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Mock Test Paper - Series I: March, 2026

Date of Paper: 18th March, 2026

Time of Paper: 10 A.M. to 1 P.M.

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. (b)

2. (c)

3. (d)

4. (c)

5. (c)

6. (b)

7. (b)

8. (b)

9. (a)

10. (d)

11. (b)

12. (c)

13. (c)

14. (b)

15. (c)

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. (a) According to the provisions of section 68 (2) of the Companies Act, 2013, no company shall purchase its own shares or other specified securities under sub-section (1), unless—

(a) the buy-back is authorised by its articles;

(b) a special resolution has been passed at a general meeting of the company authorising the buy-back:

Provided that nothing contained in this clause shall apply to a case where—

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(i) the buy-back is, ten per cent or less of the total paid-up equity capital and free reserves of the company; and

(ii) such buy-back has been authorised by the Board by means of a resolution passed at its meeting;

(c) the buy-back is twenty-five per cent or less of the aggregate of paid-up capital and free reserves of the company:

Provided that in respect of the buy-back of equity shares in any financial year, the reference to twenty-five per cent in this clause shall be construed with respect to its total paid-up equity capital in that financial year.

In the instant case, Cross Wheels Limited, at a general meeting of members of the company, passed an ordinary resolution to buy back 30% of its equity share capital. The articles of the company empower the company for buy back of shares.

The Company's proposal is not in order, since a special resolution as required by the above provision has not been passed, rather an ordinary resolution has only been passed.

(b) According to section 139(2) of the Companies Act, 2013, no listed company or a company belonging to such class or classes of companies as may be prescribed, shall appoint or re-appoint—

(a) an individual as auditor for more than one term of five consecutive years; and

(b) an audit firm as auditor for more than two terms of five consecutive years.

Provided that –

(i) an individual auditor who has completed his term under clause (a) shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;

(ii) an audit firm which has completed its term under clause (b), shall not be eligible for re-appointment as auditor in the same company for five years from the completion of such term.

Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.

As per Explanation II in Rule 6(3) of the Companies (Audit and Auditors) Rules, 2014, if a partner, who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of

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chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

Mr. Arvind was a partner, in- charge (and certifies the financial statement of the company) in M & Associates. He retires from M & Associates and joins P & P Associates.

As per the facts of the question and provisions of law, Mr. Arvind and P & P Associates will be ineligible, to be appointed as auditor of Zenith Limited (listed company) for a period of 5 years.

(c) As per the provisions of the Foreign Exchange Management Act, 1999 read with Schedule III of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, the following remittances by persons other than individuals shall require prior approval of the Reserve Bank of India.

Remittances exceeding USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1,000,000 per project, for other consultancy services procured from outside India.

Explanation—For the purposes of this sub-paragraph, the expression "infrastructure' shall mean as defined in explanation to para 1(iv)(A)(a) of Schedule I of FEMA Notification 3/2000-RB, dated the May 3, 2000.

Alpha Infra Ltd. proposes to remit USD 12,000,000 for consultancy services in respect of an infrastructure project. Since, the amount exceeds USD 10,000,000**,** prior approval of Reserve Bank of India is required.

2. **(a)** Section 8 of the Companies Act, 2013 deals with the formation of companies which are formed to promote the charitable objects of commerce, art, science, education, sports etc. Such company intends to apply its profit in promoting its objects. Section 8 companies are registered by the Registrar only when a license is issued by the Central Government to them. Seva school was a Section 8 company and it started violating the objects of its objective clause, hence in such a situation the following powers can be exercised by the Central Government:

(i) The Central Government may by order revoke the licence of the company where the company contravenes any of the requirements or the conditions of this sections subject to which a licence is issued or where the affairs of the company are conducted fraudulently, or violative of the objects of the company or prejudicial to public interest, and on revocation the Registrar shall put 'Limited' or 'Private Limited' against the company's name in the register. But before such revocation, the Central Government must give it a written notice of its intention to revoke the licence and opportunity to be heard in the matter.

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(ii) Where a licence is revoked, the Central Government may, by order, if it is satisfied that it is essential in the public interest, direct that the company be wound up under this Act or amalgamated with another company registered under this section. However, no such order shall be made unless the company is given a reasonable opportunity of being heard.

(iii) Where a licence is revoked and where the Central Government is satisfied that it is essential in the public interest that the company registered under this section should be amalgamated with another company registered under this section and having similar objects, then, notwithstanding anything to the contrary contained in this Act, the Central Government may, by order, provide for such amalgamation to form a single company with such constitution, properties, powers, rights, interest, authorities and privileges and with such liabilities, duties and obligations as may be specified in the order.

(b) **Sweat equity shares** are the shares that are issued by a company to its employees or directors at a discount or for consideration, other than cash. These shares are given as a reward for their contribution to the company's growth, such as providing intellectual property, technical expertise, or other valuable services. The holders of sweat equity shares shall rank pari-passu with other equity shareholders.

The issuance of sweat equity shares is regulated under section 54 of the Companies Act, 2013, along with the Companies (Share Capital and Debentures) Rules, 2014.

Maximum Limit: To prevent excessive dilution of ownership, the law imposes certain limits on the amount of sweat equity shares a company can issue. As per Sub-rule 4 of the Companies (Share Capital and Debentures) Rules, 2014, a company can issue sweat equity shares within the following limits:

1. Annual Limit: The company can issue sweat equity shares up to the higher of the 15% of the existing paid-up equity share capital, or shares of the issue value of rupees five crores.
2. Overall Limit: At any point in time, the total sweat equity shares issued (including all previous issues) cannot exceed 25% of the total paid-up equity share capital of the company.

In the present case the paid-up share capital of the company is ₹ 40 crore. The company has previously issued sweat equity shares worth ₹ 8 crore and now plans to issue ₹ 7 crore more this year. So, according to annual limit imposed, 15% of ₹ 40 crore is ₹ 6 crore.

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Hence, company can issue up to ₹6 crore in sweat equity shares [higher of ₹ 6 crore and ₹ 5 crore].

Secondly, as per the overall limit imposed to issue sweat equity shares is 25% of Paid-Up Capital.

Therefore, Overall maximum limit = 25% of ₹ 40 crore = ₹ 10 crore

Previously the company issued sweat equity shares worth ₹ 8 crore. Since the company has already issued ₹ 8 crore worth of sweat equity shares, it cannot issue more than ₹ 2 crore under the 25% overall limit.

However, according to the annual limit, the company can issue shares worth ₹ 6 crore, but can issue further more upto ₹ 2 crore in sweat equity shares while staying within overall legal limits.

Thus, proposal to issue an additional ₹ 7 crore this year exceeds the limits. Hence, if the company wants to issue more sweat equity shares, it will have to increase its paid-up equity share capital to expand the permissible limit.

(c) **"Immovable Property"** [Section 3(26) of the General Clauses Act, 1897]: 'Immovable Property' shall include:

(i) Land,

(ii) Benefits to arise out of land, and

(iii) Things attached to the earth, or

(iv) Permanently fastened to anything attached to the earth.

It is an inclusive definition. It contains four elements: land, benefits to arise out of land, things attached to the earth and things permanently fastened to anything attached to the earth. Where, in any enactment, the definition of immovable property is in the negative and not exhaustive, the definition as given in the General Clauses Act, 1897 will apply to the expression given in that enactment.

In the instant case, Aman sold Land along with timber (obtained after cutting trees) of fifty tamarind trees of his land. According to the above definition, Land is immovable property; however, timber cannot be immovable property since the same are not attached to the earth.

3. **(a)** According to section 2(69) of the Companies Act, 2013, Promoter means a person:

(a) Who has been named as such in a prospectus or is identified by the company in the annual return; or

(b) Who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or

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(c) In accordance with whose advice, directions or instructions the Board of Directors of the Company is accustomed to act.

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity.

As the job profile of Mr. A is only limited to advise the Board of Directors on various compliance matters, strategies, business plans and risk matters relating to business of the company and that too only in a professional capacity, he will not be classified as a Promoter of XYZ Limited.

(b) Section 142 of the Companies Act, 2013, provides for remuneration of auditors. According to this section the remuneration of the auditors of a company shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine.

The remuneration shall, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of the company.

As per the facts of the question and stated provision, remuneration of the appointed statutory auditors of a company shall be fixed by White Private Limited in general meeting or in such manner as the company in general meeting may determine.

(c) 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.

However, where it is not possible to reconcile the two provisions and give effect to both, the conflict may be resolved by treating one provision as an exception or a specific rule to the other. In such cases, the specific provision prevails over the general provision. This principle is usually expressed by the maxim, "*generalia specialibus non derogant*".

Limitations of the Rule: This rule can be applied only when there is a real and not merely apparent conflict between provisions. Where the language of the statute is clear and unambiguous and admits of only one meaning, such natural meaning will prevail. The court shall not attempt an interpretation based on equity and harmonious construction.

4. **(a)** According to first provision to section 137(1) of the Companies Act, 2013, where the financial statements are not adopted at Annual General Meeting (AGM) or adjourned AGM, such unadopted financial statements along with the required

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documents shall be filed with the Registrar within thirty days of the date of Annual General Meeting and the Registrar shall take them in his records as provisional till the financial statements are filed with him after their adoption in the adjourned Annual General Meeting for that purpose.

According to second proviso to section 137(1) of the Companies Act, 2013, financial statements adopted in the adjourned AGM shall be filed with the Registrar within thirty days of the date of such adjourned AGM with such fees or such additional fees as may be prescribed.

In the instant case, the accounts of Paper Limited were adopted at the adjourned AGM held on 20th September, 2025 and filing of financial statements with Registrar was done on 29th September, 2025 i.e. within 30 days of the date of adjourned AGM. However, Paper Limited has not filed its unadopted financial statements within 30 days of the date of the Annual General Meeting held on 17th August, 2025.

Hence, Paper Limited has not complied with the statutory requirement regarding filing of unadopted accounts with the Registrar, but has certainly complied with the provisions by filing of adopted accounts within the due date with the Registrar.

(b) According to section 138 of the Companies Act, 2013, read with Rule 13 of the Companies (Accounts) Rules 2014, every unlisted public company is required to appoint an internal auditor if it satisfies any of the following conditions of having:

i. Paid up share capital of fifty crore rupees or more during the preceding financial year; or

ii. Turnover of two hundred crore rupees or more during the preceding financial year; or

iii. Outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or

iv. Outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year.

In the given question, Downtown Limited has turnover of ₹ 210 crore and it also has outstanding deposit amounting to ₹ 28 crore in the financial year 2024-25. Hence, it will be required to appoint an internal auditor for the financial year 2025-26.

(c) Under the provisions of the Foreign Exchange Management Act, 1999 and the rules relating to transactions for which drawal of foreign exchange is prohibited, it

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includes- Payment of commission on exports under Rupee State Credit Route, except commission up to 10% of invoice value of exports of tea and tobacco.

Accordingly, in the given question,

1. Payment of commission on exports under the Rupee State Credit Route is prohibited. Since, the export is of machinery and not of tea or tobacco, the payment of 8% commission is not permissible. Hence, the transaction is invalid.
2. In the case of export of tea, commission is permitted only up to 10% of the invoice value. Since the commission paid is 12%, it exceeds the permitted limit. Therefore, the payment to the extent exceeding 10% is not permissible, and the transaction is not fully valid under FEMA.

5. (a) According to section 103 of the Companies Act, 2013, in case of a public company, unless the articles of the company provide for a larger number, if the number of members is more than 1000 but upto 5000, then the quorum shall be 15 members personally present.

If the quorum is not present within half-an-hour from the time appointed for holding a meeting of the company:

(a) the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other date and such other time and place as the Board may determine; or

(b) the meeting, if called by requisitionists under section 100, shall stand cancelled:

Provided that in case of an adjourned meeting or of a change of day, time or place of meeting under clause (a), the company shall give not less than three days' notice to the members either individually or by publishing an advertisement in the newspapers (one in English and one in vernacular language) which is in circulation at the place where the registered office of the company is situated.

Quorum not present at the adjourned meeting also: Where quorum is not present in the adjourned meeting also within half an hour, then the members present shall form the quorum.

In the given question, the quorum for the given company having 3500 members shall be 15 members personally present.

Where quorum is not present in the adjourned meeting (i.e. 12th August 2025) also within half an hour, then the two members present shall form the quorum.

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(b) According to section 31 of the Limited Liability Partnership Act, 2008,

(1) The Court or Tribunal may reduce or waive any penalty leviable against any partner or employee of a LLP, if it is satisfied that:

- such partner or employee of an LLP has provided useful information during investigation of such LLP; or
- when any information given by any partner or employee (whether or not during investigation) leads to Limited Liability Partnership or any partner or employee of such LLP being convicted under this Act or any other Act.

(2) No partner or employee of any LLP may be discharged, demoted, suspended, threatened, harassed or in any other manner discriminated against the terms and conditions of his LLP or employment merely because of his providing information or causing information to be provided pursuant to sub-section (1).

(c) **(i)** **Ambiguous definitions:** Sometime, we may find that the definition section may itself be ambiguous, and so it may have to be interpreted in the light of the other provisions of the Act and having regard to the ordinary meaning of the word defined. Such type of definition is not to be read in isolation. It must be read in the context of the phrase which it defines, realising that the function of a definition is to give accuracy and certainty to a word or phrase which would otherwise be vague and uncertain but not to contradict it or depose it altogether.

(ii) **Definitions subject to a contrary context:** When a word is defined to bear a number of inclusive meanings, the sense in which the word is used in a particular provision must be ascertained from the context of the scheme of the Act, the language of the provision and the object intended to be served thereby.

6. **(a)** According to section 393 of the Companies Act, 2013, 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.

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In this given question, Quiet Limited, a company incorporated outside India, has failed to comply with certain provisions of Chapter XXII of the Companies Act, 2013, which governs the registration and compliance requirements for foreign companies operating in India.

According to the Companies Act, 2013, non-compliance with Chapter XXII does not affect the validity of any contract, dealing, or transaction entered into by the company. Therefore, the contract between Quiet Limited and Loud Limited remains valid, and Loud Limited is still legally bound to fulfill its contractual obligations, including the payment for the machinery supplied.

Further, Quiet Limited cannot bring a suit, claim any set-off, make any counter-claim, or institute any legal proceeding related to the contract as it has not complied with certain provisions of Chapter XXII.

(b) Section 109 of the Companies Act, 2013 provides for the demand of poll before or on the declaration of the result of the voting on any resolution on show of hands. Accordingly, law says that:

Before or on the declaration of the result of the voting on any resolution on show of hands, a poll may be ordered to be taken by the Chairman of the meeting on his own motion, and shall be ordered to be taken by him on a demand made in that behalf:

(i) In the case a company having a share capital, by the members present in person or by proxy, where allowed, and having not less than one-tenth of the total voting power or holding shares on which an aggregate sum of not less than five lakh rupees or such higher amount as may be prescribed has been paid-up; and

(ii) in the case of any other company, by any member or members present in person or by proxy, where allowed, and having not less than one tenth of the total voting power.

In the given question, 75 members present in person or by proxy holding more than 1/10th of the total voting power, demanded for poll. Hence, the contention of the Chairman is not valid.

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(c) According to section 13 of the General Clauses Act, 1897, in all legislations and regulations, unless there is anything repugnant in the subject or context:

(1) Words importing the masculine gender shall be taken to include females, and

(2) Words in singular shall include the plural and vice versa.

In accordance with the rule that the words importing the masculine gender are to be taken to include females, the word men may be properly held to include women, and the pronoun 'he' and its derivatives may be construed to refer to any person whether male or female.

Where a word connoting a common gender is available but the word used conveys a specific gender, there is a presumption that the provisions of General Clauses Act, 1897 do not apply.

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