Skillshort

Self-Study Preparation Pack

CA INTERMEDIATE

Paper 2: Corporate and Other Laws

Mock Test 2 – Full Paper with Detailed Solutions

ICAI new-scheme pattern: 100 marks · 3 hours · Part I 15 MCQs (30) + Part II Q1 compulsory + any 4 of Q2–Q6 (70) · Original Skillshort questions · Law as applicable for January 2027

Time: 3 hours | Max marks: 100 | No negative marking | Solutions follow the question paper

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This subject pack has 6 parts

1 Chapter-wise notes

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Part I – Multiple Choice Questions (30 marks)

Instructions: Each MCQ carries 2 marks. Choose the most appropriate option. Answer key with reasons is given at the end of Part I.

CASE LAW Case Scenario I – Sterling Tech Ltd. (MCQs 1–4)

Sterling Tech Ltd., a listed company, held its AGM on 20 September 2026. The Board had recommended a final dividend of 10%, but the members, at the AGM, passed a resolution declaring 12%. Of the total dividend, ₹8 lakh payable to 300 shareholders remained unpaid and unclaimed even after the period allowed for payment. The company paid some shareholders after the due date, without any dispute or legal bar.

1. The amount of final dividend must be deposited in a separate bank account within

(a) 5 days of declaration
(b) 7 days of declaration
(c) 15 days of declaration
(d) 30 days of declaration

2. The members' resolution declaring 12% is

(a) valid, as members are supreme
(b) valid if passed as a special resolution
(c) not valid to the extent it exceeds the 10% recommended by the Board; members may reduce but not increase it
(d) not valid at all, so no dividend is payable

3. The unpaid dividend of ₹8 lakh must be transferred to the Unpaid Dividend Account by

(a) 20 October 2026
(b) 27 October 2026
(c) 20 November 2026
(d) 19 September 2033

4. For the delayed payments, the consequence under s. 127 is

(a) no consequence, as payment was made eventually
(b) directors liable to imprisonment up to 2 years and fine of at least ₹1,000 per day of default, and the company liable to pay simple interest @ 18% p.a. for the period of default
(c) only a fine of ₹25,000 on the company
(d) interest @ 12% p.a. only

CASE LAW Case Scenario II – Nova group (MCQs 5–8)

(1) Nova Learning Pvt. Ltd. has paid-up capital of ₹8 crore and turnover (2025-26) of ₹90 crore; it is not a holding or subsidiary company. (2) Its sister company, Nova Kids Pvt. Ltd., has paid-up capital of ₹2 crore and turnover of ₹15 crore but is a subsidiary of Atlas Ltd. (3) Mr. Arun, an Indian citizen living in Dubai, wants to form a One Person Company. (4) Nova Foundation, a section 8 company, has made a surplus of ₹40 lakh.

5. For 2026-27, Nova Learning Pvt. Ltd. is

(a) not a small company, as paid-up capital exceeds ₹4 crore
(b) a small company, since paid-up capital does not exceed ₹10 crore and turnover does not exceed ₹100 crore
(c) a small company only if both limits are below ₹2 crore and ₹20 crore
(d) not a small company, as turnover exceeds ₹40 crore

6. Nova Kids Pvt. Ltd. is

(a) a small company, as it is within both limits
(b) not a small company, because a subsidiary company is excluded from the definition
(c) a small company only with Central Government approval
(d) a dormant company

7. Can Mr. Arun form an OPC?

(a) No, only a resident individual can form an OPC
(b) Yes – a natural person who is an Indian citizen, whether resident in India or otherwise, can be the member of an OPC
(c) Only after staying 182 days in India
(d) Only if he nominates a foreign citizen

8. Nova Foundation can

(a) distribute ₹40 lakh as dividend to members
(b) apply the surplus only to promote its objects; payment of dividend to members is prohibited
(c) pay a bonus to members
(d) pay dividend with Central Government approval

CASE LAW Case Scenario III – Audit matters at Peacock Ltd. (MCQs 9–11)

Peacock Ltd. is an unlisted public company with paid-up capital of ₹12 crore. At its AGM on 25 September 2026, M/s Kapoor & Co. was appointed as auditor (the firm had already completed one term of five consecutive years with the company). During the audit for 2026-27, the auditor discovered a fraud of ₹1.5 crore committed by an officer.

9. Regarding rotation, M/s Kapoor & Co.

(a) cannot be reappointed as rotation applies to all companies
(b) can be reappointed for a second term of five consecutive years, as rotation applies to Peacock Ltd. (paid-up capital ≥ ₹10 crore) and a firm may serve two terms
(c) can be appointed for unlimited terms
(d) can be reappointed only after a five-year cooling-off period

10. The company must file the notice of the auditor's appointment with the ROC within

(a) 15 days of the AGM in Form ADT-1
(b) 30 days in Form ADT-3
(c) 60 days in Form AOC-4
(d) 7 days in Form MGT-14

11. For the ₹1.5 crore fraud, the auditor must

(a) only disclose it in the audit report
(b) report to the Board/audit committee within 2 days of knowledge, seek its reply within 45 days, and forward the report with the reply to the Central Government within 15 days, in Form ADT-4 filed electronically
(c) report to the police within 7 days
(d) report to SEBI within 30 days

CASE LAW Case Scenario IV – Assorted (MCQs 12–15)

(1) Sprint Club, a private sports club (not an international, national or State-level sports body), wants to remit USD 1,20,000 as prize money for a tournament abroad. (2) Mr. Varun bought a house in Delhi while resident in India in 2015; he now lives in Australia and is a person resident outside India. (3) A tax officer acting honestly but negligently seized goods; the statute protects acts done "in good faith". (4) Two partners of Delta LLP carried on its business with intent to defraud creditors.

12. Sprint Club's remittance

(a) is freely permitted
(b) requires prior approval of the Ministry of Youth Affairs and Sports, Government of India, as it exceeds USD 1,00,000 (Schedule II)
(c) is prohibited
(d) requires RBI approval under Schedule III

13. Can Mr. Varun continue to hold the Delhi house?

(a) No, he must sell it within one year
(b) Yes, under s. 6(5) of FEMA, a person resident outside India may hold immovable property in India acquired when he was resident in India
(c) Only with RBI approval
(d) Only if he returns to India

14. The officer's act is

(a) not in good faith, as he was negligent
(b) in good faith, as an act done honestly is in good faith whether done negligently or not (s. 3(22) GCA)
(c) in good faith only if he was not negligent
(d) a matter for the court only under the mischief rule

15. The liability for all debts of Delta LLP in this situation is

(a) limited to the partners' contribution
(b) unlimited for the LLP and the partners who acted with intent to defraud (s. 30)
(c) limited to the LLP's assets only
(d) borne by the designated partners only

Part I – Answer key with reasons

Q	Ans	Explanation / working
1	(a)	s. 123(4): the amount of dividend, including interim dividend, is deposited in a scheduled bank in a separate account **within five days** of declaration.
2	(c)	Final dividend is declared by members on the **recommendation of the Board**; under the articles (Table F, regulation 80) the company in general meeting cannot declare a dividend exceeding the amount recommended by the Board.
3	(b)	Dividend must be paid within 30 days of declaration (by 20 October 2026). Unpaid amounts are transferred **within 7 days after the expiry of the 30 days** (s. 124(1)) – by **27 October 2026**.
4	(b)	s. 127 punishes every director who is knowingly a party to the default, and the company pays **simple interest @ 18% p.a.** for the period of default. None of the exceptions (operation of law, shareholder's directions, dispute, lawful adjustment) applies.
5	(b)	From **1 December 2025** the limits in s. 2(85) are paid-up capital ≤ **₹10 crore** and turnover ≤ **₹100 crore** (G.S.R. 880(E)).
6	(b)	s. 2(85) excludes a **holding company or a subsidiary company**, a section 8 company and a company governed by a special Act.
7	(b)	Rule 3(1) of the Companies (Incorporation) Rules, 2014 (as amended in 2021): only a natural person who is an **Indian citizen, whether resident in India or otherwise**, can incorporate an OPC.
8	(b)	A section 8 company must apply its profits or income only in promoting its objects and **prohibits the payment of any dividend** to its members (s. 8(1)(b), (c)).
9	(b)	Rule 5 of the Audit Rules: rotation applies to unlisted public companies with paid-up capital of **₹10 crore or more**. An audit firm can be appointed for **two terms of five consecutive years**; the cooling-off period applies after the second term.
10	(a)	Proviso to s. 139(1) and Rule 4(2): the company informs the auditor and files a notice of appointment with the Registrar within **15 days** of the meeting (ADT-1).
11	(b)	s. 143(12) and Rule 13(1)–(2): fraud of **₹1 crore or more** is reported to the **Central Government**; from 14 July 2025 the ADT-4 report is **filed electronically**.
12	(b)	Schedule II of the Current Account Transactions Rules: remittance of prize money/sponsorship of sports activity abroad by a person other than international, national or State-level sports bodies, if the amount exceeds **USD 1,00,000**, requires Government approval.
13	(b)	s. 6(5) permits a person resident outside India to hold, own, transfer or invest in immovable property in India **acquired when he was resident in India**.
14	(b)	s. 3(22) of the General Clauses Act: a thing is deemed to be done in good faith where it is in fact done **honestly, whether it is done negligently or not**.
15	(b)	s. 30 of the LLP Act: where acts are carried out with intent to defraud creditors, the liability of the LLP and of the partners who so acted is **unlimited** for all or any of the debts or other liabilities of the LLP.

Part II – Descriptive Questions (70 marks)

Instructions: Question 1 is **compulsory**. Attempt **any four** of Q2–Q6. Answer with reference to the relevant provisions; give reasons for your conclusions.

QUESTION Question 1 (compulsory)

(a) Ruby Ltd. has a balance of ₹15 crore in its securities premium account. The CFO proposes to use it for: (i) issue of fully paid bonus shares ₹5 crore; (ii) writing off preliminary expenses ₹1 crore; (iii) paying an interim dividend ₹3 crore; (iv) premium on buy-back of shares ₹4 crore; (v) writing off accumulated trading losses ₹2 crore. Examine each proposal. (5 marks)

(b) Delta Ltd., a public company, announced a rights issue of 1 share for every 3 held. The offer was open for 10 days and the letter of offer was dispatched only 2 days before the opening date. Mr. Sen, a shareholder, wishes to renounce his rights in favour of his friend, but the company says only existing shareholders can apply. Examine. How would your answer about the offer period differ if Delta were a private company? (5 marks)

(c) Classify the following as current account or capital account transactions under FEMA, with reasons: (i) payment of interest on a loan taken from a foreign bank; (ii) purchase of shares of a US company by a resident individual; (iii) remittance for a daughter's education abroad; (iv) repayment of the principal of an external commercial borrowing. (4 marks)

QUESTION Question 2

(a) Emerald Ltd. has 10,00,000 preference shares. It proposes to vary the dividend rights of these shares. (i) Written consent was obtained from holders of 7,00,000 shares. Is this enough? (ii) Alternatively, a special resolution is passed at a separate meeting of preference shareholders; holders of 1,20,000 shares, who did not vote in favour, object. What can they do? (5 marks)

(b) Coral Ltd. has paid-up equity capital of ₹100 crore (10 crore shares of ₹10 each), free reserves of ₹60 crore and securities premium of ₹20 crore. Its total secured and unsecured debts are ₹300 crore. The Board proposes, by a Board resolution, to buy back shares worth ₹50 crore at ₹50 per share out of free reserves. Examine the proposal and determine the maximum buy-back permissible. (5 marks)

(c) Explain the provisions of the General Clauses Act, 1897 regarding the making of rules or bye-laws after previous publication. (4 marks)

QUESTION Question 3

(a) Fern Ltd., an unlisted public company, was incorporated on 15 October 2025. The Board proposes to hold its first AGM on 2 October 2026 at 7:00 p.m. at a hotel in another city, and wants to apply to the ROC for an extension if it is delayed. Examine the proposal. When must the next AGM be held? (5 marks)

(b) Jade Ltd. repaid in full on 10 March 2026 a loan secured by a registered charge on its plant. (i) What must Jade Ltd. do and by when? (ii) If Jade Ltd. fails to intimate, can the Registrar record satisfaction on his own? (5 marks)

(c) Explain the following internal aids to interpretation: preamble, proviso, explanation and illustrations. (4 marks)

QUESTION Question 4

(a) Ivy Ltd. has a Board of six directors including Mr. A (Managing Director) and Mr. B (Chairperson, authorised by the Board). It also has a CFO and a company secretary who are not directors. (i) Who must sign its financial statements? (ii) State two new disclosures required in its Board's report from 14 July 2025. (iii) By when must it file the financial statements with the ROC if its AGM is held on 28 September 2026? (5 marks)

(b) Hazel Pvt. Ltd. wants to convert into an LLP. It has a term loan secured by a charge on its factory, and one of its five shareholders does not wish to become a partner. Examine whether conversion is possible and state the effect of registration of conversion under s. 58. (5 marks)

(c) Explain the meaning of "document", "movable property", "sign" and "writing" under the General Clauses Act, 1897. (4 marks)

QUESTION Question 5

(a) Examine whether internal audit is mandatory for the following for 2026-27, based on figures for 2025-26: (i) Maple Pvt. Ltd. – turnover ₹180 crore, bank borrowings ₹110 crore; (ii) Oak Ltd. (unlisted public) – paid-up capital ₹45 crore, turnover ₹150 crore, deposits ₹30 crore; (iii) Pine Ltd. (unlisted public) – paid-up capital ₹40 crore, turnover ₹190 crore, borrowings ₹80 crore, deposits ₹10 crore. (5 marks)

(b) Bluewater Inc., a US company with a branch in Chennai, filed its financial statements for the Indian business for 2025-26 with the ROC in February 2027. It argues that (i) the delay does not matter as no one has complained, and (ii) in any case, its contracts in India remain enforceable by it in court. Examine. (5 marks)

(c) Enumerate the sectors in which investment by a person resident outside India is prohibited. (4 marks)

QUESTION Question 6

(a) Examine which of the following received by Sun Ltd. (a public company) are deposits: (i) ₹50 lakh from a director, with a written declaration that it is not out of borrowed funds; (ii) ₹20 lakh from a relative of a director; (iii) ₹2 crore from another company; (iv) ₹10 lakh as security deposit from a contractor for performance of a contract; (v) ₹30 lakh received by Sun Ltd.'s start-up subsidiary as a convertible note in a single tranche, convertible within 5 years. (5 marks)

(b) P and Q are partners of Sigma LLP. While advising a client, P negligently caused the client a loss of ₹40 lakh. Sigma LLP's assets are ₹25 lakh. The client sues the LLP, P and Q. Advise. (5 marks)

(c) A State Act empowers the State Government to "appoint" Inspectors. The Government suspended an Inspector pending an inquiry. The Inspector contends that the Act gives no power to suspend. Also, when the Commissioner was on leave, the Additional Commissioner, who is empowered by the Act to act for him, issued an order. Examine under the General Clauses Act, 1897. (4 marks)

Solutions

SOLUTION Q1(a) Securities premium – s. 52(2)

Provision: The securities premium account may be applied only: (a) towards the issue of **unissued shares as fully paid bonus shares**; (b) in **writing off preliminary expenses**; (c) in writing off expenses, commission or discount on any issue of shares or debentures; (d) in providing for the **premium payable on redemption** of redeemable preference shares or debentures; (e) for the **purchase of its own shares** (buy-back) under s. 68.

Proposal	Permitted?	Reason
(i) Fully paid bonus shares ₹5 crore	Yes	s. 52(2)(a)
(ii) Preliminary expenses ₹1 crore	Yes	s. 52(2)(b)
(iii) Interim dividend ₹3 crore	**No**	Securities premium is not a free reserve for dividend; dividend only out of profits (s. 123)
(iv) Premium on buy-back ₹4 crore	Yes	s. 52(2)(e) read with s. 68
(v) Write-off of accumulated losses ₹2 crore	**No**	Not a permitted purpose (would amount to reduction of capital needing s. 66 procedure)

Conclusion: ₹10 crore of proposals are valid; ₹5 crore (items iii and v) are not.

SOLUTION Q1(b) Rights issue – s. 62(1)(a)

Provision: Further shares offered to existing equity shareholders in proportion to their holding, by a notice specifying the number of shares and a time **not less than 15 days and not exceeding 30 days** from the date of the offer; the notice is dispatched at least **3 days before** the opening of the issue. Unless the articles provide otherwise, the offer includes a **right to renounce** the shares in favour of any other person.

Analysis: A 10-day period and 2-day notice violate s. 62(1)(a). Mr. Sen's renunciation is valid unless Delta's articles prohibit renunciation; the company cannot refuse simply because the renouncee is not a shareholder.

Private company: Under the exemption notification for private companies, the periods can be **shorter** if **90% of the members** have given their consent in writing or electronically. Without such consent, the same 15–30 day rule applies.

Conclusion: The rights issue procedure of Delta Ltd. is defective; the renunciation must be accepted.

SOLUTION Q1(c) Current vs capital account transactions – s. 2(e), 2(j)

A **capital account transaction** alters the assets or liabilities (including contingent liabilities) outside India of persons resident in India, or in India of persons resident outside India. A **current account transaction** is any other transaction, and includes payments for foreign trade, interest on loans, net income from investments, and remittances for living expenses, travel, education and medical care of family members.

Transaction	Classification	Reason
(i) Interest on foreign loan	Current account	Interest on loans is specifically included (s. 2(j)(ii))
(ii) Purchase of US shares	Capital account	Creates a foreign asset of a resident
(iii) Daughter's education abroad	Current account	Specifically included (s. 2(j)(iv)); within LRS
(iv) Repayment of ECB principal	Capital account	Alters (reduces) a resident's foreign liability

SOLUTION Q2(a) Variation of shareholders' rights – s. 48

Provision: Rights attached to a class of shares may be varied with the **consent in writing of holders of not less than three-fourths of the issued shares of that class**, or by a **special resolution passed at a separate meeting** of the holders of that class – if provided in the memorandum or articles, or, in their absence, if not prohibited by the terms of issue. Where holders of **not less than 10%** of the issued shares of that class did not consent or vote in favour, they may apply to the **Tribunal** to have the variation cancelled; the application must be made **within 21 days** of the consent/resolution. The variation then has effect only if confirmed by the Tribunal.

Analysis: (i) 7,00,000 ÷ 10,00,000 = 70% < 75% – **insufficient**. (ii) Objectors hold 1,20,000 = 12% ≥ 10% – they may apply to the Tribunal within 21 days; until the Tribunal confirms, the variation does not take effect.

SOLUTION Q2(b) Buy-back – s. 68

Provision: Buy-back is permitted out of free reserves, securities premium or proceeds of a different issue. (1) A **Board resolution** suffices only up to **10%** of total paid-up equity capital + free reserves; up to **25%** requires a **special resolution**. (2) Equity shares bought back in a year ≤ **25% of paid-up equity capital**. (3) Post buy-back **debt–equity ratio ≤ 2 : 1**. "Free reserves" includes securities premium for this purpose (Explanation to s. 68).

Computation (₹ crore): Paid-up equity + free reserves = 100 + 60 + 20 = **180**.

Test	Limit	Maximum shares at ₹50
Board resolution (10%)	₹18 crore	36 lakh
Resources test (25% with special resolution)	₹45 crore	90 lakh
Shares test (25% of 10 crore shares)	2.5 crore shares	2.5 crore
Debt–equity 2 : 1 – equity must remain ≥ 300 ÷ 2 = ₹150 crore	Equity falls by price ₹50 + ₹10 nominal transferred to CRR = ₹60 per share: (180 − 150) ÷ 60	**50 lakh shares (₹25 crore)**

Conclusion: The ₹50 crore proposal fails the 25% resources test and the debt–equity test, and a Board resolution is insufficient. Maximum buy-back = **50 lakh shares for ₹25 crore**, which (being above ₹18 crore) needs a **special resolution**. After this, equity = ₹150 crore and debt–equity = 300 : 150 = 2 : 1.

SOLUTION Q2(c) Rules after previous publication – s. 23 GCA

Where a Central Act requires rules or bye-laws to be made **after previous publication**: (1) the authority must **publish a draft** of the proposed rules for the information of persons likely to be affected; (2) publication is in the manner the authority deems sufficient (or as prescribed); (3) a **notice** specifying a **date on or after which the draft will be taken into consideration** is published with it; (4) the authority **considers any objection or suggestion** received from any person before that date; (5) **publication in the Official Gazette** of a rule purporting to be made in exercise of the power is **conclusive proof** that it was duly made.

SOLUTION Q3(a) Annual general meeting – s. 96

First AGM: within **9 months** from the closing of the first financial year. Fern Ltd. was incorporated on 15 October 2025 (before 1 January), so its first FY ends on **31 March 2026** and the first AGM must be held by **31 December 2026**. The ROC **cannot extend** the time for the first AGM.

Day, time and place: an AGM must be held during **business hours (9 a.m. to 6 p.m.)** on a day that is **not a national holiday**, at the registered office or some other place within the city, town or village where the registered office is situated. An **unlisted** company may hold it anywhere in India only with the **prior consent of all members** (in writing or electronically).

Analysis: 2 October (Gandhi Jayanti) is a national holiday; 7 p.m. is outside business hours; another city is allowed only with all members' prior consent.

Conclusion: The proposal is **invalid** on day and time (and on place unless all members consent). **Next AGM:** within **6 months** of the close of FY 2026-27 (by 30 September 2027) and within **15 months** of the first AGM; the ROC may extend it by up to 3 months for special reasons.

SOLUTION Q3(b) Satisfaction of charge – s. 82, 83

(i) **s. 82:** the company must give intimation of payment or satisfaction in full of a registered charge to the Registrar in **Form CHG-4 within 30 days** – i.e., by **9 April 2026** (the Registrar may allow a longer period on payment of fees). The Registrar issues notice to the charge-holder to show cause within **14 days**; if no cause is shown, he records satisfaction and informs the company. Jade Ltd. must also enter the satisfaction in its own register of charges (s. 85).

(ii) **s. 83:** yes – the Registrar may, **on evidence** that the debt has been paid or the property released, enter a memorandum of satisfaction **even though no intimation** has been received from the company, and must inform the parties within 30 days.

SOLUTION Q3(c) Internal aids to interpretation

- **Preamble:** the introductory statement of the reasons and objects of the Act – "a key to open the mind of the makers". It is used to resolve **ambiguity**, but cannot override clear words of the enacting part.
- **Proviso:** carves out an **exception** or qualification from the main provision; normally construed in relation to the main provision only and does not enlarge it.
- **Explanation:** explains or clarifies the meaning of the main provision, resolves doubt, and may sometimes widen or narrow the scope; it does not take away a right given by the main provision.
- **Illustrations:** examples showing how the provision applies; they help to understand the section but cannot **curtail or expand** its scope, and are not exhaustive.

SOLUTION Q4(a) Authentication, Board's report and filing – s. 134, 137

(i) **s. 134(1):** the financial statements (including consolidated statements) are approved by the Board and signed on its behalf by the **chairperson** (where authorised by the Board) **or by two directors, one of whom shall be the MD** (if any), and by the **CEO** (if a director or not), the **CFO** and the **company secretary**, wherever appointed. So Mr. B (authorised chairperson) – or Mr. A with another director – plus the CFO and the CS sign.

(ii) From **14 July 2025** (Companies (Accounts) Second Amendment Rules, 2025), the Board's report must include: (1) the **number of sexual-harassment complaints** received, disposed of and pending for more than 90 days; (2) a **statement that the company has complied with the Maternity Benefit Act, 1961**.

(iii) **s. 137:** file within **30 days** of the AGM, i.e., by **28 October 2026**, in Form AOC-4 (with the prescribed extracts of the Board's report and auditor's report).

SOLUTION Q4(b) Conversion of a private company into an LLP – s. 56, Third Schedule; s. 58

Conditions (Third Schedule): a private company may convert if (a) there is **no security interest** in its assets **subsisting** or in force at the time of application, **or** all holders of security interest have consented; and (b) the partners of the LLP are **all the shareholders of the company and no one else**.

Analysis: The secured term loan requires the **bank's consent**. Since one shareholder does not wish to become a partner, condition (b) is not satisfied – conversion is **not possible** unless that shareholder transfers his shares to the others (or the company buys them back) before applying.

Effect of registration (s. 58): the company is **deemed dissolved** and removed from the ROC's records; all its tangible and intangible property, assets, interests, rights, privileges, liabilities and obligations **vest in the LLP** without further assurance; **pending proceedings** are continued by or against the LLP; conviction, rulings and orders continue to be enforceable by or against the LLP; **agreements and contracts** continue as if the LLP were a party; **employees** continue on the same terms; approvals, permits and licences continue (subject to the relevant law). The LLP informs the ROC with which the company was registered within **15 days** of registration.

SOLUTION Q4(c) Definitions – s. 3 GCA

- **Document (s. 3(18)):** any matter expressed or described upon any substance by means of letters, figures or marks, or by more than one of those means, which is intended to be used, or may be used, for recording that matter.
- **Movable property (s. 3(36)):** property of every description, **except immovable property**.
- **Sign (s. 3(56)):** with reference to a person who is unable to write his name, includes **"mark"**, with its grammatical variations.
- **Writing (s. 3(65)):** expressions referring to writing include references to **printing, lithography, photography** and other modes of representing or reproducing words in a **visible form**.

SOLUTION Q5(a) Internal audit – s. 138, Rule 13

Internal audit is mandatory for every listed company; every **unlisted public** company with (during the preceding FY) paid-up capital ≥ **₹50 crore**, or turnover ≥ **₹200 crore**, or outstanding loans/borrowings from banks/PFIs ≥ **₹100 crore**, or outstanding deposits ≥ **₹25 crore**; and every **private** company with turnover ≥ **₹200 crore** or loans/borrowings ≥ **₹100 crore**.

Company	Test met	Conclusion
(i) Maple Pvt. Ltd.	Borrowings ₹110 crore ≥ ₹100 crore	**Mandatory**
(ii) Oak Ltd.	Deposits ₹30 crore ≥ ₹25 crore	**Mandatory**
(iii) Pine Ltd.	None (40 < 50; 190 < 200; 80 < 100; 10 < 25)	**Not mandatory**

SOLUTION Q5(b) Foreign company – s. 381, 392, 393

(i) **s. 381** read with the Registration of Foreign Companies Rules: a foreign company must file its financial statements and other documents for its Indian business with the ROC in **Form FC-3 within six months** of the close of the financial year (extendable by the Registrar on application). For 2025-26, the due date was **30 September 2026**; filing in February 2027 is a **default**, whether or not anyone complained. The default attracts the **penalty under s. 392** on the foreign company (including a per-day amount for continuing default) and on every officer in default VERIFY.

(ii) **s. 393:** failure to comply with Chapter XXII does **not affect the validity** of any contract, dealing or transaction, or its liability to be sued. But the company **cannot bring any suit, claim any set-off, make a counter-claim or institute any legal proceeding** in respect of such contract **until it complies**. So Bluewater's second argument is only partly correct.

SOLUTION Q5(c) Prohibited sectors for foreign investment

Under the FEM (Non-debt Instruments) Rules, 2019, a person resident outside India is prohibited from investing in an Indian entity engaged in: (1) **lottery business**, including Government/private lottery and online lotteries; (2) **gambling and betting**, including casinos; (3) **chit funds**; (4) **Nidhi company**; (5) **trading in Transferable Development Rights (TDRs)**; (6) **real estate business or construction of farm houses** (excluding development of townships, construction of residential/commercial premises, roads or bridges, and REITs); (7) **manufacturing of cigars, cheroots, cigarillos and cigarettes** of tobacco or tobacco substitutes; (8) activities and sectors **not open to private-sector investment**, e.g., **atomic energy** and **railway operations** (other than permitted activities). Foreign technology collaboration in any form, including licensing for franchise, trademark, brand name or management contract, is also prohibited for lottery, gambling and betting activities.

SOLUTION Q6(a) What is a deposit? – Rule 2(1)(c)

Receipt	Deposit?	Reason
(i) ₹50 lakh from a director with declaration	**No**	Rule 2(1)(c)(viii): amount from a director, with a written declaration that it is not out of borrowed funds
(ii) ₹20 lakh from a director's relative	**Yes**	The relative exemption is available only to **private** companies; for a public company it is a deposit
(iii) ₹2 crore from another company	**No**	Rule 2(1)(c)(iv): inter-corporate loans/deposits are excluded
(iv) ₹10 lakh security deposit for performance	**No**	Rule 2(1)(c)(xii)(c): security deposit for the performance of a contract for supply of goods or services
(v) ₹30 lakh convertible note to the start-up subsidiary	**No**	Rule 2(1)(c)(xvii): a start-up receiving **₹25 lakh or more in a single tranche** by a convertible note, convertible or repayable within **10 years**

SOLUTION Q6(b) Liability of LLP and partners – s. 26, 27, 28

Provisions: s. 27(2): an LLP is **liable** if a partner is liable to any person as a result of a **wrongful act or omission** in the course of the business of the LLP or with its authority. s. 27(3): an obligation of the LLP is solely its obligation, met out of its property. s. 28(1): a partner is **not personally liable** for an obligation of the LLP solely by reason of being a partner. s. 28(2): this does not affect the **personal liability of a partner for his own wrongful act or omission**, but a partner is **not personally liable for the wrongful act or omission of any other partner**.

Conclusion: (1) Sigma LLP is liable for the full ₹40 lakh (its assets of ₹25 lakh are available). (2) **P** is **personally liable** for his own negligence, so the client can recover the balance (₹15 lakh) from P. (3) **Q is not personally liable**, as the wrongful act was P's.

SOLUTION Q6(c) Power to suspend; deputies – s. 16, 19 GCA

s. 16: where a Central Act or Regulation confers a power to make an appointment, then (unless a different intention appears) the authority having that power also has the power to **suspend or dismiss** any person appointed by it. (The same principle is found in the corresponding State General Clauses Acts.) So the Government can suspend the Inspector pending inquiry, and his contention fails.

s. 19: where an Act requires a functionary to do something, the act may be done by his **lawful successor** or by his **deputy/subordinate lawfully appointed** to perform the duty, when the law permits. The Additional Commissioner, empowered by the Act to act for the Commissioner, could validly issue the order.