CLAT PG Company Law
Sample Paper – 6

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 **Insolvency and Bankruptcy Code, 2016** (LLB level).
- Use of calculators or any electronic devices is **strictly prohibited**.

SECTION A – Questions

Q1. Ms. Priya Sharma, a software consultant, wishes to form a company entirely on her own without any other shareholder or member. Her chartered accountant advises her to incorporate a One Person Company (OPC). She enquires about the mandatory requirement of a nominee and what happens if the nominee refuses or becomes incapable of acting.

Which of the following correctly states the requirements relating to the nominee in a One Person Company under the Companies Act, 2013?

(A) An OPC is not required to nominate any person at the time of incorporation; a nominee is only required when the sole member actually becomes incapacitated or dies.

(B) Any person, including a company or LLP, may be nominated as the nominee of an OPC, since the Companies Act places no restriction on the form of the nominee.

(C) At the time of incorporation, the sole member of an OPC must nominate one person (who consents in writing) to become the member of the OPC in the event of the member's death or incapacity to contract; only a natural person who is an Indian citizen and resident in India can be a nominee; the nominee may withdraw consent at any time by giving notice to the company and the member, whereupon the member must nominate another person within 15 days.

(D) The nominee of an OPC automatically becomes a director of the OPC on the death of the sole member and cannot be changed thereafter.

Q2. Radius Distributors Pvt. Ltd. is a private company with a paid-up share capital of Rs. 3.5 crore and a turnover of Rs. 38 crore in the last financial year. Its directors are examining whether the company qualifies as a "small company" under the Companies Act, 2013, as several compliance exemptions apply to small companies.

Which of the following correctly states the current criteria for a private company to qualify as a "small company" under the Companies Act, 2013?

(A) After the Companies (Amendment) Act, 2020 and subsequent notification, a company qualifies as a small company if its paid-up share capital does not exceed Rs. 4 crore AND its turnover as per the last profit and loss account does not exceed Rs. 40 crore; since Radius Distributors' paid-up capital (Rs. 3.5 crore) and turnover (Rs. 38 crore) both fall within these thresholds, it qualifies as a small company.

(B) A small company is defined as one with paid-up capital not exceeding Rs. 50 lakh and turnover not exceeding Rs. 2 crore – these are the original 2013 thresholds still in force; Radius does not qualify.

(C) Any private company is a small company regardless of its paid-up capital or turnover, as long as it has fewer than 50 members.

(D) A small company is one whose paid-up capital does not exceed Rs. 10 crore – turnover is irrelevant to the classification under the Companies Act, 2013.

Q3. Greenfield Industries Ltd. issued 10,000 redeemable preference shares of Rs. 100 each in 2015, redeemable after 10 years. The company's finance director proposes to redeem the shares in 2025 by drawing the redemption money from the company's general reserves, without issuing any fresh shares. The company's legal counsel raises an objection and advises that a Capital Redemption Reserve (CRR) must be created equal to the nominal value of the shares redeemed.

Which of the following correctly states the statutory conditions for redeeming preference shares and the requirement regarding the Capital Redemption Reserve under the Companies Act, 2013?

(A) Preference shares can be redeemed from any source of funds including loans from banks and financial institutions; no Capital Redemption Reserve is required under the Companies Act, 2013.

(B) Preference shares can be redeemed out of profits, but no transfer to Capital Redemption Reserve is required; the profit can simply be utilised for the redemption directly without any further accounting entry.

(C) Redemption of preference shares is permissible only out of the proceeds of a fresh issue of shares and never out of profits; where no fresh issue is made, the preference shares cannot be redeemed.

(D) Under s.55(2), preference shares can be redeemed only out of profits available for dividend or out of the proceeds of a fresh issue of shares made for the purpose of redemption; when shares are redeemed out of profits, an amount equal to the nominal value of the shares redeemed must be transferred to a Capital Redemption Reserve (CRR) account out of profits; the CRR can be used to issue fully paid bonus shares; Greenfield's legal counsel is correct that the CRR must be created when redemption is funded from general reserves/profits.

Q4. Stellar Pharma Ltd. is a listed public company with four wholly-owned subsidiaries and a 30% stake in two associate companies. Its Board of Directors debates whether it must prepare consolidated financial statements in addition to its standalone accounts. One director argues that consolidation is optional and that only standalone accounts are mandatory under the Companies Act, 2013.

Which of the following correctly states the obligation to prepare consolidated financial statements under the Companies Act, 2013?

(A) Consolidated financial statements are optional for all companies; the Companies Act, 2013 only mandates preparation of standalone financial statements for all companies.

(B) Under s.129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, it must prepare a consolidated financial statement of the company and all its subsidiaries in the same form and manner as its standalone financial statement; the consolidated financial statement must be laid before the annual general meeting along with the standalone financial statement; since Stellar Pharma has four wholly-owned subsidiaries, it is mandatorily required to prepare consolidated accounts – the director's view that consolidation is optional is incorrect.

(C) Only listed companies with subsidiaries whose turnover exceeds Rs. 500 crore are required to prepare consolidated financial statements under the Companies Act, 2013; Stellar Pharma must check this threshold before consolidating.

(D) A company need only include its wholly-owned subsidiaries in the consolidated financial statement; a 30% associate company need not be consolidated under the Companies Act, 2013.

Q5. Optimus Infrastructure Ltd. is a listed company with a paid-up share capital of Rs. 200 crore. Its Managing Director asks the Company Secretary whether the company is required to conduct a secretarial audit and have it included in the Board's Report. The Company Secretary confirms that secretarial audit is mandatory but the MD is uncertain who can conduct it and what the consequences of non-compliance are.

Which of the following correctly describes the mandatory secretarial audit requirement under the Companies Act, 2013?

(A) Secretarial audit is mandatory only for companies with paid-up capital exceeding Rs. 500 crore or turnover exceeding Rs. 1,000 crore; Optimus Infrastructure with Rs. 200 crore paid-up capital does not cross this threshold and is not required to conduct secretarial audit.

(B) Secretarial audit is purely voluntary for all companies; it is a good governance practice but not a legal requirement under the Companies Act, 2013.

(C) Under s.204 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, secretarial audit is mandatory for: (i) every listed company; (ii) every public company with paid-up share capital of Rs. 50 crore or more; and (iii) every public company with a turnover of Rs. 250 crore or more; the audit must be conducted by a Practising Company Secretary (PCS) and the secretarial audit report in Form MR-3 must be annexed to the Board's Report; Optimus Infrastructure, being a listed company, is mandatorily required to conduct secretarial audit.

(D) Secretarial audit under s.204 can be conducted by any qualified Chartered Accountant or Cost Accountant; it need not be conducted by a Practising Company Secretary.

Q6. Cascade Retail Ltd. is an unlisted public company with a paid-up share capital of Rs. 60 crore and a turnover of Rs. 180 crore. Its Board of Directors has never appointed an internal auditor, and the Chairman argues that internal audit is only mandatory for listed companies. A director who is a chartered accountant disputes this position.

Which of the following correctly identifies the class of companies mandatorily required to appoint an internal auditor under Section 138 of the Companies Act, 2013?

(A) Under s.138 read with the Companies (Accounts) Rules, 2014, internal audit is mandatory for: (i) every listed company; (ii) every unlisted public company having paid-up share capital of Rs. 50 crore or more, or turnover of Rs. 200 crore or more, or outstanding loans or borrowings from banks/public financial institutions exceeding Rs. 100 crore, or outstanding deposits of Rs. 25 crore or more at any point during the preceding financial year; (iii) every private company with turnover of Rs. 200 crore or more or outstanding loans/borrowings exceeding Rs. 100 crore; since Cascade Retail has paid-up capital of

Rs. 60 crore (exceeding Rs. 50 crore), internal audit is mandatory; the Chairman is incorrect.

(B) Internal audit under s.138 is mandatory only for listed companies and private companies with turnover exceeding Rs. 500 crore; unlisted public companies are exempt from the mandatory internal audit requirement.

(C) The appointment of an internal auditor is at the Board's discretion for all companies; no statutory mandate exists under the Companies Act, 2013 requiring any category of company to appoint an internal auditor.

(D) Internal audit is mandatory only for companies with government shareholding of 51% or more (i.e., government companies); private and unlisted public companies like Cascade Retail are not covered.

Q7. Meridian Cables Ltd. declared a final dividend for the financial year 2016–17 in September 2017. A significant portion of the dividend remained unclaimed by shareholders despite multiple reminders. In 2024, the company's compliance officer asks whether this unclaimed dividend (now seven years old) needs to be transferred to the government and, if so, to which fund.

Which of the following correctly states the obligation with respect to unclaimed dividends under the Companies Act, 2013?

(A) Unclaimed dividends do not need to be transferred to any government fund; after seven years of non-payment, unclaimed dividends are simply written back to the profit and loss account of the company and treated as income.

(B) Under s.124, any dividend that has remained unpaid or unclaimed for a period of seven years from the date of transfer to the Unpaid Dividend Account must be transferred by the company to the Investor Education and Protection Fund (IEPF) established under s.125; along with the dividend amount, the corresponding shares on which dividend has remained unclaimed for seven consecutive years must also be transferred to the IEPF Authority; shareholders may subsequently claim a refund from the IEPF Authority; the 2017 dividend now having remained unclaimed for seven years must be transferred to the IEPF.

(C) Unclaimed dividends must be transferred to the Consolidated Fund of India (not the IEPF) after five years of remaining unpaid; the shareholders lose all right to claim the dividend after this period.

(D) Unclaimed dividends must be transferred to the IEPF after three years from the date of declaration; any unclaimed dividend outstanding for more than three years is forfeited by the shareholder by operation of law.

Q8. Paragon Steel Ltd. is a listed public company. Its Board of Directors proposes to enter into a sale of goods transaction with Paragon Trading Pvt. Ltd. – a company in which Paragon Steel's Managing Director holds 60% of the share capital (making Paragon Trading a related party). The proposed transaction value is Rs. 180 crore, which exceeds 10% of Paragon Steel's annual turnover of Rs. 800 crore. The Company Secretary advises that ordinary Board approval alone is insufficient for this transaction.

Which of the following correctly describes when a listed company requires prior approval of its shareholders (rather than only Board approval) for entering into a related party transaction under the Companies Act, 2013 and SEBI LODR Regulations?

(A) All related party transactions, regardless of value, require prior approval by special resolution of shareholders under s.188 of the Companies Act, 2013; a Board resolution alone is never sufficient for any transaction with a related party.

(B) Related party transactions by a listed company require shareholder approval only if the transaction value exceeds Rs. 500 crore or 25% of the company's annual turnover; below this threshold, Board approval alone suffices.

(C) Shareholders' approval for related party transactions is required only if the Audit Committee recommends it; the Audit Committee has full discretion to approve or reject the transaction without any shareholder vote.

(D) Under s.188 of the Companies Act, 2013 read with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, all material related party transactions by a listed entity require prior approval of shareholders through an ordinary resolution; a related party transaction is "material" if the transaction(s) to be entered into, individually or taken together with previous transactions during a financial year, exceeds Rs. 1,000 crore or 10% of the annual consolidated turnover of the listed entity, whichever is lower; since the proposed transaction of Rs. 180 crore exceeds 10% of Paragon Steel's turnover of Rs. 800 crore (i.e., Rs. 80 crore), shareholder approval is required; the related party and its relatives cannot vote on such resolution.

Q9. A group of 200 residents in a small town wish to form a company to encourage savings among themselves and provide loans to members from the pooled funds. A lawyer advises them to incorporate a Nidhi Company. The members seek clarity on what a Nidhi Company is, whom it can accept deposits from and lend to, and whether it can conduct banking or insurance activities on the side.

Which of the following correctly describes the defining characteristics and restrictions applicable to a Nidhi Company under the Companies Act, 2013?

(A) A Nidhi Company is a public company incorporated under the Companies Act, 2013 and notified as a Nidhi by the Central Government; its principal object is the cultivation of the habit of thrift and saving amongst its members, receiving deposits from and lending to its members for their mutual benefit; it cannot conduct chit fund, hire-purchase finance, leasing finance, insurance, or securities business; it can borrow only from its members and can lend only to its members; it must have at least 200 members within one year of incorporation and must maintain a Net Owned Funds to deposit ratio of 1:20.

(B) A Nidhi Company is a special category of NBFC regulated by the Reserve Bank of India; it is permitted to accept deposits from the general public (including non-members) and lend to any person; only its surplus profits must be applied for the benefit of its members.

(C) A Nidhi Company is identical to a co-operative society in all material respects; it can accept deposits from and lend to both members and non-members, subject to obtaining a licence from the State Government.

(D) A Nidhi Company must be incorporated as a private limited company and is prohibited from accepting any deposits; it can only invest surplus funds of members in government securities and approved bonds.

Q10. Bharat Construction Ltd. is a company in which the Central Government holds 40% of the paid-up share capital, three State Governments together hold another 15% of the paid-up share capital, and private shareholders hold the remaining 45%. The Ministry of Corporate Affairs issues a notice to Bharat Construction treating it as a government company. The company's lawyers contest this classification.

Which of the following correctly states the definition of a "government company" and determines whether Bharat Construction Ltd. qualifies as one?

(A) A government company is one in which the Central Government alone holds 51% or more of the paid-up share capital; State Government shareholdings are not counted for this purpose; since the Central Government holds only 40%, Bharat Construction is not a government company.

(B) A government company requires 100% government ownership; any private shareholding, however small, disqualifies a company from being classified as a government company under the Companies Act, 2013.

(C) Under s.2(45) of the Companies Act, 2013, a "government company" means any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State

Government or Governments, or partly by the Central Government and partly by one or more State Governments; in Bharat Construction Ltd., the Central Government holds 40% and three State Governments hold 15%, giving a combined government shareholding of 55%; this exceeds the 51% threshold; Bharat Construction is a government company and the Ministry's notice is legally correct; the accounts of a government company are audited by the Comptroller and Auditor-General of India.

(D) The definition of a government company includes companies where the Central Government is represented on the Board of Directors by a majority of nominees, regardless of the percentage of share capital held.

Q11. Vega Textiles Ltd. issued 1,00,000 cumulative preference shares of Rs. 100 each carrying a fixed dividend of 8% per annum. Due to losses, the company was unable to pay dividends for the last three financial years. The company is now in the process of voluntary winding up. The preference shareholders' representative claims they are entitled to three years of accumulated unpaid dividends before any distribution is made to equity shareholders.

Which of the following correctly states the rights of cumulative preference shareholders with respect to arrears of dividend in a winding up?

(A) Cumulative preference shareholders are entitled to arrears of dividend in a winding up as an absolute statutory right regardless of what the Articles of Association say; the claim for three years' accumulated dividend must be paid before any distribution to equity shareholders under all circumstances.

(B) Cumulative preference shares carry the right to receive unpaid dividends for past years before any dividend is paid on equity shares; in a winding up, the preference shareholders are entitled to arrears of cumulative dividend out of the surplus assets remaining after payment of the company's debts and liabilities, but only if the Articles of Association or the terms of issue expressly provide for the right to arrears of dividend in a winding up; if the Articles are silent, the preference shareholders are only entitled to the return of capital (at par) and are not automatically entitled to dividend arrears on a winding up; therefore, the representative's claim must be examined against the Articles and terms of issue.

(C) Cumulative preference shareholders have no right to unpaid dividends in a winding up; all unpaid dividends are forfeited on commencement of winding up proceedings and cannot be claimed by preference shareholders.

(D) In a winding up, preference shareholders can claim arrears of dividend only if the company was profitable in those years and the Board of Directors had deliberately withheld the dividend; where the non-payment was due to genuine losses, no claim for arrears lies.

Q12. The members of Highrise Constructions Ltd. resolve to wind up the company voluntarily. The company's directors intend to make a Declaration of Solvency before the winding up resolution is passed, declaring that the company will be able to pay its debts in full within three years. The Company Secretary explains that the distinction between a members' voluntary winding up and a creditors' voluntary winding up depends entirely on whether such a declaration is made.

Which of the following correctly describes the Declaration of Solvency required for a members' voluntary winding up under the Companies Act, 2013?

(A) A Declaration of Solvency in a members' voluntary winding up must be made unanimously by all directors and must state that all debts will be paid within one year; if any director dissents from the declaration, the winding up automatically converts to a creditors' voluntary winding up.

(B) A Declaration of Solvency is not required in a voluntary winding up; the distinction between a members' and a creditors' voluntary winding up depends on whether creditors holding more than 50% in value of the company's debts consent to the members' winding up.

(C) The Declaration of Solvency must be verified by the statutory auditor of the company before it is delivered to the Registrar; without the auditor's certification, the declaration has no legal effect.

(D) For a members' voluntary winding up under the Companies Act, 2013, a Declaration of Solvency must be made by a majority of the directors; the declaration must state that the directors have made a full inquiry into the affairs of the company and that in their opinion the company will be able to pay its debts in full, together with interest (if any), within a period not exceeding three years from the commencement of winding up; the declaration must be made within five weeks before the winding-up resolution; it must be delivered to the Registrar within seven days of the resolution; if a declaration is not made or cannot be made, the winding up proceeds as a creditors' voluntary winding up.

Q13. Nova Steels Ltd. is being liquidated by order of the NCLT under s.33 of the IBC. The Liquidator has realised Rs. 40 crore from the sale of assets. The outstanding claims are: CIRP costs of Rs. 2 crore; workmen's dues for the 24 months preceding liquidation of Rs. 3 crore; secured financial creditors' claims of Rs. 25 crore (who did not opt out of the waterfall); employees' salaries (other than workmen) for 12 months of Rs. 1 crore; unsecured financial creditors' claims of Rs. 15 crore; and government dues (taxes) of Rs. 4 crore. The Liquidator must distribute assets in accordance with the statutory waterfall.

Which of the following correctly states the order of priority for distribution of liquidation proceeds under Section 53 of the Insolvency and Bankruptcy Code, 2016?

(A) Under s.53 of the IBC, liquidation proceeds must be distributed in the following order of priority: (1) insolvency resolution process costs and liquidation costs (including the Liquidator's fees) are paid first in full; (2) then workmen's dues for 24 months before the liquidation commencement date and debts owed to a secured creditor who has relinquished security (pari passu between them); (3) then wages and any unpaid dues owed to employees (other than workmen) for 12 months; (4) then financial debts owed to unsecured creditors; (5) then any remaining debts and dues (including government dues); (6) then preference shareholders; (7) finally equity shareholders; CIRP costs (Rs. 2 crore) must be paid first, followed by workmen's dues and secured financial creditors, and so on.

(B) Under s.53 of the IBC, government dues (taxes) rank equally with workmen's dues and both are paid ahead of secured creditors; the Liquidator must pay government taxes as a first priority after deducting liquidation costs.

(C) The priority waterfall under s.53 places unsecured creditors above secured creditors on the ground that secured creditors can recover from their security; the IBC does not recognise security interests in the distribution waterfall.

(D) In a liquidation under the IBC, equity shareholders are paid out of the first available surplus before any creditor, provided the resolution plan has already discharged all creditors' claims in the CIRP stage; this is distinct from the general s.53 waterfall which applies only when CIRP itself fails.

Q14. Hercules Infrastructure Pvt. Ltd. is undergoing CIRP before the NCLT, Mumbai Bench. Mr. Rakesh Mehra, the promoter-director, had provided a personal guarantee to the consortium of lenders for the company's borrowings of Rs. 500 crore. The State Bank of India, as lead lender, now seeks to initiate insolvency proceedings against Mr. Mehra as personal guarantor. Mr. Mehra's lawyer argues that the proper forum for proceedings against a personal guarantor is the Debt Recovery Tribunal, not the NCLT.

Which of the following correctly identifies the forum with jurisdiction to initiate insolvency proceedings against a personal guarantor of a corporate debtor under the IBC?

(A) The Debt Recovery Tribunal (DRT) has exclusive jurisdiction to entertain all proceedings against personal guarantors, including insolvency proceedings under the IBC; the NCLT's jurisdiction is limited to corporate persons and does not extend to natural persons who are guarantors.

(B) Personal guarantor insolvency under the IBC is initiated before the jurisdictional High Court having supervision over the NCLT Bench where the corporate debtor's CIRP is pending; the NCLT has no jurisdiction over natural persons in any capacity.

(C) Under Part III of the IBC (Insolvency Resolution and Bankruptcy for Individuals and Partnership Firms) as notified for personal guarantors, the National Company Law Tribunal (NCLT) has jurisdiction to entertain applications for insolvency of personal guarantors to corporate debtors (not the Debt Recovery Tribunal or the ordinary civil courts); the Supreme Court in *Lalit Kumar Jain v. Union of India* upheld the notification that routes personal guarantor insolvency to the NCLT; this ensures that the insolvency of the corporate debtor and of its personal guarantors is handled by the same forum; Mr. Mehra's lawyer is incorrect.

(D) A personal guarantor can only be proceeded against through a suit in the Civil Court for recovery of debt or invocation of the guarantee under the Indian Contract Act, 1872; the IBC has no provision for insolvency of personal guarantors.

Q15. Sparkle Innovations Pvt. Ltd. is a small private company incorporated in 2020 with assets worth Rs. 80 lakh and outstanding debts of Rs. 45 lakh. It has defaulted on payments to its creditors and qualifies as a "small corporate debtor" under the IBC. A creditor proposes to initiate insolvency proceedings and the company's director asks whether the company can be resolved through an expedited process.

Which of the following correctly describes the Fast Track Corporate Insolvency Resolution Process available under the Insolvency and Bankruptcy Code, 2016?

(A) The Fast Track CIRP under ss.55–58 of the IBC is available only to listed companies that are in financial distress; unlisted private companies cannot avail the fast-track route regardless of their size or asset base.

(B) Under ss.55–58 of the IBC, a Fast Track CIRP is available for: (i) a corporate debtor with assets and income below a level notified by the Central Government; (ii) a corporate debtor with a class of creditors or amount of debt below a level so notified; (iii) such other category of corporate debtors as notified; the Fast Track CIRP must be completed within 90 days from the insolvency commencement date (extendable by up to 45 days on a 75% vote of the CoC); this is much shorter than the standard 180/270-day CIRP timeline; Sparkle Innovations may qualify for Fast Track CIRP as a small corporate debtor.

(C) The Fast Track CIRP has the same 180-day timeline as the standard CIRP; the only difference is that the appointment of the Interim Resolution Professional is waived and the Resolution Professional is directly appointed by the CoC at the first meeting.

(D) There is no Fast Track CIRP mechanism under the IBC; the only expedited route is the Pre-Packaged Insolvency Resolution Process (PPIRP) which is also not available for companies with assets exceeding Rs. 50 lakh.

Q16. Sunrise Auto Components Pvt. Ltd. is a micro, small, and medium enterprise (MSME) which supplies components to automobile manufacturers. Due to supply chain disruptions, the company has defaulted on debts of Rs. 75 lakh. The promoters believe they can restructure the company with a resolution plan they have already prepared with the support of lenders. They are exploring whether a pre-packaged insolvency process is available to them.

Which of the following correctly describes the Pre-Packaged Insolvency Resolution Process (PPIRP) introduced under the Insolvency and Bankruptcy Code, 2016?

(A) The PPIRP is available to all corporate debtors including large listed companies, not just MSMEs; the key feature is that any creditor can initiate a PPIRP with a ready resolution plan without any NCLT approval prior to filing.

(B) The PPIRP requires prior approval of the NCLT even before filing; the resolution plan must first be approved by the NCLT and then put to vote before the Committee of Creditors; this judicial pre-screening distinguishes PPIRP from standard CIRP.

(C) Under the PPIRP, the existing Board of Directors is immediately suspended upon filing of the PPIRP application, just as in standard CIRP; there is no protection of the promoter's management rights during the PPIRP timeline.

(D) The PPIRP, introduced by the Insolvency and Bankruptcy Code (Amendment) Ordinance 2021 and incorporated as Chapter III-A of the IBC, is available exclusively for MSMEs with a minimum default of Rs. 10 lakh; unlike standard CIRP, the PPIRP is initiated by the corporate debtor itself (not a creditor); before filing, the corporate debtor must obtain approval for a base resolution plan from financial creditors representing at least 66% in value of the financial debt; the PPIRP must be completed within 120 days from the insolvency commencement date; the promoters of the MSME may submit the base resolution plan themselves, allowing the existing management to retain control during the process.

Q17. Knowledge Foundation Ltd. is a Section 8 company incorporated to promote education and scientific research. It has been very successful and has accumulated substantial surpluses. Some of its members propose distributing a portion of the surplus as dividend to members. Another group of members wants to alter the company's objects to include commercial activities unrelated to education. The Company Secretary advises that both proposals are legally impermissible.

Which of the following correctly describes the legal restrictions applicable to a Section 8 company under the Companies Act, 2013?

(A) Section 8 companies may distribute up to 10% of their net surplus as dividend provided the remaining surplus is re-invested in the company's charitable objects; this limited dividend distribution is permitted to attract membership.

(B) A Section 8 company may alter its objects clause by passing a special resolution without requiring Central Government approval; the CG approval is only needed when the Section 8 company seeks to convert itself into a regular commercial company.

(C) A Section 8 company is one that has been granted a licence by the Central Government to operate as a company with charitable objects (promoting art, science, education, research, religion, charity, social welfare, etc.) and is prohibited from paying any dividend to its members; all surplus income must be applied solely towards promoting the objects of the company; a Section 8 company cannot alter its memorandum or articles without the prior approval of the Central Government; the licence can be revoked by the CG if the company violates these conditions; both proposals of the members – paying dividends and altering objects without CG approval – are legally impermissible.

(D) A Section 8 company is required to obtain Registrar of Companies approval (not Central Government approval) for any alteration to its memorandum or articles; the Registrar has powers to examine and refuse the alteration if it is inconsistent with charitable objects.

Q18. Mr. Dinesh Patel is a shareholder of Cosmos Textiles Ltd. holding 5,000 equity shares. He wishes to inspect the company's Register of Members, Register of Directors, and the minutes of general meetings. The company's manager tells him that inspection is only available to institutional investors and large shareholders, not to small retail shareholders. Mr. Patel believes he has a statutory right to inspect.

Which of the following correctly states the right of a member to inspect the registers and documents of a company under the Companies Act, 2013?

(A) Under s.94 of the Companies Act, 2013, the registers maintained under the Act (including Register of Members, Register of Directors, Register of Charges, etc.) and the copies of annual returns must be kept at the registered office; any member, debenture-holder, other security-holder, or beneficial owner is entitled to inspect the registers free of charge during business hours; any other person may inspect on payment of the prescribed fee; the restriction of inspection to institutional investors or large shareholders has no basis in law; Mr. Patel, as a member, has the right to inspect free of charge regardless of the size of his shareholding.

(B) Under s.94, only members holding not less than 10% of the paid-up share capital have the right to inspect the registers; members with smaller shareholdings must submit a written application to the Board, which has discretion to allow or refuse inspection.

(C) Members have the right to inspect only the Register of Members under s.94; the minutes of general meetings and the Register of Directors are confidential documents and cannot be inspected by individual shareholders.

(D) The right to inspect registers under s.94 is available only to members who have held shares for at least one year and are registered as shareholders on the date of inspection; new shareholders within the first year of holding cannot invoke this right.

Q19. Falcon Logistics Ltd. created a mortgage in favour of Punjab National Bank on 1st April 2025 to secure a term loan. The company secretary intended to file Form CHG-1 with the Registrar of Companies within 30 days of creation (i.e., by 30th April 2025) but inadvertently missed the deadline. It is now 15th May 2025. The bank is concerned about the enforceability of its charge against third parties. The company secretary seeks advice on whether and how the delay can be cured.

Which of the following correctly describes the remedy available to a company that has failed to register a charge within the prescribed 30-day period under the Companies Act, 2013?

(A) A charge that is not registered within 30 days of creation is void as against the liquidator and any creditor of the company; there is no mechanism for condonation of the delay under the Companies Act, 2013; the lender must create a fresh charge to protect its security interest.

(B) The 30-day period for registration of a charge is automatically extended to 60 days without any application to any authority; the company need only pay an additional filing fee (five times the normal fee) for registrations made between the 31st and 60th day; no application for condonation is needed.

(C) If a company misses the 30-day window for charge registration, it must obtain an order from the NCLT (not the Central Government or Regional Director) for late registration; the NCLT alone has the power to condone the delay under s.87 of the Companies Act, 2013.

(D) Under s.77 of the Companies Act, 2013, a charge must be registered with the ROC within 30 days of its creation; however, under s.87, if the charge is not registered within 30 days due to accidental omission or error or for any other sufficient cause, the company or any person interested in the charge may apply to the Central Government (exercising powers through the Regional Director) for condonation of delay; the Regional Director may, on being satisfied that the delay was accidental or due to sufficient cause, order extension of the time for registration; upon registration pursuant to such an order, the charge is treated as duly registered but without prejudice to the rights of parties acquired during the period of non-registration; Falcon Logistics may apply for condonation to the Regional Director.

Q20. Maximus Tech Ltd., a public company, proposes to appoint "Techbridge Solutions LLP" as its Managing Director for an initial period of three years, citing that the LLP has the requisite managerial expertise and that the Companies Act, 2013 does not expressly bar non-individual entities from being appointed as Managing Director. The company's legal department raises a flag that this appointment would be unlawful.

Which of the following correctly states the requirement regarding the person who may be appointed as a Managing Director or Whole-Time Director under the Companies Act, 2013?

(A) The Companies Act, 2013 does not restrict the appointment of MD/WTD to natural persons; any legal entity including an LLP, a company, or a body corporate may be appointed as Managing Director provided the entity is registered in India.

(B) Under s.2(54) of the Companies Act, 2013, "Managing Director" means a director who, by virtue of the articles of a company or an agreement with the company or a resolution passed in its general meeting or by its Board of Directors, is entrusted with substantial powers of management of the affairs of the company; the definition uses the word "director," and s.196(1) provides that a company may appoint a MD, WTD or Manager who is an "individual"; s.196(3) further specifies personal eligibility criteria (age 21–70 years, not insolvent, not convicted of certain offences, etc.) that can only apply to a natural person; Techbridge Solutions LLP, being an LLP and not an individual, cannot be appointed as MD; the legal department's objection is correct.

(C) The appointment of a body corporate as MD is permissible with the prior approval of the Central Government; without CG approval it is impermissible, but the Companies Act, 2013 does not impose an absolute bar on corporate MDs.

(D) The restriction on appointment of a non-individual as MD applies only to listed companies; unlisted companies like Maximus Tech Ltd. are free to appoint any legal entity, including an LLP, as their Managing Director.

DETAILED SOLUTIONS

Sol. 1.

Solution

Concept — One Person Company: Nominee Requirements (s.3, s.4 & OPC Rules):

The One Person Company (OPC) is a unique corporate form introduced by the Companies Act, 2013 to allow a single entrepreneur to enjoy the benefits of limited liability. A crucial safeguard is the mandatory nominee mechanism, which ensures continuity of the OPC in the event of the sole member's death or incapacity.

Section 3(1)(c) and Rule 3 of the Companies (Incorporation) Rules, 2014 require that the Memorandum of the OPC must indicate the name of the nominee who shall, in the event of the death of the subscriber or the subscriber's incapacity to contract, become the member of the OPC. The nominee must be a natural person who is an Indian citizen and resident in India. Critically, the nominee must give prior written consent (Form INC-3). The nominee may subsequently withdraw consent by giving notice, whereupon the existing member must nominate a new person within 15 days and intimate the company and the Registrar.

Option (C) accurately captures all three key elements: (i) mandatory nomination at incorporation; (ii) eligibility restricted to Indian citizen resident in India; and (iii) the 15-day re-nomination requirement on withdrawal of consent.

Why other options are wrong:

- Option (A): Incorrect – nomination is mandatory *at the time of incorporation*, not deferred until actual incapacity occurs.
- Option (B): Incorrect – only a natural person who is an Indian citizen and resident in India can be a nominee; a company or LLP is categorically ineligible.
- Option (D): Incorrect – the nominee becomes the *member*, not automatically a director; the nominee may or may not be appointed as director, and the office is not irrevocable.

Final Answer: The nominee of an OPC must be an individual Indian citizen resident in India, nominated at incorporation with written consent, with a 15-day re-nomination window if consent is withdrawn. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q1

Sol. 2.

Solution

Concept — Small Company Definition: Revised Thresholds under s.2(85):

The definition of a "small company" under s.2(85) of the Companies Act, 2013 has undergone significant revision since the original 2013 enactment. The Companies (Amendment) Act, 2020 and the subsequent MCA notification in February 2021 raised the thresholds substantially to bring more companies within the fold of reduced compliance requirements.

As per the revised definition, a company (other than a public company, a holding or subsidiary company, a Section 8 company, or a company governed by any special Act) qualifies as a small company if its paid-up share capital does not exceed Rs. 4 crore AND its turnover as per its last profit and loss account does not exceed Rs. 40 crore. Both conditions must be satisfied simultaneously. Radius Distributors Pvt. Ltd., with paid-up capital of Rs. 3.5 crore and turnover of Rs. 38 crore, satisfies both conditions and therefore qualifies as a small company. Small companies enjoy concessions such as reduced frequency of Board meetings and simplified annual return.

Why other options are wrong:

- Option (B): Incorrect – these were the original thresholds (Rs. 50 lakh capital; Rs. 2 crore turnover) from 2013. They have been superseded by the 2021 revision.
- Option (C): Incorrect – the number of members is not a criterion for small company classification; both capital and turnover thresholds must be met.
- Option (D): Incorrect – turnover is an equally mandatory criterion alongside paid-up capital; neither criterion alone is sufficient.

Final Answer: Revised thresholds (post-2020 amendment) are paid-up capital $\leq$ Rs. 4 crore AND turnover $\leq$ Rs. 40 crore; Radius Distributors qualifies. $\Rightarrow \boxed{\text{A}}$

Answer: (A) **Go Back to Q2**

Sol. 3.

Solution

Concept — Redemption of Preference Shares & Capital Redemption Reserve (s.55):

Section 55 of the Companies Act, 2013 governs the redemption of redeemable preference shares. The provision lays down two permissible sources for funding the redemption: (i) profits of the company that would otherwise be available for dividend; or (ii) the proceeds of a fresh issue of shares made for the purpose of the redemption.

The Capital Redemption Reserve (CRR) is a mandatory accounting requirement when redemption is financed out of profits (including general reserves). An amount equal to the nominal value of the preference shares redeemed must be transferred to the CRR. This requirement protects the capital maintenance principle – since profits used for redemption reduce distributable reserves, the CRR substitutes as a non-distributable reserve to maintain the company's capital base. The CRR may subsequently be used only for issuing fully paid-up bonus shares. Greenfield's legal counsel is therefore correct that the CRR must be created. Notably, redemption from the proceeds of a fresh issue does not require CRR creation because paid-up capital is maintained through the new issue.

Why other options are wrong:

- Option (A): Incorrect – bank loans are not a permissible source for redemption; only profits or proceeds of fresh share issue are allowed.
- Option (B): Incorrect – the CRR transfer is mandatory when profits are used; it cannot be omitted.
- Option (C): Incorrect – redemption from profits is explicitly permitted under s.55(2); a fresh issue is merely an alternative, not the only method.

Final Answer: Redemption from profits requires mandatory transfer to Capital Redemption Reserve equal to the nominal value of shares redeemed. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q3

Sol. 4.

Solution

Concept — Consolidated Financial Statements: Mandatory Obligation under s.129(3):

Section 129(3) of the Companies Act, 2013 creates a clear statutory obligation: where a company has one or more subsidiaries, it *shall* prepare a consolidated financial statement of the company and of all the subsidiaries in addition to its own standalone financial statement. The consolidated accounts must be prepared in the same form and manner as standalone accounts and must be laid before the AGM alongside them.

The obligation is triggered by the existence of *any* subsidiary – there is no minimum number of subsidiaries, no turnover threshold, and no distinction between listed and unlisted companies. Stellar Pharma's four wholly-owned subsidiaries bring it squarely within s.129(3). As for associate companies, the Companies Act and the applicable Accounting Standards (Ind AS 28) require associates to be accounted for under the equity method in consolidated statements, though the scenario focuses on the mandatory consolidation aspect.

The director's view that consolidation is "optional" is plainly inconsistent with the mandatory language of s.129(3).

Why other options are wrong:

- Option (A): Incorrect – s.129(3) expressly mandates consolidated accounts for companies with subsidiaries; it is not optional.
- Option (C): Incorrect – there is no Rs. 500 crore turnover threshold in s.129(3); the obligation applies to all companies with subsidiaries.
- Option (D): Incorrect – associates are also included (equity method), not excluded; and the scenario's question is about the general s.129(3) mandate.

Final Answer: Section 129(3) mandates consolidated financial statements for any company with one or more subsidiaries; Stellar Pharma is obligated to prepare them. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q4

Sol. 5.

Solution

Concept — Secretarial Audit: Applicability, Auditor, and Form under s.204:

Section 204 of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 makes secretarial audit mandatory for three categories of companies: (i) every listed company; (ii) every public company having paid-up share capital of Rs. 50 crore or more; and (iii) every public company having a turnover of Rs. 250 crore or more. A fourth category – every company having outstanding loans or borrowings from banks or public financial institutions of Rs. 100 crore or more – was added by the 2020 Amendment Rules.

The secretarial audit must be conducted exclusively by a *Practising Company Secretary* (PCS). No other professional (CA, CMA) is authorised for this purpose. The secretarial audit report must be submitted in **Form MR-3** and annexed to the Board's Report. Optimus Infrastructure Ltd., being a listed company, falls within the first and most basic category of applicability – regardless of its paid-up capital or turnover.

Why other options are wrong:

- Option (A): Incorrect – the thresholds stated (Rs. 500 crore, Rs. 1,000 crore) do not exist in s.204 or the Rules; the correct thresholds are Rs. 50 crore (capital) and Rs. 250 crore (turnover).
- Option (B): Incorrect – secretarial audit is a statutory mandate under s.204, not a voluntary exercise.
- Option (D): Incorrect – only a Practising Company Secretary (PCS) is authorised to conduct secretarial audit; CAs and CMAs are not authorised for this specific audit.

Final Answer: Secretarial audit is mandatory for all listed companies; must be conducted by a PCS in Form MR-3. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q5

Sol. 6.

Solution

Concept — Internal Audit: Mandatory Applicability under s.138:

Section 138 of the Companies Act, 2013 and Rule 13 of the Companies (Accounts) Rules, 2014 prescribe the categories of companies for which internal audit is mandatory. The internal auditor must be a chartered accountant (whether in practice or not), a cost accountant, or "such other professional as may be decided by the Board."

The applicable categories for unlisted public companies are: paid-up share capital of *Rs. 50 crore or more*; OR turnover of Rs. 200 crore or more; OR outstanding loans/borrowings from banks/PFIs exceeding Rs. 100 crore; OR outstanding deposits of Rs. 25 crore or more at any point during the preceding financial year. Cascade Retail Ltd., with paid-up capital of Rs. 60 crore (exceeding the Rs. 50 crore threshold), is mandatorily required to appoint an internal auditor. The Chairman's belief that internal audit is mandatory only for listed companies is therefore incorrect.

Why other options are wrong:

- Option (B): Incorrect – the thresholds stated (Rs. 500 crore turnover for private companies; exemption for all unlisted public companies) are fabricated; unlisted public companies meeting any one of the s.138 criteria are covered.
- Option (C): Incorrect – s.138 creates a clear statutory mandate; internal audit is not discretionary for companies meeting the prescribed thresholds.
- Option (D): Incorrect – the mandatory internal audit requirement extends to all categories mentioned in Rule 13, not merely to government companies.

Final Answer: Cascade Retail's paid-up capital of Rs. 60 crore exceeds the Rs. 50 crore threshold; internal audit is mandatory under s.138. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q6

Sol. 7.

Solution

Concept — Investor Education and Protection Fund: Transfer of Unclaimed Dividends (ss.124–125):

Section 124 of the Companies Act, 2013 provides a two-stage process for dealing with unclaimed dividends. First, any unpaid or unclaimed dividend must be transferred to a separate "Unpaid Dividend Account" within 30 days of the declaration becoming payable. Second, if any amount remains unclaimed in the Unpaid Dividend Account for *seven years* from the date of its transfer to that account, it must be transferred to the Investor Education and Protection Fund (IEPF) constituted under s.125.

An important additional requirement introduced by the Companies Amendment Act, 2016 is that the *shares* on which dividend has remained unpaid/unclaimed for seven consecutive years must *also* be transferred to the IEPF Authority. Shareholders whose shares and dividend have been transferred to the IEPF may subsequently apply to the IEPF Authority for a refund. The seven-year timeline for Meridian Cables' 2017 dividend has elapsed, making transfer to IEPF mandatory.

Why other options are wrong:

- Option (A): Incorrect – unclaimed dividends cannot be written back to P&L; they must be transferred to the IEPF after seven years.
- Option (C): Incorrect – the recipient fund is the IEPF, not the Consolidated Fund of India; and the timeline is seven years, not five.
- Option (D): Incorrect – the period is seven years (not three), and shareholders do not forfeit their right; they can claim a refund from the IEPF Authority.

Final Answer: After seven years of remaining unclaimed, dividend and corresponding shares must be transferred to the IEPF; shareholders may claim refund from the IEPF Authority. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q7

Sol. 8.

Solution

Concept — Related Party Transactions: Material RPT and Shareholder Approval (s.188 + SEBI LODR):

Section 188 of the Companies Act, 2013 requires Board approval (and in certain cases, ordinary resolution) for specified related party transactions exceeding value thresholds. For listed companies, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 impose an additional and more stringent layer of oversight through the concept of "material" related party transactions.

Under the SEBI LODR (as amended), a related party transaction is material if the transaction(s) to be entered into, individually or taken together with previous transactions during a financial year, exceeds Rs. 1,000 crore *or* 10% of the annual consolidated turnover of the listed entity, *whichever is lower*. All material RPTs require prior approval of shareholders through an *ordinary resolution*. The related party and its relatives cannot vote on such resolutions. In Paragon Steel's case: 10% of Rs. 800 crore turnover = Rs. 80 crore. The proposed transaction of Rs. 180 crore exceeds this threshold (and Rs. 1,000 crore is the other comparator; the lower of the two is Rs. 80 crore). Accordingly, shareholder approval is required.

Why other options are wrong:

- Option (A): Incorrect – not all RPTs require shareholder approval; only material RPTs (for listed entities) or those exceeding the specific s.188 thresholds require it.
- Option (B): Incorrect – the materiality threshold under SEBI LODR is the lower of Rs. 1,000 crore or 10% of annual consolidated turnover; Rs. 500 crore / 25% is not the correct threshold.
- Option (C): Incorrect – the Audit Committee's prior approval is a prerequisite for all RPTs, but material RPTs additionally require shareholder approval; the Audit Committee cannot substitute for shareholder approval.

Final Answer: Proposed transaction (Rs. 180 cr) exceeds 10% of turnover (Rs. 80 cr) – the lower materiality benchmark – so shareholder approval via ordinary resolution is required. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q8

Sol. 9.

Solution

Concept — Nidhi Company: Nature, Objects, and Operational Restrictions:

A Nidhi Company is a class of Non-Banking Financial Company (NBFC) that is specifically exempt from the core provisions of the RBI Act applicable to NBFCs, because it deals exclusively with its members. It is incorporated as a *public company* (not private) under the Companies Act, 2013 and must have "Nidhi Limited" as part of its name. Its principal object – cultivation of the habit of thrift and saving among members and receiving deposits from and lending to members – must be stated in the MOA.

Nidhis are governed by the Nidhi Rules, 2014 (recently updated by the Nidhi (Amendment) Rules, 2022). Key requirements include: (i) minimum 200 members within one year; (ii) Net Owned Funds of at least Rs. 10 lakh (and later enhanced thresholds for declaration as Nidhi); (iii) NOF to deposit ratio not exceeding 1:20; (iv) no borrowing from or lending to non-members; and (v) prohibition on chit fund, hire-purchase finance, leasing, insurance, and securities activities. While they interact with the RBI framework in a limited sense, they are not regulated as NBFCs for licensing purposes.

Why other options are wrong:

- Option (B): Incorrect – a Nidhi is not regulated by the RBI as an NBFC and cannot accept deposits from non-members; its operations are exclusively member-centric.
- Option (C): Incorrect – a Nidhi Company is a public company under the Companies Act, not a co-operative society; it does not require a State Government licence.
- Option (D): Incorrect – a Nidhi must be incorporated as a *public* company; and it can and does accept deposits (from members); investment in government securities is not its defining activity.

Final Answer: A Nidhi is a public company cultivating thrift among members; can only borrow from and lend to members; prohibited from chit fund, insurance, leasing activities; 200-member and 1:20 NOF ratio requirements apply. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q9

Sol. 10.

Solution

Concept — Government Company: Definition under s.2(45) and Combined Shareholding:

Section 2(45) of the Companies Act, 2013 defines a "government company" as any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, *or partly by the Central Government and partly by one or more State Governments*, and includes a company which is a subsidiary company of such a government company.

The critical feature of the definition is that shareholdings of the Central Government and one or more State Governments are *aggregated* for the purpose of crossing the 51% threshold. In Bharat Construction Ltd., Central Government holds 40% and three State Governments together hold 15%, yielding a combined government holding of 55%, which exceeds 51%. The company is therefore a government company. Consequentially, its accounts are subject to audit by the Comptroller and Auditor-General of India (C&AG) under s.143(5) of the Companies Act.

Why other options are wrong:

- Option (A): Incorrect – s.2(45) explicitly aggregates Central and State Government shareholdings; State Government holdings count towards the 51% threshold.
- Option (B): Incorrect – 100% government ownership is not required; 51% combined government ownership suffices.
- Option (D): Incorrect – the definition is based on percentage of paid-up share capital, not Board representation; Board nominees are a consequence, not the criterion.

Final Answer: Combined government holding (Central 40% + States 15% = 55%) exceeds 51%; Bharat Construction is a government company under s.2(45). $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q10

Sol. 11.

Solution

Concept — Cumulative Preference Shares: Arrears of Dividend in Winding Up:

The right of cumulative preference shareholders to receive arrears of unpaid dividends is a distinguishing feature of cumulative preference shares vis-à-vis non-cumulative preference shares. During a going concern, dividends in arrears on cumulative preference shares accumulate and must be paid before any dividend is declared on equity shares.

However, the position on winding up is more nuanced. The Companies Act, 2013 does not contain an express provision granting cumulative preference shareholders a statutory right to arrears of dividend in a winding up. The right depends on the company's Articles of Association and the terms of the share issue. If the Articles or terms of issue *expressly provide* that preference shareholders are entitled to arrears of dividend in a winding up, they may claim such arrears out of surplus assets (after discharge of all debts). If the Articles are *silent*, the courts have generally held (following *In re Springbok Ltd.* and similar English precedents applied in India) that preference shareholders are entitled only to return of capital and are not entitled to dividend arrears. Therefore, the claim of Vega Textiles' preference shareholders must be tested against the Articles and terms of issue.

Why other options are wrong:

- Option (A): Incorrect – there is no absolute statutory right to dividend arrears in winding up; it depends on the Articles/terms of issue.
- Option (C): Incorrect – unpaid cumulative dividends are not automatically forfeited on winding up; the right may exist if the Articles so provide.
- Option (D): Incorrect – the reason for non-payment (losses vs. deliberate withholding) is irrelevant to the winding-up entitlement; the trigger is the Articles, not the company's financial position.

Final Answer: Right to arrears of cumulative dividend in winding up is contingent on express provision in the Articles or terms of issue; no absolute statutory right exists. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q11

Sol. 12.

Solution

Concept — Declaration of Solvency: Members' vs. Creditors' Voluntary Winding Up:

The Companies Act, 2013 (ss.304–323, dealing with voluntary winding up) and the NCLT Rules distinguish between a members' voluntary winding up (where the company is solvent) and a creditors' voluntary winding up (where the company is insolvent or no declaration of solvency is made). The Declaration of Solvency is the instrument that determines which type of winding up applies.

The Declaration of Solvency must be made by a *majority* of the Board of Directors (not necessarily all directors), at a Board meeting. The declaration must state that the directors have made a full inquiry into the company's affairs and that, in their opinion, the company will be able to pay its debts *in full, together with interest* (if any) within a period *not exceeding three years* from the commencement of winding up. It must be made within five weeks *before* the date of the winding-up resolution and delivered to the Registrar within seven days after the resolution. If no declaration is made or the required conditions are not met, the winding up proceeds as a creditors' voluntary winding up.

Why other options are wrong:

- Option (A): Incorrect – a majority of directors (not unanimity) is required; and the payment period is up to three years, not one year; dissent does not automatically convert the winding up.
- Option (B): Incorrect – the Declaration of Solvency is indeed required; it is the defining criterion between members' and creditors' voluntary winding up; creditor consent is not the criterion.
- Option (C): Incorrect – the declaration does not require auditor verification; it is a directors' declaration accompanied by a report of the company's assets and liabilities.

Final Answer: Declaration of Solvency requires majority Board approval; states full debt repayment within three years; made within five weeks before resolution; filed within seven days after. $\Rightarrow$ $\boxed{\text{D}}$

Answer: (D) Go Back to Q12

Sol. 13.

Solution

Concept — Liquidation Waterfall: Priority of Distribution under s.53 of IBC, 2016:

Section 53 of the Insolvency and Bankruptcy Code, 2016 establishes a strict statutory waterfall for distribution of assets in a corporate liquidation. This waterfall overrides the priority rules under other legislation (including the Companies Act and the Income Tax Act with respect to government dues) as confirmed by the Supreme Court in *State Tax Officer v. Rainbow Papers Ltd.* (though subsequently qualified) and more definitively in *Paschimanchal Vidyut Vitran Nigam Ltd. v. Raman Ispat Pvt. Ltd.*

The s.53 priority order is: (1) CIRP costs and liquidation costs *in full* (highest priority); (2) workmen's dues for 24 months preceding liquidation commencement *pari passu* with debts owed to secured creditors who have relinquished their security to the liquidation estate; (3) wages and unpaid dues of employees (other than workmen) for 12 months; (4) financial debts owed to unsecured creditors; (5) any remaining debts and dues to the Central/State Government and remaining secured/unsecured claims; (6) preference shareholders; (7) equity shareholders. Government dues therefore rank below secured creditors (who relinquish security) and workmen, not above them.

Why other options are wrong:

- Option (B): Incorrect – government dues rank at position (5), well below workmen's dues (position 2) and secured financial creditors who relinquish security (position 2).
- Option (C): Incorrect – s.53 fully recognises security interests; secured creditors who relinquish security rank at position (2), which is above unsecured creditors at position (4).
- Option (D): Incorrect – equity shareholders rank last; they are not paid before creditors at any stage, and s.53 applies whenever assets are distributed in liquidation, not only when CIRP has previously discharged all claims.

Final Answer: s.53 waterfall: CIRP costs first, then workmen's dues and relinquishing secured creditors pari passu, then employee wages, then unsecured creditors, then government dues – equity shareholders rank last. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q13

Sol. 14.

Solution

Concept — Personal Guarantor Insolvency: NCLT Jurisdiction under Part III IBC:

The IBC, 2016 applies to three categories: (i) corporate persons (Part II); (ii) individuals and partnership firms (Part III); and (iii) fresh start process. The Central Government notified Part III provisions in November 2019, specifically for personal guarantors to corporate debtors – carving them out from the general individual insolvency framework before the DRT.

Under this notification, applications for insolvency resolution and bankruptcy against personal guarantors to corporate debtors must be filed before the *National Company Law Tribunal* (NCLT) – the same forum handling the corporate debtor's CIRP or liquidation. This design choice ensures coordination between the corporate insolvency proceedings and the personal guarantor proceedings, avoids conflicting orders, and enables holistic resolution. The Supreme Court in *Lalit Kumar Jain v. Union of India* (2021) upheld the constitutional validity of this notification, conclusively settling that the NCLT has jurisdiction over personal guarantors and that the DRT does not have parallel jurisdiction for IBC purposes.

Why other options are wrong:

- Option (A): Incorrect – the DRT does not have jurisdiction for personal guarantor insolvency under the IBC; that jurisdiction was specifically vested in the NCLT by notification.
- Option (B): Incorrect – the High Court has no role in initiating personal guarantor insolvency proceedings; the NCLT is the designated forum.
- Option (D): Incorrect – the IBC does contain provisions for personal guarantor insolvency (Part III, Chapter III); civil courts have no jurisdiction over IBC matters.

Final Answer: NCLT has exclusive jurisdiction over personal guarantor insolvency proceedings under Part III IBC; confirmed by the Supreme Court in *Lalit Kumar Jain*. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q14

Sol. 15.

Solution

Concept — Fast Track CIRP: Eligibility and Timeline under ss.55–58 of IBC:

Sections 55–58 of the IBC, 2016 provide for a Fast Track Corporate Insolvency Resolution Process designed for smaller or simpler corporate debtors where a prolonged 180-day CIRP would be disproportionately burdensome. The Insolvency and Bankruptcy Board of India (IBBI) has notified the categories eligible for Fast Track CIRP.

The Fast Track CIRP is available for: (a) corporate debtors with assets and income below a threshold notified by the Central Government; (b) corporate debtors with a class of creditors or amount of debt below a notified level; (c) any other category of corporate debtors notified by the Central Government. The critical procedural distinction is the compressed timeline: Fast Track CIRP must be completed within **90 days** from the insolvency commencement date, extendable by up to 45 days (if the CoC approves by a 75% vote of voting shares). Sparkle Innovations, with assets of Rs. 80 lakh, is a small corporate debtor eligible for Fast Track CIRP.

Why other options are wrong:

- Option (A): Incorrect – Fast Track CIRP is explicitly designed for smaller/unlisted entities; limiting it to listed companies contradicts the statutory intent.
- Option (C): Incorrect – the Fast Track timeline is 90 days (not 180 days); the IRP process is not waived; an IRP is still appointed by the NCLT/IBBI.
- Option (D): Incorrect – Fast Track CIRP is a distinct mechanism in ss.55–58; PPIRP is a separate process; and assets exceeding Rs. 50 lakh do not disqualify a debtor from Fast Track CIRP.

Final Answer: Fast Track CIRP (ss.55–58) available for small corporate debtors; must be completed in 90 days (extendable by 45 days with 75% CoC approval). $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q15

Sol. 16.

Solution

Concept — Pre-Packaged Insolvency Resolution Process (PPIRP): Chapter III-A of IBC:

The Pre-Packaged Insolvency Resolution Process (PPIRP) was introduced into the IBC through the Insolvency and Bankruptcy Code (Amendment) Ordinance, 2021, subsequently converted into an Act. It is codified as Chapter III-A (ss.54A–54P) of the IBC, applicable *exclusively* to MSMEs registered under the MSMED Act, 2006.

Key distinguishing features of PPIRP include: (i) minimum default threshold of Rs. 10 lakh; (ii) the process is initiated by the *corporate debtor* itself (not creditors), upon approval by members holding 3/4th of total voting power and unsecured creditors representing 3/4th in value; (iii) before filing, the corporate debtor must obtain approval of a *base resolution plan* from financial creditors representing at least 66% in value of financial debt; (iv) the existing management (promoters) continues during the process – this is the key difference from standard CIRP where the Board is suspended; (v) the PPIRP must be completed within **120 days** from the insolvency commencement date. This promoter-friendly feature enables the MSME to restructure without loss of management control.

Why other options are wrong:

- Option (A): Incorrect – PPIRP is restricted to MSMEs; large or listed companies cannot avail it; and the process is initiated by the debtor, not any creditor.
- Option (B): Incorrect – PPIRP does not require prior NCLT approval before filing; the pre-NCLT steps involve creditor approval of the base plan, not judicial pre-screening.
- Option (C): Incorrect – the PPIRP expressly allows the existing management to continue; suspension of the Board is a feature of standard CIRP, not PPIRP.

Final Answer: PPIRP is exclusively for MSMEs; minimum default Rs. 10 lakh; initiated by debtor; 66% financial creditor base plan approval required; promoter management continues; 120-day timeline. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q16

Sol. 17.

Solution

Concept — Section 8 Companies: Licence, Dividend Prohibition, and Alteration with CG Approval:

Section 8 of the Companies Act, 2013 deals with companies formed for "promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object," and which intend to apply their profits (if any) or other income in promoting their objects, and which prohibit the payment of any dividend to their members. Such companies are licensed by the Central Government, which may be granted at the incorporation stage or subsequently.

Two fundamental restrictions mark the Section 8 company regime: (i) **No dividend**: profits cannot be distributed to members; all surplus must be ploughed back into the company's objects. Any violation can result in revocation of the licence. (ii) **Alteration requires CG approval**: unlike ordinary companies where the MoA objects clause can be altered by special resolution, a Section 8 company must obtain *prior approval of the Central Government* for any alteration to its Memorandum or Articles (s.8(4)). Both proposals advanced by the members of Knowledge Foundation – dividend distribution and alteration of objects without CG approval – are therefore impermissible.

Why other options are wrong:

- Option (A): Incorrect – there is no provision permitting even a 10% dividend distribution; s.8 imposes an absolute prohibition on dividend payment.
- Option (B): Incorrect – alteration of objects by Section 8 company requires Central Government approval, not merely a special resolution; this is a more onerous requirement than for ordinary companies.
- Option (D): Incorrect – approval must be sought from the *Central Government*, not the Registrar of Companies; the ROC has no such power over Section 8 alterations.

Final Answer: Section 8 companies are prohibited from paying any dividend; any alteration to MOA/AOA requires prior Central Government approval. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q17

Sol. 18.

Solution

Concept — Inspection of Registers: Members' Rights under s.94 of Companies Act, 2013:

Section 94 of the Companies Act, 2013 provides for the maintenance of registers and inspection thereof. The registers required to be maintained under the Act (Register of Members, Register of Debenture-holders, Register of other security-holders, etc.) and copies of annual returns must be kept at the registered office of the company, or at any other place in India approved by a special resolution (subject to filing notice with the ROC).

Section 94(2) confers inspection rights: any member, debenture-holder, other security-holder, or beneficial owner is entitled to inspect the relevant registers and annual returns *free of charge* during business hours. Any *other person* (i.e., non-member) may inspect on payment of the prescribed fee. There is no minimum shareholding requirement and no distinction based on the size of the shareholding. The manager's assertion that only institutional investors or large shareholders may inspect has absolutely no legal basis. Mr. Patel, holding even a single share, has the statutory right to inspect free of charge.

Why other options are wrong:

- Option (B): Incorrect – s.94 does not impose any minimum shareholding (such as 10%) to exercise inspection rights; every member has the right, irrespective of holding size.
- Option (C): Incorrect – members can inspect not only the Register of Members but also other registers and annual returns; minutes of general meetings are also accessible to members under s.119.
- Option (D): Incorrect – there is no minimum one-year holding requirement; the right accrues from the date of becoming a registered member.

Final Answer: Every member (regardless of shareholding size) is entitled to inspect company registers free of charge under s.94; the manager's restriction has no legal basis. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q18

Sol. 19.

Solution

Concept — Registration of Charge: Condonation of Delay under s.87:

Section 77 of the Companies Act, 2013 requires a company to register every charge created by it with the ROC within *30 days* of creation, failing which the charge is void against the liquidator and any creditor of the company (though it remains valid as between the company and the charge-holder). However, the law recognises that inadvertent delay may occur and provides a curative mechanism.

Section 87 empowers the *Central Government* (whose powers in this context have been delegated to the *Regional Director* under the Companies Act) to condone the delay and extend the time for registration of a charge, on being satisfied that the delay was accidental or due to inadvertence or some other sufficient cause or that it is just and equitable to grant relief. On registration pursuant to such an extended time order, the charge is treated as duly registered but without prejudice to the rights of parties acquired during the period of non-registration. Falcon Logistics should file an application before the Regional Director (of the relevant MCA Regional Office) for condonation.

Why other options are wrong:

- Option (A): Incorrect – the law does provide a condonation mechanism under s.87; the charge is not permanently void merely because of delay; the lender need not create a fresh charge if condonation is granted in time.
- Option (B): Incorrect – there is no automatic 60-day extension; any late registration requires an application to the Regional Director; a higher fee alone does not suffice.
- Option (C): Incorrect – the power to condone delay for charge registration lies with the Central Government/Regional Director under s.87, not the NCLT; the NCLT has no role in this specific condonation.

Final Answer: Delay in charge registration can be condoned under s.87 by the Regional Director (Central Government); charge is treated as duly registered upon condonation, without prejudice to intervening third-party rights. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q19

Sol. 20.

Solution

Concept — Managing Director Must be an Individual: s.2(54) and s.196 of Companies Act, 2013:

The Companies Act, 2013 is clear that the position of Managing Director (MD) or Whole-Time Director (WTD) can only be held by a natural person. The definitional architecture supports this:

Section 2(54) defines "Managing Director" as a *director* entrusted with substantial powers of management. A "director" under s.2(34) is a person appointed to the Board under s.149 – and only an *individual* can be appointed as a director (s.149(1) states a company shall have individual persons as directors). Section 196(1) provides that a company may appoint an MD, WTD or Manager – using the term "individual" – making clear that only natural persons qualify. Section 196(3) lays down personal eligibility conditions (minimum age 21 years, maximum age 70 years, not an undischarged insolvent, not convicted of offence involving moral turpitude, etc.) which can only be applied to a natural person. Since Techbridge Solutions LLP is not a natural person (individual), it cannot be appointed as MD. The legal department's objection is correct and well-founded in the statute.

Why other options are wrong:

- Option (A): Incorrect – the Companies Act expressly restricts the MD/WTD role to individuals; legal entities (companies, LLPs, bodies corporate) are categorically excluded.
- Option (C): Incorrect – there is no provision under the Companies Act, 2013 that permits even CG-approved appointment of a body corporate as MD; the restriction is absolute, not subject to CG approval.
- Option (D): Incorrect – the restriction is not limited to listed companies; ss.2(54) and 196 apply to all companies uniformly; unlisted companies are equally bound.

Final Answer: Only an individual (natural person) can be appointed as MD/WTD under ss.2(54) and 196; an LLP or other legal entity is categorically ineligible. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q20

ANSWER KEY

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