

Mock Test Paper - Series II: August, 2026

Date of Paper: 10th August, 2026

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

**INTERMEDIATE COURSE: GROUP – I
PAPER – 2: CORPORATE AND OTHER LAWS**

Suggested Answers

Answers to Mcqs

1. (b)
2. (b)
3. (c)
4. (a)
5. (b)
6. (b)
7. (b)
8. (b)
9. (c)
10. (a)
11. (c)
12. (c)
13. (d)
14. (a)
15. (c)

Descriptive Answers

1. (a) (i) According to Section 2(85) of the Companies Act, 2013, "small company" means a company, other than a public company, having-
 - (A) paid-up share capital not exceeding ₹ 10 crore, and
 - (B) turnover, per the profit and loss account for the immediately preceding financial year, not exceeding ₹ 100 crore.

Provided that nothing in this clause shall apply to—

- (A) a holding company or a subsidiary company;
- (B) a company registered under section 8; or
- (C) a company or body corporate governed by any special Act

Under Section 2(87), a company is a subsidiary of another ("holding") company in which the holding company-

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Here in the given instance, Yellow Limited holds 2,00,000 of fully paid up equity shares of Resolution Private Limited's with paid up share capital of ₹ 50,00,000 divided into 5,00,000 equity shares of ₹ 10 each (carrying voting rights). This holding of 5,00,000 equity shares constitutes 40% of the total voting power in the Resolution Private Limited, which is less than the prescribed threshold of holding more than 50% of the voting power.

Therefore, Resolution Private Limited is not a subsidiary of Yellow Limited, and so it is out of the purview of the exemption from the applicability of the clause 2(85). So, Resolution Private Limited qualifies as a small company meeting up the requirements of paid-up capital and turnover within the prescribed limit of ₹ 10 crore and ₹ 100 crore respectively.

- (ii) As per Section 2(40) of the Companies Act, 2013, "financial statement" includes a balance sheet, profit and loss account, cash flow statement, statement of changes in equity (if applicable), and explanatory notes. However, the financial statement of a One Person Company, small company, dormant company, and a private company classified as a "start-up", need not include a cash flow statement.

In the given instance as Resolution Private Limited qualifies as a small company, it is exempted from including a cash flow statement in its financial statements. It has therefore not defaulted in filing its financial statements with the ROC, and the notice issued on this ground is not sustainable.

- (b) (i) Section 135(1) of the Companies Act, 2013 requires every company to constitute a CSR Committee of the Board consisting of at least three directors, including at least one independent director if, during the immediately preceding financial year, it satisfies any one of the following thresholds:

- Net worth of ₹ 500 crore or more, or
- Turnover of ₹ 1,000 crore or more, or
- Net profit of ₹ 5 crore or more

Applicability of the above provision is determined solely on the basis of the audited figures of the immediately preceding financial year.

For Pacific Limited, the immediately preceding financial year with reference to FY 2025-26 is FY 2024-25 (ended 31-03-2025), for which the audited figures were:

Criteria	Financial particulars as at 31.03.2025	Threshold	Met?
Net worth	₹ 100 crore	₹ 500 crore	No
Turnover	₹ 500 crore	₹ 1,000 crore	No
Net profit	₹ 1 crore	₹ 5 crore	No

Here, none of the three thresholds is met. The improved provisional figures for the half-year ended 30-09-2025 are not relevant, since Section 135(1) refers only to the audited figures of the immediately preceding financial year, not to provisional or in-year results.

Hence it can be concluded that Pacific Limited is not required to constitute a CSR Committee of the Board for FY 2025-26.

- (ii) Section 127 of the Companies Act, 2013 requires a company to pay or dispatch declared dividend within 30 days of declaration. Where paid by dividend warrant, it is the posting of the warrant at the shareholder's registered address, within the prescribed period that discharges the company's obligation.

Here, dividend was declared on 31-07-2025 and the warrant was posted on 22-08-2025, well within 30 days. Mr. A's delayed receipt on 5-09-2025 (due to postal delay) does not amount to a default by the company. Mr. A therefore cannot maintain any action against Smart Limited for failure to distribute dividend within the statutory period.

- (c) (i) Under the Liberalised Remittance Scheme [Schedule III, the FEM (Current Account Transactions) Rules, 2000], a resident individual may remit up to US\$ 250,000 per financial year for permitted purposes, including studies abroad, without RBI approval. The proviso to Para 1 of Schedule III additionally permits remittance beyond US\$ 250,000, without RBI's prior approval, where the remittance is supported by an estimate from the foreign institution demanding the higher amount. Since Mr. Pravesh's requirement of US\$ 140,000 is within the US\$ 250,000 ceiling, he may draw this foreign exchange without RBI's prior approval, through an Authorised Person.
- (ii) Under Section 5 of the FEMA, 1999, current account transactions are freely permitted subject to any reasonable restrictions the Central Government may impose by rule. Schedule II to the FEM (Current Account Transactions) Rules, 2000 specifically requires prior approval of the Ministry of Information & Broadcasting and the Ministry of Communication and Information technology for remittance of hiring charges of transponders. Mr. Pravesh must therefore obtain the Ministry's approval before drawing US\$ 10,000 for this purpose.

In both cases, foreign exchange may be drawn only through an Authorised Person as defined in Section 2(c) of the FEMA, 1999.

2. (a) (i) Provisions relating to Quorum for General Meetings [Section 103(1) of the Companies Act, 2013]

Unless the Articles of Association of the company provide for a larger number, the quorum for a general meeting shall be as follows:

In case of a Public Company —

- If the number of members as on the date of the meeting is not more than 1,000 → 5 members personally present.
- If the number of members is more than 1,000 but up to 5,000 → 15 members personally present.
- If the number of members is more than 5,000 → 30 members personally present.

In the given case, Samayak Limited is a public company and had 850 members as on the date of the AGM (25-09-2025). Therefore, the requisite quorum is 5 members personally present. Here only 4 members were personally present within half an hour from the appointed time. Therefore, the statement of the Company Secretary that the requisite quorum was not present is correct. The meeting was rightly treated as inquorate.

(ii) Quorum for the Adjourned Meeting and Consequences where no quorum even at adjourned meeting[Section 103(3)]

If at the adjourned meeting also, a quorum is not present within half an hour of the appointed time, the members present shall themselves constitute the quorum, i.e., whatever number of members is actually present at the adjourned meeting shall be treated as sufficient quorum, and the meeting may validly proceed with the business on the agenda.

Since, in the given instance, the AGM held on 25-09-2025 lacked quorum, it stood automatically adjourned to 02-10-2025, same time and place (being an AGM, not a requisitionist-called meeting). If, at this adjourned meeting held on 02-10-2025, the requisite quorum of 5 members is again not present within half an hour, the members actually present shall constitute valid quorum, and the meeting can be validly held with such members present.

- (b)** As per the proviso to Section 68(2) of the companies Act, 2013, no offer of buy-back shall be made within a period of one year from the date of closure of the preceding buy-back offer, if any, not six months as the statement claims.

Separately, Section 68(8) of the companies Act, 2013, provides that where a company completes a buy-back, it shall not make a further issue of the same kind of securities [including by allotment under Section 62(1)(a)] within six months, except by way of bonus issue or in discharge of subsisting obligations such as conversion of warrants, stock options, sweat equity, or conversion of preference shares/debentures into equity.

The statement transposes these two periods (it states a "six-month" gap before a fresh buy-back offer and a "one-year" cooling period for further issue of the same kind of shares). This is the reverse of the correct position. The statement, as worded, is therefore not valid.

- (c)** Section 27 of the General Clauses Act, 1897 provides that where any legislation authorises or requires a document to be served by post, service is deemed to be effected unless a different intention appears by:

(i) properly addressing, (ii) pre-paying, and (iii) posting the document by registered post; and, unless the contrary is proved, service is deemed to have been effected at the time the letter would be delivered in the ordinary course of post.

In Jagdish Singh v. Natthu Singh, the Supreme Court held that where a notice sent by registered post is returned with an endorsement of refusal, service is presumed to be effected.

In the given scenario, Mr. Rachit shifted house but did not update his address with the Income Tax Department, which sent a notice by registered post, properly addressed, to the address on its records. The notice reached the old address, where the present occupant refused to accept it. The Department later took penal action, which Mr. Rachit contests on the ground of non-receipt.

Accordingly, in the light of the stated provision, since the notice was properly addressed and sent by registered post to the address recorded with the Department, service is deemed to have been validly effected under Section 27 of the General Clauses Act, 1897, regardless of actual receipt. It was Mr. Rachit's own responsibility to update his address.

Hence, the Income Tax Department's action is valid, and Mr. Rachit's contention of improper service does not hold.

3. (a) Provisions relating to Service of Documents is dealt in Section 20 of the Companies Act, 2013 read with Rule 35 of the Companies (Management and Administration) Rules, 2014.

(i) **Service of documents on a Member:** A document may be served on a member by the company by any of the following modes:

1. Sending it to the member by post or by registered post or by speed post or through courier at his registered address; or
2. Delivering it at his registered address; or
3. Sending it through electronic mode (email), where the member has registered his email address with the company; or
4. In the case of a member who has no registered address in India, by advertisement in a newspaper circulating in the district where the registered office is situated, or by any other mode prescribed.

Additionally, in the case of documents like the AGM notice, Section 101 and the general framework of Section 20 permit the company to use any one of the recognised modes post, courier, or electronic transmission.

Importantly, the law does not mandate email as the exclusive or mandatory mode merely because a member has registered an email address. The

company retains the option to serve through any of the valid modes listed above, including post/speed post to the registered address.

Nirmal Enterprises Limited sent the AGM notice by speed post to Mr. Kapoor's registered address. This is an expressly recognised mode of service under Section 20(1). The mere fact that Mr. Kapoor had registered an email address does not oblige the company to serve the notice exclusively by email. Therefore, the service by speed post is valid, and Mr. Kapoor's contention does not hold good.

(ii) **Service of documents on the Company:** A document may be served on a company by:

- Sending it by post, or by registered post, or by speed post, or by courier, to its registered office; or
- Leaving it at its registered office; or
- Sending it through electronic mode, at the email address, if any, notified by the company.

The section contemplates actual delivery of the document either handing it over at the registered office to a person authorised to receive it, or sending it through a recognised postal/courier/electronic channel that results in. Mere affixation of a document to the main door of the registered office, when the office is found locked and no one is available to receive it, is not a mode of service recognised under Section 20.

The legal notice was hand-delivered at the registered office of Nirmal Enterprises Limited, but since the office was locked and no representative was present, the sender merely affixed the notice to the door. As affixation is not a mode contemplated under Section 20(1), and there was no actual delivery to any person at the registered office nor was the notice sent by post/courier/email, the service of the legal notice on the company, in the manner described, is not valid in law. The sender ought instead to have sent the notice by registered post/speed post/courier to the registered office, which would have constituted valid service.

- (b) Under Rule 2(1)(c)(ix) of the Companies (Acceptance of Deposits) Rules, 2014, an amount brought in by promoters by way of unsecured loan, pursuant to a stipulation by a lending financial institution or bank, is excluded from the definition of "deposit" .

Provided: (a) the loan is brought in because of such stipulation on the promoters; (b) it is provided by the promoters themselves, their relatives, or both; and (c) the exemption is available only until the institutional loan is repaid.

Here, the unsecured loan from J Limited's promoters was contributed pursuant to SIDCL's margin-money stipulation and provided by the promoters themselves. It therefore does not constitute a "deposit" while the SIDCL loan remains outstanding. However, once the entire SIDCL loan is repaid, the exemption ceases, and the continuing promoters' loan will thereafter be treated as a deposit, requiring compliance with the Companies (Acceptance of Deposits) Rules, 2014 unless repaid or otherwise re-classified.

(c) Impact of "Means" and "Includes" in a Statutory Definition

1. **"Means"** — When a definition uses the word "means", it is **restrictive and exhaustive**. The term is confined strictly to what is stated, and no other meaning can be given to it. *Example:* Section 2(34), Companies Act, 2013 — "**Director** means a director appointed to the Board of a company". An exhaustive definition.

2. **"Includes"** — When a definition uses the word "includes", it is **extensive in nature**. The ordinary meaning of the word is retained and additionally enlarged to cover the categories specified.

Example: Section 2(94) — "**Whole-time director** includes a director in the whole-time employment of the company". It's an inclusive definition.

3. **"Means and Includes"** — Where both words are used together, the definition is treated as **exhaustive**. "Means" makes it a hard-and-fast definition, while "includes" merely brings in specified matters that would not otherwise fall within its ordinary meaning; nothing beyond the stated enumeration is covered.

Example: "Associate company", in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence, and includes a joint venture company. This is the classic example of use of "means and includes". The "means" clause sets the boundary, and the "includes" clause deliberately stretches that boundary to capture additional, specified categories.

4. (a) Directors' Responsibility Statement [Section 134(5) of the Companies Act, 2013]

The Board's Report of every company is required to include a Directors' Responsibility Statement. Under Section 134(5), this Statement must affirm, among other matters, that :

1. in the preparation of the annual accounts, the applicable accounting standards had been followed, along with proper explanation relating to material departures, if any.
2. the directors had selected such accounting policies and applied them consistently, and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.
3. the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. the directors had prepared the annual accounts on a going-concern basis.
5. the directors had laid down internal financial controls to be followed by the company, and that such internal financial controls were adequate and were operating effectively.
6. the directors had devised proper systems to ensure compliance with the provisions of all applicable laws, and that such systems were adequate and operating effectively.

Examination of the Managing Director's View

The Managing Director's view that the Directors' Responsibility Statement is merely a formal, boilerplate declaration is not correct. Section 134(5) expressly requires the Statement to substantively affirm specific matters, like that of Vibrant Textiles Limited, the adequacy and effective operation of internal financial controls, as well as the adequacy and effective operation of systems to ensure compliance with all applicable laws. These are not optional or generic affirmations. They are mandatory statutory requirements, and the directors must have a real, substantive basis for making them, since incorrect statements in this regard can expose directors to liability.

Accordingly, the Company Secretary's position is the correct one, and the Managing Director's view is legally untenable.

- (b) Mohan John LLP proposes to appoint only Mr. John and Ms. Kate, both non-resident Indians as its two designated partners.

Section 7(1) of the LLP Act, 2008 mandates that every LLP have at least two individual designated partners, and that at least one of them be a person resident in India. "Resident in India", per the Explanation to Section 7 means an individual who has stayed in India for not less than 120 days during the immediately preceding financial year.

As proposed, neither Mr. John nor Ms. Kate satisfies the resident-in-India test, so appointing them as the LLP's only designated partners would contravene Section 7(1). The correct advice is that Mohan John LLP must appoint at least one of Mohan or Rakul (both resident in India) as a designated partner, alongside either Mr. John or Ms. Kate. Mr. John and Ms. Kate cannot together be the LLP's sole designated partners.

- (c) (i) **Historical Setting:** The history of the external circumstances leading to an enactment is significant in construing it. Courts may draw on external or historical facts including Parliamentary history, ancient statutes, and contemporary authentic writings to understand the subject-matter, scope and object of the enactment.
- (ii) **Use of Foreign Decisions:** Decisions of foreign courts following a similar system of jurisprudence, given on laws similar to India's own, may legitimately aid construction of Indian statutes. However, primary importance is always given to the language of the Indian statute, and reference to foreign decisions becomes unnecessary where adequate guidance is available from Indian decisions.

5. (a) Limited Liability Partnership (LLP) is a new corporate business form introduced under the Limited Liability Partnership Act, 2008, that enables entrepreneurship, professional expertise and risk capital to combine efficiently. It is an alternative corporate business vehicle that provides the benefits of limited liability of a company but allows its members the flexibility of organising their internal structure as a partnership, based on a mutually arrived agreement.

Hence, in the following manner an LLP combines the limited liability protection of a company with the operational flexibility of a partnership:

Limited Liability aspect (Company-like feature):

An LLP is a body corporate formed and incorporated under the LLP Act, 2008, and is a legal entity separate from its partners, having perpetual succession. Since it has a separate legal entity, it is liable to the full extent of its assets, but the

liability of the partners is limited to their agreed contribution in the LLP. No partner is liable on account of the independent or unauthorised actions of other partners, thus individual partners are protected from joint liability created by another partner's wrongful acts or misconduct.

Flexibility aspect (Partnership-like feature):

The LLP form allows its members the flexibility to organise their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm. This provides advantages of operational flexibility, while offering limited liability protection to the partners.

Therefore, the LLP is called a hybrid form of business, as it contains elements of both a "corporate structure" as well as a "partnership firm structure." An LLP is a separate legal entity, is liable to the full extent of its assets, but liability of the partners is limited to their agreed contribution in the LLP.

- (b) As per section 140 of the Companies Act, 2013, the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the prescribed manner:

Provided that before taking any action under this sub-section, the auditor concerned shall be given a reasonable opportunity of being heard.

The law prescribes a specific sequence that must be followed:

1. First, the company must obtain the prior approval of the Central Government for removal of the auditor.
2. Thereafter, a special resolution must be passed by the company in a general meeting to give effect to the removal.

Prior Central Government approval is thus a mandatory pre-condition, and the special resolution cannot precede it.

In the present case, X Ltd. passed the special resolution for removal of ABC & Associates on 25-05-2025 without first obtaining the approval of the Central Government. This reverses the sequence mandated by Section 140(1).

Since the special resolution was passed before obtaining the mandatory prior approval of the Central Government, the removal of ABC & Associates as auditor is not valid in law, as it violates the procedural requirement under Section 140(1) of the Companies Act, 2013.

(c) (i) Residential Status of Mr. Arjun Verma under the FEMA, 1999

As per Section 2(v) of the FEMA, 1999, "person resident in India" means a person residing in India for more than 182 days during the course of the preceding financial year, but does not include a person who has gone out of India, or who stays outside India, for taking up employment outside India, or for carrying on business or vocation outside India, or for any other purpose indicating an intention to stay outside India for an uncertain period.

The key feature of FEMA is that residential status is not determined solely by the number of days test. The purpose and intention of the stay abroad is equally relevant, and where a person leaves India for taking up employment abroad, his status changes to "person resident outside India" immediately from the date of his departure, irrespective of the 182-day criterion.

In the given case, Mr. Verma resided in India during FY 2024-2025 up to 14-06-2025 and left India on 15-06-2025 to take up employment in Germany.

Since his departure was for the specific purpose of taking up employment outside India, he becomes a "person resident outside India" (i.e., a Non-Resident Indian) with effect from 15-06-2025 (the date of his departure) and not after completion of 182 days abroad.

(ii) Remittances to Parents — Current Account Transaction

As per Section 2(j) of the FEMA, 1999, a "current account transaction" means a transaction other than a capital account transaction, and includes, among others, payments due in connection with foreign trade, and remittances for living expenses of parents, spouse and children residing abroad, and expenses in connection with foreign travel, education and medical care of parents, spouse and children.

Remittances made by a non-resident to his parents in India for their medical treatment and household/living expenses are payments of a current nature and are accordingly classified as current account transactions, not capital account transactions, since they do not alter the assets or liabilities (including contingent liabilities) of the remitter outside India or of the recipient in India. It is the defining test for a capital account transaction under Section 2(e) of the FEMA.

Under Section 5 of the FEMA, read with the Foreign Exchange Management (Current Account Transactions) Rules, 2000, persons are

free to draw or remit foreign exchange for current account transactions, except to the extent regulated by the said Current Account Transactions Rules. Remittances for maintenance of close relatives abroad (or, correspondingly, remittances by a non-resident for medical treatment and living expenses of parents in India) are not prohibited or restricted transactions under these Rules.

Accordingly, the remittances made by Mr. Verma to his parents are permissible current account transactions.

6. (a) (i) Time Limit for Holding the First Annual General Meeting [Section 96(1) of the Companies Act, 2013]

Every company is required to hold, in each year, an Annual General Meeting (AGM). As regards the first AGM, the proviso to Section 96(1) provides that a company shall hold its first AGM within a period of nine months from the date of closing of the first financial year of the company. Where a company holds its first AGM within this period, it is not necessary for the company to hold any AGM in the year of its incorporation.

In this case, Sparsh Innovations Limited was incorporated on 10-08-2024, and its first financial year closes on 31-03-2025. Accordingly, the first AGM must be held within nine months from 31-03-2025, i.e., on or before 31-12-2025.

Since the Board had not convened the first AGM even by December 2025, the company is not yet in default as such, provided the AGM is held on or before 31-12-2025; however, the company is running perilously close to the statutory deadline and must convene the meeting without further delay to avoid default.

(ii) Registrar's Power to Extend Time for the First AGM

Under the proviso to Section 96(1), the Registrar of Companies has the power, for any special reason, to extend the time within which any AGM (other than the first AGM) shall be held, by a period not exceeding three months.

Crucially, this extension power does NOT apply to the first Annual General Meeting. The law is explicit that the Registrar's discretionary power to grant extension is available only in respect of subsequent AGMs, and not the first AGM of a company. Therefore, a company cannot seek or obtain any extension of time from the Registrar for holding its first AGM, however genuine the operational or accounting difficulties may be.

The Company Secretary's suggestion that Sparsh Innovations Limited may apply to the Registrar for extension of time for holding its first AGM is not legally tenable. The company has no statutory recourse to seek extension in this regard and must ensure that the first AGM is held on or before 31-12-2023, failing which the company and its officers in default would be liable to the penal consequences prescribed under Section 99 of the Companies Act.

- (b) **Foreign Company [Section 2(42)]:** A "foreign company" is any company or body corporate incorporated outside India which (a) has a place of business in India, whether by itself or through an agent, physically or electronically, and (b) conducts any business activity in India in any other manner. A branch office of a company incorporated outside India (e.g., Galilio Ltd.'s Mumbai place of business) is treated as such a place of business, attracting Chapter XXII (Sections 379–393) of the Companies Act, 2013.

Preparation and filing of financial statements by a foreign company [Section 381 read with the Companies (Registration of Foreign Companies) Rules, 2014]:

- (i) Every foreign company must, for every calendar year, prepare a balance sheet and profit and loss account in the prescribed form (in accordance with Schedule III, so far as applicable) covering its Indian business operations, and deliver a copy to the Registrar, along with a copy of the latest consolidated financial statements of the parent foreign company as filed with the relevant authority in its home country.
- (ii) The Central Government may direct that these requirements not apply, or apply with modifications, to any foreign company or class of foreign companies.
- (iii) Where any specified document is not in English, a certified English translation must be annexed [Section 381(2)].
- (iv) The foreign company must send to the Registrar, along with the required documents, a list (in the prescribed form) of all its places of business in India as at the balance sheet date, filed in Form FC-3 with prescribed fees.
- (v) Along with the financial statements, the foreign company must also attach a statement of related party transactions, a statement of repatriation of profits, and a statement of transfer of funds (including dividends, if any), with such further particulars as prescribed.

- (vi) All these documents must be delivered to the Registrar within 6 months of the close of the foreign company's financial year. If the foreign company ceases to have a place of business in India, it must forthwith notify the Registrar, after which its obligation to file further documents ceases (unless it has another place of business in India).
- (c) Under the FEM (Current Account Transactions) Rules, 2000, drawal of foreign exchange for a cultural tour, whether by a performing artist, a dance/music troupe, or a film personality requires the prior permission of the Ministry of Human Resource Development (Department of Education and Culture), Government of India, as specified in Schedule II to these Rules.

In the present case, Ms. Prabha wishes to draw US\$ 75,000 for her Bharatanatyam performance in the USA. Since this constitutes a cultural tour by a performing artist, she is required to obtain prior approval of the Ministry (Department of Education and Culture) before drawing the foreign exchange, regardless of the amount involved.

Mere facilitation or approval by an Authorised Person (bank), as defined under Section 2(c) of the FEMA, 1999, is not sufficient on its own. The Ministry's clearance is a mandatory pre-condition specific to this category of transaction.

Ms. Prabha must first obtain approval from the Ministry (Department of Education and Culture) before she can draw the US\$ 75,000 foreign exchange for her Bharatanatyam performance in the USA.