CLAT PG Company Law
Sample Paper – 8

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. Apex Bank Ltd. is a term-loan lender to Stargate Infra Pvt. Ltd. The loan agreement was executed in 2019 for Rs. 3 crore. Stargate Infra has not serviced any instalment since April 2023 and the outstanding principal and interest now exceeds Rs. 2.8 crore. The bank's legal team advises filing an application before the National Company Law Tribunal under Section 7 of the Insolvency and Bankruptcy Code, 2016 (IBC) to initiate the Corporate Insolvency Resolution Process (CIRP). A junior associate asks what the minimum default amount must be for such an application to be maintainable.

Which of the following correctly states the minimum default threshold for a financial creditor to file an application under Section 7 of the IBC?

(A) The minimum default threshold for a Section 7 application by a financial creditor is Rs. 1 lakh, being the original threshold prescribed at the time of enactment of the IBC in 2016

(B) The minimum default threshold is Rs. 1 crore, as raised by the Central Government's notification in 2020; Apex Bank's claim of Rs. 2.8 crore comfortably meets this threshold and the application is maintainable before the NCLT

(C) The minimum default threshold is Rs. 10 lakh; any default above this amount entitles a financial creditor to file a Section 7 application without further pre-conditions

(D) There is no statutory minimum default amount for a Section 7 application; a financial creditor may approach the NCLT for any amount of default, howsoever small

Q2. Bharat Supplies Ltd. is an operational creditor that supplied raw materials worth Rs. 45 lakh to Dynamo Manufacturing Co. Dynamo has refused to pay for the last three consignments despite repeated phone calls. Frustrated, Bharat Supplies' director instructs the company's advocate to file a CIRP application directly before the NCLT under Section 9 of the IBC without any prior formal communication to Dynamo. The advocate is uncertain whether this is procedurally permissible under the statute.

Which of the following correctly describes the statutory pre-condition that an operational creditor must satisfy before filing an application under Section 9 of the IBC?

(A) An operational creditor may file a CIRP application directly before the NCLT without any prior notice to the corporate debtor, since the IBC imposes no demand-notice requirement on operational creditors

(B) The NCLT has discretion to admit a Section 9 application even without a prior demand notice if it is satisfied that the corporate debtor is aware of the outstanding operational debt

(C) An operational creditor must first file a First Information Report with the concerned police station and await the outcome of the criminal proceedings before approaching the NCLT under Section 9

(D) Under Section 9 read with Section 8 of the IBC, an operational creditor must first deliver a demand notice of the unpaid debt (in Form 3 or Form 4) and wait 10 days; only if the corporate debtor neither repays nor raises a pre-existing dispute within that period may the operational creditor file the CIRP application; filing without demand notice is premature and the NCLT must reject it

Q3. The NCLT admitted a CIRP application against Meridian Steel Ltd. on 1st June 2025 and simultaneously declared a moratorium under Section 14 of the IBC. On 15th June 2025, Kotak Secured Lenders Ltd., which holds a registered charge over Meridian's plant and machinery, serves a notice of enforcement of security interest under the SARFAESI Act, 2002 and begins taking possession of the secured assets. The Interim Resolution Professional objects, contending that the enforcement is impermissible during the moratorium period.

Which of the following correctly describes the effect of the moratorium under Section 14 of the IBC on Kotak Secured Lenders Ltd.'s enforcement action?

(A) The moratorium under Section 14 does not apply to enforcement of security interests by secured creditors; SARFAESI enforcement may continue during CIRP uninterrupted

(B) A secured creditor may enforce its security interest during the moratorium period if it provides at least 30 days' advance notice to the Resolution Professional and the NCLT

(C) Section 14(1)(c) of the IBC expressly prohibits any action to foreclose, recover, or enforce any security interest created by the corporate debtor during the moratorium period; Kotak Secured Lenders Ltd.'s enforcement of its charge is impermissible and the IRP's objection is legally correct

(D) A secured creditor may enforce security during the moratorium if the Committee of Creditors passes a resolution approving such enforcement by a 75% majority

Q4. The NCLT admitted a CIRP petition filed by a financial creditor against Zenith Realtors Ltd. on 10th July 2025. The admission order was made public on the same date. Within three days of admission, the NCLT appointed Mr. Raghavan, an Insolvency Professional registered with the IBBI, as the Interim Resolution Professional. Zenith Realtors' Board of Directors claims it continues to have the right to manage the company's day-to-day operations and that Mr. Raghavan's role is merely advisory.

The Board proceeds to execute a sale deed for a company property without the IRP's consent.

Which of the following correctly describes the powers and status of the Interim Resolution Professional upon appointment under the IBC?

(A) Upon appointment under Section 16 of the IBC, the IRP takes over the management of the corporate debtor; the Board of Directors is suspended and all powers of the Board vest in the IRP; the Board's execution of the sale deed without the IRP's consent is void and without legal authority

(B) The IRP and the Board of Directors share managerial authority during the CIRP; the Board retains control over operational matters while the IRP supervises financial decisions

(C) The IRP has powers only to convene the first meeting of the Committee of Creditors; routine management of the corporate debtor continues with the existing Board until the CoC meeting

(D) Upon NCLT's admission of the CIRP application, a Liquidator (not an IRP) is immediately appointed and the Board of Directors is simultaneously dissolved by operation of law

Q5. During the CIRP of Prism Logistics Ltd., the Resolution Professional convenes the first meeting of the Committee of Creditors. Prism's three operational creditors – a packaging supplier, a freight forwarder, and an electricity distribution company – collectively claim dues of Rs. 2.4 crore, which represents 8% of the total admitted claims of Rs. 30 crore. The operational creditors jointly demand that they be admitted as full voting members of the Committee of Creditors. The Resolution Professional refuses. The operational creditors challenge this refusal before the NCLT.

Which of the following correctly describes the composition of the Committee of Creditors and the voting rights of operational creditors under the IBC?

(A) Operational creditors are entitled to full voting membership on the Committee of Creditors if their aggregate admitted claims exceed 10% of the total admitted claims

(B) The Committee of Creditors under Section 21 of the IBC comprises only financial creditors; operational creditors are not entitled to membership or voting rights in the CoC; since the operational creditors' aggregate claim (8%) is below the 10% threshold, they do not even have a right to attend CoC meetings; the Resolution Professional's refusal is legally correct

(C) All creditors – financial and operational alike – are entitled to equal membership and equal voting rights in the Committee of Creditors as a matter of statutory right under the IBC

(D) Operational creditors may become voting members of the Committee of Creditors if the existing financial creditor members unanimously consent to their inclusion at the first CoC meeting

Q6. During the CIRP of Cascade Developers Ltd., the Resolution Professional received a resolution plan submitted by a successful resolution applicant. The plan was put to vote before the Committee of Creditors. Financial creditors holding 55% of the total voting share voted in favour; financial creditors holding 45% voted against. The Resolution Professional certified that the majority had voted in favour and submitted the plan to the NCLT for approval. The NCLT is now examining whether the plan has been validly approved by the CoC.

Which of the following correctly states the minimum voting threshold required for CoC approval of a resolution plan under the IBC?

(A) A simple majority of 51% of the voting share of financial creditors in the CoC is sufficient to approve a resolution plan; the plan submitted here has been validly approved

(B) A resolution plan approved by any majority of the CoC is valid and may be submitted to the NCLT; the NCLT's role is only to check compliance with Section 30(2), not the percentage of votes obtained

(C) The Resolution Professional's certification is sufficient for validity; the NCLT must approve the plan without re-examining the CoC voting percentage if the RP has filed a compliance certificate

(D) Section 30(4) of the IBC requires the CoC to approve a resolution plan by a vote of not less than 66% of the total voting share of financial creditors; 55% falls below this mandatory threshold; the plan has not been validly approved and the NCLT must reject it

Q7. The CIRP of Neptune Ceramics Ltd. ran for 180 days without any resolution plan being received by the Resolution Professional. The Committee of Creditors, having deliberated on the prospects of a resolution, passed a resolution by the requisite majority voting to liquidate the corporate debtor. The RP transmitted the CoC resolution to the NCLT. A director of Neptune Ceramics challenges the process, arguing that a CoC resolution alone has the legal effect of dissolving the company and commencing liquidation, making the NCLT's role merely administrative.

Which of the following correctly identifies the authority that passes the liquidation order under the IBC?

(A) The Committee of Creditors itself passes the liquidation order by a 66% majority resolution; transmitting it to the NCLT is merely for information and record

(B) The Resolution Professional converts into the Liquidator automatically upon expiry of the CIRP period; no formal order from any external authority is required

(C) Under Section 33 of the IBC, the NCLT passes the liquidation order; a CoC resolution to liquidate does not by itself commence liquidation – it triggers the NCLT's jurisdiction to pass the formal order; the director's argument is legally incorrect

(D) The High Court having jurisdiction over the registered office of the corporate debtor passes the winding-up and liquidation order; the NCLT has no jurisdiction to order liquidation under the IBC

Q8. During the CIRP of Horizon Textiles Ltd., the Resolution Professional examined the company's historical transactions. She discovered that 18 months before the CIRP commencement date, Horizon Textiles had transferred its Mumbai warehouse (market value Rs. 4 crore) to its promoter's wife for a consideration of only Rs. 80 lakh. The transaction was documented as a sale but the RP believes it was designed to strip the company of assets. She intends to apply to the NCLT to set aside this transaction.

Which of the following correctly states the legal position regarding the RP's power to challenge this transaction under the IBC?

(A) The Resolution Professional may apply to the NCLT under Sections 45–46 of the IBC to avoid the undervalue transaction; since the transfer took place 18 months before the insolvency commencement date and the look-back period for transactions at undervalue is 2 years, the transaction falls squarely within the avoidable period and the NCLT may set it aside

(B) The RP cannot challenge this transaction because the look-back period for undervalue transactions under the IBC is only 12 months; a transfer made 18 months before CIRP commencement is outside the statutory window and cannot be avoided

(C) The transaction can be avoided only if the RP proves fraudulent intent by the promoter's wife beyond reasonable doubt; an undervalue consideration alone is insufficient to attract the avoidance provisions

(D) The CoC must first pass a resolution authorising the RP to challenge the transaction; without CoC authorisation, the RP has no standing to file an avoidance application before the NCLT

Q9. Pinnacle Digital Solutions Pte. Ltd. is a company incorporated in Singapore. In January 2025 it opened a sales and customer support office in Mumbai, hired 40 employees in India, and began soliciting and executing contracts with Indian clients from that office. A compliance officer at Pinnacle's Indian operations queries whether the entity is required to comply with the provisions of the Companies Act, 2013 applicable to "foreign companies" or whether its obligations are governed exclusively by Singaporean law.

Which of the following correctly describes whether Pinnacle Digital Solutions Pte. Ltd. qualifies as a "foreign company" under the Companies Act, 2013?

(A) Pinnacle Digital Solutions Pte. Ltd. does not qualify as a foreign company under Indian law because Singapore is a Commonwealth country; companies from Commonwealth jurisdictions are treated as domestic entities for the purposes of the Companies Act, 2013

(B) Under Section 2(42) of the Companies Act, 2013, a "foreign company" means any company or body corporate incorporated outside India which has a place of business in India whether by itself or through an agent, physically or through electronic mode; Pinnacle's Mumbai office is a place of business in India; it is a foreign company and must comply with the applicable provisions of the Companies Act, 2013

(C) Pinnacle qualifies as a foreign company only if its annual turnover from Indian operations exceeds Rs. 50 crore in a financial year; below this threshold it has no obligations under the Companies Act, 2013

(D) Pinnacle Digital Solutions Pte. Ltd. is not a foreign company; it must instead incorporate a separate subsidiary company in India under the Companies Act, 2013 and all Indian activities must be conducted through that subsidiary

Q10. Vanguard Capital GmbH, a company incorporated in Germany, establishes its first place of business in India by setting up a liaison office in New Delhi on 1st September 2025. The company's India representative, Mr. Sharma, is uncertain about what documents must be filed with the Registrar of Companies, which ROC has jurisdiction, and within what time period these documents must be submitted after the place of business is established.

Which of the following correctly describes the filing obligations of a foreign company upon establishing a place of business in India under the Companies Act, 2013?

(A) A foreign company must file the prescribed documents with the ROC of the state where its place of business is located within 60 days of establishing such place of business

(B) A foreign company must file its documents within 90 days of establishing a place of business and need only furnish a certificate of incorporation and the name of the authorised representative

(C) A foreign company must file the prescribed documents within 15 days of establishing a place of business in India; failure to file within this period renders the foreign company liable to immediate deregistration

(D) Under Section 380 of the Companies Act, 2013, a foreign company must, within 30 days of establishing a place of business in India, deliver to the ROC: a certified copy of its charter, statutes, memorandum and articles (or equivalent constitutive document), the full address of its registered or principal office abroad, a list of its directors, and the name and address of a person in India authorised to accept service of process and notices on behalf of the company

Q11. Brightline Pvt. Ltd. currently has 300 members and has been carrying on a thriving business for ten years. Its shareholders decide that the company should "go public" to access equity capital markets. They wish to convert Brightline Pvt. Ltd. into a public limited company. A director suggests that this requires an application to the NCLT for prior approval, as constitutional changes of this magnitude cannot be made without judicial sanction. Another director disagrees, contending that only a shareholder vote is needed.

Which of the following correctly describes the procedure for converting a private company into a public company under the Companies Act, 2013?

(A) Conversion of a private company into a public company requires prior approval of the NCLT; only after the NCLT grants leave may the Articles be altered and the conversion effected

(B) A private company may convert to a public company by a simple Board resolution authorising the change; no shareholder approval is required for this category of constitutional alteration

(C) Under Section 14 of the Companies Act, 2013, a private company may convert into a public company by passing a special resolution to amend its Articles of Association to remove the three defining private-company restrictions – the limit on members, the restriction on transfer of shares, and the prohibition on public invitation for subscriptions; thereafter the ROC issues a fresh certificate of incorporation as a public company; no NCLT approval is required for this conversion

(D) Conversion from private to public requires a special resolution and additionally the approval of the Central Government through the Ministry of Corporate Affairs before the Registrar can issue a fresh certificate

Q12. Goldsworth Industries Ltd. is a public limited company listed on the Bombay Stock Exchange. After a management buyout, the promoters wish to convert Goldsworth into a private limited company so as to reduce compliance burdens and delist the shares. The company's Company Secretary advises that the conversion requires only a special resolution of the shareholders and no other external approval. An independent director disputes this, contending that tribunal approval is mandatory.

Which of the following correctly states the legal requirements for a public company to convert into a private company under the Companies Act, 2013?

(A) Under the proviso to Section 14(1) of the Companies Act, 2013, conversion of a public company into a private company requires both a special resolution of the shareholders and the prior approval of the NCLT; without NCLT approval the conversion is invalid even if a special resolution has been passed; the independent director's position is correct

(B) Conversion of a public company to a private company requires only a special resolution; no approval from any tribunal, court, or government authority is required beyond the special resolution

(C) A public company may convert to a private company by a Board resolution alone, provided all the directors of the company consent in writing to the conversion

(D) Conversion of a public company to a private company requires the prior approval of the Central Government (through the Ministry of Corporate Affairs), not the NCLT; a petition must be filed with the Ministry rather than the tribunal

Q13. Mr. Kapoor is a retail investor who regularly buys shares in companies listed on the National Stock Exchange. His financial adviser recommends investing in a profitable Limited Liability Partnership (LLP) that is seeking capital infusion. Mr. Kapoor assumes that an LLP, like a company, would have a defined share capital divided into shares and would issue him a share certificate, entitling him to vote in the same manner as a shareholder of a company limited by shares. He asks his lawyer whether his assumption is correct.

Which of the following correctly distinguishes a Limited Liability Partnership from a company limited by shares?

(A) An LLP has share capital divided into shares just like a company, but its members are called "partners" instead of "shareholders"; the underlying structure is otherwise identical to a company limited by shares

(B) A Limited Liability Partnership governed by the LLP Act, 2008 has no share capital and does not issue shares; its participants are called partners (not shareholders) who contribute capital to the LLP in cash, kind, or other agreed form; Mr. Kapoor would become a partner with a profit-sharing right, not a shareholder with a share certificate and voting rights as in a company

(C) An LLP has shareholders and issues share certificates like a company but does not have share capital in the technical sense; partners in an LLP are entitled to dividends declared by the Designated Partners

(D) An LLP is in all material respects identical to a private limited company under the Companies Act, 2013; the distinction is merely one of nomenclature and does not affect the investor's rights

Q14. Mr. Iyer is a chartered accountant practising in Chennai. Having heard of the tax benefits and profit-sharing opportunities available in producer companies, he applies to become a member and subscriber to the shares of "Kongu Organic Farmers Producer Company Ltd.", a producer company incorporated under the Companies Act, 2013. The company's Board of Directors rejects his application on the ground that he is not eligible to be a member of a producer company.

Which of the following correctly explains the eligibility restriction on membership of a producer company under the Companies Act, 2013?

(A) Mr. Iyer is ineligible only because he is a professional; any person engaged in trade or commerce may become a member of a producer company irrespective of whether they are involved in primary produce

(B) Mr. Iyer may become a member of the producer company if the Board of Directors exercises its discretion to admit him; the statute imposes no absolute restriction on non-agricultural members

(C) Mr. Iyer may become a member of the producer company if he resides in a rural area and can demonstrate an association with agricultural activities, even if he is not himself a primary producer

(D) Under Section 581B read with Section 581C of the Companies Act, 2013, a producer company can only have as its members persons who are themselves primary producers – that is, persons engaged in activities relating to primary produce such as farming, horticulture, animal husbandry, fisheries, or similar activities; Mr. Iyer, being an urban chartered accountant and not a primary producer, is ineligible; the Board's rejection is legally correct

Q15. Spectrum Cables Pvt. Ltd. filed its annual return with the Registrar of Companies with a delay of eight months. The Registrar initiates proceedings for this default. The penalty prescribed under the relevant provision of the Companies Act, 2013 for this offence is a fine (with no element of imprisonment). The company seeks to compound the offence under Section 441 of the Companies Act, 2013. The maximum fine that can be imposed for this specific default is Rs. 8 lakh. The company's advocate is uncertain which authority has the power to compound this offence.

Which of the following correctly identifies the authority competent to compound the offence in this case?

(A) The Regional Director (or any officer authorised by the Central Government) has jurisdiction to compound the offence since the Regional Director can compound all offences under the Companies Act, 2013 regardless of the quantum of fine involved

(B) The Registrar of Companies before whom the default was committed has power to compound the offence; the Registrar can compound any offence that falls within its original enforcement jurisdiction

(C) Under Section 441(1) of the Companies Act, 2013, an offence punishable only with fine may be compounded by the NCLT if the amount of the fine prescribed exceeds Rs. 5 lakh; since the maximum fine for this default is Rs. 8 lakh, the NCLT is the competent authority to compound the offence

(D) Only the High Court has jurisdiction to compound offences under the Companies Act, 2013 where the fine prescribed exceeds Rs. 5 lakh; the application for compounding must be made before the jurisdictional High Court

Q16. The Ministry of Corporate Affairs receives complaints from several shareholders of Verity Pharmaceuticals Ltd. alleging that the company's management has been siphoning funds through fictitious supplier payments and falsifying its books of accounts. The Central Government, acting through the Registrar of Companies, issues a formal order directing its authorised officers to inspect the books of accounts, registers, and other documents of Verity Pharmaceuticals Ltd. The company's Managing Director instructs staff not to produce the documents and denies the inspecting officers access to the company's records.

Which of the following correctly describes the company's obligation upon an order of inspection under Sections 206–207 of the Companies Act, 2013?

(A) The company and every officer of the company are legally obligated to cooperate with the inspection; they must produce all books, accounts, and documents demanded by the authorised officer; obstruction of the inspection is a statutory offence; the Managing Director's instruction to deny access is itself a punishable default under the Companies Act, 2013

(B) The company may lawfully refuse to produce books and documents during a routine inspection ordered by the Registrar; it can seek a stay from the NCLT before complying with any inspection order

(C) The company is obligated to produce only audited financial statements and the register of members; it is not required to provide access to internal correspondence, supplier contracts, or bank records during a Registrar's inspection

(D) The company's obligation to cooperate with inspection arises only after the NCLT has issued a separate direction confirming the Registrar's inspection order; a Registrar's order alone carries no binding obligation on the company

Q17. During the CIRP of Falcon Financial Services Ltd., a listed non-banking financial company, the Resolution Professional discovered evidence of a complex, multi-layered financial fraud involving falsification of loan books, round-tripping of funds through shell entities, and misrepresentation to statutory auditors spanning five financial years. The estimated fraud runs to Rs. 800 crore. The RP refers the matter to the Central Government. The Central Government is considering which investigative body has the specific statutory mandate and police powers to investigate fraud in a company.

Which of the following correctly identifies the body established under the Companies Act, 2013 with the power to investigate company-related frauds and equipped with police powers?

(A) The Central Bureau of Investigation (CBI) is the only investigative authority with jurisdiction over large corporate frauds involving listed companies; no other body has the requisite statutory powers

(B) The Serious Fraud Investigation Office (SFIO), established under Section 211 of the Companies Act, 2013, has the mandate to investigate frauds relating to companies; the Central Government may refer cases to the SFIO; upon such reference, the SFIO has the powers of an Inspector of Police and may arrest, search, and seize; the SFIO is the correct authority in this case

(C) The Enforcement Directorate (ED) is the primary body for investigating corporate fraud under the Companies Act, 2013; the SFIO is limited to investigation of procedural non-compliance and cannot investigate financial fraud

(D) The Securities and Exchange Board of India (SEBI) has exclusive jurisdiction over all frauds committed by listed companies; SEBI's Enforcement Department is authorised to investigate, arrest, and prosecute company directors for financial fraud

Q18. Delta Ancillaries Pvt. Ltd. was struck off the Register of Companies by the Registrar of Companies in 2022 under Section 248 of the Companies Act, 2013 for failure to file annual returns and financial statements for five consecutive years. In 2025, a creditor who was owed Rs. 22 lakh by Delta Ancillaries for goods supplied in 2021 files a suit for recovery against Mr. Jain, who was the Managing Director of Delta Ancillaries at the time of striking off. Mr. Jain contends that he bears no personal liability for the company's debts once the company has been struck off and ceased to exist.

Which of the following correctly describes the effect of striking off on the personal liability of directors under the Companies Act, 2013?

(A) Mr. Jain is correct; striking off extinguishes all outstanding liabilities of the company and its directors; no suit can be maintained against a director of a company that has been struck off the Register of Companies

(B) Directors of a struck-off company remain personally liable for its pre-striking-off debts for a period of two years from the date of striking off; beyond two years the liability is extinguished by operation of law

(C) Mr. Jain is personally liable only if the creditor can establish that he personally guaranteed the supply debt or that the corporate veil should be lifted on the ground of fraud; an ordinary directorial role is insufficient to attract personal liability

(D) Under Section 248(7) read with Section 250 of the Companies Act, 2013, striking off does not affect the liability of any director, manager, or member of the company; they remain personally liable and can be sued for any liability incurred before the date of striking off; the creditor's suit against Mr. Jain is legally maintainable

Q19. The NCLT, Chennai Bench, passed an order on 5th August 2025 rejecting a resolution plan submitted in the CIRP of Coromandel Hotels Ltd. on the ground that the plan did not comply with Section 30(2) of the IBC. The resolution applicant, aggrieved by this order, wishes to challenge it before the appropriate appellate forum. The resolution applicant's counsel is examining the correct appellate forum and the time limit within which the appeal must be filed.

Which of the following correctly identifies the appellate forum and the applicable time limit for challenging an NCLT order passed under the IBC?

(A) An appeal against an NCLT order in CIRP proceedings must be filed before the High Court having jurisdiction over the seat of the NCLT Bench; the time limit for such appeal is 60 days from the date of the NCLT order

(B) An appeal lies directly to the Supreme Court of India against any order passed by the NCLT in CIRP proceedings; no intermediate appellate forum exists under the IBC

(C) Under Section 61 of the IBC, any person aggrieved by an order of the NCLT may prefer an appeal to the National Company Law Appellate Tribunal (NCLAT) within 30 days of the date of the NCLT order; the NCLAT may condone a delay of up to 15 days on showing sufficient cause; a further appeal on a question of law lies to the Supreme

Court; the resolution applicant must file before the NCLAT within 30 days of 5th August 2025

(D) The appeal against the NCLT's order in CIRP must be filed before the NCLAT within 45 days from the date of the impugned order; there is no provision for condonation of delay beyond this period

Q20. During the liquidation of Crestfall Retail Ltd., the Liquidator finds that in the 18 months before CIRP commencement, the company's erstwhile Managing Director and two other whole-time directors continued to borrow large sums from banks and suppliers knowing fully well that the company was hopelessly insolvent and had no prospect of repaying those debts. The Liquidator proposes to apply to the NCLT to hold these three directors personally liable for the debts thus contracted, arguing that they carried on the company's business with intent to defraud creditors.

Which of the following correctly identifies the remedy available to the Liquidator under the IBC for fraudulent trading?

(A) Under Section 66 of the IBC, if during CIRP or liquidation it is found that the business of the corporate debtor has been carried on with intent to defraud creditors or for any other fraudulent purpose, the NCLT may, on an application by the Resolution Professional or Liquidator, declare the persons who were knowingly parties to the fraudulent trading to be personally liable without any limitation of liability; the Liquidator's proposed action is legally well-founded

(B) The IBC does not contain any provision for holding directors personally liable for debts contracted during fraudulent trading; the Liquidator's remedy is limited to filing a criminal complaint under the Indian Penal Code before the concerned Magistrate's Court

(C) The Committee of Creditors may, by a resolution passed with 75% majority, direct the former directors to personally repay the debts contracted through fraudulent trading; no NCLT application is necessary for this purpose

(D) The Securities and Exchange Board of India has exclusive authority to impose penalties and direct disgorgement of funds in cases of fraudulent trading by directors of listed companies; the NCLT has no jurisdiction over director liability for fraudulent trading

DETAILED SOLUTIONS

Sol. 1.

Solution

Concept — CIRP by Financial Creditor under Section 7, IBC (Default Threshold): Section 7 of the Insolvency and Bankruptcy Code, 2016 permits a financial creditor (either by itself or jointly with other financial creditors) to file an application before the NCLT for initiating CIRP against a corporate debtor when a default has occurred. The application must be made in Form 1 prescribed by the IBBI Regulations. The minimum default threshold was originally Rs. 1 lakh at the time of the IBC's enactment in 2016 but was raised to Rs. 1 crore by a Central Government notification in March 2020 to prevent misuse of the CIRP mechanism for small defaults.

Analysis: Apex Bank's outstanding claim of Rs. 2.8 crore easily surpasses the current threshold of Rs. 1 crore. The application under Section 7 is therefore maintainable. The NCLT is required to either admit or reject the application within 14 days of its filing; if it neither admits nor rejects within that period, it must record its reasons for any delay.

Why other options are wrong:

- Option (A): Incorrect – the original threshold of Rs. 1 lakh was revised upward to Rs. 1 crore by notification; Option (A) states the superseded threshold.
- Option (B): **Correct.** The current minimum default threshold for a Section 7 application is Rs. 1 crore; Apex Bank's Rs. 2.8 crore claim meets this threshold.
- Option (C): Incorrect – there is no minimum threshold of Rs. 10 lakh; this figure does not correspond to any current statutory or notified threshold under the IBC.
- Option (D): Incorrect – a minimum default threshold is a mandatory statutory pre-condition; a financial creditor cannot file without meeting the threshold.

Final Answer: Minimum default threshold for a Section 7 financial creditor application is Rs. 1 crore; Apex Bank meets it. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q1

Sol. 2.

Solution

Concept — Demand Notice as Statutory Pre-Condition for Section 9 Application (Operational Creditor): Section 8 of the IBC requires an operational creditor, before filing an application under Section 9, to first deliver a demand notice of the unpaid operational debt or a copy of an invoice to the corporate debtor. The corporate debtor has 10 days to either repay the debt or bring to the notice of the operational creditor the existence of a dispute that predates the demand notice. Only after the expiry of this 10-day period, if neither repayment nor a pre-existing dispute has been raised, can the operational creditor file the CIRP application. Filing without giving demand notice violates this mandatory precondition.

Analysis: Bharat Supplies Ltd. filed its Section 9 application without first issuing a demand notice to Dynamo Manufacturing. This is a fatal procedural defect. The NCLT is required to reject such a premature application. The demand-notice requirement is not merely directory; it is a mandatory statutory pre-condition, and non-compliance cannot be condoned by the NCLT.

Why other options are wrong:

- Option (A): Incorrect – the IBC specifically imposes a demand-notice requirement on operational creditors under Section 8; there is no option to bypass this step.
- Option (B): Incorrect – the NCLT has no discretion to admit a Section 9 application that has bypassed the mandatory demand-notice step; the defect goes to jurisdiction.
- Option (C): Incorrect – there is no requirement under the IBC to file an FIR or await criminal proceedings before initiating CIRP; these are entirely separate proceedings.
- Option (D): **Correct.** Section 8 read with Section 9 of the IBC mandates a prior demand notice and a 10-day waiting period; filing without it is premature and must be rejected.

Final Answer: An operational creditor must issue a demand notice under Section 8 and wait 10 days before filing under Section 9; direct filing is premature. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q2

Sol. 3.

Solution

Concept — Moratorium under Section 14 of the IBC and Prohibition on Security Enforcement: Section 14(1) of the IBC provides that on the insolvency commencement date (i.e., the date the NCLT admits the CIRP application), a moratorium takes effect. During the moratorium: (a) the institution of suits or continuation of pending suits against the corporate debtor is prohibited; (b) the transfer, encumbrance, alienation, or disposal of any assets of the corporate debtor is prohibited; (c) any action to foreclose, recover, or enforce any security interest created by the corporate debtor is prohibited; and (d) recovery of any property by an owner or lessor is prohibited. The moratorium continues until completion of CIRP.

Analysis: Kotak Secured Lenders Ltd.'s enforcement of its charge over Meridian Steel's plant and machinery falls squarely within the prohibition under Section 14(1)(c). The fact that the secured creditor holds a registered charge does not exempt it from the moratorium. The IRP's objection is entirely correct. Any SARFAESI action initiated after commencement of moratorium is void and must be stayed.

Why other options are wrong:

- Option (A): Incorrect – Section 14(1)(c) expressly prohibits enforcement of security interests during moratorium; there is no carve-out for secured creditors in the IBC moratorium provisions.
- Option (B): Incorrect – no 30-day notice provision exists for security enforcement during moratorium; such enforcement is categorically prohibited regardless of notice.
- Option (C): **Correct.** Section 14(1)(c) prohibits any action to foreclose, recover, or enforce any security interest during the moratorium; Kotak's enforcement is impermissible.
- Option (D): Incorrect – CoC has no power to authorise security enforcement during moratorium; the prohibition under Section 14 is statutory and cannot be waived by the CoC.

Final Answer: Section 14(1)(c) prohibits enforcement of security interests during the moratorium; Kotak Secured Lenders Ltd.'s action is unlawful. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q3

Sol. 4.

Solution

Concept — Interim Resolution Professional: Appointment and Powers under Section 16–17 of the IBC: Section 16 of the IBC requires the NCLT, while admitting a CIRP application, to appoint an Insolvency Professional as the Interim Resolution Professional (IRP). Section 17 provides that from the date of appointment of the IRP, the management of the affairs of the corporate debtor vests in the IRP. The Board of Directors or the partners of a corporate debtor (as the case may be) stand suspended and their powers are exercised by the IRP. The IRP is also required to make a public announcement calling for submission of claims.

Analysis: Upon appointment of Mr. Raghavan as IRP, the Board of Zenith Realtors Ltd. stood suspended by operation of law. The Board had no authority to execute the sale deed. The IRP's consent is mandatory for any asset transaction. The execution of the sale deed by the Board without IRP consent is legally void and constitutes a violation of the moratorium as well as Section 17.

Why other options are wrong:

- Option (A): **Correct.** Section 17 vests management in the IRP upon appointment; the Board is suspended; the sale deed executed without IRP consent is void.
- Option (B): Incorrect – Section 17 creates no shared authority; the Board is suspended and all Board powers vest exclusively in the IRP.
- Option (C): Incorrect – the IRP's role extends far beyond convening the first CoC meeting; it includes managing the corporate debtor in its entirety.
- Option (D): Incorrect – no Liquidator is appointed at the CIRP admission stage; a Liquidator is appointed only if and when the NCLT passes a liquidation order under Section 33.

Final Answer: Under Section 17, the IRP takes over management of the corporate debtor on appointment; the Board is suspended; the unauthorised sale deed is void. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q4

Sol. 5.

Solution

Concept — Composition of the Committee of Creditors under Section 21 of the IBC: Section 21(2) of the IBC provides that the Committee of Creditors shall comprise all financial creditors of the corporate debtor. Operational creditors are not entitled to membership of the CoC. However, if the aggregate amount of operational debt is not less than 10% of the total debt, the operational creditors may attend CoC meetings and raise concerns without having the right to vote. If the aggregate operational debt is below 10%, operational creditors do not even have the right to attend CoC meetings.

Analysis: Prism Logistics Ltd.'s three operational creditors hold aggregate claims of Rs. 2.4 crore, which is 8% of the total admitted claims. This falls below the 10% threshold. They are therefore not entitled even to attend CoC meetings, let alone demand voting membership. The Resolution Professional's refusal to admit them as members is entirely correct. Operational creditors can only submit their claims and wait for the resolution plan to account for their dues.

Why other options are wrong:

- Option (A): Incorrect – operational creditors exceeding the 10% threshold are entitled to attend (not vote); even this right is of attendance only, not full voting membership.
- Option (B): **Correct.** CoC comprises only financial creditors; operational creditors have no voting rights; since the aggregate is below 10%, they cannot even attend; the RP's refusal is correct.
- Option (C): Incorrect – Section 21(2) explicitly restricts CoC membership to financial creditors; equal membership for all creditors is not provided under the IBC.
- Option (D): Incorrect – CoC membership for operational creditors cannot be conferred by a unanimous vote of financial creditors; the statute restricts membership to financial creditors.

Final Answer: CoC comprises only financial creditors under Section 21; operational creditors below the 10% threshold cannot attend CoC meetings; the RP's refusal is lawful. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q5

Sol. 6.

Solution

Concept — CoC Voting Threshold for Resolution Plan Approval under Section 30(4) of the IBC: Section 30(4) of the IBC was amended in 2019 to raise the threshold for CoC approval of a resolution plan. The CoC must approve the resolution plan by a vote of not less than **66%** of the total voting share of financial creditors. Prior to the 2019 amendment the threshold was 75%. The current mandatory threshold is 66%. A plan approved below this threshold cannot be submitted to the NCLT for approval and has no legal standing.

Analysis: The resolution plan for Cascade Developers Ltd. was approved by 55% of the CoC by voting share. This falls short of the mandatory 66% threshold under Section 30(4). The plan has not been validly approved. The Resolution Professional's submission of the plan to the NCLT with a compliance certificate cannot cure this fundamental defect. The NCLT is required to examine whether the plan was approved by the requisite percentage and must reject a plan that was not.

Why other options are wrong:

- Option (A): Incorrect – 51% is not the statutory threshold; Section 30(4) as amended requires 66%, which is higher than a simple majority.
- Option (B): Incorrect – Section 30(4) prescribes a specific minimum voting percentage; the NCLT is required to verify compliance with this percentage before approving the plan.
- Option (C): Incorrect – the RP's compliance certificate cannot substitute for the mandatory 66% vote; if the vote fell short, the NCLT cannot approve the plan regardless of the certificate.
- Option (D): **Correct.** Section 30(4) mandates 66% CoC approval; 55% falls short; the plan is invalidly approved and must be rejected by the NCLT.

Final Answer: Section 30(4) requires 66% CoC approval; the 55% approval obtained is below the statutory threshold; the resolution plan is invalid. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q6

Sol. 7.

Solution

Concept — Liquidation Order under Section 33 of the IBC: Section 33 of the IBC provides for three situations in which the NCLT shall pass a liquidation order: (i) if no resolution plan is received by the RP before the expiry of the CIRP period; (ii) if the CoC has voted to liquidate the corporate debtor at any time during the CIRP before receiving the plan; or (iii) if the NCLT has not approved the resolution plan submitted to it. In all cases, it is the **NCLT** that passes the formal liquidation order. A CoC resolution to liquidate does not by itself constitute or amount to a liquidation order; it merely triggers the NCLT's jurisdiction.

Analysis: Neptune Ceramics Ltd.'s CIRP concluded without a resolution plan. The CoC passed a liquidation resolution. This resolution must be transmitted to the NCLT, which then passes the formal liquidation order under Section 33. Until the NCLT passes the liquidation order, the corporate debtor does not enter the liquidation process. The director's contention that the CoC resolution itself commences liquidation is legally incorrect.

Why other options are wrong:

- Option (A): Incorrect – the CoC's resolution to liquidate is a trigger, not an order; only the NCLT has the judicial authority to pass a liquidation order under Section 33.
- Option (B): Incorrect – the RP does not automatically convert into a Liquidator; the NCLT appoints a Liquidator (who may be the same person as the RP) by a separate order.
- Option (C): **Correct.** Section 33 vests the power to pass a liquidation order exclusively in the NCLT; the CoC resolution merely triggers this jurisdiction.
- Option (D): Incorrect – the NCLT has exclusive jurisdiction under the IBC to order liquidation; the High Court has no role in IBC-based liquidation proceedings.

Final Answer: Under Section 33, the NCLT passes the liquidation order; a CoC resolution alone does not commence liquidation. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q7

Sol. 8.

Solution

Concept — Avoidance of Undervalue Transactions under Sections 45–46 of the IBC: Section 45 of the IBC empowers the Resolution Professional (or the Liquidator) to apply to the NCLT to avoid a transaction entered into by the corporate debtor at an undervalue. Section 46 defines an undervalue transaction as one where the corporate debtor makes a gift to a person, or enters into a transaction with any person where the corporate debtor receives no consideration or consideration of significantly less value than the consideration provided by the corporate debtor. The look-back period for undervalue transactions is **2 years** before the insolvency commencement date (or 5 years if the transaction is with a related party under Section 45(2)).

Analysis: The transfer of the Mumbai warehouse for Rs. 80 lakh against a market value of Rs. 4 crore is plainly an undervalue transaction. The transfer occurred 18 months before the CIRP commencement date. Since 18 months falls within the 2-year look-back period under Section 46, the transaction is within the avoidable window. The RP's application to the NCLT under Section 45 is legally competent and well-founded.

Why other options are wrong:

- Option (A): **Correct.** The 2-year look-back period under Section 46 covers the 18-month-old transfer; the RP may apply to avoid it as an undervalue transaction.
- Option (B): Incorrect – the look-back period is 2 years, not 12 months; 18 months is within, not outside, the window.
- Option (C): Incorrect – avoidance of an undervalue transaction under Section 45–46 does not require proof of fraudulent intent; the undervalue nature of the transaction is itself sufficient.
- Option (D): Incorrect – the RP has independent standing under Section 45 to apply to the NCLT; no prior CoC authorisation is required for avoidance applications.

Final Answer: The 18-month-old undervalue transfer falls within the 2-year look-back period under Sections 45–46; the RP may apply to the NCLT to avoid it. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q8

Sol. 9.

Solution

Concept — Definition of "Foreign Company" under Section 2(42), Companies Act, 2013: Section 2(42) of the Companies Act, 2013 defines a "foreign company" as any company or body corporate incorporated outside India which: (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and (b) conducts any business activity in India in any other manner. There is no requirement that the company be incorporated in any particular jurisdiction or that its turnover exceed a threshold. A physical office in India that conducts business suffices.

Analysis: Pinnacle Digital Solutions Pte. Ltd. is incorporated in Singapore and has opened a physical sales and customer support office in Mumbai from which it solicits and executes contracts in India. This clearly constitutes having a "place of business in India" within Section 2(42). Pinnacle is therefore a "foreign company" under the Companies Act, 2013 and is subject to the requirements imposed on foreign companies under Chapter XXII of the Act.

Why other options are wrong:

- Option (A): Incorrect – the Companies Act, 2013 makes no distinction based on whether the country of incorporation is a Commonwealth member; the definition in Section 2(42) applies uniformly.
- Option (B): **Correct.** Section 2(42) includes any company incorporated outside India having a place of business in India; Pinnacle's Mumbai office satisfies this; it is a foreign company.
- Option (C): Incorrect – there is no turnover threshold in the definition of "foreign company" under Section 2(42).
- Option (D): Incorrect – the Companies Act, 2013 does not require a foreign company to reincorporate in India; it must comply with Chapter XXII provisions as a foreign company.

Final Answer: Under Section 2(42), Pinnacle's Mumbai place of business makes it a "foreign company" under the Companies Act, 2013, subject to Chapter XXII. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q9

Sol. 10.

Solution

Concept — Filing Obligations of a Foreign Company under Section 380, Companies Act, 2013: Section 380 of the Companies Act, 2013 requires every foreign company that establishes a place of business in India to, within **30 days** of establishing such place of business, deliver to the Registrar of Companies the following documents: (i) a certified copy of the charter, statutes, or memorandum and articles of association (or equivalent constitutive document) of the company; (ii) the full address of the registered or principal office of the company; (iii) a list of directors and secretary of the company; and (iv) the name and address of a person resident in India authorised to accept on behalf of the company service of process and other notices.

Analysis: Vanguard Capital GmbH established its New Delhi liaison office on 1st September 2025. The 30-day filing deadline under Section 380 expires on 1st October 2025. Mr. Sharma must ensure that the prescribed documents – constitutive document, registered office address, directors list, and authorised representative's details – are filed with the ROC (Delhi) by that date.

Why other options are wrong:

- Option (A): Incorrect – the statutory period is 30 days, not 60 days; Option (A) doubles the prescribed period.
- Option (B): Incorrect – the period is 30 days and the required documents are far more comprehensive than merely a certificate of incorporation and the representative's name.
- Option (C): Incorrect – the period is 30 days, not 15 days; and failure does not result in immediate deregistration but in monetary penalties.
- Option (D): **Correct.** Section 380 mandates filing within 30 days of establishing the place of business, including the constitutive document, principal office address, directors list, and authorised representative's details.

Final Answer: Section 380 requires a foreign company to file the prescribed documents with the ROC within 30 days of establishing a place of business in India. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q10

Sol. 11.

Solution

Concept — Conversion of Private Company to Public Company under Section 14, Companies Act, 2013: Section 14 of the Companies Act, 2013 permits a company to alter its Articles of Association. A private company is distinguished from a public company by three restrictions in its Articles: (i) a restriction on the right to transfer shares; (ii) a limit on the maximum number of members (200, excluding past and present employee-members); and (iii) a prohibition on any invitation to the public to subscribe for shares or debentures. To convert from private to public, the company must pass a **special resolution** deleting these restrictions. The ROC then issues a fresh certificate of incorporation reflecting the public company status. No NCLT or government approval is needed for private-to-public conversion.

Analysis: Brightline Pvt. Ltd. should convene a general meeting and pass a special resolution amending its Articles to remove the three private-company restrictions. After filing the requisite forms with the ROC, the ROC issues a new certificate reflecting the public company status. The first director's suggestion of seeking NCLT approval is misconceived for this direction of conversion.

Why other options are wrong:

- Option (A): Incorrect – NCLT approval is required for conversion of a *public* company to a private company, not the reverse; private-to-public conversion does not require NCLT approval.
- Option (B): Incorrect – a Board resolution is insufficient; a special resolution of shareholders is mandatory under Section 14.
- Option (C): **Correct.** Private-to-public conversion requires a special resolution deleting the three private-company Article restrictions; ROC issues a new certificate; no NCLT approval needed.
- Option (D): Incorrect – Central Government approval for private-to-public conversion was never required and is not required under the Companies Act, 2013.

Final Answer: Private-to-public conversion requires only a special resolution removing the private-company Article restrictions; ROC issues a new certificate; no NCLT approval needed. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q11

Sol. 12.

Solution

Concept — Conversion of Public Company to Private Company under the Proviso to Section 14(1), Companies Act, 2013: The proviso to Section 14(1) of the Companies Act, 2013 provides that where a public company proposes to convert itself into a private company, such conversion requires not only a special resolution of the shareholders but also **prior approval of the NCLT**. This requirement was introduced to protect the interests of the public and minority shareholders who invested in the company as a public entity. Prior to the Companies (Amendment) Act, 2017, this approval was required from the Central Government; the 2017 amendment transferred the approval authority to the NCLT.

Analysis: Goldsworth Industries Ltd. must pass a special resolution and then file a petition before the NCLT seeking approval for the public-to-private conversion. Only after the NCLT grants its approval may the conversion be effected and the Articles amended. The Company Secretary's advice that only a special resolution is needed is incorrect. The independent director who insists on NCLT approval is legally correct.

Why other options are wrong:

- Option (A): **Correct.** The proviso to Section 14(1) requires both a special resolution and NCLT approval for public-to-private conversion; the independent director is right.
- Option (B): Incorrect – a special resolution alone is insufficient for public-to-private conversion; the proviso mandates additional NCLT approval.
- Option (C): Incorrect – a Board resolution is wholly insufficient; a special resolution is the minimum, and NCLT approval is additionally required.
- Option (D): Incorrect – the 2017 Amendment transferred the approval function from the Central Government to the NCLT; a petition must be filed before the NCLT, not the Ministry.

Final Answer: Public-to-private conversion requires both a special resolution and prior NCLT approval under the proviso to Section 14(1); the Company Secretary's advice is incorrect. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q12

Sol. 13.

Solution

Concept — Distinction Between an LLP and a Company Limited by Shares: A Limited Liability Partnership governed by the Limited Liability Partnership Act, 2008 is a hybrid business vehicle that combines the features of a partnership and a company. Unlike a company limited by shares, an LLP has **no share capital** and does not issue shares or share certificates. Its participants are called **partners** (not shareholders), who contribute to the LLP in such form (cash, kind, or otherwise) and on such terms as the LLP Agreement provides. Partners have profit-sharing rights as stipulated in the agreement; they do not hold "shares" and are not entitled to dividends. There is no concept of a "shareholder" or "share" in an LLP.

Analysis: Mr. Kapoor's assumption that an LLP would issue him shares and share certificates is incorrect. If he invests in the LLP, he would become a partner and receive a profit-sharing entitlement as per the LLP Agreement. He cannot acquire "shares" in an LLP. This is a fundamental distinction from a company limited by shares, where investors acquire shares, receive share certificates, and exercise voting rights as shareholders.

Why other options are wrong:

- Option (A): Incorrect – an LLP has no share capital and does not divide its capital into shares; the use of the term "partner" is not merely a cosmetic substitution for "shareholder."
- Option (B): **Correct.** An LLP has no share capital; its participants are partners who contribute capital under the LLP Agreement; there are no shares, shareholders, or share certificates.
- Option (C): Incorrect – an LLP has neither shareholders nor share capital; the statement that it has shareholders but no share capital is self-contradictory and factually wrong.
- Option (D): Incorrect – an LLP and a private limited company are fundamentally different in structure; their governance, taxation treatment, transferability of interest, and regulatory framework differ significantly.

Final Answer: An LLP has no share capital and no shareholders; its participants are partners who contribute capital; Mr. Kapoor's assumption about shares is incorrect. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q13

Sol. 14.

Solution

Concept — Eligibility for Membership of a Producer Company under Sections 581B–581C, Companies Act, 2013: A producer company is a special category of company under Part IXA (Sections 581A–581ZT) of the Companies Act, 1956, as preserved and continued under the Companies Act, 2013. The defining characteristic of a producer company is that its membership is restricted to **primary producers** – persons who are themselves engaged in activities relating to primary produce, such as farming, horticulture, animal husbandry, fisheries, handloom weaving, cottage industries, or the harvesting of forests. An urban professional who is not a primary producer does not satisfy this eligibility criterion and cannot become a member.

Analysis: Mr. Iyer is a chartered accountant practising in Chennai. He is not a primary producer and is not engaged in any activity relating to primary produce. He is therefore ineligible to subscribe to shares of Kongu Organic Farmers Producer Company Ltd. The Board's rejection of his membership application is legally correct and in conformity with the statutory restrictions on producer company membership.

Why other options are wrong:

- Option (A): Incorrect – eligibility is not based on the distinction between professional and trader; it is based on whether the person is a primary producer; neither a professional nor a trader qualifies unless also a primary producer.
- Option (B): Incorrect – the Board has no discretionary power to admit a non-primary producer; the eligibility restriction is statutory and cannot be waived by Board discretion.
- Option (C): Incorrect – residence in a rural area does not satisfy the primary producer requirement; the criterion is actual engagement in primary produce activities.
- Option (D): **Correct.** Only primary producers may be members of a producer company; Mr. Iyer is an urban professional unconnected with primary produce; the Board's rejection is correct.

Final Answer: Producer company membership is restricted to primary producers; Mr. Iyer as an urban chartered accountant is ineligible; the Board's rejection is lawful. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q14

Sol. 15.

Solution

Concept — Compounding of Offences under Section 441, Companies Act, 2013: Section 441 of the Companies Act, 2013 provides that offences under the Act that are punishable with fine only (i.e., not involving any imprisonment) may be compounded. The authority competent to compound depends on the maximum fine prescribed: (i) if the maximum fine prescribed **does not exceed Rs. 5 lakh** – the Regional Director (or any officer of the Central Government authorised by it) may compound; (ii) if the maximum fine prescribed **exceeds Rs. 5 lakh** – only the **NCLT** may compound. No compounding is allowed for offences that are punishable with imprisonment or with both imprisonment and fine.

Analysis: The default by Spectrum Cables Pvt. Ltd. is punishable with fine only (no imprisonment component). The maximum fine prescribed is Rs. 8 lakh, which exceeds Rs. 5 lakh. Therefore, only the NCLT has jurisdiction to compound this offence. An application before the Regional Director would be incompetent and must be rejected.

Why other options are wrong:

- Option (A): Incorrect – the Regional Director's compounding jurisdiction is limited to offences where the maximum fine does not exceed Rs. 5 lakh; Rs. 8 lakh exceeds this cap.
- Option (B): Incorrect – the Registrar of Companies has no power to compound offences under Section 441; the compounding authorities are the Regional Director and the NCLT.
- Option (C): **Correct.** Under Section 441(1), NCLT compounds offences where the maximum fine exceeds Rs. 5 lakh; Rs. 8 lakh triggers NCLT jurisdiction.
- Option (D): Incorrect – the High Court is not among the authorities designated under Section 441 for compounding offences under the Companies Act, 2013.

Final Answer: Maximum fine of Rs. 8 lakh (exceeding Rs. 5 lakh) places the compounding jurisdiction with the NCLT under Section 441. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q15

Sol. 16.

Solution

Concept — Inspection and Investigation under Sections 206–207, Companies Act, 2013: Section 206 of the Companies Act, 2013 empowers the Registrar to call for information or an explanation from a company or its officers. Section 207 empowers the Registrar or an officer authorised by the Central Government to inspect the books of account and other books and papers of any company if the CG is satisfied that there are grounds to believe that the business is being carried on for a fraudulent or unlawful purpose, or that the affairs are not being managed in accordance with sound business principles or prudent commercial practices. Every officer and employee of the company is legally obligated to cooperate. Obstruction of the inspection is a punishable offence.

Analysis: The authorised officers of the Registrar arrived to inspect Verity Pharmaceuticals Ltd. pursuant to a formal order. The Managing Director's instruction to deny access and refuse document production is an obstruction of a lawful inspection. The company and every officer are bound by a statutory duty to cooperate. The MD's instruction itself constitutes a default punishable under the Companies Act, 2013.

Why other options are wrong:

- Option (A): **Correct.** Sections 206–207 impose a duty of cooperation on the company and its officers; obstruction of inspection is a punishable statutory offence; the MD's instruction is itself a default.
- Option (B): Incorrect – a company cannot lawfully refuse a Registrar's inspection; there is no right to await an NCLT stay before complying with a lawful inspection order.
- Option (C): Incorrect – the inspection power under Section 207 extends to all books, accounts, and documents; it is not limited to audited financials and the register of members.
- Option (D): Incorrect – a Registrar's inspection order under Section 207 is itself binding; no NCLT confirmation is needed before the obligation to cooperate arises.

Final Answer: Sections 206–207 impose a statutory duty to cooperate with Registrar inspections; the MD's obstruction is itself a punishable offence. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q16

Sol. 17.

Solution

Concept — Serious Fraud Investigation Office (SFIO) under Section 211, Companies Act, 2013: Section 211 of the Companies Act, 2013 establishes the Serious Fraud Investigation Office (SFIO) as a multi-disciplinary body under the Central Government to investigate frauds relating to a company. The SFIO is staffed by experts from law enforcement, banking, income tax, capital markets, and information technology. When the CG refers a case to the SFIO, the investigation is taken over by the SFIO to the exclusion of other investigating agencies. Officers of the SFIO, when investigating, have the powers of an Inspector of Police, including the power to arrest, search premises, and seize documents and assets.

Analysis: The Rs. 800 crore fraud in Falcon Financial Services Ltd. involves complex multi-layered financial manipulation in a company. The SFIO is the body specifically constituted by the Companies Act, 2013 to investigate such company frauds; it has the necessary multi-disciplinary expertise and statutory police powers. Upon a CG reference, SFIO takes over the investigation exclusively.

Why other options are wrong:

- Option (A): Incorrect – the CBI does not have a specific statutory mandate under the Companies Act, 2013 for company fraud investigation; the SFIO has that specific mandate.
- Option (B): **Correct.** SFIO under Section 211 has the specific mandate to investigate company frauds and is vested with police powers; it is the correct authority in this case.
- Option (C): Incorrect – the ED's jurisdiction arises under PMLA and FEMA for money laundering and foreign exchange violations; the Companies Act, 2013 specifically establishes the SFIO for company fraud.
- Option (D): Incorrect – SEBI's enforcement powers extend to securities law violations; the Companies Act, 2013 reserves company-fraud investigation powers to the SFIO under Section 211.

Final Answer: SFIO established under Section 211 of the Companies Act, 2013 has the statutory mandate and police powers to investigate company fraud; it is the appropriate authority. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q17

Sol. 18.

Solution

Concept — Director Liability after Striking Off under Sections 248(7) and 250, Companies Act, 2013: Section 248 of the Companies Act, 2013 empowers the Registrar of Companies to strike off the name of a company from the Register if the company has failed to file annual returns or financial statements for two or more consecutive years. Section 248(7) provides that the liability, if any, of every director, manager, or other officer who was exercising any power of management of the company continues and may be enforced as if the company had not been dissolved. Section 250 further confirms that all liabilities of the company and its officers survive the striking off.

Analysis: Delta Ancillaries Pvt. Ltd. was struck off in 2022. Mr. Jain was its Managing Director at the time of striking off. The creditor's debt of Rs. 22 lakh arose in 2021, before the striking off. Under Sections 248(7) and 250, Mr. Jain's liability as Managing Director for pre-striking-off debts is not extinguished by the striking off. The creditor may sue Mr. Jain personally. His contention that no liability survives is legally incorrect.

Why other options are wrong:

- Option (A): Incorrect – striking off does not extinguish the personal liability of directors; Section 248(7) specifically preserves director liability.
- Option (B): Incorrect – there is no two-year limitation on director liability after striking off; the liability survives indefinitely subject to applicable limitation periods for the underlying debt.
- Option (C): Incorrect – no personal guarantee is required; Section 248(7) imposes continued liability on directors who exercised management power regardless of personal guarantees.
- Option (D): **Correct.** Sections 248(7) and 250 preserve the personal liability of directors for pre-striking-off debts; the creditor's suit against Mr. Jain is maintainable.

Final Answer: Sections 248(7) and 250 preserve director liability for pre-striking-off debts; Mr. Jain remains personally liable; the creditor's suit is maintainable. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q18

Sol. 19.

Solution

Concept — Appeal against NCLT Orders in CIRP Proceedings under Section 61 of the IBC: Section 61 of the IBC provides that any person aggrieved by an order of the NCLT may prefer an appeal to the **National Company Law Appellate Tribunal (NCLAT)** within **30 days** of the date of that order. The NCLAT has the power to condone a delay of up to 15 additional days if sufficient cause is shown. The NCLAT is the exclusive first-tier appellate forum for all NCLT orders under the IBC. A further appeal on a question of law lies to the Supreme Court of India under Section 62 of the IBC.

Analysis: The NCLT, Chennai Bench passed its order on 5th August 2025. The resolution applicant must file an appeal before the NCLAT within 30 days, i.e., by 4th September 2025, with a possible extension of 15 days on sufficient cause. An appeal to the High Court or directly to the Supreme Court would be incompetent; the NCLAT is the mandatory first appellate forum under the IBC.

Why other options are wrong:

- Option (A): Incorrect – appeals under the IBC lie to the NCLAT, not to the High Court; there is no provision for High Court appeals from NCLT orders in IBC proceedings.
- Option (B): Incorrect – a direct appeal to the Supreme Court bypasses the NCLAT, which is the mandatory first appellate forum; the Supreme Court hears further appeals on questions of law under Section 62.
- Option (C): **Correct.** Section 61 provides for an appeal to NCLAT within 30 days (extendable by 15 days on sufficient cause); further appeal to the Supreme Court on a question of law under Section 62.
- Option (D): Incorrect – the time limit under Section 61 is 30 days extendable by 15 days; there is no statutory provision for a 45-day period or an absolute bar beyond 45 days.

Final Answer: Section 61 provides for an appeal to NCLAT within 30 days of the NCLT order, extendable by 15 days; the resolution applicant must file before NCLAT. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q19

Sol. 20.

Solution

Concept — Fraudulent Trading under Section 66 of the IBC: Section 66 of the IBC deals with fraudulent trading. It provides that if, during the CIRP or liquidation proceedings, it is found that any business of the corporate debtor has been carried on with intent to defraud creditors of the corporate debtor or for any fraudulent purpose, the NCLT may, on an application by the Resolution Professional (or Liquidator), declare that any persons who were knowingly parties to such fraudulent trading are **personally liable** (without any limitation of liability) for all or any of the debts or liabilities of the corporate debtor. This is a form of lifting the corporate veil as a remedy for fraudulent conduct.

Analysis: The Liquidator of Crestfall Retail Ltd. has evidence that the three former directors continued to borrow knowing the company was hopelessly insolvent – a classic case of fraudulent trading. The Liquidator may apply to the NCLT under Section 66. If satisfied, the NCLT may declare those directors personally liable without any cap on their liability. This is the specific IBC remedy for such conduct.

Why other options are wrong:

- Option (A): **Correct.** Section 66 of the IBC empowers the NCLT, on a Liquidator's application, to declare persons involved in fraudulent trading personally liable without limitation; the Liquidator's action is well-founded.
- Option (B): Incorrect – the IBC specifically provides for a civil remedy under Section 66; the Liquidator is not limited to criminal complaints; both avenues may be available concurrently.
- Option (C): Incorrect – the CoC has no power to direct former directors to personally repay debts; the remedy of fraudulent trading is judicial and must be pursued before the NCLT.
- Option (D): Incorrect – SEBI's powers are limited to securities law violations; Section 66 of the IBC specifically vests jurisdiction over fraudulent trading in the NCLT, not SEBI.

Final Answer: Section 66 of the IBC allows the NCLT, on the Liquidator's application, to hold persons involved in fraudulent trading personally liable without limitation. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q20

ANSWER KEY

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