PAPER – 2: CORPORATE AND OTHER LAWS

PART – I – Multiple Choice Questions

Case Scenario - I

Aarohan Industries Ltd. is a public limited company manufacturing electrical equipment, with over fifteen years of continuous operations and steady growth driven by strong market presence and efficient management.

During the financial year 2024-25, the company recorded a turnover of ₹ 1,150 crore, reflecting its robust operational performance. The company is mandatorily required to appoint independent directors as per Rule 4 of Companies (Appointment of Directors) Rules, read with Section 149 of the Companies Act, 2013. The net profit of the company, as computed in accordance with the provisions of Section 198 of the Companies Act, 2013, amounted to ₹ 12 crore. Further, the company's net worth as at the end of the financial year stood at ₹ 620 crore.

The net profits of the company for the immediately preceding three financial years were; for 2021-22-₹ 8 crore, for 2022-23-₹ 10 crore and for 2023-24-₹ 12 crore. In view of the above financial parameters, Aarohan Industries Ltd. satisfied the criteria prescribed under Section 135 of the Companies Act, 2013 relating to Corporate Social Responsibility (CSR). Accordingly, the company constituted a Corporate Social Responsibility Committee consisting of three directors, including one independent director. Consequently, the company was under an obligation to spend the prescribed percentage of net profits towards CSR activities during the financial year 2024-25.

Based on the recommendations of the CSR Committee, the Board of Directors approved a CSR budget of ₹ 20 lakh for the financial year 2024-25. However, due to delay in the implementation of the identified projects, the company could spend only ₹ 14 lakh on CSR activities during the year. The remaining unspent amount did not relate to any ongoing project. The company duly disclosed the reasons for not spending the entire prescribed CSR amount in the Board's Report. One of the director was of the view that the unspent funds are needed to be transferred to a special bank account maintained with a schedule bank. However, no separate bank account was opened for the unspent CSR amount.

Based on the above case scenario, answer the following Multiple Choice Questions: (Question No. 1 to 3)

1. *CSR provisions were made applicable to Aarohan Industries Ltd. for the financial year 2024-25 mainly because:*

   (A) Its turnover and net worth exceeded the prescribed limits during 2024-25.

   (B) Its average net profits for the preceding three years exceeded ₹10 crore and earned net profit of ₹12 crore during the current financial year.

   (C) It satisfied at least one prescribed financial criterion in the immediately preceding financial year.

   (D) Its turnover, net worth and net profits of the current financial year have exceeded the prescribed limits. ***(2 Marks)***

2. *If in case Aarohan Industries Ltd. was a company covered under Section 135(1) but is not required to appoint an independent director under Section 149(4). In such a case, which of the following statement is correct regarding the composition of its CSR Committee?*

   (A) The company must mandatorily appoint one independent director in the CSR Committee as there is one such director in the company.

   (B) The CSR Committee can be constituted by two or more directors, without an independent director.

   (C) At least two persons out of which one person is an Independent Director.

   (D) Any three or more directors out of which at least one shall be an independent director can perform the functions of the CSR committee.

   (2 Marks)

3. *As Aarohan Industries Ltd. could not spend the entire prescribed CSR amount during the financial year 2024-25, considering the 4 options given below, choose the correct option applicable to the company regarding the unspent CSR funds:*

   (A) Specify the reasons for not spending the amount in Board Report and the company must immediately open a special bank account and

transfer the unspent funds within a period of thirty days from the end of the financial year.

(B) *Disclosure in the Board's Report specifying the reasons for not spending the amount is sufficient if the unspent amount does not relate to an ongoing project.*

(C) *The company must, in addition to disclosure specifying the reasons for not spending the amount in the Board's Report, transfer the unspent amount to a fund specified in Schedule VII within six months of the expiry of the financial year.*

(D) *The company should transfer the unspent amount to Unspent Corporate Social Responsibility Account by the company within a period of 30 days from the end of the financial year.* ***(2 Marks)***

Case Scenario - II

Zed Technologies Limited is a public company having an authorised share capital of ₹ 10 crore and a paid-up share capital of ₹ 5 crore, divided into 50 lakh equity shares of 10 each. The company has 2,300 equity shareholders, each holding equal voting rights.

At a meeting of the Board of Directors held on 1st June, 2024, the Board resolved to convene the Annual General Meeting (AGM) of the company on 25th June, 2024 at 11:00 a.m. at the registered office of the company.

Pursuant to the Board resolution, the company sent the notice of AGM on 3rd June, 2024 to all members, directors and auditors through electronic mode. The notice stated the day, date, time and place of the meeting and the business to be transacted. The subject line of the e-mail mentioned the name of the company, type of meeting, place and date of the meeting. The notice was also placed on the website of the company.

The agenda of the AGM consisted of ordinary business and a special business relating to approval of a related party transaction with Alpha Systems Private Limited. One of the directors of Zed Technologies Limited held 1,50,000 equity shares of ₹ 10 each in Alpha Systems Private Limited, whose paid-up share capital was ₹ 5 crore (50,00,000) equity shares of ₹ 10 each.

On 25th June, 2024, the AGM was called to order at 11:00 am. By 11:30 am., 16 members were personally present. The notice of AGM contained a statement informing members of their right to appoint a proxy.

- *42 members, holding in aggregate 3,80,000 equity shares, appointed the same person as proxy.*
- *One shareholder holding 6,00,000 equity shares appointed a single person as his proxy, who did not act as proxy for any other member.*
- *The proxy forms were submitted in Form MGT-11 and deposited at the registered office at 10:30 a.m. on 23rd June 2024.*

Based on the above case scenario answer the following Multiple Choice Questions: (Question No. 4 and 5)

4. *The AGM included a special business approving a related party transaction with Alpha Systems Pvt. Ltd., in which one director of Zed Technologies Limited held equity shares. Which statement is correct as to the transaction of the special business in the meeting?*

   (A) The company was not required to provide a separate explanatory statement since the issue will anyhow be discussed in the Annual General Meeting.

   (B) No disclosure by way of a statement under Section 102(2) is required as the director's shareholding is less than the specified percentage of shares needed for such disclosure.

   (C) Disclosure by way of an explanatory statement under Section 102(2) is mandatory as the director holds more than the specified percentage of shares needed for such disclosure.

   (D) Disclosure is necessary only if the interested director voted at the AGM on the specified business. ***(2 Marks)***

5. *Determine the validity of the quorum at 11.30 am on the date of the AGM as 16 members out of 2300 members were personally present in the meeting along with the proxies of other members.*

   (A) Quorum is satisfied since at least 15 members personally present constitute valid quorum.

(B) Quorum is not satisfied since minimum 30 members personally present were required.

(C) Quorum is satisfied because proxies present are also counted as members present.

(D) The meeting should be adjourned for want of quorum. ***(2 Marks)***

Case Scenario - III

Shradhha Metals Ltd. an eligible company had accepted deposits from the members and public and outstanding amount of secured deposits for the year ended on 31st March, 2025 was ₹ 50 crore. Out of this, ₹ 20 crore of deposits was due for its repayment during the financial year 2025-26. As per provisions of Chapter V of the Companies Act, 2013, the Company was required to place a certain percentage of deposits maturing during the following financial year in a scheduled bank in a separate bank account to be called as 'Deposit Repayment Reserve Account'. However, the Company deliberately avoided the compliance of the relevant provision.

For the year ended on 31st March, 2025 the company had earned a net profit of the 35 crores (after providing depreciation in accordance with Schedule II). Apart from the current year's profit the company have free reserves amounting to ₹ 85 crore. The Board of Directors of the company recommended for payment of dividend at the rate of 15% per share on 14th July, 2025.

Ritika, who had placed deposit of ₹ 5 lakh with the company that was maturing on 25th April, 2025. Ritika sent the original deposit receipt, duly discharged on its back, to company along with the details of her bank, to enable the company to credit the maturity proceeds directly in her bank account. However, the company did not pay the amount on its due date. When Ritika served a legal notice on the company through her Advocate, the company paid her the maturity proceeds on 13th July, 2025. There is one more depositor Rajesh who had not claimed his matured deposit on that date, but the company is not at default.

Based on the facts given in above case scenario and by applying the relevant provisions of the Companies Act, 2013, choose the correct answer to the Questions (Question No. 6 to 8)

6. *The penal rate of interest payable on the deposit of Rajesh until it is claimed by him is:*

   (A) Rate of interest in accordance with the agreement between the company and depositors.

   (B) 15% per annum

   (C) 16% per annum

   (D) 18% per annum **(2 Marks)**

7. *How much amount is the company required to deposit in a scheduled bank in a separate bank account to be called as 'Deposit Repayment Reserve Account"?*

   (A) ₹ 5 crore

   (B) ₹ 10 crore

   (C) ₹ 2 crore

   (D) ₹ 4 crore **(2 Marks)**

8. *Decide the most appropriate answer as to whether the company can declare dividend to the shareholders on 14th July, 2025:*

   (A) Yes, it can declare dividends, since the company have current year's net profits of ₹ 35 crores and free reserves of ₹ 85 crore.

   (B) Yes, as there is sufficient profits and the company has made good the deposit default.

   (C) No, the company cannot declare dividend till the unclaimed deposit is paid.

   (D) No, the company cannot declare dividend since it had defaulted to comply with the provisions of maintaining the required percentage of deposit in Deposit Repayment Reserve Account and to be kept in a separate schedule bank account. **(2 Marks)**

Case Scenario - IV

ABC Infrastructure & Broadcasting Limited (AIBL), a Government of India public sector undertaking engaged in infrastructure and satellite television operations, proposed to undertake certain foreign exchange transactions during FY 2025-26.

The company needed to make a remittance of USD 18,000 for an advertisement in a foreign print magazine, being for brand building and not for tourism promotion, foreign investment promotion or international bidding.

The company also needed to pay a consultancy fee of USD 11.5 million to a foreign firm for a highway project in India. It obtained the in principal approval of the Information & Broadcasting Ministry (Parent Ministry) to make the advertisement and also to pay the consultancy fees.

Mr. Rohan Mehta, a director in AIBL and a resident in India, proposes during FY 2025-26 to remit USD 2,10,000 for his daughter's higher education abroad and USD 70,000 as a gift to his sister residing in Australia. The university where his daughter studies requires a tuition fee payment of USD 1,50,000, the balance being for associated education purposes (not required by the institute). He has not made any other remittances during the financial year. Mr. Rohan Mehta inherited a property situated outside India from his resident father, who in turn inherited from his father. The grandfather of Mr. Rohan Mehta had purchased the foreign property when he was working outside India. Mr. Rohan Mehta seeks your advice as to whether the proposed remittances can be made and his inheritance complies with the FEMA regulations.

Based on the above case scenario, answer the following Multiple Choice Questions: (Question No. 9 to 11)

9. *If AIBL needs to remit USD 18,000 for the corporate advertisement in a foreign print magazine purely for brand building, not related to tourism promotion, foreign investment promotion or international bidding, choose the correct option available to it under the applicable FEMA and the Current Account Transaction Rules:*

   (A) *The remittance is freely permissible as it is a current account transaction for business purposes.*

   (B) *Prior approval of the Ministry of Finance, Department of Economic affairs is required as it exceeds the USD 10,000 limit for such advertisements.*

   (C) *Prior approval of the Reserve Bank of India is required since it exceeds USD 10,000.*

   (D) *The remittance is permissible as it had obtained the consent of the Information & Broadcasting Ministry.* ***(2 Marks)***

10. *In light of the Liberalised Remittance Scheme (LRS) of FEMA Act, 1999, which of the following is correct for the proposed remittance of Mr. Rohan Mehta?*

    (A) The entire USD 2,80,000 can be remitted without approval because education and gifts are both permissible current/capital account transactions.

    (B) Only USD 2,50,000 can be remitted under LRS without approval; prior RBI approval is required for the excess USD 30,000.

    (C) Education and associated remittance of USD 2,10,000, if it so required by the individual can be remitted freely under LRS, therefore, only the USD 70,000 gift is counted toward the USD 2,50,000 ceiling.

    (D) Tuition fee remittance of USD 1,50,000 is permitted freely as it is so required by the university and not counted for LRS limits; therefore, only the USD 70,000 gift and balance of USD 60,000 for other education purposes are counted towards the USD 2,50,000 ceiling.

(2 Marks)

11. *Choose the correct option from the following pertaining to the legality of the inheritance of foreign immovable property by Mr. Rohan Mehta:*

    (A) The inheritance is not valid as it was not directly inherited by him.

    (B) The inheritance is valid as he has inherited from a person who has validly inherited from a person who was resident outside India.

    (C) The inheritance is valid only if Mr. Rohan Mehta gets the approval from Reserve Bank of India.

    (D) The inheritance is valid only if both Mr. Rohan Mehta and his father get prior approval from the Reserve Bank of India. ***(2 Marks)***

Case Scenario - V

Anvika & Associates LLP is a Limited Liability Partnership firm engaged in the architectural profession. It has two partners namely Anvika and Ela and both are the designated partners. Anvika and Ela went to UK on 1st July, 2025 for taking advanced training in Architectural Science. The total training course was for 6 months only, but after the completion of training, they holidayed in Europe for some time and finally returned to India on 1st March, 2026.

Before going to advanced training course, Anvika and Ela hired Falak, as an employee to look after the business of the LLP during their absence. Anvika and Ela kept interacting with Falak on the business-related issues, over phone and e-mail. Soon Falak won the confidence of the Anvika and Ela, and they both decided to induct Falak as partner in the LLP. They informed of their intention to admit Falak as a partner on 10th January, 2026. Falak accepted the offer of being a partner on 13th January in the LLP but with effect from 15th January, 2026. However, the LLP could not inform to the Registrar about the admission of new partner in the LLP Firm.

Based on the facts given in above case scenario and by applying the relevant provisions of the Limited Liability Partnership Act, 2008 choose the correct answer to the Questions: (Question No. 12 and 13)

12. *As per the provisions of the LLP Act, 2008 every LLP shall have at least two designated partners who are individuals and at least one of them shall be a resident in India. In the given case, both the designated partners remained out of India for some time. Whether the requirement of "Resident in India" of the designated partners has been fulfilled by them:*

    (A) No, as both the partners went abroad at the same time, the firm has violated the conditions of one partner of the firm being 'physically resident in India'.

    (B) Yes, Anvika and Ela stayed for not less than 90 days in India, hence fulfilled the criteria of "Resident in India".

    (C) Yes, Anvika and Ela stayed for not less than 120 days in India, hence fulfilled the criteria of "Resident in India".

    (D) No, Anvika and Ela did not stay for a total period of 182 days in India, hence not fulfilled the criteria of being "Resident in India". ***(2 Marks)***

13. *In Anvika & Associates LLP, Falak, who was an employee in the firm accepted to join the firm as a Partner on 15th January, 2026. However, the LLP forgot to inform Registrar about this new admission of partner. According to the LLP Act, 2008 what is the time limit within which the LLP is required to file a notice with the Registrar:*

    (A) Within 15 days from 10th January, 2026

    (B) Within 30 days from 10th January, 2026

(C) Within 30 days from 13th January, 2026

(D) Within 30 days from 15th January, 2026 ***(2 Marks)***

Case Scenario - VI

Mr. A is the owner of a residential house and Mr. B is his tenant. Due to continuous default in payment of rent, Mr. A decides to terminate the tenancy. Mr. A sends a notice of termination to Mr. B by registered post at Mr. B's correct residential address. The postal article is returned to Mr. A with the endorsement "Refused by addressee". Mr. B later challenges the eviction proceedings on the ground that he never received nor read the contents of the notice and therefore the termination of tenancy is invalid.

The Central Regulation made in 2018 prohibits the establishment of any chemical factory within 500 metres of a protected wildlife sanctuary. Mr. A applies for permission to set up a chemical factory near the sanctuary. The distance between the factory site and the sanctuary boundary is 520 metres if measured along the road.

The authority rejects Mr. A's application, stating that the factory is within the prohibited distance. Mr. A challenges the decision.

Based on the above facts answer the following (Question No. 14 and 15):

14. *As Mr. B has challenged the validity of the notice, in the light of the above facts, which of the following is the most appropriate legal position pertaining to the validity of the notice?*

    (A) The notice is invalid since actual physical delivery to the tenant did not take place.

    (B) The notice is valid, as refusal to accept a registered notice amounts to deemed service.

    (C) The notice is invalid unless the landlord sends a second notice through ordinary post.

    (D) The notice is invalid unless the landlord proves that the tenant actually read the notice under the principles of natural justice. ***(2 Marks)***

15. *With regard to the measurement of distances for the purposes of any Central Act or Regulation made after the commencement of the General*

Clauses Act, 1897, the correct approach to measure the distance from the wildlife sanctuary to the proposed factory is:

(A) The distance must be measured along the motorable road, as it reflects actual accessibility.

(B) The distance must be measured by the shortest pedestrian route.

(C) The distance must be measured in a straight line on a horizontal plane, unless the Regulation provides otherwise.

(D) The shortest route suggested by a standard GPS navigation system for a four wheeler vehicle. ***(2 Marks)***

Answer Key

MCQ. No.	Correct Answer
1.	(C)
2.	(B)
3.	(C)
4.	(C)
5.	(A)
6.	No correct option
7.	(D)
8.	(D)
9.	(A)
10.	(B)
11.	(B)
12.	(C)
13.	(D)
14.	(B)
15.	(C)

PART – II: Descriptive Questions

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Working notes should form part of the answer.

Question 1

(a) *Dhruvika a social worker, to promote tribal art and culture in Southern Rajasthan planned to incorporate a company, the purpose of which was not only promote the tribal art but also to generate income for the tribal people. The people residing in the area are well versed in making the bamboo items, terracotta, leather goods, handmade jewellery, and textiles (hand-printed, tie and dye) but due to poor marketing, their products could not reach the buyers. The tribal products are in great demand among the people. Dhruvika thought of providing the marketing platform to such local producers (artisans) by selling the products through the e-commerce platforms. She discussed her plan with some of the prominent artisans of the tribal area and invited them to be the members of the proposed company and she had planned to distribute the net profits equally among the members as a goodwill gesture.*

(i) *Referring to the provisions of the Companies Act, 2013 discuss whether Dhruvika can be granted a licence to incorporate a company under Section 8 of the Companies Act, 2013.* ***(3 Marks)***

(ii) *In case the artisans are unwilling to be members, can Dhruvika incorporate an One Person Company (OPC) under Section 8 of the Companies Act, 2013?* ***(2 Marks)***

(b) *Tarun Synthetics Ltd. in its financial statement for the year ended on 31st March, 2024 failed to disclose a contingent liability pertaining to a suit filed against the company amounting to ₹ 2.50 crore for the breach of a contract. In April 2025, the competent Court decided the matter against the company, as a result the company was required to pay the said amount to the decree-holder. The company decided to prefer an appeal against such order. The company felt that non-disclosure of the contingent liability affected the true and fair view of its state of affairs. So, the company voluntarily decided to revise the financial statement and the Board report* *for the year ended on 31st March, 2024 and held a Board Meeting on 15th May, 2025 to this effect.*

In light of the above facts answer the following referring to the provisions of the Companies Act, 2013:

(i) Whether the company can voluntary revise the financial statements and the Board report?

(ii) State the particulars/ details to be stated in the application for making such voluntary revision of financial statements under Rule 77 of the National Law Tribunal Rules, 2016. ***(5 Marks)***

(c) XYZ Ltd. is a reputed Indian construction company, which has its operations in multiple countries. The company has earned foreign exchange of USD 200 million, USD 300 million and USD 400 million during the previous three financial years respectively.

In the current year, the company intended to remit the following at the same time:

(i) USD 4 million as a contribution to a technical institution in USA conducting engineering studies in the construction field.

(ii) USD 3 million donation to creation of a chair in the memory of the company's founder in a reputed university in UK.

The directors are of the opinion that since not one of the above foreign remittance individually exceeded the limits specified by the Reserve Bank of India, no prior approval is necessary to make the above remittance. With reference to the provisions of the Foreign Exchange Management Act, 1999, determine whether XYZ Ltd. can make the above remittances without prior approval of the Reserve Bank of India. ***(4 Marks)***

Answer

(a) (i) According to sub-section (1) of Section 8 of the Companies Act, 2013, where it is proved to the satisfaction of the Central Government (the power has been delegated to ROC in this behalf) that a person or an association of persons proposed to be registered under the Companies Act, 2013, as a limited company:

(a) has in its objects the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object;

(b) intends to apply its profits, if any, or other income in promoting its objects; and

(c) intends to prohibit the payment of any dividend to its members,

the Central Government may, by licence issued in such manner as may be prescribed, and on such conditions as it deems fit, allow that person or association of persons to be registered as a limited company under this section without the addition to its name of the word "Limited", or as the case may be, the words "Private Limited", and thereupon the Registrar shall, on application, in the prescribed form, register such person or association of persons as a company under this section.

In the given case, Dhruvika proposed to incorporate a company with the artisans as its members. However, she intended to distribute the net profits equally among the members, which shows a clear intention of distribution of dividend to the members. Since section 8(1) of the Companies Act, 2013 specifically prohibits payment of any dividend to its members and requires the profits to be applied solely towards promotion of its objects, the licence for incorporation of the company under Section 8 cannot be granted.

(ii) According to Rule 3(5) of the Companies (Incorporation) Rules, 2014, One Person Company cannot be incorporated or converted into a company under section 8 of the Act.

Thus, even if the artisans are unwilling to be members, Dhruvika cannot incorporate an One Person Company under section 8 of the Companies Act, 2013.

(b) (i) According to section 131(1) of the Companies Act, 2013 read with Rule 77 of the National Company Law Tribunal Rules, 2016, if it appears to the directors of a company that:

(a) the financial statement of the company; or

(b) the report of the Board,

do not comply with the provisions of section 129 or section 134 they may prepare revised financial statement or a revised report in respect of any of the three preceding financial years after obtaining approval of the Tribunal on an application made by the company in Form No. NCLT-1 within fourteen days of the decision taken by the Board and a certified copy of the order passed by the Tribunal shall be filed with the Registrar within 30 days of the date of receipt. Such revision of the financial statements and reports shall not be prepared or filed more than once in a financial year.

However, such revision cannot be done merely by passing a Board Resolution. The company can revise the financial statements and Board's Report only:

- after obtaining approval of the Tribunal; and
- the revision can be made only for any of the three preceding financial years.

In the given question, the company failed to disclose a contingent liability of ₹ 2.50 crore relating to a suit for breach of contract. Such non-disclosure affected the true and fair view of the state of affairs of the company. Therefore, the company is justified in proposing revision of the financial statements and the Board's Report for the financial year ended 31st March, 2024.

Since the Board Meeting was held on 15th May, 2025 for revision of the financial statements and the Board's Report relating to the financial year 2023–24, it was well within the permissible preceding three financial years.

(ii) According to Rule 77(3) of the National Law Tribunal Rules, 2016, the application for voluntary revision of financial statements shall, *inter alia*, set forth the following particulars, namely:

(a) Financial year or period to which such accounts relates;

(b) the name and contact details of the Managing Director, Chief Financial Officer, directors, Company Secretary and officer of the company responsible for making and maintaining such books of accounts and financial statement;

(c) where such accounts are audited, the name and contact details of the auditor or any former auditor who audited such accounts;

(d) copy of the Board resolution passed by the Board of Directors;

(e) grounds for seeking revision of financial statement or Board's Report.

Further Rule 77(2) provides that in case the majority of the directors of company or the auditor of the company has been changed immediately before the decision is taken to apply under section 131, the company shall disclose such facts in the application.

(c) Rule 5 of the Foreign Exchange Management (Current Account Transactions) Rules, 2000 provides that every drawal of foreign exchange for transactions included in Schedule III shall be governed as provided therein. The proviso to the Rule 5 further states that this rule shall not apply where the payment is made out of funds held in Resident Foreign Currency (RFC) Account of the remitter.

Facilities for persons other than individual

S. No. 2 of Schedule III states that prior approval of the Reserve Bank of India is required in case of persons other than individuals, where donations exceed, one per cent. of their foreign exchange earnings during the previous three financial years or USD 5,000,000, whichever is less, for:

a. creation of Chairs in reputed educational institutes,

b. contribution to a technical institution or body or association in the field of activity of the donor Company.

In the given case, XYZ Limited can make the maximum donation of USD 5 Million(M) [Lower of {1% of (200M+300M+400M)} or {5M}].

The company is intending to donate USD 4 Million as a contribution to a technical institution in USA and USD 3 Million for creation of a chair, which would amount to USD 7 Million in total.

As the company is allowed in aggregate a maximum of USD 5 Million, it is required to take prior approval of the Reserve Bank of India.

Therefore, the opinion of the directors is not correct. XYZ Ltd. cannot make the above remittances without obtaining prior approval of the Reserve Bank of India.

Question 2

(a) *ABC Tech Solutions Ltd., a non-startup company, has a paid-up equity share capital of ₹ 20 crore. The company proposes to issue sweat equity shares worth ₹ 4 crore to its Chief Technology Officer (CTO) for providing expert and specialized technical know-how and developing proprietary software that is expected to generate significant future economic benefits for the company. It is also mentioned by the company that the consideration value of sweat equity shares is not included in the normal employment contract entered in the case of CTO and this is the only issue of sweat equity shares.*

The Company passed a special resolution for the issue of sweat equity shares on 1st January 2025. The company has complied with the other conditions necessary for the issue of sweat equity shares. The shares are proposed to be issued at a fair price determined by a registered valuer. The allotment is planned to be made on 15th February 2026. With reference to the provisions of the Companies Act, 2013, answer the following:

(i) *Whether the proposed issue of sweat equity shares is valid with respect to the maximum limit and the purpose for which such shares can be issued?*

(ii) *Whether the special resolution made in January 2025 remains valid for the proposed allotment in 15th February 2026?* ***(5 Marks)***

OR

(a) *Saira Projects Limited (SPL) is a listed public company engaged exclusively in setting up, execution and financing of long-gestation infrastructure projects such as highways, ports, and metro corridors. Its equity shares are listed on recognized stock exchanges in India. As per the latest audited financial statements, SPL has a net worth of ₹ 1,020 crore.*

During FY 2025-26, SPL issued 7,20,000 instruments of ₹ 1,000 each, described in the offer document as, "Secured Redeemable Convertible Debentures with Deferred Optional Equity Conversion Feature".

The issue was made by way of private placement to four Category II Alternative Investment Funds, all of which qualify as Qualified Institutional Buyers (QIBs).

The principal terms were as follows:

- *Tenure: 16 years*
- *Coupon rate: 8.75% per annum, payable annually*

Conversion feature- At the end of the 13th year, the debenture holder may, at its discretion, convert up to 30% of the outstanding principal into equity shares of SPL. Security is exclusive first charge on immovable property of the company situated outside India, with a second charge on movable fixed assets of it located in India.

A debenture trustee was appointed, but SPL did not create any Debenture Redemption Reserve (DRR), relying on the following grounds recorded in the Board note:

(A) Listed company status

(B) Private placement restricted to QIBs

(C) Infrastructure company classification

With reference to the above case, critically examine and answer the followings:

(i) Whether the 16-year tenure is permissible?

(ii) Whether creation of security on assets situated outside India affect the validity of the debenture issue?

(iii) Whether SPL is legally justified in not creating a Debenture Redemption Reserve (DRR)? ***(5 Marks)***

(b) *Nandan Dairy Products Ltd. was engaged in the business of producing and selling of the milk products. It had more than 500 cows at its farm. The company had raised loans from a bank by hypothecating the cows and the charge to this effect was also registered with the Registrar. The company later changed its business model from a producer of milk to marketing of milk and other consumer products and altered its object clause of the Memorandum and filed it with the Registrar. The company in light of the changed objects, sold out all its livestocks to the villagers and Milk Co-operative Societies. However, the satisfaction of the charge was not filed within the 30 days of loan repayment.*

The Registrar somehow came to know that the company has fully liquidated the loan against the livestock raised by it and have also disposed of such livestock. Based on the facts of the case, answer the following:

(i) *Who is responsible for filing of the satisfaction of charge with the Registrar and what is the punishment for such contravention?* ***(3 Marks)***

(ii) *Whether Registrar can make entries of satisfaction and release in absence of intimation from Company?* ***(2 Marks)***

(c) *The Central Government, under the powers conferred by a Central Act, issued a notification on 1st April 2025 granting tax exemption to a specified class of manufacturers for a period of three years. Subsequently, due to misuse of the exemption, the Government issued another notification on 1st December 2025, withdrawing the exemption with immediate effect.*

A manufacturer, who had already made substantial investments relying on the exemption, challenged the validity of the withdrawal on the ground that the original notification could not be rescinded before the expiry of three years.

Examine the validity of the Government's action withdrawing the exemption with reference to the provisions of the General Clauses Act, 1897. ***(4 Marks)***

Answer

(a) (i) Rule 8 of the Companies (Share Capital and Debentures) Rules, 2014, deals with the Issue of Sweat Equity Shares.-

(1) Rule 8(1) states that a company other than a listed company, which is not required to comply with the Securities and Exchange Board of India Regulations on sweat equity, shall not issue sweat equity shares to its directors or employees at a discount or for consideration other than cash, for their providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called, unless the issue is authorised by a special resolution passed by the company in general meeting.

Rule 8(6) states that the sweat equity shares to be issued shall be valued at a price determined by a registered valuer as the fair price giving justification for such valuation.

Rule 8(4) provides that the company shall not issue sweat equity shares for more than fifteen percent of the existing paid up equity share capital in a year or shares of the issue value of rupees five crore, whichever is higher.

Provided that the issuance of sweat equity shares in the company shall not exceed twenty five percent, of the paid up equity capital of the company at any time.

In the given question,

- Paid-up equity share capital = ₹ 20 crore
- Proposed sweat equity shares = ₹ 4 crore

15% of paid-up equity share capital= 15% of ₹20 crore= ₹ 3 crore

The higher of:

- ₹ 3 crore, or
- ₹ 5 crore

is ₹ 5 crore.

Since the proposed issue is of ₹ 4 crore, it is within the permissible annual limit of ₹ 5 crore.

Further, the overall ceiling of 25% of paid-up equity share capital is, 25% of ₹ 20 crore= ₹ 5 crore.

The proposed issue of ₹4 crore does not exceed this limit.

ABC Tech Solutions Ltd. has also passed a special resolution for the above purpose.

Moreover, the shares are proposed to be issued to the CTO for providing specialized technical know-how and developing proprietary software generating future economic benefits, which amounts to know-how and value addition. Therefore, the purpose is also valid under the above mentioned Rules.

Hence, the proposed issue of sweat equity shares is valid with respect to both:

- the maximum permissible limit; and
- the purpose for which such shares are proposed to be issued.

(ii) As per Rule 8(3) of the Companies (Share Capital and Debentures) Rules, 2014, the special resolution authorising the issue of sweat equity shares shall be valid for making the allotment within a period of not more than twelve months from the date of passing of the special resolution.

In the given case:

- Date of special resolution is 1st January 2025
- Proposed allotment date is 15th February 2026

Since the allotment is proposed to be made after expiry of 12 months from the date of passing the special resolution, the special resolution passed on 1st January 2025 will not remain valid for the proposed allotment on 15th February 2026.

Therefore, ABC Tech Solutions Ltd. will be required to pass a fresh special resolution before making the allotment on 15th February 2026.

OR

(a) (i) According to Rule 18(1)(a) of the Companies (Share Capital and Debentures) Rules, 2014, an issue of secured debentures may be made, provided the date of its redemption shall not exceed ten years from the date of issue.

Provided that the companies engaged in setting up of infrastructure projects may issue secured debentures for a period exceeding ten years but not exceeding thirty years.

In the given question, Saira Projects Limited (SPL) is exclusively engaged in infrastructure projects such as highways, ports and metro corridors. Therefore, being an infrastructure company, SPL is permitted to issue secured debentures having a maximum tenure of 30 years.

Hence, the 16-year tenure is permissible.

(ii) According to Rule 18(1)(d), the security for the debentures by way of a charge or mortgage shall be created in favour of the debenture trustee on:

(i) any specific movable property of the company or its holding company or subsidiaries or associate companies or otherwise.

(ii) any specific immovable property wherever situate, or any interest therein.

In the given question, SPL has created:

- exclusive first charge on immovable property situated outside India; and
- second charge on movable fixed assets situated in India.

Therefore, the mere fact that part of the security is situated outside India does not affect the validity of the debenture issue.

Hence, the debenture issue remains valid.

(iii) As per Rule 18(7), for listed companies (other than All India financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in case of privately placed debentures.

In the given question, SPL is a listed public company and the debentures were issued through private placement. Therefore, SPL falls within the category of listed companies exempted from the requirement of creating Debenture Redemption Reserve and hence it is justified in not creating a Debenture Redemption Reserve (DRR).

(b) (i) According to section 82(1) of the Companies Act, 2013, a company shall give intimation to the Registrar in the prescribed form, of the payment or satisfaction in full of any charge registered within a period of thirty days from the date of such payment or satisfaction.

Provided that the Registrar may, on an application by the company or the charge holder, allow such intimation of payment or satisfaction to be made within a period of three hundred days of such payment or satisfaction on payment of precribed additional fees.

As per section 86(1), if any company is in default in complying with any of the provisions of this Chapter (Chapter VI: Registration of Charges), the company shall be liable to a penalty of five lakh rupees and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.

In the present case, Nandan Dairy Products Ltd. was responsible for filing the satisfaction of charge with the Registrar (within 30 days) after repayment of the loan secured by hypothecation of cows.

Since, the company failed to file the satisfaction within the prescribed period, it is in contravention of section 82 and will be liable to above mentioned penalties.

(ii) According to section 83 of the Companies Act, 2013,

(1) The Registrar may, on evidence being given to his satisfaction with respect to any registered charge:

(a) that the debt for which the charge was given has been paid or satisfied in whole or in part; or

(b) that part of the property or undertaking charged has been released from the charge or has ceased to form part of the company's property or undertaking,

enter in the register of charges a memorandum of satisfaction in whole or in part, or of the fact that part of the property or undertaking has been released from the charge or has ceased to form part of the company's property or undertaking, as the case may be, notwithstanding the fact that no intimation has been received by him from the company.

(2) The Registrar shall inform the affected parties within thirty days of making the entry in the register of charges kept under sub-section (1) of section 81.

According to section 82(4), nothing in section 82 shall be deemed to affect the powers of the Registrar to make an entry in the register of charges under section 83 or otherwise than on receipt of an intimation from the company i.e. even if no intimation is received by him from the company.

In the given question, the Registrar came to know that the company has fully liquidated the loan against the livestock raised by it and have also disposed off such livestock. Thus, the property (cows) has been released from the charge.

Hence, the Registrar is empowered to make entries of satisfaction and release of charge in the Register of Charges even without intimation from Nandan Dairy Products Ltd.

(c) According to section 21 of the General Clauses Act, 1897, where by any legislation or regulation a power to issue notifications, orders, rules or bye-laws is conferred, then that power includes the power, exercisable in the like manner and subject to the like sanction and conditions (if any), to add to, amend, vary or rescind any notification, order, rule or bye-law so issued.

In the case of *Rasid Javed v. State of Uttar Pradesh,* the Supreme Court held that under section 21 of the Act, an authority which has the power to issue a notification also has the undoubted power to rescind or modify the notification in the like manner.

In the given question, the Central Government had issued a notification on 1st April 2025 granting tax exemption to a specified class of manufacturers for a period of three years. Subsequently, on 1st December 2025, the Government withdrew the exemption by issuing another notification.

Since, the Government had the power to issue the original notification, it also had the power to rescind or modify the same under section 21 of the General Clauses Act, 1897.

The Central Government, having the power to issue the original notification, inherently possesses the power to rescind it even before the expiry of the stated 3 year period, particularly when the withdrawal is necessitated by misuse of the exemption. Therefore, the withdrawal of the exemption before the expiry of three years is valid in law, and the contention of the manufacturer that the notification could not be rescinded before completion of three years is not sustainable.

Question 3

(a) Certain members of Shakun Fabrics Ltd. intend to offer a part of their shareholding in the company to the public, in accordance with the provision of law. Discuss the provisions for the offer of sale by such members under Section 28 of the Companies Act, 2013 and procedural aspects under Rule 8 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

(5 Marks)

(b) *There are 7000 members of Six Sigma Power Zone Ltd. The company's Annual General Meeting (AGM) was held on 20th August, 2025. In this AGM only 70 members were present. When a particular business agenda was being discussed, which was required to be passed as a special resolution, 10 members walked out of the meeting room. Out of the remaining members present, 15 members voted against the proposal and the rest voted for the resolution. The Chairman of the meeting declared that the resolution has been passed as a special resolution.*

In light of the above facts answer the following referring to the provisions of the Companies Act, 2013:

(i) *Whether the quorum of the AGM was proper?* ***(2 Marks)***

(ii) *What is the voting requirement of passing of a resolution as a special resolution?* ***(1 Mark)***

(iii) *Whether the declaration of the Chairman of passing of the resolution as special resolution is valid?* ***(2 Marks)***

(c) *Discuss the rule of Harmonious Construction and how it is applied in the Interpretation of Statutes.* ***(4 Marks)***

Answer

(a) According to section 28 of the Companies Act, 2013,

(1) Where certain members of a company propose, in consultation with the Board of Directors to offer, in accordance with the provisions of any law for the time being in force, whole or part of their holding of shares to the public, they may do so in accordance with such procedure as may be prescribed.

(2) Any document by which the offer of sale to the public is made shall, for all purposes, be deemed to be a prospectus issued by the company and all laws and rules made thereunder as to the contents of the prospectus and as to liability in respect of mis-statements in and omission from prospectus or otherwise relating to prospectus shall apply as if this is a prospectus issued by the company.

(3) The members, whether individuals or bodies corporate or both, whose shares are proposed to be offered to the public, shall collectively authorise the company, whose shares are offered for sale

to the public, to take all actions in respect of offer of sale for and on their behalf and they shall reimburse the company all expenses incurred by it on this matter.

As per Rule 8 of the The Companies (Prospectus and Allotment of Securities) Rules, 2014-

(1) The provisions related to "Prospectus and Allotment of Securities" and rules made there under shall be applicable to an offer of sale referred to in section 28 except for the following, namely:-

   (a) the provisions relating to minimum subscription;

   (b) the provisions for minimum application value;

   (c) the provisions requiring any statement to be made by the Board of directors in respect of the utilization of money; and

   (d) any other provision or information which cannot be compiled or gathered by the offeror, with detailed justifications for not being able to comply with such provisions.

(2) The prospectus issued under section 28 shall disclose the name of the person or persons or entity bearing the cost of making the offer of sale along with reasons.

In the given case, the members of the Shakun Fabrics Ltd. may offer for sale of shares to the public by following the above provisions of Section 28 read with Rule 8 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

(b) (i) According to section 103(1) of the Companies Act, 2013, unless the articles of the company provide for a larger number, in case of a public company,

(a) five members personally present if the number of members as on the date of meeting is not more than one thousand,

(b) fifteen members personally present if the members as on the date of meeting is more than one thousand but upto five thousand,

(c) thirty members personally present if the number of members as on the date of the meeting exceeds five thousand, shall be the quorum for a meeting of the company.

In the given question, Six Sigma Power Zone Ltd. has 7,000 members (i.e., more than 5,000), the required quorum is 30 members personally present.

In the present case, 70 members were present at the AGM, which is above the required quorum of 30. Thus, the quorum of the Annual General Meeting was proper and valid.

(ii) According to section 114(2) of the Companies Act, 2013, a resolution shall be a special resolution when:

(a) the intention to propose the resolution as a special resolution has been duly specified in the notice calling the general meeting or other intimation given to the members of the resolution;

(b) the notice required under this Act has been duly given; and

(c) the votes cast in favour of the resolution, whether on a show of hands, or electronically or on a poll, as the case may be, by members who, being entitled so to do, vote in person or by proxy or by postal ballot, are required to be not less than three times the number of the votes, if any, cast against the resolution by members so entitled and voting.

(iii)

Particulars	**No. of members**
Total number of members present	70
Members walked out	10
Remaining members	60
Votes cast against	15
Votes in favour	60 – 15 = 45

For a special resolution, votes in favour must be at least three times the votes against.

Here:

Three times of 15 = 45

Votes in favour = 45

Since, the votes in favour (45) are equal to three times the votes against, the declaration of the Chairman that the resolution has been passed as a special resolution is valid.

(c) Rule of Harmonious Construction: It is a recognized rule of interpretation of statutes and deeds that the expressions used therein should ordinarily be understood in a sense in which they best harmonize with the object of the statute. The opposite of "harmony" is conflict. Thus, this rule is applied when there is a conflict between two provisions of a statute. Similarly, this Rule comes to our aid when there is conflict between the provisions of a statute and the object, which the legislature had in view.

Thus, where an expression is susceptible of a narrow or technical meaning, as well as a popular meaning, the court would be justified in assuming that the legislature used the expression in the sense, which would carry out its objects and reject that which renders it invalid.

It is a basic rule of interpretation that if it is possible to avoid a conflict between two provisions on a proper construction thereof, then it is the duty of the court to so construe them that they are in harmony with each other. The statute must be read as a whole and every provision in the statute must be construed with reference to the context and other clauses in the statute so as to make the statute a consistent enactment and not reduce it to a futility. But where it is not possible to give effect to both the provisions harmoniously, collision may be avoided by holding that one section which is in conflict with another merely provides for an exception or a specific rule different from the general rule contained in the other. A specific rule will override a general rule. This principle is usually expressed by the maxim, *"generalia specialibus non derogant"*.

Question 4

(a) Kanchan Finance Ltd. is a listed company. Since the term of the present statutory auditor is to hold office up to the conclusion of the upcoming Annual General Meeting to be held on 25th August, 2026, the name of new statutory auditor, CA Trilok was placed before the Audit Committee. The audit committee recommended the name of CA Trilok for the consideration of the Board of Directors (BOD). However, the BOD was not convinced with the recommendations of the audit committee and it referred back the

proposal to the audit committee for reconsideration. However, the members of the audit committee were not convinced with the reasons cited by the BOD and resent the proposal of CA Trilok to BOD again. The BOD was in disagreement with the opinion of the audit committee.

In light of the above facts, answer the following referring to the relevant provisions of the Companies Act, 2013:

(i) Who are the competent authorities that shall recommend the name for appointment as the auditor and briefly discuss the points the competent authority shall take into consideration before appointing a Chartered Accountant as auditor? ***(2 Marks)***

(ii) How will the auditor be appointed in the present situation where the BOD disagrees with recommendations of the audit committee? ***(3 Marks)***

(b) V, S and N incorporated VSN Consulting LLP on 1st April, 2025. The LLP agreement was executed but never filed with the Registrar. The agreement contained the following clauses:

- *Profit sharing: V-40%, S-35%, N-25%*
- *Only V and S were authorized to enter into contracts on behalf of the LLP.*
- *Any act beyond consultancy services required unanimous consent of partners.*

The following events took place subsequently:

(1) N, without informing V and S, entered into a loan agreement with Quick Bank in the name of the LLP for expansion into real estate advisory, which was not part of the LLP's usual business. Quick Bank was unaware of the internal restrictions.

(2) S retired from the LLP on 30th September, 2025. On 5th of October 2025, as usual T Ltd, entered into a consultancy contract with the LLP believing S to be still a partner, as the company had no notice of his cessation.

(3) Due to continuous losses, the LLP was unable to pay its creditors and Quick Bank initiated proceedings against all partners.

With reference to the provisions of the Limited Liability Partnership Act, 2008, answer the following:

(i) Whether VSN Consulting LLP is bound by the loan agreement entered by N with Quick Bank?

(ii) Whether S can be held liable for obligations arising from the contract with T Ltd. after his retirement? ***(5 Marks)***

(c) With reference to the Interpretation of Statutes what do you mean by the term 'ejusdem generis' and state the exceptions to the Rule of Ejusdem Generis. ***(4 Marks)***

Answer

(a) (i) As per Rule 3(1) of the Companies (Audit and Auditors) Rules, 2014,

- a company which is required to constitute an Audit Committee under section 177 of the Companies Act, 2013, the competent authority would be the Audit Committee and
- a company which is not required to constitute an Audit Committee under section 177, the competent authority would be the Board of Directors.

The competent authority shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and such qualifications and experience are commensurate with the size and requirements of the company.

The competent Authority shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India (ICAI) or any competent authority or any Court.

It may call for such other information from the proposed auditor as it may deem fit.

(ii) As per Rule 3(1) of the Companies (Audit and Auditors) Rules, 2014:

Where a company is required to constitute the Audit Committee, the committee shall recommend the name of an individual or a firm as auditor to the Board for consideration.

Here, Kanchan Finance Ltd. is a listed company, therefore, Audit Committee shall be constituted by Board of directors under section 177.

If the Board disagrees with the recommendation of the Audit Committee, it shall refer back the recommendation to the committee for reconsideration citing reasons for such disagreement.

If the Audit Committee, after considering the reasons given by the Board, decides not to reconsider its original recommendation, the Board shall record reasons for its disagreement with the committee and send its own recommendation for consideration of the members in the annual general meeting.

Therefore, in the instant case, as the Board of directors of Kanchan Finance Ltd. was in disagreement with the opinion of the Audit Committee regarding the appointment of CA Trilok as an auditor, the Board shall send its own recommendation for consideration of the members in the annual general meeting, where the members will decide on the appointment of the auditor.

(b) (i) As per section 27 of the Limited Liability Partnership Act, 2008,

(1) A LLP, is not bound by anything done by a partner in dealing with a person if:

(a) the partner in fact has no authority to act for the LLP in doing a particular act; and

(b) the person knows that he has no authority or does not know or believe him to be a partner of the LLP.

In the given question, though the LLP agreement contained restrictions that only V and S were authorised to enter into contracts on behalf of the LLP and that any act beyond consultancy services required unanimous consent, N entered into a loan agreement with Quick Bank for expansion into real estate advisory without informing V and S. Although N had no authority under the LLP agreement to enter into such transaction, Quick Bank was unaware of the internal restrictions and believed N to be a partner of the LLP.

Therefore, VSN Consulting LLP shall be bound by the loan agreement entered into by N with Quick Bank.

(ii) According to section 24 of the Limited Liability Partnership Act, 2008,

(1) Where a person has ceased to be a partner of a limited liability partnership (hereinafter referred to as former partner), the former

partner is to be regarded (in relation to any person dealing with the limited liability partnership) as still being a partner of the limited liability partnership unless:

(a) the person has notice that the former partner has ceased to be a partner of the limited liability partnership; or

(b) notice that the former partner has ceased to be a partner of the limited liability partnership has been delivered to the Registrar.

(2) The cessation of a partner from the limited liability partnership does not by itself discharge the partner from any obligation to the limited liability partnership or to the other partners or to any other person which he incurred while being a partner.

In the given question, S retired from the LLP on 30th September, 2025. However, T Ltd. entered into a consultancy contract with the LLP on 5th October, 2025 believing S to still be a partner, since it had no notice of his retirement.

Therefore, in relation to T Ltd., S shall still be regarded as a partner of the LLP and will be held liable for obligations arising from the contract entered into after his retirement.

(c) Rule of Ejusdem Generis

The term 'ejusdem generis' means 'of the same kind or species'. Simply stated, where specific words pertaining to a class or category or genus are followed by general words, the general words shall be construed as limited to the things of the same kind as those specified.

The rule of ejusdem generis is not an absolute rule of law but only a part of a wider principle of construction and therefore this rule has no application where the intention of the legislature is clear.

Exceptions:

1. If the preceding term is general, as well as that which follows, this rule cannot be applied.
2. Where the particular words exhaust the whole genus.
3. Where the specific objects enumerated are essentially diverse in character.

4. Where there is an express intention of legislature that the general term shall not be read ejusdem generis the specific terms.

This rule has to be applied judiciously. This rule may be understood as an attempt to settle a conflict between specific and general words.

Question 5

(a) *Apex Infra Limited is a listed public company. The company had declared a final dividend @ 12% on its equity shares of face value ₹ 10 each at its Annual General Meeting held on 30th September, 2017. The company announced record date as 5th October. The dividend warrant was posted to shareholders on 25th October 2017. Mr. Arjun, a shareholder of the company, did not encash his dividend warrant. Consequently, the dividend amount remained unpaid. The company transferred the unpaid dividend amount relating to Mr. Arjun to the unpaid dividend bank account on 10th November, 2017.*

No claim was made by Mr. Arjun in respect of the unpaid dividend for several years. Further, dividends declared by the company in the subsequent years from 2018-19 to 2023-24 also remained unclaimed by him. Consequently, the company transferred the unpaid dividend amounts and the corresponding shares to the Investor Education and Protection Fund (IEPF). Mr. Arjun was of the opinion that the company cannot transfer the shares held by him to IEPF.

Explain with reference to the provisions of the Companies Act, 2013, the validity of action taken by the company and the remedy if any, available to Mr. Arjun for reclaiming unpaid dividend and shares. ***(5 Marks)***

(b) *ABC Aeromatics Ltd. is an unlisted public company incorporated under the Companies Act, 2013. It operates in the compliance-tech space, providing regulatory software solutions. The company has a paid-up capital of ₹ 60 lakhs, a turnover of ₹ 1.35 crore, 185 shareholders, and 5 directors. It has raised secured debt of ₹ 20 lakhs from two banks.*

To simplify its governance structure and reduce compliance burdens, the Board has proposed the conversion of the company into a Limited Liability Partnership (LLP) under the name ABC Aeromatics LLP. All existing shareholders of the company will become partners in the LLP. The company *expects that the business operations, client contracts, and employee structure will continue seamlessly after conversion.*

However, one issue has emerged during the legal review process:

The company is facing a regulatory action, a show cause notice under the Companies Act, 2013, for alleged failure to comply with applicable accounting standards in FY 2020-21 has been issued. This proceeding is yet to be concluded.

In this context, management seeks legal advice on the following:

(i) Can ABC Aeromatics Ltd. legally proceed with its conversion into a Limited Liability Partnership under the LLP Act, 2008, considering the pending regulatory proceeding? ***(2 Marks)***

(ii) Also discuss the effect of registration under Section 58 of the Limited Liability Partnership Act, 2008. ***(3 Marks)***

(c) (i) Who shall be included in the definition of "Person" under the General Clauses Act, 1897? ***(2 Marks)***

(ii) State the provision of Section 3(22) "Good Faith" under the General Clauses Act, 1897 and briefly discuss when an act is presumed to have been done in good faith. ***(2 Marks)***

Answer

(a) According to section 124(1) of the Companies Act, 2013, where a dividend has been declared by a company but has not been paid or claimed within thirty days from the date of the declaration to any shareholder entitled to the payment of the dividend, the company shall, within seven days from the date of expiry of the said period of thirty days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called the Unpaid Dividend Account.

According to section 124(5), any money transferred to the Unpaid Dividend Account of a company in pursuance of this section which remains unpaid or unclaimed for a period of seven years from the date of such transfer shall be transferred by the company along with interest accrued, if any, thereon to the Fund established under sub-section (1) of section 125 and the company shall send a statement in the prescribed form of the details of such transfer to the authority which administers the said Fund and that authority shall issue a receipt to the company as evidence of such transfer.

According to section 124(6), all shares in respect of which dividend has not been paid or claimed for seven consecutive years or more shall be transferred by the company in the name of Investor Education and Protection Fund along with a statement containing such details as may be prescribed.

As per the explanation to sub-section (6), in case any dividend is paid or claimed for any year during the said period of seven consecutive years, the share shall not be transferred to Investor Education and Protection Fund.

In the given case, the final dividend was declared on 30th September 2017. Since Mr. Arjun did not encash the dividend warrant, the dividend remained unpaid. The unpaid amount of dividend should have been transferred to Unpaid Dividend Account within a period of 7 days from expiry of 30 days from the date of declaration of dividends, which should be within 7 days from 30th October 2017. However, the company transferred the unpaid amount to the Unpaid Dividend Account on 10th November 2017. Hence, the company has delayed in transferring the amount and has to pay interest 12% per annum for the delayed period. So, we can say that the company has (presumably) complied with the provisions of the Act by paying the required amount of interest for the delayed period.

Further, since the dividends relating to Mr. Arjun from 2017-2018 to 2023-2024 remained continuously unclaimed, the company was legally justified in transferring both the unpaid dividend amounts and the corresponding shares to the IEPF.

Hence, Mr. Arjun’s contention that the company cannot transfer his shares to IEPF is not valid. In the instant case, Apex Infra Limited transferred the unpaid dividend amounts and corresponding shares of Mr. Arjun to the IEPF who has not claimed the dividend amount pending from 25th October 2017 till 2023-24 i.e. consecutive seven years. Hence, the action taken by the company is valid.

Remedy available to Mr. Arjun:

Refund of Unclaimed dividend Amount- As per the proviso to Section 125(3), any person whose unclaimed dividend was transferred to IEPF, after the expiry of 7 years as per provisions of the Companies Act, 1956, shall be entitled to get refund out of the fund in respect of such claims in accordance with rules made under this section.

As per the provision of section 125 (4), any person claiming to be entitled to the unpaid dividend may apply to the Authority constituted under section 125 (5) for the payment of the money claimed.

As per the explanation to sub-section (6), any claimant of shares transferred to IEPF shall be entitled to reclaim the transferred shares from Investor Education and Protection Fund in accordance with the prescribed procedure and on submission of prescribed documents.

Thus, Mr. Arjun can claim both the unpaid dividend and the shares transferred to IEPF by making an application to the IEPF Authority in the prescribed form along with the required documents and verification. Upon verification of the claim, the unpaid dividend amount and the shares shall be refunded/ transferred back to him in accordance with the prescribed procedure.

(b) (i) According to section 57 of the Limited Liability Partnership Act, 2008 read with the relevant Schedules, an unlisted public company may convert into an LLP in accordance with the provisions of this Chapter and the Fourth Schedule.

As per section 58(1), the Registrar, on satisfying that a firm, private company or an unlisted public company, as the case may be, has complied with the provisions of the Second Schedule, the Third Schedule or the Fourth Schedule, as the case may be, shall, subject to the provisions of this Act and the rules made thereunder, register the documents submitted under such Schedule and issue a certificate of registration in such form as the Registrar may determine stating that the limited liability partnership is, on and from the date specified in the certificate, registered under this Act.

In this question, ABC Aeromatics Ltd. (unlisted public company) has applied for conversion into Limited Liability Partnership. The company is facing regulatory action, a show cause notice, under the Companies

Act, 2013, for alleged failure to comply with applicable accounting standards.

In terms of the above provisions and information regarding the pending regulatory action initiated by the issue of show cause notice, the Registrar if satisfied that the company has complied with the provisions of the Act and the Fourth Schedule, may allow ABC Aeromatics Ltd. to proceed with its conversion.

(ii) **Effect of registration:** According to section 58 of the Limited Liability Partnership Act, 2008,

Notwithstanding anything contained in any other law for the time being in force, on and from the date of registration specified in the certificate of registration issued under the respective Schedule, as the case may be,—

(a) there shall be a LLP by the name specified in the certificate of registration registered under this Act;

(b) all tangible (movable or immovable) and intangible property vested in the firm or the company, as the case may be, all assets, interests, rights, privileges, liabilities, obligations relating to the firm or the company, as the case may be, and the whole of the undertaking of the firm or the company, as the case may be, shall be transferred to and shall vest in the limited liability partnership without further assurance, act or deed; and

(c) the firm or the company, as the case may be, shall be deemed to be dissolved and removed from the records of the Registrar of Firms or Registrar of Companies, as the case may be.

(c) (i) **Person**

According to section 3(42) of the General Clauses Act, 1897, "Person" shall include:

(a) any company, or

(b) association, or

(c) body of individuals, whether incorporated or not

(ii) **Good Faith**

According to section 3(22) of the General Clauses Act, 1897, a thing shall be deemed to be done in "good faith" where it is in fact done honestly, whether it is done negligently or not.

The question of good faith under the General Clauses Act, 1897 is one of fact. It is to determine with reference to the facts and circumstances of each case. Thus, anything done with due care and attention, which is not malafide is presumed to have been done in good faith. For eg: An authority is not acting honestly where it had a suspicion that there was something wrong and did not make further enquiries.

Question 6

(a) ABC Ltd. is an eligible company to accept deposits. It had accepted a fixed deposit of ₹ 5,00,000 from Mr. R on 1st April, 2022 for a period of 36 months at an interest rate of 9% per annum. On 30th November, 2024, after the expiry of six months from the date of deposit but before the date of maturity, Mr. R requested premature repayment of the deposit.

ABC Ltd. agreed to repay the deposit on the same date. The deposit rate of interest offered by the company for 12 months is 7%, for 24 months 8% and 36 months is 9% respectively.

Referring to the applicable provisions of the Companies Act and Companies (Acceptance of Deposits) Rules, 2014 regarding premature payment of deposits, you are required to answer the following:

(i) Calculate the period of deposit and the rate of interest payable to Mr. R.

(ii) State the situations where the reduction of rate of interest is not applicable even if the deposit is prematurely repaid. ***(5 Marks)***

(b) Global Trade LLC is a company incorporated in the UK having a branch office in India. The company prepares its global financial statements as per UK law and follows a financial year ending on 31st December.

For the financial year 2024-25, Global Trade LLC prepared financial statements relating to its Indian business operations and got the same audited by a practicing Chartered Accountant in India. However, the *company filed such financial statements with the Registrar of Companies after 10 months from the close of the financial year and failed to attach the other documents of the statements usually attached, under the pretext that there were no transactions of that nature. The company further claims that such delay and non-attachment of the documents shall not affect the validity of contracts entered into by it.*

Examine, with reference to the provisions of the Companies Act, 2013:

(i) Whether the claim of Global Trade LLC on non-attachment of documents is valid under the provisions of Section 381; and

(ii) Whether the claim of the company is correct that it shall not be affected in any way, nor it shall affect the contracts entered by it?

(5 Marks)

(c) Answer the following referring to the provision of the Foreign Exchange Management Act, 1999.

(i) Discuss the provision pertaining to holding of foreign exchange by resident in India. ***(2 Marks)***

(ii) State the general rule to be understood with respect to a Current Account Transaction and Capital Account Transaction. ***(2 Marks)***

Answer

(a) (i) Section 76 of the Companies Act, 2013 and Rule 15 of the Companies (Acceptance of Deposits) Rules, 2014 deal with acceptance of deposits from public by eligible companies.

<u>Premature Repayment of Deposits (for eligible companies):</u> Where a company makes a repayment of deposits, on the request of the depositor, after the expiry of a period of six months from the date of such deposit but before the expiry of the period for which such deposit was accepted, the rate of interest payable on such deposit shall be reduced by one per cent. from the rate which the company would have paid had the deposit been accepted for the period for which such deposit had actually run and the company shall not pay interest at any rate higher than the rate so reduced.

As per the Explanation given under the said rule- For the purposes of this rule, where the period for which the deposit had run contains any part of a year, then, if such part is less than six months, it shall be excluded and if such part is six months or more, it shall be reckoned as one year.

In the situation given in the question: Original deposit tenure = 3 years;

Contracted rate = 9% (for 3 years);

Actual period run = 2 years 8 months.

As per the explanation provided in the Rule, if the actual period contains a fraction of a year, the period will be determined as below:

1. For less than 6 months → The full year is to be ignored ignoring the part of the year: and
2. For 6 months or more → To be count as one full year.

So, 2 years 8 months to be count as 3 years.

Therefore, while calculating the rate of interest payable, the "actual run period" will be considered as 3 years and contract rate applicable for 3 years (and not for 2 years) will be: 9% (same as original scheme) Less penalty for premature reduction 1% = 8%.

Hence, for the period of deposit is 32 months the rate of interest payable to Mr. R would be 8%.

(ii) Reduction of rate of interest is not applicable in the following cases:

(a) Where the deposit is prematurely repaid to comply with Rule 3 i.e. premature repayment made in order to reduce the total amount of deposits to bring it within the permissible limits; or

(b) Where the deposit is prematurely repaid to provide for war risk or other related benefits to the personnel of naval, military or air forces or to their families during the period of emergency declared under Article 352 of the Constitution.

(b) (i) According to section 381 of the Companies Act, 2013 read with Rule 4 of the Companies (Registration of Foreign Companies) Rules, 2014,

Every foreign company shall, in every calendar year,

(a) make out a balance sheet and profit and loss account in such form, containing such particulars and including or having annexed or attached thereto such documents as may be prescribed; and

(b) deliver a copy of those documents to the Registrar:

Every foreign company shall, along with the financial statement required to be filed with the Registrar, attach thereto the following documents; namely:-

(1) Statement of related party transaction

(2) Statement of repatriation of profits

(3) Statement of transfer of funds (including dividends, if any)

The above statements shall include such other particulars as are prescribed in the Companies (Registration of Foreign Companies) Rules, 2014.

The documents referred to in this rule shall be delivered to the Registrar within a period of six months of the close of the financial year of the foreign company to which the documents relate:

Provided that the Registrar may, for any special reason, and on application made in writing by the foreign company concerned, extend the said period by a period not exceeding three months.

In the instant case, the claim of Global Trade LLC on non-attachment of documents usually attached with the financial statements with the Registrar under the pretext that there were no transactions of that nature is not valid; the company should have filed "Nil" statements in the prescribed documents. Also, the filing of said documents after 10 months from the close of the financial year is not in compliance.

(ii) As per section 393, any failure by a company to comply with the provisions of Chapter XXII of the Companies Act, 2013, shall not affect the validity of any contract, dealing or transaction entered into by the company or its liability to be sued in respect thereof.

However, the company shall not be entitled to bring any suit, claim any set-off, make any counter-claim or institute any legal proceeding in respect of any such contract, dealing or transaction, until the company has complied with the provisions of the Companies Act, 2013, applicable to it.

Therefore, the claim of the company is not correct that it shall not be affected in any way, nor it shall affect the contracts entered by it. Even though the contract itself will not be affected, the company shall not be entitled to bring any suit, claim any set-off, make any counter-claim or institute any legal proceeding in respect of such contract, dealing or transaction, until the company has complied with the above stated provisions.

(c) (i) **Holding of foreign exchange by resident in India**

According to section 4 of the Foreign Exchange Management Act, 1999, except as provided in this Act, no person resident in India shall acquire, hold, own, possess or transfer any foreign exchange, foreign security or any immovable property situated outside India.

This section prevents Indian residents to acquire, hold, own, possess or transfer any foreign exchange, foreign security or immovable property abroad. Then through separate notifications, acquisition of these assets has been permitted subject to certain conditions and compliance rules.

(ii) The general rule to be understood is that Current Account transactions are freely permitted unless specifically prohibited and Capital Account transactions are prohibited unless specifically or generally permitted.