and not more than 30 days) within which it must be accepted.

Analysis: Sunrise Apparels Ltd.'s proposal to offer all new shares directly to a private equity fund without first offering them to existing shareholders violates s.62(1)(a). The Finance Director's argument that the company needs institutional investors does not override the statutory right of existing shareholders. The shareholder holding 5% is legally entitled to receive a rights offer in proportion to his holding before any outside offer is made.

Why other options are wrong:

- Option (A): **Correct.** Section 62(1)(a) mandates that further shares be first offered to existing shareholders pro-rata; bypassing this requirement by offering directly to outsiders is unlawful.
- Option (B): Incorrect – listing status does not extinguish the rights issue requirement; s.62(1)(a) applies to all companies; SEBI regulations supplement but do not displace the statutory rights of existing shareholders.
- Option (C): Incorrect – the obligation to offer shares to existing shareholders under s.62(1)(a) applies to equity shares as much as to any other class; there is no restriction to preference shares.
- Option (D): Incorrect – the Finance Director's proposal directly contradicts s.62(1)(a); the listed status of the company does not allow it to bypass the statutory pre-emption right.

Final Answer: Section 62(1)(a) requires that further equity shares be first offered to existing shareholders pro-rata before any outside offer; the company cannot bypass this requirement. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q1

Sol. 2.

Solution

Concept — Employee Stock Option Plan (ESOP) under s.62(1)(b), Companies Act, 2013: Section 62(1)(b) permits a company to issue shares to its employees under a scheme of employees' stock option, subject to a *special resolution* passed by the company. A special resolution requires approval of not less than 75% of the votes cast. This higher threshold is mandated because an ESOP dilutes existing shareholders and should be expressly endorsed by them. SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 govern listed companies.

Analysis: Green Tech Solutions Ltd.'s HR Director's proposal to implement the ESOP solely by a Board resolution is contrary to the express statutory requirement of s.62(1)(b). The Company Secretary is correct that a special resolution of the shareholders in a general meeting is mandatory. A board resolution, however unanimous, does not satisfy this requirement.

Why other options are wrong:

- Option (A): Incorrect – a Board resolution alone is expressly insufficient under s.62(1)(b); the statute requires a special resolution of the company, not a mere board resolution.
- Option (B): **Correct.** Section 62(1)(b) mandates a special resolution for an ESOP; the Company Secretary's advice is legally accurate.
- Option (C): Incorrect – the statute prescribes a special resolution irrespective of the discount percentage; there is no sliding scale of approval based on the depth of discount offered.
- Option (D): Incorrect – SEBI's regulations apply to listed companies and operate in addition to, not in substitution of, the shareholder approval requirement; even a listed company must pass a special resolution under s.62(1)(b).

Final Answer: Section 62(1)(b) requires a special resolution for an ESOP; a board resolution is legally insufficient; the Company Secretary is correct. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q2

Sol. 3.

Solution

Concept — Permissible Uses of Securities Premium Account under s.52, Companies Act, 2013: Section 52(2) prescribes an exhaustive list of purposes for which the Securities Premium Account may be applied: (i) issue of fully paid-up bonus shares; (ii) writing off preliminary expenses; (iii) writing off expenses of, or commission paid or discount allowed on, issue of shares or debentures; (iv) providing for the premium on redemption of any redeemable preference shares or debentures of the company; and (v) purchase of its own shares or other securities under s.68. Payment of dividend is **not** among the permitted uses.

Analysis: Horizon Beverages Ltd.'s shareholders propose to use the Securities Premium Account balance to pay a cash dividend. This is impermissible under s.52 because dividend is not one of the statutorily authorised uses. The Securities Premium Account is a capital reserve that is ring-fenced from distribution; even a special resolution cannot authorise a use that the statute expressly excludes.

Why other options are wrong:

- Option (A): Incorrect – the list of permitted uses in s.52(2) is exhaustive; payment of dividend is not on the list, and a special resolution cannot expand this statutory list.
- Option (B): Incorrect – the Securities Premium Account is a capital reserve, not part of distributable profits; it cannot be treated as such even if the Board so resolves.
- Option (C): **Correct.** Section 52 enumerates the only permissible uses of the Securities Premium Account; dividend payment is not among them; the shareholders' proposal is unlawful.
- Option (D): Incorrect – the account cannot be transferred to the Profit and Loss Account for distribution; that would be an indirect circumvention of s.52's restrictions.

Final Answer: Under s.52, the Securities Premium Account may not be used to pay dividends; the shareholders' proposal is impermissible. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q3

Sol. 4.

Solution

Concept — Prohibition on Issue of Shares at Discount under s.53, Companies Act, 2013: Section 53(1) of the Companies Act, 2013 categorically prohibits a company from issuing shares at a discount. Any such issue is void. The only statutory exceptions are: (i) sweat equity shares issued under s.54 to directors or employees for know-how or intellectual property; and (ii) shares issued to employees under an ESOP at less than market price (which may technically be below face value in certain situations). There is no exception for shares issued at a discount merely to attract investors, regardless of Board or shareholder approval.

Analysis: Valley Power Ltd. proposes to issue equity shares at Rs. 8 against a face value of Rs. 10 – a straightforward issue at a discount on face value. This falls squarely within the prohibition in s.53. No amount of Board resolution or shareholder approval can validate the issue; the statute makes it void. The independent director's concern is fully justified.

Why other options are wrong:

- Option (A): Incorrect – s.53 does not permit any discount on face value even with a special resolution; the prohibition is absolute for ordinary share issues.
- Option (B): Incorrect – SEBI approval cannot override an express statutory prohibition; s.53 contains no exception for SEBI-approved discount issues.
- Option (C): Incorrect – no such exception exists in the Companies Act, 2013 or SEBI regulations; market price fluctuation does not create an entitlement to issue below face value.
- Option (D): **Correct.** Section 53 prohibits issue of shares at discount; the only exceptions are sweat equity (s.54) and ESOP shares; Valley Power Ltd.'s proposal is unlawful.

Final Answer: Section 53 absolutely prohibits issue of shares below face value; Valley Power Ltd.'s proposal is void; only sweat equity and ESOP shares are excepted. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q4

Sol. 5.

Solution

Concept — Calls on Shares by Board Resolution and Effect of Defective Notice: Under the model Articles (Table F, Schedule I), the power to make calls on partly paid shares vests in the Board of Directors by a board resolution; no general meeting approval is required. A defect in a notice served on a particular shareholder does not invalidate the call as a whole nor does it relieve all shareholders of their obligation. However, a shareholder who did not receive proper notice of the call may have a personal defence against enforcement as against him individually – particularly where the company had been informed of the correct address and still used the old one.

Analysis: Kaleidoscope Textiles Ltd.'s Board validly passed a resolution making the second call – this is within Board authority. Mr. Arora's argument that the Board needed to convene a general meeting has no legal basis. However, his specific objection that the notice was sent to an old address despite his having given a new address in writing raises a question of proper service on him individually; this may affect enforcement against Mr. Arora personally but does not invalidate the call for all other shareholders.

Why other options are wrong:

- Option (A): **Correct.** The Board has authority to make calls by resolution; a notice defect as to a specific shareholder affects his personal enforcement, not the call's general validity.
- Option (B): Incorrect – a defective notice to one shareholder does not render the call void against all shareholders who received proper notice; the call remains valid as a general matter.
- Option (C): Incorrect – calls on partly paid shares are made by Board resolution under the Articles; no general meeting resolution is required; the Companies Act does not impose this requirement.
- Option (D): Incorrect – the power to make calls belongs to the Board collectively; it is not vested exclusively in the Managing Director.

Final Answer: Board resolution suffices to make a call; a notice defect affects only the concerned shareholder's personal position and does not void the call as against all shareholders. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q5

Sol. 6.

Solution

Concept — Calls in Advance: Interest but No Dividend (Table F, Schedule I): A company may, if authorised by its Articles, accept calls in advance from a shareholder. Table F, Article 19 (model Articles for public companies) provides that the company may pay interest on the advance at such rate as the directors and the member may agree, but the money so paid shall not be treated as paid-up capital and shall not carry *dividend rights*. This principle protects the company from having to pay dividend on amounts it has not yet formally called up.

Analysis: Mrs. Rekha Jain paid Rs. 60,000 as calls in advance. The company is obliged to pay her interest at the agreed rate on this advance, but she is not entitled to any dividend on that amount because the advance does not constitute paid-up share capital. The Company Secretary correctly refused her demand for dividend. Her demand conflates interest (which she may receive) with dividend (which she cannot).

Why other options are wrong:

- Option (A): Incorrect – calls in advance carry only interest, not dividend; the statement that dividend is also payable is contrary to the express provision of Table F and established company law.
- Option (B): **Correct.** A company may pay interest on calls received in advance, but no dividend is payable on the advance amount; the Company Secretary is right.
- Option (C): Incorrect – there is no statutory obligation to refund calls in advance within 30 days; the money is held until the formal call is made and the advance is appropriated against it.
- Option (D): Incorrect – calls in advance do not carry additional voting rights; voting rights are determined by paid-up share capital, not by advances on uncalled capital.

Final Answer: Calls in advance carry interest at the agreed rate but confer no dividend rights; the Company Secretary's refusal of Mrs. Jain's dividend demand is legally correct. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q6

Sol. 7.

Solution

Concept — Lien on Shares: Restriction for Public Companies: Table F (model Articles for public companies, Schedule I to the Companies Act, 2013) does not contain any provision for a lien on shares. The common law position, reinforced by the structure of Table F, is that a public company **cannot** have a general lien on its shares for members' debts. Table A under the old Companies Act, 1956 similarly excluded general liens for public companies. Private companies, by contrast, are permitted under Table H (model Articles for private companies) to create a lien on shares for any indebtedness of a member. Any lien clause inserted in a public company's Articles that goes beyond what Table F permits is ineffective.

Analysis: Brightway Industries Ltd. is a public limited company. The lien clause it inserted in its Articles purporting to create a lien on all shares for any debt of a member is inconsistent with Table F and the statutory position for public companies. A public company cannot enforce such a general lien against a member's shares. Mr. Kapoor's challenge is legally well-founded.

Why other options are wrong:

- Option (A): Incorrect – inserting a lien clause in a public company's Articles does not make it lawful; a clause inconsistent with the statutory model (Table F) for public companies is ineffective.
- Option (B): Incorrect – there is a fundamental distinction between public and private companies on this point; public companies cannot create a general lien on shares for member debts.
- Option (C): **Correct.** Table F does not permit a lien on shares for public companies; only private companies may lawfully create such a lien; Mr. Kapoor's challenge succeeds.
- Option (D): Incorrect – an NCLT order is not the route to validate an inherently impermissible lien; the lien is simply not available to a public company regardless of any judicial involvement.

Final Answer: Public companies cannot create a general lien on shares under Table F; only private companies may do so; Mr. Kapoor's challenge is legally valid. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q7

Sol. 8.

Solution

Concept — Interest on Calls in Arrears: Statutory Ceiling of 10% Per Annum: Table F of Schedule I to the Companies Act, 2013 (model Articles for public companies) provides that if a member fails to pay any call by the due date, the member shall pay interest on the unpaid amount at **10% per annum** or such lower rate as the Board may determine. This rate of 10% per annum is a ceiling; the company may charge a lower rate but cannot exceed it where the Articles are silent. If the Articles themselves specify a different rate, the Articles would prevail, but where the Articles are silent, Table F's ceiling applies.

Analysis: Quantum Ceramics Ltd.'s Articles are silent on the rate of interest for calls in arrears. In that case, Table F's default ceiling of 10% per annum is the maximum permissible rate. The Board's resolution to charge 14% per annum exceeds this ceiling and is therefore unlawful. Mr. Sharma's objection is legally well-founded.

Why other options are wrong:

- Option (A): Incorrect – Table F prescribes a maximum rate of 10% per annum for interest on calls in arrears where the Articles are silent; the Board cannot unilaterally decide a higher commercial rate.
- Option (B): Incorrect – interest is chargeable on calls in arrears; the statutory framework (Table F) expressly provides for it; forfeiture is an additional, not exclusive, remedy.
- Option (C): Incorrect – the prescribed ceiling is 10% per annum, not 8%; Option (C) misstates the statutory rate.
- Option (D): **Correct.** Table F sets 10% per annum as the maximum interest on calls in arrears; charging 14% where Articles are silent is impermissible; Mr. Sharma's objection is well-founded.

Final Answer: Table F limits interest on calls in arrears to 10% per annum where the Articles are silent; the company's 14% rate is unlawful; Mr. Sharma's objection is valid. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q8

Sol. 9.

Solution

Concept — Debenture Redemption Reserve (DRR) for Unlisted Public Companies: Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014 (as amended) requires that an unlisted public company issuing secured debentures must create a Debenture Redemption Reserve (DRR) equivalent to at least **10%** of the outstanding amount of debentures before the date of redemption. The Companies (Amendment) Rules, 2019 exempted *listed companies* and All India Financial Institutions from the DRR requirement. Unlisted public companies and private companies continue to be required to maintain the DRR.

Analysis: Meridian Infrastructure Ltd. is an unlisted public company. The CFO's contention that the DRR exemption applies to it is incorrect – the exemption granted in 2019 is available only to listed companies. Meridian's failure to create the DRR of at least 10% of the outstanding Rs. 50 crore (i.e., Rs. 5 crore) before redemption is a statutory violation under Rule 18. The company cannot lawfully proceed with redemption without first creating the required DRR.

Why other options are wrong:

- Option (A): **Correct.** Unlisted public companies must create a DRR of at least 10% before redemption; the 2019 exemption applies only to listed companies; Meridian is in violation.
- Option (B): Incorrect – the required DRR for unlisted public companies is 10%, not 25%; the 25% figure applied under the older pre-2019 rules but has since been reduced.
- Option (C): Incorrect – the 2019 amendment abolished DRR only for listed companies and certain FIs; unlisted public companies remain obligated to create DRR.
- Option (D): Incorrect – the DRR requirement under Rule 18 applies to secured debentures issued by unlisted public companies; the security over assets does not substitute for the statutory DRR obligation.

Final Answer: Unlisted public companies must create DRR of at least 10% before redemption; the 2019 exemption applies only to listed companies; Meridian Infrastructure Ltd. has violated Rule 18. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q9

Sol. 10.

Solution

Concept — Debenture Trust Deed: 60-Day Execution Deadline under s.71(4) and Rule 18(2): Section 71(4) of the Companies Act, 2013 read with Rule 18(2) of the Companies (Share Capital and Debentures) Rules, 2014 requires that where debentures are secured, the company must execute a debenture trust deed in the prescribed form within **60 days** of the allotment of debentures. The trust deed creates a fiduciary relationship between the debenture trustee and the debenture holders and is essential for protecting the security interest created in favour of debenture holders.

Analysis: Cascade Power Ltd. allotted debentures on 1st May 2025. The 60-day statutory deadline for executing the trust deed expired on 30th June 2025. Execution on 30th July 2025 (the 90th day) is clearly beyond the prescribed period. The company's argument that 90 days falls within a "reasonable time" has no legal basis – the statute is specific and mandatory. The debenture holder's complaint is legally correct.

Why other options are wrong:

- Option (A): Incorrect – s.71(4) read with Rule 18(2) prescribes a specific and mandatory 60-day timeline; "reasonable time" is not the statutory standard.
- Option (B): **Correct.** The Debenture Trust Deed must be executed within 60 days of allotment; execution on day 90 is a statutory default; the debenture holder is right.
- Option (C): Incorrect – the trust deed is not required to be executed before allotment; the statute expressly provides for execution within 60 days *after* allotment.
- Option (D): Incorrect – the prescribed period is 60 days, not three months; Option (D) misstates the statutory requirement.

Final Answer: The Debenture Trust Deed must be executed within 60 days of allotment under s.71(4)/Rule 18(2); Cascade Power Ltd.'s 90-day delay is a statutory default. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q10

Sol. 11.

Solution

Concept — Restriction on Acceptance of Public Deposits by Private Companies under s.73: Section 73 of the Companies Act, 2013 and the Companies (Acceptance of Deposits) Rules, 2014 restrict the acceptance of deposits. Only **eligible public companies** (as defined under the Rules) may accept deposits from the public by complying with prescribed conditions including credit rating, deposit insurance, and filing of returns. Private companies are not authorised to accept deposits from persons other than their members, directors, or relatives of directors. Accepting deposits from the general public constitutes an illegal deposit acceptance for a private company.

Analysis: Parkview Estates Pvt. Ltd. is a private company that invited deposits from the general public. This is impermissible under s.73 and the Companies (Acceptance of Deposits) Rules, 2014. The promoter's argument that it is a legitimate mode of raising working capital is wrong. The company is in violation of the statute, and such deposits would be treated as illegal deposits.

Why other options are wrong:

- Option (A): Incorrect – filing a return with the Registrar does not legalise what is statutorily prohibited; private companies cannot accept public deposits regardless of any compliance formality.
- Option (B): Incorrect – credit rating and SEBI compliance relate to the regime for *eligible public companies*; a private company cannot avail of these routes to accept public deposits.
- Option (C): **Correct.** Section 73 does not permit private companies to accept deposits from the public; only eligible public companies under s.76 may do so; the scheme is unlawful.
- Option (D): Incorrect – there is no statutory provision permitting private companies to accept public deposits up to 25% of paid-up capital; this is a fabricated threshold.

Final Answer: Private companies cannot accept deposits from the public under s.73; only eligible public companies may do so; Parkview Estates Pvt. Ltd.'s scheme is unlawful. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q11

Sol. 12.

Solution

Concept — Repayment of Existing Deposits under s.74, Companies Act, 2013: Section 74(1) of the Companies Act, 2013 applies to all companies that had accepted deposits under the Companies Act, 1956 or under any law that was in force before the commencement of the 2013 Act. It requires that such deposits, along with due interest, must be repaid within three years from the commencement of the 2013 Act (i.e., by 31st March 2017) or on the date of maturity, **whichever is earlier**. The 2013 Act's transitional provision expressly covers pre-existing deposits.

Analysis: Nova Spinning Mills Ltd.'s position that the 2013 Act does not apply to deposits accepted under the 1956 Act is incorrect. Section 74 is a transitional provision specifically designed to bring pre-existing deposits within the new repayment framework. Deposits that matured in 2016 should have been repaid either on their maturity date or by 31st March 2017, whichever was earlier. The company is in clear default and the deposit holders' complaint is legally valid.

Why other options are wrong:

- Option (A): Incorrect – s.74 is a transitional provision expressly covering deposits accepted under the 1956 Act; the company's argument is directly contradicted by the statute.
- Option (B): Incorrect – there is no provision permitting indefinite deferral of repayment upon payment of interest and annual ratification; s.74's obligations are mandatory.
- Option (C): Incorrect – s.74 requires repayment at maturity *or* within three years of the 2013 Act's commencement, whichever is earlier; the company cannot simply wait for original maturity dates.
- Option (D): **Correct.** Section 74 requires repayment of pre-existing deposits within three years from commencement of the 2013 Act or at maturity, whichever is earlier; the company's obligation is clear; deposit holders' grievance is valid.

Final Answer: Section 74 covers pre-existing deposits and requires repayment within three years of the 2013 Act's commencement or at maturity, whichever is earlier; Nova Spinning Mills Ltd. is in default. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q12

Sol. 13.

Solution

Concept — Prohibition on Loans to Directors under s.185, Companies Act, 2013: Section 185(1) of the Companies Act, 2013 prohibits a company from, directly or indirectly, advancing any loan (including a loan represented by a book debt), giving any guarantee, or providing any security in connection with any loan taken by: (i) any director of the company; (ii) any director of the holding company; or (iii) any partner or relative of any such director; or any firm in which such director or relative is a partner. The prohibition is absolute and not curable by Board approval, independent director sanction, or any other internal authorisation.

Analysis: Platinum Constructions Ltd.'s sanction of a Rs. 50 lakh personal loan to its Managing Director, Mr. Malhotra, directly contravenes s.185(1). The fact that the loan was approved by a majority of the Board including independent directors is irrelevant – the prohibition operates regardless of the quality or unanimity of the Board's approval. Mr. Malhotra's argument about industry practice has no statutory weight.

Why other options are wrong:

- Option (A): **Correct.** Section 185 absolutely prohibits loans to directors; Board approval – even with independent directors – does not validate the loan; the minority shareholder's challenge is legally correct.
- Option (B): Incorrect – there is no provision under s.185 allowing loans to directors upon independent director approval; the prohibition admits no such exception.
- Option (C): Incorrect – s.185 does not carve out Managing Directors from its prohibition; the term "director" includes the Managing Director.
- Option (D): Incorrect – s.185 prohibits loans to directors at any rate of interest, not just concessional or interest-free loans; the commercial rate argument does not create an exception.

Final Answer: Section 185 absolutely prohibits loans to directors; Board approval is immaterial; the loan to Mr. Malhotra is unlawful; the minority shareholder's challenge succeeds. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q13

Sol. 14.

Solution

Concept — Exception for Money-Lending Companies under s.185(3)(c), Companies Act, 2013: Section 185(3)(c) provides that the prohibition on loans to directors under s.185(1) shall not apply to a company which in the ordinary course of its business provides loans, advances, or gives guarantees or securities for the due repayment of any loan, provided the activities are carried on at a rate of interest at which similar loans are advanced to persons who are not directors. This exception is designed to avoid disrupting the legitimate lending business of NBFCs and money-lending companies where a director happens to be a borrower at arm's length terms.

Analysis: Trustworthy Finance Ltd. is an NBFC engaged in lending as its ordinary course of business. The loan to Director Mr. Suresh Agrawal was made at the same rate and on the same terms as loans advanced to ordinary borrower-customers. This falls precisely within s.185(3)(c), and the loan is therefore not caught by the general prohibition. The questioning director's concern is addressed by this specific exception.

Why other options are wrong:

- Option (A): Incorrect – s.185(3) contains specific exceptions; s.185(3)(c) expressly exempts ordinary course lending by money-lending companies even to their directors.
- Option (B): **Correct.** Section 185(3)(c) exempts loans by companies in the money-lending business to directors at the same rate as public borrowers; the loan is lawful.
- Option (C): Incorrect – s.185(3)(c) does not require shareholder approval as a prerequisite to the exception; the exception is self-operative when the conditions are met.
- Option (D): Incorrect – s.185 of the Companies Act, 2013 applies to all companies including NBFCs; RBI guidelines on lending are separate and additional, but do not displace the Companies Act entirely.

Final Answer: Section 185(3)(c) exempts a money-lending company's loans to its directors at the same rate as public borrowers; Trustworthy Finance Ltd.'s loan to Mr. Agrawal is lawful. $\Rightarrow \boxed{\text{B}}$

$\boxed{\textbf{Answer: (B)}}$ **Go Back to Q14**

Sol. 15.

Solution

Concept — Special Resolution Requirement for Exceeding the 60% Limit under s.186(3): Section 186(2) of the Companies Act, 2013 permits a company to give loans, provide guarantees, or make investments up to a limit of 60% of the aggregate of its paid-up share capital, free reserves, and securities premium account, or 100% of its free reserves and securities premium account, whichever is more. Section 186(3) provides that where the proposed loan, guarantee, or investment exceeds the above limits, the company must obtain **prior approval by a special resolution** passed in a general meeting. Board approval alone is insufficient to authorise a transaction that crosses this threshold.

Analysis: Nexus Holdings Ltd.'s aggregate of paid-up capital, free reserves, and securities premium is Rs. 80 crore. The existing exposure of Rs. 52 crore (65%) already exceeds the 60% threshold. The proposed additional loan of Rs. 5 crore will further increase the breach. Before making the additional loan, a special resolution of shareholders is mandatory under s.186(3). The CFO's advice is correct.

Why other options are wrong:

- Option (A): Incorrect – where the 60% threshold is crossed, s.186(3) requires a prior special resolution; Board approval alone is expressly inadequate.
- Option (B): Incorrect – s.186 does not contain a blanket exemption for loans to wholly-owned subsidiaries in excess of the prescribed limits; the special resolution requirement applies.
- Option (C): **Correct.** Under s.186(3), exceeding the 60% limit requires a prior special resolution; the CFO is correct that Board approval alone is insufficient.
- Option (D): Incorrect – Central Government approval is not required under s.186; the mechanism for approval is a special resolution of the shareholders, not a government application.

Final Answer: Section 186(3) requires a prior special resolution when the 60% threshold is exceeded; Board approval alone is insufficient; the CFO's advice is correct. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q15

Sol. 16.

Solution

Concept — Exemption for Holding-Subsidiary Transactions under the Proviso to s.188(1): Section 188(1) of the Companies Act, 2013 requires that certain related party transactions be approved by a resolution of the company (ordinary or special, depending on value and listing status). However, the **first proviso** to s.188(1) provides that this requirement shall not apply to any transaction entered into by the company in its ordinary course of business *other than transactions which are not on an arm's length basis*. More critically for the present scenario, a separate well-established proviso and SEBI Circular position (which has been judicially noted) exempts transactions between a holding company and its wholly-owned subsidiary, where the subsidiary's accounts are consolidated with the holding company and placed before shareholders.

Analysis: Lakshmi Holdings Ltd. holds 100% of the equity of Lakshmi Properties Ltd. – a wholly-owned subsidiary whose accounts will be consolidated. The proviso to s.188(1) exempts such transactions from the requirement of a separate shareholder resolution. The minority shareholder's demand for a s.188 general meeting resolution is therefore legally misconceived.

Why other options are wrong:

- Option (A): Incorrect – the proviso to s.188(1) expressly carves out transactions with wholly-owned subsidiaries from the shareholder approval requirement; the 100% ownership is precisely the condition for the exemption.
- Option (B): Incorrect – there is no provision for minority shareholder approval as a separate class for wholly-owned subsidiary transactions; the exemption makes any such approval requirement redundant.
- Option (C): Incorrect – while SEBI RPT regulations impose obligations on listed companies, the proviso to s.188 operates at the level of the Companies Act and the 100% subsidiary exemption is recognised; the specific requirement described in Option (C) misrepresents the law.
- Option (D): **Correct.** The proviso to s.188(1) exempts transactions between a holding company and its wholly-owned subsidiary (accounts consolidated and placed before shareholders) from the shareholder approval requirement; the minority shareholder's demand has no legal basis.

Final Answer: The proviso to s.188(1) exempts transactions between a holding company and its wholly-owned subsidiary from the shareholder resolution requirement; the minority shareholder's demand is legally unfounded. $\Rightarrow \boxed{D}$

Answer: (D) Go Back to Q16

Sol. 17.

Solution

Concept — Reduction of Share Capital under s.66, Companies Act, 2013: Section 66(1) of the Companies Act, 2013 provides that a company may, by a **special resolution** confirmed by an order of the **National Company Law Tribunal (NCLT)**, reduce its share capital in any manner. Before confirming the reduction, the NCLT must be satisfied that the reduction is fair and equitable, that creditors' interests are protected, and that the scheme of reduction is not contrary to public interest. A Board resolution alone has no power to reduce share capital; the prescribed statutory procedure must be followed in its entirety.

Analysis: Everest Cement Ltd.'s Board passed a resolution proposing reduction of share capital to write off losses. This resolution cannot effectuate the reduction. Under s.66, the company must: (i) pass a special resolution in a general meeting; and (ii) obtain confirmation from the NCLT. The Company Secretary's advice is legally correct – the Board resolution is merely a preliminary step and does not, by itself, reduce the share capital.

Why other options are wrong:

- Option (A): **Correct.** Section 66 requires a special resolution plus NCLT confirmation; a Board resolution alone is entirely insufficient to reduce share capital.
- Option (B): Incorrect – s.66 does not permit reduction solely by Board resolution even to write off losses; the special resolution and NCLT confirmation are mandatory.
- Option (C): Incorrect – an ordinary resolution does not satisfy the requirement of s.66; a special resolution (75% majority) is specifically required, and NCLT confirmation is additionally mandatory.
- Option (D): Incorrect – reduction of share capital under s.66 does not involve SEBI or the Registrar of Companies in the approval role; the NCLT is the confirming authority; no SEBI application is required.

Final Answer: Section 66 requires a special resolution and NCLT confirmation for reduction of share capital; a Board resolution alone is insufficient; the Company Secretary is correct. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q17

Sol. 18.

Solution

Concept — Variation of Rights of a Class of Shareholders under s.48, Companies Act, 2013: Section 48(1) of the Companies Act, 2013 provides that where a company's share capital is divided into different classes of shares, the rights attached to any class may be varied only with the **consent in writing of the holders of not less than three-fourths of the issued shares of that class** or by a **special resolution passed at a separate meeting of the holders of that class**. The majority shareholders of another class (such as equity shareholders) cannot override this requirement by voting at a general meeting.

Analysis: Celestial Developers Ltd.'s proposal to reduce the fixed dividend on preference shares is a variation of the rights attached to the preference share class. Under s.48, this requires the consent of at least 75% of the preference shareholders (by value of their class) or a special resolution at a separate meeting of preference shareholders. The equity shareholders' ordinary resolution at the general meeting – however large the majority – has no legal effect on the preference shareholders' class rights. The preference shareholders' challenge is legally well-founded.

Why other options are wrong:

- Option (A): Incorrect – a majority of equity shareholders at a general meeting cannot vary the rights of a separate class of shareholders; s.48 requires consent of the affected class itself.
- Option (B): **Correct.** Section 48 requires consent of at least three-fourths of the affected class or a special resolution at their separate class meeting; equity shareholder votes are irrelevant to variation of preference class rights.
- Option (C): Incorrect – NCLT confirmation is not required for variation of class rights under s.48; the procedure is a class consent or class meeting special resolution; NCLT involvement is a separate route available only in specific situations.
- Option (D): Incorrect – class rights are not permanently unalterable; s.48 provides a specific procedure for variation; the statement that rights can never be varied is incorrect.

Final Answer: Section 48 requires consent of at least three-fourths of the affected class or a separate class meeting special resolution; equity shareholders cannot override preference class rights. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q18

Sol. 19.

Solution

Concept — Procedure for Issue of Duplicate Share Certificate under the Companies Act, 2013 and Rules: Rule 6 of the Companies (Share Capital and Debentures) Rules, 2014 prescribes the procedure for issue of a duplicate share certificate where the original is lost, destroyed, or defaced. The prescribed safeguards include: (i) the applicant must furnish an **affidavit** or statutory declaration as to the loss; (ii) execution of a **surety bond or indemnity bond** in favour of the company indemnifying it against any loss; (iii) in appropriate cases, publication of a **notice in a newspaper**; and (iv) a **Board resolution** authorising the issue of the duplicate. The duplicate must be issued within the time prescribed – generally within three months of the Board resolution.

Analysis: Ms. Preethi Nair's request is legitimate, but the Company Secretary is correct that the company cannot issue a duplicate certificate on a bare written request. The statutory procedure involving affidavit, indemnity bond, newspaper advertisement (if required), and a Board resolution must be followed before the duplicate is issued. This protects both the company and third parties from fraud or double dealing.

Why other options are wrong:

- Option (A): Incorrect – the procedure under Rule 6 requires several formalities including indemnity; issuing a duplicate within 24 hours of a written request without any of these safeguards is not the prescribed procedure.
- Option (B): Incorrect – while filing a police report (FIR) may be advisable in practice, the statute does not make an FIR a mandatory condition; the prescribed requirements are the affidavit, indemnity bond, newspaper notice, and Board resolution.
- Option (C): **Correct.** The prescribed procedure for a duplicate certificate involves affidavit/declaration, indemnity bond, newspaper advertisement (if required), and Board authorisation – all correctly stated.
- Option (D): Incorrect – the issue of a duplicate share certificate is an internal corporate function authorised by the Board; it does not require the Registrar of Companies' prior approval in every case.

Final Answer: A duplicate share certificate requires affidavit, indemnity bond, newspaper notice (as required), and Board resolution; the Company Secretary is correct that additional formalities are necessary. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q19

Sol. 20.

Solution

Concept — Timeline for Issue of Share Certificates after Allotment under s.56 and Rule 5: Section 56(4)(a) of the Companies Act, 2013 read with Rule 5(3) of the Companies (Share Capital and Debentures) Rules, 2014 provides that every company shall, within **two months** after allotment of any of its shares, deliver the share certificates to the allottees. For transfers of shares, the certificate must be delivered within one month. Failure to comply constitutes a default attracting penalties on the company and its officers.

Analysis: Sapphire Realty Ltd. made its allotment on 1st March 2025. The two-month statutory deadline for issue of share certificates expired on 1st May 2025. The company dispatched certificates only on 5th July 2025 – approximately four months after allotment. This is a clear default under s.56(4)(a)/Rule 5(3). The shareholders' complaint and their approach to the Registrar of Companies are legally well-founded.

Why other options are wrong:

- Option (A): Incorrect – the prescribed period is two months, not six months; dispatching certificates within four months does not bring the company within the statutory timeline.
- Option (B): Incorrect – the prescribed period is two months, not three months; four months is beyond the statutory deadline regardless of whether the penalty is characterised as minor.
- Option (C): Incorrect – the obligation to issue physical share certificates continues under the Companies Act, 2013 for shares held in physical form; the existence of dematerialisation does not universally extinguish the certificate obligation where shareholders hold in physical form.
- Option (D): **Correct.** Under s.56(4)(a) and Rule 5(3), share certificates must be issued within two months of allotment; dispatch after four months is a statutory default; the shareholders' complaint is valid.

Final Answer: Share certificates must be issued within two months of allotment under s.56/Rule 5; Sapphire Realty Ltd.'s four-month delay is a statutory default; the shareholders' complaint is legally valid. $\Rightarrow \boxed{\text{D}}$

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