CLAT PG Company Law
Sample Paper – 9

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. Pinnacle Holdings Ltd. holds 25% of the voting power in Marquee Retail Ltd. and has the right to participate in the financial and operating policy decisions of Marquee Retail but does not control those decisions outright. Pinnacle's CFO is uncertain whether Marquee Retail is a "subsidiary" or an "associate" for the purposes of financial statement consolidation under the Companies Act, 2013.

Which of the following correctly states the definition of an "associate company" under the Companies Act, 2013 and distinguishes it from a subsidiary?

(A) An associate company is defined as one in which another company holds 50% or more of the voting power; below 50% the investee company is neither an associate nor a subsidiary under the Companies Act, 2013, and need not be consolidated in any manner.

(B) Under s.2(6) of the Companies Act, 2013, an "associate company" in relation to another company means a company in which that other company has a significant influence, but which is not a subsidiary of the company having such influence; "significant influence" means control of at least 20% of total voting power, or control of or participation in business decisions under an agreement; since Pinnacle holds 25% of voting power in Marquee Retail and can participate in policy decisions, Marquee Retail is an associate company of Pinnacle, not a subsidiary; an associate company must be accounted for using the equity method in consolidated financial statements.

(C) An associate company under the Companies Act, 2013 means a company in which another company holds between 51% and 74% of voting power; any holding above 74% makes the investee a wholly-owned subsidiary.

(D) The concept of "associate company" under the Companies Act, 2013 applies only to banking companies and NBFCs regulated by the Reserve Bank of India; for non-banking companies, no distinction between subsidiary and associate is recognised.

Q2. Atlas Manufacturers Ltd. is a wholly-owned subsidiary of Titan Industries Ltd. Atlas's Board proposes to purchase 5,000 equity shares of Titan Industries from the market as a short-term investment. Titan's Company Secretary advises that this acquisition would violate the Companies Act, 2013. Atlas's directors challenge this view, arguing that every company has a right to invest in shares of any other company.

Which of the following correctly describes the restriction on a subsidiary company holding shares in its holding company under the Companies Act, 2013?

(A) A subsidiary company may freely hold shares in its holding company as a minority investment, provided the holding does not exceed 10% of the holding company's paid-up share capital; purchases within the 10% cap are treated as ordinary investments and are not restricted by the Companies Act, 2013.

(B) The prohibition on a subsidiary holding shares in its holding company applies only to wholly-owned subsidiaries (100% owned); where the parent company holds less than 100% of a subsidiary's shares, that subsidiary can invest in the holding company's shares without restriction.

(C) A subsidiary may hold shares in its holding company with prior approval of the Central Government; such approval grants the subsidiary the same voting rights as any ordinary shareholder.

(D) Under s.19 of the Companies Act, 2013, no company (body corporate) shall hold any shares in its holding company; any allotment or transfer of shares in a holding company to its subsidiary shall be void; a subsidiary company cannot be a member of its holding company and cannot exercise any voting rights in respect of shares held (or purported to be held) in the holding company; the exception is where the subsidiary holds the shares as a legal representative of a deceased member or as trustee and does not exercise voting rights; Atlas's proposed purchase of Titan's shares is void by operation of law.

Q3. Triton Shipping Ltd. is a listed public company. Its Annual General Meeting for the financial year 2024–25 was held on 20th September 2025. The Company Secretary asks the management on what date the annual return must be filed with the Registrar of Companies, who must sign it, and whether a Practising Company Secretary's certificate is mandatory for a listed company.

Which of the following correctly describes the obligation to file the annual return under the Companies Act, 2013 for a listed company?

(A) Under s.92 read with s.137 of the Companies Act, 2013, every company must prepare its annual return in Form MGT-7 and file it with the ROC within 60 days from the date of the AGM; for a listed company, the annual return must be signed by both the Company Secretary (if appointed) and the Managing Director (or director where no MD exists), and must be accompanied by a certificate from a Practising Company Secretary in Form MGT-8 certifying that the annual return discloses the facts correctly; Triton Shipping's annual return is due by 19th November 2025 (60 days from 20th September 2025).

(B) The annual return under s.92 must be filed within 30 days of the AGM; for listed companies, the return need not be signed by a Practising Company Secretary; only the Managing Director's signature is sufficient regardless of company type.

(C) The annual return must be filed within 90 days of the close of the financial year (i.e., 30th June) for all companies regardless of whether an AGM has been held; for a company that holds its AGM before 30th June, the return is still due on 30th June.

(D) Only private companies are required to file annual returns under s.92; public and listed companies instead file a Corporate Governance Report in lieu of the annual return, and no annual return in Form MGT-7 is applicable to them.

Q4. Clarity Pharmaceuticals Ltd. urgently needs to convene a general meeting to pass a resolution approving a merger that must be completed within 15 days. The company has 850 members. The Company Secretary proposes to issue a notice with only 10 days before the meeting to comply with the timeline, and seeks to obtain the consent of shareholders holding 95% of the paid-up share capital to validate the shorter notice.

Which of the following correctly states the law on notice requirements for calling a general meeting under the Companies Act, 2013?

(A) The minimum notice period for all general meetings under the Companies Act, 2013 is 14 clear days; this cannot be shortened by any consent of shareholders; any meeting held with less than 14 days' notice is invalid and its resolutions are void.

(B) The minimum notice period for a general meeting is 21 clear days; this period can be reduced to 7 days with the consent of members holding a simple majority of the paid-up share capital; 10 days' notice with majority consent is therefore valid.

(C) Under s.101 of the Companies Act, 2013, a general meeting (other than an AGM of an unlisted company) must be called by giving at least 21 clear days' notice in writing; however, a general meeting (other than an AGM) may be called by a shorter notice if consent is accorded by members holding not less than 95% of the paid-up share capital entitled to vote; for an AGM, shorter notice requires consent of all members entitled to attend and vote at the AGM; since Clarity's meeting is not an AGM, obtaining consent from members holding 95% of paid-up share capital suffices to validate the 10-day notice.

(D) The notice period for general meetings under the Companies Act, 2013 is 7 days for private companies and 21 days for public companies; for a public company like Clarity Pharmaceuticals, shorter notice is never permissible regardless of any shareholder consent.

Q5. Premier Auto Components Ltd. is a public company whose net profits for the financial year 2024–25 are Rs. 10 crore. The company has two Managing Directors, five Whole-Time Directors, and three non-executive directors. The Nomination and Remuneration Committee (NRC) proposes to pay a total managerial remuneration of Rs. 1.5 crore to all managerial personnel combined for this year. A shareholder objects that this exceeds the legal ceiling.

Which of the following correctly states the maximum total managerial remuneration payable by a public company under the Companies Act, 2013?

(A) There is no statutory cap on managerial remuneration under the Companies Act, 2013; the Nomination and Remuneration Committee has full discretion to fix remuneration at any level provided the shareholders ratify it by an ordinary resolution in the AGM.

(B) Under s.197(1) of the Companies Act, 2013, the total managerial remuneration payable by a public company to its directors (including the MD and WTDs) and its manager in respect of any financial year shall not exceed 11% of the net profits of the company calculated in the manner laid down in s.198; if there is only one MD or WTD or manager, the maximum remuneration payable to that individual cannot exceed 5% of the net profits; if there are more than one MD/WTD/manager, the combined maximum is 10% of net profits; non-executive directors can receive remuneration not exceeding 1% of net profits (with shareholders' resolution) or 3% (without a

MD); since 11% of Rs. 10 crore is Rs. 1.1 crore, the proposed Rs. 1.5 crore exceeds the ceiling; the shareholder's objection is well-founded.

(C) The maximum total managerial remuneration that a public company may pay is 15% of its net profits; within this 15%, the Board has discretion to allocate between individual directors as it deems fit; the proposed Rs. 1.5 crore at 15% of Rs. 10 crore is therefore lawful.

(D) The 11% cap on managerial remuneration applies only to listed public companies; unlisted public companies like Premier Auto Components are exempt from this ceiling and can pay any amount to their managerial personnel.

Q6. Meridian Exports Ltd. has traditionally followed a July–June financial year (i.e., its financial year ends on 30th June each year). After the Companies Act, 2013 came into force, the company continued with this non-standard financial year for several years without obtaining any approval. Its new auditors flag that the July–June financial year is non-compliant and that the company must either obtain an approval or change to April–March.

Which of the following correctly states the requirement regarding the financial year of a company under the Companies Act, 2013?

(A) The Companies Act, 2013 permits any company to follow a financial year of its choice; the only requirement is consistency from year to year; if a company changes its financial year it must inform the Registrar of Companies; no external approval from any authority is required.

(B) A company may follow a non-April–March financial year if it passes a special resolution authorising the change; no approval from any court or tribunal is needed; the company must then inform the Registrar by filing an amended notice with the changed financial year.

(C) The Central Government (through the Ministry of Corporate Affairs) must approve any departure from the April–March financial year; the NCLT has no jurisdiction over financial year changes; a company that has been following a non-standard financial year must apply to the MCA for post-facto regularisation.

(D) Under s.2(41) of the Companies Act, 2013, "financial year" in relation to any body corporate means the period ending on the 31st day of March every year (April to March); a company may apply to the National Company Law Tribunal (NCLT) for obtaining approval to follow a different financial year if it is a holding/subsidiary of a company incorporated outside India whose requirements of law necessitate a different financial year; for companies that do not fall within this exception, the April–March financial year is mandatory; the approval authority under the 2013 Act is the NCLT (not the Central Government); Meridian Exports must switch to April–March or obtain NCLT approval if it qualifies for the exception.

Q7. Vortex Manufacturing Ltd. maintains its books of account at its head office in Delhi. The company has several branch offices. Mr. Anand Kumar, a director of Vortex, wishes to inspect the books of account during a visit to the Delhi office. The Managing Director refuses, claiming that directors have no statutory right to inspect books of account and that access is restricted to the statutory auditor. Another director disputes this position.

Which of the following correctly describes the obligations relating to books of account under s.128 of the Companies Act, 2013?

(A) Under s.128 of the Companies Act, 2013, every company must keep books of account and other relevant books and papers at its registered office; the books must be preserved for eight years from the end of the financial year to which they relate; every director has the right to inspect the books of account of the company; the books must give a true and fair view of the state of affairs of the company; the MD, WTD, or CEO or CFO or Company Secretary is responsible for compliance with s.128; the Managing Director's refusal to permit Mr. Anand Kumar's inspection is contrary to the statutory right of directors to inspect books.

(B) Books of account under s.128 must be preserved for only five years;

directors do not have a statutory right to inspect the books — inspection rights are limited to the statutory auditor and persons authorised in writing by the Board.

(C) Books of account must be kept at the registered office or at such other place as the Board of Directors may decide by resolution, and notice must be given to the Registrar within seven days of such decision; only the MD and CFO have rights to inspect the books during business hours; other directors require prior written Board approval.

(D) The Companies Act, 2013 does not prescribe a specific period for preservation of books of account; the duration of preservation is left to the company's own record-retention policy, subject to any direction from the Registrar or NCLT in a specific case.

Q8. The shareholders of Cascade Financials Ltd. wish to propose a resolution at the forthcoming AGM to remove Mr. Arjun Malhotra from the office of director before the expiry of his term. They are advised that for such a resolution a "special notice" to the company is required. Two of the minority shareholders who together hold 2% of the paid-up share capital propose to give such notice. However, the company secretary is uncertain whether 2% is sufficient and what the company must do after receiving the special notice.

Which of the following correctly describes the requirements relating to "special notice" under Section 115 of the Companies Act, 2013?

(A) Special notice under s.115 must be given by members collectively holding not less than 10% of total voting power; a group holding only 2% cannot give a valid special notice; the AGM resolution will not be entertainable without the 10% threshold being met.

(B) Special notice under s.115 is not required for director removal; a resolution to remove a director requires only an ordinary notice of the AGM; the requirement of special notice applies solely to resolutions seeking removal of auditors and not to directors.

(C) Under s.115, where any provision of the Companies Act requires that special notice must be given for a resolution, the notice of intention to move that resolution must be given by a member or members holding not less than 1% of the total voting power or holding shares of a market value not less than Rs. 5 lakh to the company not earlier than three months and not later than 14 days before the meeting; upon receipt of such notice, the company must immediately give its members notice of the resolution in the same manner as it gives notice of meetings, or, if that is not practicable, by advertisement; special notice is required for removal of a director under s.169, and for appointing an auditor other than the retiring auditor; the 2% holding easily meets the 1% threshold requirement.

(D) A special notice under s.115 is ineffective unless it is filed simultaneously with the Registrar of Companies and the NCLT; the Company Secretary must serve the notice on the tribunal before circulating it to members.

Q9. Velocity Retail Ltd. is a listed company. The Board proposes to appoint Mr. Sundar Krishnan as an independent director. Mr. Krishnan's sister is the Managing Director of Velocity Retail. Another proposed independent director, Ms. Priya Mehta, had served as Chief Financial Officer of Velocity Retail until 18 months ago (i.e., in the last two financial years). The Company Secretary flags concerns about the eligibility of both candidates.

Which of the following correctly states the independence criteria that disqualify a person from being appointed as an independent director under Section 149(6) of the Companies Act, 2013?

(A) The only criterion for disqualification as an independent director is the existence of a direct pecuniary relationship with the company exceeding Rs. 50 lakh; family relationships with directors or KMPs do not disqualify a person under s.149(6) of the Companies Act, 2013.

(B) Under s.149(6), an independent director must not be a promoter of the company or its holding, subsidiary, or associate company; must not be related to promoters or directors or key managerial personnel of the company; must not have been an employee, proprietor, or partner of the statutory auditor in the preceding three years; must not have had any pecuniary relationship or transactions with the company (other than remuneration as ID) exceeding 10% of their total income in the immediately preceding financial year; and must not have been an employee or KMP of the company in the last two financial years; Mr. Krishnan is disqualified because his sister is the MD (making him a relative of a director/KMP); Ms. Mehta is disqualified as she served as CFO in the last two financial years.

(C) An independent director is disqualified only if he or she is a promoter of the company; relatives of non-promoter directors are fully eligible to be appointed as independent directors; past employees of the company are eligible as independent directors after a cooling-off period of three months.

(D) The independence criteria under s.149(6) apply only to independent directors of public listed companies; for unlisted companies, any person can be appointed as an independent director as long as they are not on the existing Board of Directors.

Q10. Radiance Power Ltd. is a listed company. Its Board passed a resolution at a board meeting but did not follow the Secretarial Standard on Board Meetings (SS-1) issued by the Institute of Company Secretaries of India (ICSI) in terms of quorum confirmation, agenda circulation, and leave of absence procedure. A shareholder challenges the validity of the resolution, arguing that non-compliance with Secretarial Standards renders the resolution void.

Which of the following correctly describes the legal status of Secretarial Standards issued by the ICSI and the consequences of non-compliance?

(A) Secretarial Standards issued by the ICSI are only advisory guidelines without any statutory backing; companies are free to deviate from Secretarial Standards without any legal consequence; non-compliance with Secretarial Standards cannot be the basis for challenging a board or general meeting resolution.

(B) Secretarial Standards under s.118(10) are mandatory only for listed companies with a paid-up share capital exceeding Rs. 100 crore; unlisted and smaller listed companies are exempt from following Secretarial Standards.

(C) Compliance with Secretarial Standards is voluntary for private companies and mandatory only for public companies; the Companies Act, 2013 gives the ICSI only recommendatory powers, not the power to issue mandatory standards binding on all companies.

(D) Under s.118(10) of the Companies Act, 2013, every company must observe the Secretarial Standards specified by the Institute of Company Secretaries of India with respect to general and Board meetings; the ICSI has issued SS-1 (Board Meetings) and SS-2 (General Meetings) which are mandatory; non-compliance with Secretarial Standards constitutes a default under the Companies Act, 2013 and may render the proceedings defective; however, whether non-compliance makes a specific resolution void depends on the nature of the defect and whether the defect is one of substance going to jurisdiction; the company and its officers are liable to penalties for non-compliance with Secretarial Standards.

Q11. Coastal Infra Ltd. is undergoing CIRP. The Resolution Professional, while examining the company's past transactions, discovers that Coastal Infra transferred Rs. 5 crore to a supplier (an unrelated party) in repayment of an old trade debt, 14 months before the insolvency commencement date. She also finds that 26 months before the commencement date, the company paid Rs. 2 crore to a sister concern (a related party) out of what appeared to be a preference payment. She seeks to apply to the NCLT to avoid both transactions as preferential.

Which of the following correctly states the look-back period for preferential transactions under Section 43 of the Insolvency and Bankruptcy Code, 2016?

(A) Under s.43 of the IBC, a transaction is preferential if it has the effect of putting a creditor or surety or guarantor in a more favourable position than it would have been in the event of the distribution of assets under s.53; the look-back period for preferential transactions is two years before the insolvency commencement date for transactions with related parties (as defined in s.5(24) IBC) and one year for transactions with any other person; the payment of Rs. 5 crore to the unrelated supplier (14 months before CIRP) falls within the one-year window for non-related parties; the Rs. 2 crore payment to the sister concern (26 months before CIRP) falls outside the two-year window for related parties; only the Rs. 5 crore transaction is within the avoidable period.

(B) The look-back period for all preferential transactions under s.43 is a uniform two years regardless of whether the recipient is a related party or not; both the Rs. 5 crore and Rs. 2 crore transactions fall within the two-year window and can be challenged by the RP.

(C) There is no look-back period limit for preferential transactions under the IBC; the RP can challenge any preferential transaction regardless of when it occurred, as long as it gave a particular creditor an unfair advantage over other creditors.

(D) The IBC does not contain any provision for avoidance of preferential transactions; s.43 of the IBC covers only fraudulent transactions; a separate application under the Companies Act, 2013 must be made for avoiding preferential payments.

Q12. Sunbeam Ventures Pvt. Ltd. is a debt-free company that has completed its business objectives and whose shareholders wish to close it down in an orderly manner. The company's assets exceed its liabilities by a comfortable margin. The directors are examining whether voluntary liquidation under the IBC is available to them, as an alternative to winding up under the Companies Act, 2013.

Which of the following correctly describes the process for voluntary liquidation of a corporate person under Section 59 of the Insolvency and Bankruptcy Code, 2016?

(A) Voluntary liquidation under s.59 of the IBC is available only to companies that are already in financial distress and have defaulted on debts; a solvent company with no defaults cannot use the IBC voluntary liquidation route and must instead use the Companies Act winding-up provisions.

(B) Voluntary liquidation under s.59 can be initiated only by a creditor of the corporate person, not by the corporate person itself; the corporate debtor's shareholders have no power to trigger the voluntary liquidation process under the IBC.

(C) Under s.59 of the IBC, a corporate person (including a company) that has not committed any default may initiate voluntary liquidation proceedings; the process is initiated by a special resolution of the shareholders (or a resolution passed by the contributories if no shares have been issued, or by at least two-thirds of partners in a partnership) declaring the intention to liquidate voluntarily; if the company owes any debt to creditors, the creditors representing two-thirds in value of the total debt must approve the liquidation resolution within seven days; the company must appoint a registered insolvency professional as the Liquidator; a declaration of solvency by all directors (or majority if more than three) that the company has no debt or will be able to pay all its debts within one year must be submitted.

(D) The voluntary liquidation of a corporate person under s.59 must be approved by the NCLT before it can commence; no voluntary liquidation can begin without NCLT approval, and the NCLT must verify the solvency declaration before passing a voluntary liquidation order.

Q13. During the CIRP of Emerald Hotels Ltd., the Resolution Professional discovers that two years before the insolvency commencement date, the company obtained a loan from an NBFC at an effective interest rate of 48% per annum, with additional penal clauses. The loan was taken when the company was already financially stressed. The RP believes the terms of this loan were grossly extortionate and seeks to challenge the transaction.

Which of the following correctly describes the power of the Resolution Professional to challenge extortionate credit transactions under the Insolvency *and Bankruptcy Code, 2016?*

(A) The IBC does not contain any provision for challenging credit transactions on the ground that they are extortionate; the only avoidance provisions in the IBC are for undervalue transactions (s.45), preferential transactions (s.43), and fraudulent/wrongful trading (s.66–67); a separate civil suit must be filed to challenge unconscionable credit terms.

(B) Under s.50 of the IBC, where the terms of a credit transaction entered into by the corporate debtor within two years before the insolvency commencement date are extortionate, the Resolution Professional (or Liquidator) may apply to the NCLT to set aside the transaction or modify its terms; a credit transaction is extortionate if it required exorbitant payments or grossly contravened ordinary principles of fair dealing; the NCLT may vary the terms of the transaction, restore property passed under it, or direct repayment of any sum paid; the RP's application challenging the 48% interest rate loan is legally well-founded as it falls within the two-year look-back period under s.50.

(C) Extortionate credit transactions can be challenged only if entered into within six months before the insolvency commencement date; transactions older than six months are outside the avoidance window under the IBC and cannot be set aside.

(D) The power to set aside extortionate credit transactions under the IBC lies exclusively with the Committee of Creditors and not with the NCLT; the CoC must pass a resolution declaring the transaction extortionate before any relief can be sought.

Q14. A multinational corporate group has entities undergoing insolvency proceedings in both India (before the NCLT) and the United Kingdom (before a UK court). The UK liquidator wants cooperation from the Indian RP regarding assets located in India. The Indian RP's counsel examines whether the IBC has provisions for recognition of foreign insolvency proceedings and cooperation with foreign insolvency practitioners.

Which of the following correctly describes India's current legal framework for *dealing with cross-border insolvency under the Insolvency and Bankruptcy Code, 2016?*

(A) India has fully adopted the UNCITRAL Model Law on Cross-Border Insolvency (1997), which has been incorporated into the IBC with effect from 2021; the NCLT is fully equipped to grant recognition to foreign main proceedings and to assist foreign insolvency practitioners as a matter of statutory right.

(B) The IBC has a dedicated Part on cross-border insolvency that mirrors the US Chapter 15 provisions; any foreign liquidator or administrator can file a petition before the NCLT for recognition within 30 days of appointment; the NCLT is bound to recognise all foreign insolvency proceedings from FATF member countries.

(C) Cross-border insolvency in India is governed exclusively by the Foreign Exchange Management Act, 1999 and is administered by the Reserve Bank of India; the IBC and the NCLT have no role in cross-border insolvency proceedings.

(D) India has not yet formally adopted the UNCITRAL Model Law on Cross-Border Insolvency (1997), which provides a comprehensive framework for recognition of foreign proceedings and cooperation between insolvency courts; the IBC currently contains only s.234 and s.235 which allow the Central Government to enter into bilateral agreements with foreign countries for enforcing the IBC's provisions, and empower the NCLT to issue letters of request to courts in agreed countries; the Insolvency Law Committee has recommended adoption of the UNCITRAL Model Law and the IBBI has published a discussion paper, but formal legislative incorporation remains pending; in the absence of a bilateral agreement with the UK, the Indian RP's cooperation with the UK liquidator is based on judicial comity rather than a statutory framework.

Q15. Harbinger Capital Ltd. is a Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India. It has defaulted on bonds and fixed deposits worth Rs. 1,200 crore. A bondholder applies to the NCLT to initiate CIRP against Harbinger Capital under the standard IBC provisions. The NCLT wonders whether the standard CIRP provisions apply to NBFCs and seeks submissions on the correct legal framework.

Which of the following correctly describes the applicability of the Insolvency and Bankruptcy Code, 2016 to Financial Service Providers such as NBFCs?

(A) The IBC applies uniformly to all companies including banks, NBFCs, and insurance companies; the standard CIRP under Part II applies without modification to any corporate debtor irrespective of its regulatory status under sector-specific laws; the bondholder's application is fully maintainable.

(B) NBFCs are completely excluded from the IBC framework and can only be wound up by the Reserve Bank of India under the RBI Act, 1934; neither the standard CIRP nor any special IBC framework is applicable to NBFCs.

(C) Section 3(7) of the IBC excludes Financial Service Providers (FSPs) — including banks, NBFCs, insurance companies, and other financial sector entities — from the standard definition of "corporate debtor" for CIRP purposes; however, s.227 empowers the Central Government to notify categories of FSPs for insolvency resolution under a special framework in consultation with the relevant financial sector regulator; the FSP Framework (IBBI Regulations) allows FSPs notified under s.227 (e.g., Dewan Housing Finance, Reliance Capital, SREI group) to be resolved through a modified CIRP with RBI as the Authorised Authority; the bondholder's application under the standard CIRP provisions is not maintainable unless Harbinger Capital has been notified under s.227.

(D) The IBC applies to NBFCs only if their registered assets exceed Rs. 500 crore; smaller NBFCs are resolved under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 and not under the IBC.

Q16. The statutory auditor firm M/s Clarity & Associates resigns from the audit of Pinnacle Infrastructure Ltd. on 5th August 2025, citing disagreements with management on accounting policies. The auditors email their resignation letter to the company on 5th August. The Company Secretary informs the auditors that they must comply with certain statutory obligations within a specified period after resignation, failing which they are liable to penalty.

Which of the following correctly describes the obligations of an auditor upon resignation from office under the Companies Act, 2013?

(A) Under s.140(2) of the Companies Act, 2013, an auditor who has resigned from the company must file a statement with the company and with the Registrar of Companies in Form ADT-3 within 30 days from the date of resignation; the statement must indicate the reasons for and any other relevant facts and circumstances connected with the resignation; if the company is one whose shares are listed on a recognised stock exchange, the statement must also be filed with the Comptroller and Auditor-General within the same 30-day period; failure to file Form ADT-3 within 30 days attracts a penalty of Rs. 50,000 or the remuneration payable to the auditor, whichever is less, and in the case of a continuing default a further penalty of Rs. 500 per day up to Rs. 5 lakh maximum; M/s Clarity & Associates must file ADT-3 by 4th September 2025.

(B) An auditor who resigns has no statutory obligation to file any form or statement with the Registrar of Companies; the auditor only needs to inform the company in writing; the company then files an intimation of the auditor's casual vacancy with the ROC.

(C) The resigning auditor must file Form ADT-3 with the Registrar within 15 days of resignation (not 30 days); if the deadline is missed, the resignation itself becomes invalid and the auditor continues to hold office until the next AGM.

(D) A resigning auditor in India must obtain approval of the NCLT before the resignation can take effect; until NCLT approves the resignation, the auditor remains in office and is liable for any audit failures that occur in the interim period.

Q17. Mr. Ashok Bhatia is a whole-time director of Crestview Industries Ltd. (a subsidiary). He is also a non-executive director on the Board of Meridian Holdings Ltd. (the holding company of Crestview). Meridian Holdings proposes to pay Mr. Bhatia a commission of Rs. 30 lakh for the year for his services as a non-executive director of the holding company. Crestview's Company Secretary flags that this requires scrutiny under the Companies Act, 2013.

Which of the following correctly describes the position regarding a director of a subsidiary company who also receives remuneration from the holding company under the Companies Act, 2013?

(A) A director of a subsidiary company is absolutely prohibited from receiving any form of remuneration — whether commission, salary, or profit-sharing — from the holding company; any such payment is void regardless of disclosure or Board approval.

(B) Under s.197(14) of the Companies Act, 2013, a director or key managerial personnel of a company who receives any commission, remuneration, or profit in connection with the management of the company or its subsidiary from any person other than the company (including from a holding company) is required to disclose such amount to the company at the Board meeting; however, a director of a subsidiary can permissibly receive remuneration from the holding company in their capacity as a director of the holding company, provided the total remuneration does not exceed the applicable limits under s.197 for that holding company; proper disclosure to the Board of Crestview Industries is mandatory; failure to disclose constitutes a default.

(C) A director of a subsidiary is only permitted to receive remuneration from the holding company if at least two-thirds of the Board of the subsidiary company approves such payment by a resolution passed at a meeting duly convened; without such a resolution the payment to Mr. Bhatia is unlawful.

(D) There are no restrictions on a director of a subsidiary receiving remuneration from the holding company; s.197 of the Companies Act, 2013 applies only within the context of the individual company and has no bearing on remuneration from an associated entity.

Q18. Mr. Vijay Kapoor is a promoter of Sigma Technologies Ltd. but his name does not appear as a director on the Register of Directors. All major business and financial decisions of Sigma Technologies are taken on his directions or instructions, and the Board of Directors is in the habit of acting in accordance with his instructions in virtually all matters. Mr. Kapoor claims that since he is not a director and does not attend Board meetings, he has no liability for decisions made by the Board.

Which of the following correctly describes the concept of a shadow director and the associated liability under the Companies Act, 2013?

(A) The concept of shadow director has no recognition under the Companies Act, 2013; liability for company defaults can only be imposed on persons who are formally recorded as directors in the Register of Directors maintained under s.170; informal influencers or promoters who are not on the Board are legally protected from director liability.

(B) A shadow director can be held liable under the Companies Act, 2013 only if the company is being wound up; during the operational life of the company, shadow directors cannot be treated as officers in default because they are not formally appointed.

(C) A shadow director is a specific category of director that must be formally declared to the Registrar of Companies by filing Form DIR-12; a person becomes a shadow director only upon such declaration and assumes liability from the date of such filing.

(D) The Companies Act, 2013 recognises the concept of a shadow director through the definition of "officer who is in default" and the extended meaning of "officer" under s.2(59) and s.2(60); a person in accordance with whose directions or instructions the Board of Directors is accustomed to act is treated as a shadow director and may be held liable as an "officer in default" for defaults by the company; the test is whether there is a settled pattern of the Board acting on such person's instructions; the exclusion for "professional advice given in a professional capacity" does not apply to Mr. Kapoor; Mr. Kapoor's claim of no liability is legally unsound since he may be deemed an officer in default for the Board's actions taken pursuant to his instructions.

Q19. Following media reports of large-scale financial irregularities and shareholder complaints alleging fund diversion by promoters of Celestial Finance Ltd., the Central Government (acting through the Ministry of Corporate Affairs) initiates a special audit of the company's books under s.210 of the Companies Act, 2013. The company's Board refuses to cooperate, arguing that the company already has a statutory auditor and a special government-ordered audit is an extraordinary measure requiring NCLT approval.

Which of the following correctly describes the Central Government's power to order a special audit under Section 210 of the Companies Act, 2013?

(A) A special audit under s.210 can be ordered by the Central Government only if the NCLT has first made a recommendation to the CG for such an audit; the CG has no independent power to order a special audit without prior NCLT authorisation.

(B) Section 210 empowers the NCLT (not the Central Government) to order a special audit of a company's affairs; the NCLT may pass such an order on a petition filed by shareholders holding at least 10% of the paid-up share capital.

(C) Under s.210 of the Companies Act, 2013, the Central Government may, at any time by order in writing, direct that the affairs of a company be investigated by an inspector who may be an auditor, chartered accountant, or company secretary, if it is of the opinion that the affairs of the company ought to be investigated; upon such direction, the company and all officers and other persons who have custody of relevant documents are bound to produce all books, accounts, and documents and to give every assistance to the inspector; the special audit is independent of the statutory audit and does not require NCLT approval; the company's refusal to cooperate is a punishable offence;

the costs of the special audit are borne by the company or as the CG may direct.

(D) The Central Government's power to order a special audit under s.210 is limited to government companies and companies in which the Central Government has a financial interest; private sector companies like Celestial Finance Ltd. are not subject to CG-ordered special audit.

Q20. Spectrum Communications Ltd. is a listed company that issued Non-Convertible Debentures (NCDs) worth Rs. 500 crore to the public in 2018. The company's finance team had been maintaining a Debenture Redemption Reserve (DRR) equal to 25% of the outstanding debenture value. After a colleagues' conference in 2020, the team hears that the DRR requirement has been abolished for listed companies. They seek legal advice on whether they still need to maintain the DRR.

Which of the following correctly states the current position on the Debenture Redemption Reserve requirement under the Companies Act, 2013?

(A) The Companies (Share Capital and Debentures) Amendment Rules, 2019 (effective from 16 August 2019) abolished the requirement to create and maintain a Debenture Redemption Reserve for: (i) listed companies; (ii) all-India public financial institutions and banking companies; and (iii) specified NBFCs; unlisted public companies not covered by the above exceptions must still maintain a DRR of 10% of outstanding debentures (reduced from 25% by the 2019 amendment); private companies are also exempt from DRR; since Spectrum Communications is a listed company, it is no longer required to maintain any DRR; however, a listed company issuing debentures to the public must still invest or deposit the requisite amount before the 30th April of each year as a liquidity requirement.

(B) The Debenture Redemption Reserve requirement was abolished for all companies (both listed and unlisted) by the Finance Act, 2019; no company in India is now required to maintain a DRR regardless of its listing status, size, or type.

(C) The DRR requirement of 25% of outstanding debentures remains unchanged and continues to apply to all categories of companies including listed companies; there has been no amendment to this rule since the Companies Act, 2013 was enacted.

(D) The DRR requirement is governed by the SEBI Regulations (not the Companies Act, 2013 Rules); SEBI abolished DRR for listed companies only in 2023; until the SEBI notification, listed companies were required to continue maintaining the 25% DRR under the Companies Act rules.

DETAILED SOLUTIONS

Sol. 1.

Solution

Concept — Associate Company Definition: Section 2(6), Companies Act, 2013

Section 2(6) of the Companies Act, 2013 defines an "associate company" as a company in which another company has a **significant influence** but which is not a subsidiary. "Significant influence" means control of at least 20% of total voting power, or participation in business decisions under an agreement. This is distinct from a subsidiary, where the holding company controls the composition of the Board or holds more than 50% of the total voting power.

Since Pinnacle Holdings holds 25% of voting power in Marquee Retail and participates in financial and operating policy decisions, Marquee Retail satisfies the definition of an associate company. Associates are required to be accounted for using the equity method in consolidated financial statements under Schedule III read with applicable accounting standards.

Why other options are wrong:

- **Option (A):** Incorrect. A 50%+ holding would typically make the investee a subsidiary (majority control), not an associate. The associate company threshold under s.2(6) begins at 20% significant influence, not 50%.
- **Option (B):** This is the correct answer. Section 2(6) correctly identifies 20% as the significant influence threshold; Pinnacle's 25% holding and policy participation makes Marquee Retail an associate.
- **Option (C):** Incorrect. The 51%–74% range described is fabricated. Any holding above 50% of total voting power (or control of board composition) makes an entity a subsidiary; associate status is at 20%+ but below subsidiary level.
- **Option (D):** Incorrect. The associate company concept under s.2(6) applies to all companies under the Companies Act, 2013; it is not restricted to banking companies or NBFCs.

Final Answer: An associate company under s.2(6) requires significant influence (20%+ voting power or policy participation), not subsidiary-level control; Marquee Retail is an associate of Pinnacle. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q1

Sol. 2.

Solution

Concept — Prohibition on Subsidiary Holding Shares in Holding Company: Section 19, Companies Act, 2013

Section 19 of the Companies Act, 2013 imposes an absolute prohibition: no body corporate shall hold any shares in its holding company, and any allotment or transfer of shares of a holding company to its subsidiary is void. A subsidiary cannot exercise voting rights in any shares it purports to hold in the holding company. The only recognised exception is where the subsidiary holds shares as a legal representative of a deceased member or as a trustee—and even then it cannot vote. There is no 10% cap exception, no CG approval mechanism, and no distinction based on the degree of the parent's ownership of the subsidiary.

Atlas Manufacturers' proposed purchase of Titan Industries' equity shares is therefore void by operation of law the moment it is effected, regardless of the quantum of the proposed holding.

Why other options are wrong:

- **Option (A):** Incorrect. There is no 10% cap or minority-investment carve-out in s.19. The prohibition is absolute; no subsidiary may hold any shares in its holding company.
- **Option (B):** Incorrect. Section 19 applies to all subsidiaries (wholly-owned and partially-owned alike). The degree of the parent's ownership of the subsidiary is irrelevant to the prohibition.
- **Option (C):** Incorrect. No Central Government approval mechanism exists to permit a subsidiary to acquire shares in its holding company. Such approval is not provided for under the Companies Act, 2013.
- **Option (D):** This is the correct answer. Section 19 voids any such acquisition; the trustee/legal-representative exception is the only recognised carve-out.

Final Answer: Section 19 imposes an absolute prohibition on a subsidiary holding shares in its holding company; any allotment or transfer is void. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q2

Sol. 3.

Solution

Concept — Annual Return Filing: Section 92, Companies Act, 2013

Section 92 of the Companies Act, 2013 requires every company to prepare its annual return in **Form MGT-7** and file it with the Registrar of Companies within **60 days** from the date of the Annual General Meeting. For a listed company (or a company with paid-up capital of Rs. 10 crore or more, or turnover of Rs. 50 crore or more), the annual return must be certified by a **Practising Company Secretary in Form MGT-8**. The return is signed by the Company Secretary (if one is appointed) and the Managing Director or a director. Since Triton Shipping's AGM was held on 20th September 2025, the filing deadline is 19th November 2025.

Why other options are wrong:

- **Option (A):** This is the correct answer. 60 days from AGM, Form MGT-7, PCS certificate in MGT-8, filing by 19th November 2025.
- **Option (B):** Incorrect. The filing period is 60 days (not 30 days) from the AGM. For listed companies, the PCS certificate in Form MGT-8 is mandatory; the MD's signature alone is insufficient.
- **Option (C):** Incorrect. The annual return is filed within 60 days of the AGM date, not within 90 days of the close of the financial year. The AGM date is the trigger, not the year-end.
- **Option (D):** Incorrect. All companies — public, private, and listed — must file annual returns under s.92. Public companies cannot substitute a Corporate Governance Report for the MGT-7 annual return.

Final Answer: Listed companies must file Form MGT-7 within 60 days of the AGM, accompanied by PCS certificate in Form MGT-8; Triton Shipping's deadline is 19th November 2025. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q3

Sol. 4.

Solution

Concept — Notice for General Meetings: Section 101, Companies Act, 2013

Section 101 of the Companies Act, 2013 requires at least **21 clear days'** notice in writing for every general meeting. However, the Act recognises a shortening mechanism: for a general meeting *other than an AGM*, shorter notice is valid if members holding **not less than 95%** of the paid-up share capital entitled to vote consent to it. For an AGM, shorter notice requires the consent of *all* members entitled to attend and vote. Since Clarity Pharmaceuticals' meeting is not an AGM, obtaining 95% shareholder consent will validate the 10-day notice.

Why other options are wrong:

- **Option (A):** Incorrect. The standard minimum notice is 21 clear days (not 14 days). Moreover, the consent mechanism in s.101 expressly permits shorter notice; the claim that no shortening is possible is wrong.
- **Option (B):** Incorrect. The consent threshold for shorter notice is 95% of paid-up share capital, not a simple majority. A majority consent is insufficient to validate a meeting held on shorter notice.
- **Option (C):** This is the correct answer. 21 clear days standard; 95% consent validates shorter notice for non-AGM meetings; consent of all members needed for shorter AGM notice.
- **Option (D):** Incorrect. There is no 7-day rule for private companies versus 21-day rule for public companies as a differential under s.101. More importantly, the absolute bar on shorter notice for public companies is wrong; the 95% consent route is available.

Final Answer: Section 101 requires 21 clear days' notice; shorter notice for a non-AGM meeting is valid with 95% shareholder consent. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q4

Sol. 5.

Solution

Concept — Managerial Remuneration Cap: Section 197, Companies Act, 2013

Section 197(1) of the Companies Act, 2013 caps total managerial remuneration paid by a public company to its directors and manager at **11% of net profits** computed under s.198. Within this ceiling: a single MD/WTD/manager cannot exceed 5% of net profits; where there is more than one MD/WTD/manager, the collective cap is 10%; non-executive directors are capped at 1% (with shareholders' resolution) or 3% (where no MD exists). Since Premier Auto Components has net profits of Rs. 10 crore, the maximum total remuneration is Rs. 1.1 crore (11%). The proposed Rs. 1.5 crore exceeds this ceiling.

Why other options are wrong:

- **Option (A):** Incorrect. Section 197 imposes a hard statutory ceiling. Shareholder ratification by ordinary resolution does not override the statutory cap; exceeding the ceiling requires specific shareholder approval and NCLT approval in some cases.
- **Option (B):** This is the correct answer. 11% cap, with sub-limits for individual MDs and WTDs; Rs. 1.5 crore exceeds the Rs. 1.1 crore ceiling; shareholder's objection is valid.
- **Option (C):** Incorrect. The ceiling is 11%, not 15%. At 15% of Rs. 10 crore, the cap would be Rs. 1.5 crore, but this is not the legal position. The actual ceiling is 11%, i.e., Rs. 1.1 crore.
- **Option (D):** Incorrect. Section 197 applies to all public companies; it is not restricted to listed public companies. Unlisted public companies such as Premier Auto Components are equally subject to the 11% cap.

Final Answer: Total managerial remuneration for a public company is capped at 11% of net profits under s.197(1); Rs. 1.5 crore exceeds the Rs. 1.1 crore cap on Rs. 10 crore profits. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q5

Sol. 6.

Solution

Concept — Financial Year: Section 2(41), Companies Act, 2013

Section 2(41) mandates that the financial year of every company must end on **31st March** (April–March cycle). A company may follow a different financial year only if it is a holding or subsidiary of a company incorporated outside India and that foreign company's law necessitates a different year-end. To obtain this exception, the company must apply to the **National Company Law Tribunal (NCLT)** — not the Central Government or MCA. Merely passing a special resolution is not sufficient. Meridian Exports, not being a foreign subsidiary, must change to April–March unless it can satisfy the NCLT on the eligibility criteria.

Why other options are wrong:

- **Option (A):** Incorrect. Companies do not have free choice of financial year; April–March is mandatory by statute. Informing the ROC is not a substitute for compliance.
- **Option (B):** Incorrect. A special resolution of the company cannot authorise a non-standard financial year; only NCLT approval (in eligible cases) can do so.
- **Option (C):** Incorrect. The approval authority is the NCLT, not the Central Government or MCA. The Companies Act, 2013 specifically transferred this power to the NCLT from the erstwhile Central Government approval under the 1956 Act.
- **Option (D):** This is the correct answer. April–March is mandatory; NCLT is the approval authority for foreign holding/subsidiary exceptions; the CG has no role.

Final Answer: Section 2(41) mandates April–March financial year; only NCLT (not CG) can approve exceptions for foreign holding/subsidiary companies. $\Rightarrow$ $\boxed{\text{D}}$

Answer: (D) Go Back to Q6

Sol. 7.

Solution

Concept — Books of Account: Section 128, Companies Act, 2013

Section 128 of the Companies Act, 2013 imposes three key obligations: (i) books of account must be kept at the **registered office** (or, with Board resolution and ROC notice, at another place in India); (ii) books must be preserved for **eight years** from the end of the relevant financial year; and (iii) **every director** has a statutory right to inspect the books of account during business hours. The MD, WTD, CEO, CFO, or Company Secretary are primarily responsible for ensuring compliance. The Managing Director's refusal to allow Mr. Anand Kumar's inspection directly contradicts s.128.

Why other options are wrong:

- **Option (A):** This is the correct answer. Eight years' preservation, every director has inspection rights, MD's refusal is contrary to law.
- **Option (B):** Incorrect on both counts. The preservation period is eight years (not five), and every director has statutory inspection rights; it is not

limited to the statutory auditor.

- **Option (C):** Incorrect. The inspection right under s.128 belongs to every director, not only the MD and CFO. Other directors do not need prior Board approval to exercise their statutory right of inspection.
- **Option (D):** Incorrect. Section 128 expressly prescribes eight years as the preservation period; the Act does not leave this to the company's discretion.

Final Answer: Section 128 mandates eight-year preservation of books; every director has a statutory right to inspect; the MD's refusal is unlawful. $\Rightarrow$ $\boxed{\text{A}}$

Answer: (A) Go Back to Q7

Sol. 8.

Solution

Concept — Special Notice: Section 115, Companies Act, 2013

Section 115 requires that where any provision of the Companies Act specifies that special notice is needed for a resolution, such notice of intention must be given by member(s) holding **at least 1%** of total voting power, or holding shares with a market value of **at least Rs. 5 lakh**. The notice must reach the company not earlier than three months and not later than **14 days** before the meeting. Upon receipt, the company must give notice of the resolution to all members in the same manner as notice of meetings (or by advertisement if that is impracticable). Special notice is required for: (i) removal of a director under s.169; and (ii) appointment of an auditor other than the retiring auditor. The 2% holding clears the 1% threshold.

Why other options are wrong:

- **Option (A):** Incorrect. The threshold is 1% of total voting power (not 10%); a 2% holding is sufficient.
- **Option (B):** Incorrect. Special notice IS required for director removal under s.169 of the Companies Act, 2013; it is not confined to auditor removal.
- **Option (C):** This is the correct answer. 1% threshold, 3 months to 14 days timing window, company must notify all members; 2% holding is adequate.
- **Option (D):** Incorrect. Special notice under s.115 does not need to be filed with the ROC or the NCLT; it need only be given to the company, which then circulates it to members.

Final Answer: Special notice under s.115 requires 1% holding or Rs. 5 lakh market value; 2% holding is sufficient; special notice is required for director removal. $\Rightarrow$ $\boxed{\text{C}}$

Answer: (C) Go Back to Q8

Sol. 9.

Solution

Concept — Independence Criteria for Independent Directors: Section 149(6), Companies Act, 2013

Section 149(6) of the Companies Act, 2013 lays down several criteria that must ALL be satisfied for a person to qualify as an independent director. Among these: the person must not be a promoter; must not be **related** to promoters, directors, or KMPs; must not have been an employee, proprietor, or partner of the statutory auditor within the preceding three years; must not have a pecuniary relationship exceeding **10% of total income** with the company; and crucially, must not have been an **employee or KMP of the company in the last two financial years**. Mr. Krishnan's sister being the MD disqualifies him as a relative of a KMP/director. Ms. Mehta's CFO role within the last two financial years disqualifies her.

Why other options are wrong:

- **Option (A):** Incorrect. There is no Rs. 50 lakh threshold as the sole disqualifier. Family relationships with directors/KMPs are an independent ground for disqualification under s.149(6).
- **Option (B):** This is the correct answer. Multiple disqualification criteria apply; both Mr. Krishnan (relative of MD) and Ms. Mehta (past CFO within two years) are disqualified.
- **Option (C):** Incorrect. Disqualification is not limited to promoters alone; relatives of any director or KMP are also disqualified. The cooling-off period for past employees is two years, not three months.
- **Option (D):** Incorrect. Section 149(6) applies wherever independent directors are required (which includes certain unlisted public companies and other categories); the criteria are not confined to listed companies.

Final Answer: Section 149(6) disqualifies relatives of directors/KMPs and past employees/KMPs of the company in the last two years; both candidates are ineligible. $\Rightarrow \boxed{B}$

Answer: (B) Go Back to Q9

Sol. 10.

Solution

Concept — Mandatory Secretarial Standards: Section 118(10), Companies Act, 2013

Section 118(10) of the Companies Act, 2013 expressly requires **every company** to observe the Secretarial Standards specified by the Institute of Company Secretaries of India (ICSI) with respect to general and Board meetings. The ICSI has issued **SS-1** (Secretarial Standard on Board Meetings) and **SS-2** (Secretarial Standard on General Meetings). Both are mandatory for all companies — listed or unlisted, public or private — without any paid-up capital threshold. Non-compliance constitutes a default under the Act. Whether non-compliance voids a specific resolution depends on whether the breach goes to the root of the meeting's jurisdiction, but the company and its officers are in any event exposed to statutory penalties.

Why other options are wrong:

- **Option (A):** Incorrect. Secretarial Standards have direct statutory backing under s.118(10). They are mandatory, not advisory, and non-compliance carries legal consequences.
- **Option (B):** Incorrect. There is no Rs. 100 crore capital threshold; Secretarial Standards apply to all companies regardless of size or listing status.
- **Option (C):** Incorrect. Secretarial Standards are mandatory for *all* companies (including private companies), not merely for public companies; the ICSI has mandatory standard-setting powers under s.118(10).
- **Option (D):** This is the correct answer. Section 118(10) makes SS-1 and SS-2 mandatory for every company; non-compliance is a default; voiding depends on the nature and gravity of the breach.

Final Answer: Section 118(10) makes ICSI Secretarial Standards mandatory for all companies; non-compliance is a statutory default with attendant penalties. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q10

Sol. 11.

Solution

Concept — Preferential Transactions Look-Back Period: Section 43, Insolvency and Bankruptcy Code, 2016

Section 43 of the IBC enables the Resolution Professional to apply to the NCLT to avoid transactions that are “preferential” — i.e., transactions that have the effect of placing a creditor, surety, or guarantor in a more favourable position than they would have been in under the waterfall distribution under s.53. The look-back period differs based on the relationship between the corporate debtor and the recipient: **two years** for transactions with **related parties** (as defined in s.5(24)) and **one year** for transactions with **any other person**, both measured from the insolvency commencement date. The Rs. 2 crore payment to the sister concern was made 26 months before CIRP, falling outside the two-year window; the Rs. 5 crore payment to the unrelated supplier at 14 months is assessed against the applicable window.

Why other options are wrong:

- **Option (A):** This is the correct answer. Two-year look-back for related parties; one-year for others; the Rs. 2 crore related-party payment at 26 months falls outside the avoidable period.
- **Option (B):** Incorrect. The look-back period is NOT uniform; it is two years for related parties and one year for others. Even applying a uniform two-year window, the 26-month related-party payment would still fall outside it.
- **Option (C):** Incorrect. Section 43 expressly prescribes look-back periods; the RP cannot challenge transactions of any vintage without limit. There is a defined retrospective window.
- **Option (D):** Incorrect. Section 43 of the IBC specifically deals with *preferential* transactions. Fraudulent transactions are dealt with under s.66. Both provisions exist and are distinct.

Final Answer: Section 43 IBC: two-year look-back for related parties, one-year for others; the Rs. 2 crore related-party payment at 26 months falls outside the avoidable window. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q11

Sol. 12.

Solution

Concept — Voluntary Liquidation of Corporate Persons: Section 59, Insolvency and Bankruptcy Code, 2016

Section 59 of the IBC enables a corporate person that **has not committed any default** to initiate voluntary liquidation — making it available to *solvent* companies wishing to wind down in an orderly manner. The process requires: (i) a **special resolution** of shareholders (or the applicable resolution for other corporate persons); (ii) where any debt exists, creditors representing **two-thirds in value** of the total debt must approve the resolution within seven days; (iii) appointment of a **registered insolvency professional** as Liquidator; and (iv) a **declaration of solvency** by all directors (or a majority where there are more than three). Crucially, **no prior NCLT approval** is required to commence the process; the RP registers the commencement with the IBBI.

Why other options are wrong:

- **Option (A):** Incorrect. Section 59 is expressly available to companies that have *not* committed any default; it is designed for solvent voluntary wind-downs, not restricted to distressed companies.
- **Option (B):** Incorrect. Voluntary liquidation under s.59 is initiated by the corporate person itself through its shareholders (or equivalent); creditors do not initiate the process.
- **Option (C):** This is the correct answer. Special resolution, creditor two-thirds approval for indebted companies, registered IP as Liquidator, solvency declaration by directors.
- **Option (D):** Incorrect. NCLT approval is not a prerequisite for commencing voluntary liquidation; the process commences upon the declaration and appointment of the Liquidator, with the IBBI notified.

Final Answer: Section 59 IBC allows solvent companies to voluntarily liquidate via special resolution, creditor approval (if debts exist), registered IP Liquidator, and directors' solvency declaration — no prior NCLT approval needed. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q12

Sol. 13.

Solution

Concept — Extortionate Credit Transactions: Section 50, Insolvency and Bankruptcy Code, 2016

Section 50 of the IBC specifically addresses extortionate credit transactions. Where the corporate debtor entered into a credit transaction within **two years** before the insolvency commencement date on terms that are **extortionate** (i.e., requiring exorbitant payments or grossly contravening ordinary principles of fair dealing), the Resolution Professional or Liquidator may apply to the NCLT. The NCLT can: vary the terms of the transaction, set it aside, restore property transferred under it, or direct repayment of sums paid. An effective interest rate of 48% per annum with additional penal clauses in a stressed context is a strong candidate for extortionate treatment, and the two-year look-back applies.

Why other options are wrong:

- **Option (A):** Incorrect. Section 50 expressly provides for avoidance of extortionate credit transactions. The IBC avoidance regime covers undervalue transactions (s.45), preferential transactions (s.43), extortionate credit (s.50), and fraudulent/wrongful trading (s.66–67).
- **Option (B):** This is the correct answer. Section 50, two-year look-back, NCLT jurisdiction to set aside or modify terms; 48% interest rate is within the two-year window.
- **Option (C):** Incorrect. The look-back period for extortionate credit transactions under s.50 is two years (not six months). The loan taken two years before CIRP falls exactly at the boundary of the avoidable window.
- **Option (D):** Incorrect. The power to set aside extortionate credit transactions lies with the NCLT on application by the RP or Liquidator. The Committee of Creditors has no such power; it is a judicial function of the NCLT.

Final Answer: Section 50 IBC empowers the RP to apply to NCLT to set aside credit transactions entered within two years that are extortionate; the NCLT can vary or void such terms. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q13

Sol. 14.

Solution

Concept — Cross-Border Insolvency Framework: Sections 234 and 235, Insolvency and Bankruptcy Code, 2016

India has **not** formally adopted the UNCITRAL Model Law on Cross-Border Insolvency (1997). The IBC's current cross-border framework is limited to **Sections 234 and 235**: s.234 permits the Central Government to enter into bilateral agreements with foreign governments for the purposes of enforcing the IBC, and s.235 empowers the NCLT to issue *letters of request* to courts in countries with which India has such agreements. The Insolvency Law Committee recommended adoption of the UNCITRAL Model Law, and the IBBI released a discussion paper, but the legislative step remains incomplete as of the knowledge cut-off. In the absence of a bilateral agreement with the UK, cooperation between the Indian RP and the UK liquidator is governed by **judicial comity**, not a statutory framework.

Why other options are wrong:

- **Option (A):** Incorrect. India has not adopted the UNCITRAL Model Law; there was no 2021 incorporation into the IBC. The claim of automatic recognition of foreign proceedings is factually wrong.
- **Option (B):** Incorrect. The IBC has no dedicated Part on cross-border insolvency modelled on US Chapter 15. No 30-day recognition petition mechanism exists under current Indian law.
- **Option (C):** Incorrect. FEMA and the RBI have no jurisdiction over insolvency proceedings. Cross-border insolvency under the IBC is an NCLT and Central Government matter, not an RBI/FEMA matter.
- **Option (D):** This is the correct answer. Only s.234 (bilateral agreements) and s.235 (letters of request) exist; UNCITRAL adoption is pending; UK cooperation is comity-based.

Final Answer: India's cross-border insolvency framework consists only of s.234–235 bilateral agreement provisions; the UNCITRAL Model Law has not been adopted; cooperation with foreign IPs relies on judicial comity. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q14

Sol. 15.

Solution

Concept — IBC Applicability to Financial Service Providers: Section 227, Insolvency and Bankruptcy Code, 2016

The IBC's definition of "corporate debtor" under s.3(7) **excludes Financial Service Providers** (banks, NBFCs, insurance companies, etc.), meaning the standard CIRP under Part II of the IBC is not directly available for FSPs. However, **Section 227** empowers the Central Government to notify specific categories of FSPs for insolvency resolution under a **special framework** developed in consultation with the relevant financial sector regulator. Under the IBBI (Insolvency Resolution Process for Financial Service Providers) Regulations, the RBI acts as the Authorised Authority for notified NBFCs and HFCs. Companies like Dewan Housing Finance (DHFL), Reliance Capital, and SREI Equipment Finance have been resolved under this s.227 route. Unless Harbinger Capital has been specifically notified under s.227, a standard CIRP application is not maintainable.

Why other options are wrong:

- **Option (A):** Incorrect. FSPs are specifically excluded from the standard "corporate debtor" definition; s.3(7) carves them out. The standard CIRP is not uniformly available to banks and NBFCs.
- **Option (B):** Incorrect. NBFCs are not completely excluded from the IBC framework; s.227 provides a pathway for notified FSPs to undergo a modified insolvency process under the IBC.
- **Option (C):** This is the correct answer. s.3(7) exclusion; s.227 special framework for notified FSPs; RBI as Authorised Authority; standard CIRP is not maintainable without s.227 notification.
- **Option (D):** Incorrect. The IBC's applicability to NBFCs is determined by s.227 notification, not by an asset threshold of Rs. 500 crore. No such threshold exists in the statute.

Final Answer: NBFCs are excluded from standard CIRP under s.3(7); resolution of FSPs is only possible via the s.227 special framework after Central Government notification. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q15

Sol. 16.

Solution

Concept — Auditor Resignation Obligations: Section 140(2), Companies Act, 2013

Section 140(2) of the Companies Act, 2013 imposes specific post-resignation obligations on auditors. Within **30 days** from the date of resignation, the resigning auditor must file **Form ADT-3** with both (i) the company and (ii) the Registrar of Companies. The statement must contain the reasons for resignation and any other relevant facts. For a company whose shares are listed on a recognised stock exchange, the ADT-3 must additionally be filed with the **Comptroller and Auditor-General**. Failure to file within 30 days attracts a penalty of Rs. 50,000 or the auditor's remuneration (whichever is less), plus Rs. 500 per day for continuing default up to Rs. 5 lakh. The resignation itself is effective upon receipt by the company; it does not require NCLT approval.

Why other options are wrong:

- **Option (A):** This is the correct answer. Form ADT-3 within 30 days with the company and ROC (and CAG for listed companies); penalties for delay; resignation effective immediately.
- **Option (B):** Incorrect. The auditor MUST file Form ADT-3 with the ROC. The obligation is on the auditor, not merely on the company. It is not optional.
- **Option (C):** Incorrect. The filing period is 30 days, not 15 days. More importantly, missing the deadline does not invalidate the resignation; it only attracts a financial penalty.
- **Option (D):** Incorrect. Auditor resignation does not require NCLT approval. The resignation takes effect upon submission to the company; NCLT has no role in the ordinary resignation process.

Final Answer: Resigning auditors must file Form ADT-3 within 30 days with the company, ROC, and (for listed companies) CAG; failure attracts statutory penalties but does not affect the resignation's validity. $\Rightarrow \boxed{\text{A}}$

$\boxed{\text{Answer: (A)}}$ Go Back to Q16

Sol. 17.

Solution

Concept — Director Receiving Remuneration from Holding Company: Section 197(14), Companies Act, 2013

Section 197(14) of the Companies Act, 2013 requires a director or KMP who receives any commission, remuneration, or profit from a person other than the company (including from the holding company) in connection with the management of the company or its subsidiary, to **disclose** such receipt to the Board at a Board meeting. This is a transparency and disclosure obligation — not an outright prohibition. A director of a subsidiary may permissibly serve as a director of the holding company and receive remuneration from the holding company in that capacity, provided the remuneration complies with the holding company's own limits under s.197. The failure to make this disclosure to the Board of Crestview Industries constitutes a statutory default under the Companies Act, 2013.

Why other options are wrong:

- **Option (A):** Incorrect. There is no absolute prohibition. Section 197(14) regulates the arrangement through a disclosure requirement rather than voiding it. Mr. Bhatia's receipt of commission from the holding company in his capacity as its non-executive director is permissible with proper disclosure.
- **Option (B):** This is the correct answer. Disclosure to the Board of the subsidiary is mandatory under s.197(14); the arrangement itself is not prohibited.
- **Option (C):** Incorrect. No two-thirds Board approval of the subsidiary is required. The statutory obligation is one of disclosure, not of obtaining a Board super-majority vote.
- **Option (D):** Incorrect. Section 197(14) specifically addresses remuneration received from entities other than the company (including holding companies). It is not irrelevant to inter-group director remuneration.

Final Answer: Section 197(14) requires disclosure to the Board of the subsidiary company when a director receives remuneration from the holding company; the payment is not prohibited but must be disclosed. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q17

Sol. 18.

Solution

Concept — Shadow Director Liability: Sections 2(59) and 2(60), Companies Act, 2013

The Companies Act, 2013 recognises the shadow director concept through the expansive definitions of "officer" under s.2(59) and "officer who is in default" under s.2(60). A person **in accordance with whose directions or instructions** the Board of Directors is accustomed to act — even if not formally appointed as a director — may be treated as an officer in default for the purposes of liability. The *settled pattern* test asks whether the Board consistently follows such a person's instructions. The exclusion available for advice given in a purely *professional capacity* (e.g., a lawyer advising on law, an auditor advising on accounting) does not protect a promoter who effectively controls business decisions. Mr. Kapoor's claim of immunity is legally untenable; his de facto control exposes him to liability as an officer in default.

Why other options are wrong:

- **Option (A):** Incorrect. The Companies Act, 2013 does recognise shadow directors through s.2(59) and s.2(60). Registration in the register of directors is not the exclusive gateway to liability.
- **Option (B):** Incorrect. Shadow director liability is not deferred until winding-up; it applies during the company's normal operational life whenever the company commits a default under the Act.
- **Option (C):** Incorrect. Shadow director status arises by operation of law based on the factual pattern of board conduct; it does not require filing Form DIR-12 or any formal declaration.
- **Option (D):** This is the correct answer. Sections 2(59) and 2(60) create shadow director liability; settled pattern of Board following instructions; professional-advice exclusion unavailable to promoter controllers.

Final Answer: Sections 2(59) and 2(60) make a person whose instructions the Board consistently follows an "officer in default" regardless of formal appointment; Mr. Kapoor's claim of no liability is unsound. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q18

Sol. 19.

Solution

Concept — Special Audit by Central Government: Section 210, Companies Act, 2013

Section 210 of the Companies Act, 2013 confers power on the **Central Government** to order a special audit of a company's affairs **at any time by order in writing**, if it is of the opinion that such investigation is warranted. This power is exercised *independently* — no prior NCLT recommendation is required, and no NCLT order is needed. Upon such direction, the company and all officers are bound to produce all relevant books, accounts, and documents and to provide full assistance to the inspector. The special audit is **separate from and additional to** the statutory audit. Refusal to cooperate is a punishable offence. The power applies to **any company**, not just government companies. The costs of the special audit are to be borne by the company or as the Central Government directs.

Why other options are wrong:

- **Option (A):** Incorrect. The Central Government acts independently under s.210; no prior NCLT recommendation is required. The CG forms its own opinion.
- **Option (B):** Incorrect. Section 210 vests the power in the *Central Government*, not the NCLT. The NCLT has separate investigation powers under s.212. The 10% shareholder petition threshold described relates to a different provision.
- **Option (C):** This is the correct answer. CG orders by writing, independent of statutory audit, no NCLT approval needed, applies to all companies, refusal is an offence.
- **Option (D):** Incorrect. Section 210 is not confined to government companies or companies in which the CG has a financial interest. It applies to any company whose affairs the CG deems ought to be investigated.

Final Answer: Section 210 empowers the Central Government to order a special audit of any company by written order, independently of the statutory audit and without NCLT approval; non-cooperation is a punishable default. $\Rightarrow \boxed{\text{C}}$

$\boxed{\textbf{Answer: (C)}}$ Go Back to Q19

Sol. 20.

Solution

Concept — Debenture Redemption Reserve Abolition for Listed Companies: 2019 Amendment

The Companies (Share Capital and Debentures) Amendment Rules, 2019, effective from **16th August 2019**, made significant changes to the Debenture Redemption Reserve (DRR) requirement: (i) **listed companies** are completely **exempt** from creating any DRR; (ii) all-India public financial institutions and banking companies are exempt; (iii) specified NBFCs are exempt; (iv) **unlisted public companies** must maintain a DRR of **10%** of outstanding debentures (reduced from the earlier 25%); and (v) private companies are exempt from DRR. Importantly, while the DRR obligation is removed for listed companies, the obligation to **invest or deposit** at least 15% of the debentures maturing in the following year before 30th April each year (as a liquidity safeguard) is retained. Since Spectrum Communications is a listed company, it need not maintain any DRR from 16th August 2019 onwards.

Why other options are wrong:

- **Option (A):** This is the correct answer. Listed companies exempt from DRR; unlisted public companies retain 10% DRR; private companies exempt; liquidity deposit requirement remains; abolition effective 16th August 2019.
- **Option (B):** Incorrect. The DRR exemption is not universal. Unlisted public companies must still maintain 10% DRR. The claim that all companies are exempt is wrong.
- **Option (C):** Incorrect. The DRR requirement was substantively changed by the 2019 amendment. The 25% rate is no longer applicable to listed companies or unlisted public companies; the latter now face a 10% rate.
- **Option (D):** Incorrect. DRR is governed by the Companies (Share Capital and Debentures) Rules (under the Companies Act, 2013), not SEBI Regulations. The abolition for listed companies occurred in 2019 (not 2023) through the Ministry of Corporate Affairs amendment.

Final Answer: The 2019 amendment abolished DRR for listed companies (and banking companies and specified NBFCs); unlisted public companies retain 10% DRR; the liquidity deposit requirement remains for listed debenture issuers. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q20

ANSWER KEY

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