Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 2: Company Law and Practice (CLP)

Mock Test 1 – Full Paper with Model Answers

ICSI Syllabus 2022 pattern: 100 marks · 3 hours (+15 minutes' reading) · Part I (60 marks) Q1–Q4 · Part II (40 marks) Q5–Q6 · all questions compulsory · internal choice in Q4/Q4A and Q6/Q6A · Original Skillshort questions, figures verified in Python · Laws as amended up to 31 May 2026

Time: 3 hours | Max marks: 100 | Answer ALL questions | Model answers follow the paper

Contents

Question Paper 2

Model Answers 4

This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

3 Past papers: trends & links

4 Mock tests + solutions

5 Chapter practice questions

6 Last-week plan & strategy

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

Question Paper

Answer ALL questions. References to sections are to the Companies Act, 2013 and the Rules made under it, unless stated otherwise.

Part I (60 marks)

Q1 Case study. Vardhan Agro Private Limited (VAPL) is not a holding or subsidiary company. Its latest audited figures: paid-up share capital ₹8 crore, free reserves ₹6 crore, securities premium ₹1 crore, turnover ₹90 crore. In its Board meeting on 5 October 2026 the directors discussed the following proposals:

- Treat VAPL as a "small company" for all compliances.
- Issue sweat equity shares worth ₹1.5 crore to the Chief Technology Officer for know-how he developed.
- Make a private placement of equity shares to 230 persons, of whom 40 are qualified institutional buyers and 5 are employees being offered shares under an ESOP scheme.
- Accept unsecured deposits of ₹15 crore from its members.
- A charge created on 1 August 2026 in favour of a bank was not registered; the CFO proposes to file it on 15 October 2026.

Examine each proposal with reasons. **(5 × 3 = 15 marks)**

Q2 Answer the following (3 marks each):

(i) The managing director of a company forged the signatures of two directors on a share certificate. Can the transferee rely on the doctrine of indoor management?

(ii) State any three situations in which courts have lifted the corporate veil.

(iii) Who can incorporate a One Person Company, and can an OPC convert into a private company at any time?

(iv) What happens when a section 8 company's licence is revoked?

(v) What are "entrenchment" provisions in the articles of association, and how are they adopted?

Q3 (a) Sunrise Polymers Ltd. has paid-up equity capital of ₹40 crore (₹10 shares), free reserves of ₹50 crore, securities premium of ₹10 crore and total debts of ₹120 crore. The Board wants to buy back equity shares worth ₹20 crore at ₹200 per share, on the authority of a Board resolution alone. Examine the proposal. **(5 marks)**

(b) Gagan Tools Ltd. has inadequate profits this year and wants to declare a 14% equity dividend out of free reserves. Paid-up equity capital is ₹20 crore and free reserves are ₹30 crore. Dividend rates in the last three years were 12%, 15% and 9%. Advise. **(5 marks)**

(c) Explain the procedure for removal of an auditor before the expiry of his term. **(5 marks)**

Q4 (a) When must a company appoint a debenture trustee? State any four duties of a debenture trustee. **(5 marks)**

(b) Explain the procedure for satisfaction of a charge and the Registrar's powers when the company does not intimate satisfaction. **(5 marks)**

(c) Explain how an inactive company may obtain the status of a dormant company and the conditions it must satisfy. **(5 marks)**

OR Q4A (a) Who is a significant beneficial owner? What are the company's duties in this regard? **(5 marks)**

(b) State the conditions for the issue of fully paid bonus shares under section 63. **(5 marks)**

(c) Explain the procedure for a rights issue under section 62(1)(a). **(5 marks)**

Part II (40 marks)

Q5 Case study. Ojas Pharma Ltd. is a listed company with nine directors (three independent). Its turnover for the last financial year was ₹500 crore (consolidated turnover also ₹500 crore). Its net profit computed under section 198 is ₹40 crore.

On 12 October 2026, four directors attended a Board meeting. Two of them, Mr. A and Mrs. B, are partners in Medchem & Co., from which the company proposes to buy raw materials worth ₹60 crore in the coming year at market prices.

The Board also proposed remuneration for the year: MD ₹2.4 crore, Whole-time Director ₹1.2 crore and commission to non-executive directors ₹0.6 crore in total.

(i) Was there a valid quorum for the item on Medchem & Co.? **(5 marks)**

(ii) What approvals does the Medchem contract need under the Companies Act and the SEBI (LODR) Regulations? **(5 marks)**

(iii) Examine the proposed managerial remuneration. **(5 marks)**

(iv) Draft a Board resolution approving the contract with Medchem & Co., to be passed at a properly constituted meeting. **(5 marks)**

Q6 (a) The AGM of a public company with 1,800 members was called for 11:00 am. By 11:30 am only 12 members were present. What should the chairperson do, and what happens at the adjourned meeting? **(5 marks)**

(b) State the rules relating to proxies at a general meeting. **(5 marks)**

(c) Which companies must appoint whole-time KMP? How is a vacancy in the office of KMP filled? **(5 marks)**

(d) Draft a notice of an extraordinary general meeting for alteration of the objects clause of the memorandum. **(5 marks)**

OR Q6A (a) Explain the provisions on passing a resolution by circulation, and the items that cannot be approved this way. **(5 marks)**

(b) Mr. K is a director in 18 companies: 9 public, 6 private, and 3 dormant. He is offered a directorship in another public company. Advise. **(5 marks)**

(c) Explain the composition of the CSR Committee and when a company need not constitute one. **(5 marks)**

(d) Explain the provisions on filing, signing and certification of the annual return. **(5 marks)**

Model Answers

SOLUTION Q1 Vardhan Agro Private Limited

(i) Small company – s.2(85): a company other than a public company with paid-up capital **not exceeding ₹10 crore** and turnover **not exceeding ₹100 crore** (limits raised from ₹4 crore / ₹40 crore with effect from 1 December 2025). It must not be a holding or subsidiary company, a section 8 company or a company governed by a special Act. VAPL: ₹8 crore and ₹90 crore, and it is neither holding nor subsidiary → **it is a small company**. It may hold only two Board meetings a year (one in each half, gap of at least 90 days), file MGT-7A, and need not prepare a cash flow statement.

(ii) Sweat equity – s.54 and Rule 8, SCD Rules: needs a **special resolution**, valuation of the know-how by a **registered valuer**, and a 3-year lock-in. Limit: in a year, **15% of existing paid-up equity (₹1.2 crore) or ₹5 crore, whichever is higher** → ₹5 crore. Overall, sweat equity cannot exceed **25% of paid-up equity (₹2 crore)**. ₹1.5 crore is within both limits → **permissible** with SR.

(iii) Private placement – s.42: offer in a financial year to **not more than 200 persons**, **excluding QIBs and employees offered shares under ESOP**. Counted persons = 230 − 40 − 5 = **185** → within the limit. Requirements: SR, PAS-4 offer letter, record in PAS-5, money received only by banking channels into a separate account, allotment within **60 days** (else refund within 15 days, then 12% interest), return of allotment **PAS-3 within 15 days**.

(iv) Deposits from members: a private company is exempt from s.73(2)(a)–(e) if deposits from members do not exceed **100% of paid-up capital + free reserves + securities premium** = 8 + 6 + 1 = **₹15 crore**. ₹15 crore is exactly at the limit → **allowed**, but it must file details in **DPT-3** and comply with the Acceptance of Deposits Rules (maximum term 36 months, register of deposits).

(v) Charge – s.77: register within **30 days** of creation (by 31 August 2026). The Registrar may allow registration within a **further 60 days** (by 30 October 2026) on payment of **additional fees** VERIFY. Filing CHG-1 on 15 October 2026 is therefore **possible with additional fees**; an unregistered charge is void against the liquidator and creditors (s.77(3)).

SOLUTION Q2

(i) No. **Forgery** is an exception to indoor management: a forged document is a nullity, so no title passes (*Ruben v. Great Fingall Consolidated*, 1906). Outsiders are protected only for internal irregularities, not for forged instruments.

(ii) Veil lifted: (1) **fraud or improper conduct** / sham company (*Gilford Motor Co. v. Horne*, 1933); (2) **evasion of tax** (*Re Sir Dinshaw Maneckjee Petit*, 1927); (3) **enemy character** in war (*Daimler Co. v. Continental Tyre*, 1916); (4) avoidance of welfare legislation; (5) statutory cases such as misstatement in a prospectus (s.34–35) and fraudulent conduct of business (s.339).

(iii) Only a **natural person who is an Indian citizen**, resident or not (relaxed in 2021), can form an OPC; he cannot form more than one OPC; a minor cannot be a member or nominee. Since the 2021 amendment an OPC may **convert into a private or public company at any time** (no 2-year wait or threshold), by increasing members and directors and passing a special resolution, filing INC-6 VERIFY.

(iv) Under **s.8(6)–(8)** the Central Government may revoke the licence after a hearing (fraud, breach of conditions). The company must then convert its status and change its name, or be **wound up** or **amalgamated** with another s.8 company with similar objects. Its remaining assets go to another s.8 company or the Rehabilitation and Insolvency Fund.

(v) Entrenchment (s.5(3)–(5)) means a provision of the articles can be altered only if conditions **more restrictive than a special resolution** are met (for example unanimous consent). It may be included at incorporation, or later by amendment – in a private company with **all members' consent**, in a public company by **special resolution**. The company must notify the Registrar in **MGT-14** within 30 days.

SOLUTION Q3 (a) Buy-back

- Base under **s.68(2)(b)**: paid-up equity + free reserves (including securities premium) = 40 + 50 + 10 = **₹100 crore**.
- **Board resolution** can authorise up to **10%** = ₹10 crore; **special resolution** up to **25%** = ₹25 crore. ₹20 crore exceeds the Board limit → **a special resolution is needed** (and an AOA authorisation).
- Equity shares bought back in a year must not exceed **25% of paid-up equity**: 20 crore / ₹200 = 10 lakh shares; 10 lakh / 4 crore shares = **2.5%** → within the limit.
- **Debt-equity** after the buy-back must not exceed 2:1: debt 120 / (100 − 20) = **1.5:1** → satisfied.
- Other conditions: shares fully paid; no buy-back within one year of a previous offer; completion within one year of the resolution; letter of offer, declaration of solvency SH-9, SH-11 return within 30 days, extinguish shares within 7 days; create a **capital redemption reserve** when buying back from free reserves (s.69).

Conclusion: the buy-back is possible only with a **special resolution**, not on Board authority alone.

SOLUTION Q3 (b) Dividend out of reserves – Rule 3, Declaration and Payment of Dividend Rules

1. Rate must not exceed the **average of the three preceding years**: (12 + 15 + 9) / 3 = **12%**. The proposed 14% **fails**; maximum 12%.
2. Amount drawn from reserves must not exceed **1/10 of paid-up capital + free reserves** = (20 + 30) / 10 = **₹5 crore**. A 12% dividend = ₹2.4 crore → within limit.
3. Losses of the current year must first be set off against the drawn amount.
4. Balance reserves after drawal must be at least **15% of paid-up capital** = ₹3 crore; 30 − 2.4 = **₹27.6 crore** → satisfied.

Advice: declare at most **12%**, using up to ₹2.4 crore from free reserves (plus any current-year loss set off first). Pay within **30 days** (s.127).

SOLUTION Q3 (c) Removal of an auditor before term – s.140(1) and Rule 7

1. **Board resolution** proposing removal.
2. Application to the **Central Government (Regional Director) in ADT-2** within **30 days** of the Board resolution.
3. After CG approval, hold a general meeting and pass a **special resolution within 60 days** of the approval.
4. The auditor must be given a **reasonable opportunity of being heard** (special notice under s.115; the auditor may make written representations to be circulated – s.140(4)).
5. File MGT-14 for the SR and appoint a new auditor (ADT-1).

SOLUTION Q4 (a) Debenture trustee

When: before issuing a prospectus or letter of offer for debentures to the **public or to more than 500 persons** (s.71(5)); a debenture trust deed in **SH-12** is executed within 60 days of allotment (Rule 18).

Duties (Rule 18(3)): (1) satisfy itself that the offer document conforms to the law; (2) ensure the company does not commit a breach of the trust deed; (3) ensure assets are sufficient to discharge principal and interest; (4) call for reports on the use of funds; (5) protect debenture holders' interests and take steps to remedy breaches; (6) call a meeting of debenture holders when required; (7) apply to the Tribunal under s.71(10) if the company fails to redeem or pay interest.

SOLUTION Q4 (b) Satisfaction of a charge

- The company gives intimation of **payment or satisfaction** in full to the Registrar in **CHG-4 within 30 days** (s.82); delay may be condoned on additional fees (within 300 days, Rule 8) VERIFY.
- The Registrar issues notice to the charge-holder to show cause within **14 days**; if no cause is shown, records satisfaction and issues a **certificate in CHG-5** (s.82(3)).
- **s.83:** even without intimation, the Registrar may enter **memorandum of satisfaction** on evidence that the debt is paid or the property is released, after notice to the charge-holder.
- The company enters satisfaction in its register of charges (CHG-7).

SOLUTION Q4 (c) Dormant company – s.455

Inactive company: has not carried on business or operations, or made **no significant accounting transactions** during the last **two financial years**, or has not filed financial statements and annual returns during those two years.

Procedure: Board approval → special resolution or notice to all members → application in **MSC-1** → the Registrar issues a **certificate in MSC-2** and keeps a register of dormant companies.

Conditions (Rule 3): no inspection, inquiry or investigation ordered; no prosecution pending; no outstanding public deposits or default in repayment; no outstanding loans or dues to the government or employees; not listed. It must keep the minimum number of directors, file **MSC-3** (return of dormant company) within 30 days from the end of each financial year, and apply in **MSC-4** to become active again.

SOLUTION Q4A (a) Significant beneficial owner – s.90

An SBO is an individual who, alone or together, holds **at least 10%** of shares, voting rights or the right to receive dividends, or has the right to exercise significant influence or control, **not directly** but through other persons or entities. Duties: the SBO files a declaration in **BEN-1**; the company files **BEN-2** with the Registrar within **30 days**; maintains a register in **BEN-3**; must give notice in **BEN-4** to identify SBOs; can apply to the Tribunal to restrict shares of a non-responding person. Penalties apply for failure.

SOLUTION Q4A (b) Bonus issue – s.63

Bonus shares may be issued out of **free reserves, securities premium or capital redemption reserve** (not revaluation reserves). Conditions: authorised by the articles; recommended by the Board and authorised in general meeting; no default in payment of interest or principal on fixed deposits or debt securities; no default in statutory dues to employees (PF, gratuity, bonus); partly paid shares made fully paid; once announced, cannot be withdrawn; to be implemented within 15 days of Board approval (or 2 months if shareholder approval needed) VERIFY; cannot be issued in lieu of dividend. Return of allotment PAS-3.

SOLUTION Q4A (c) Rights issue – s.62(1)(a)

1. Board approves the issue and fixes the record date and price.
2. **Letter of offer** to existing equity shareholders in proportion to their holding, by registered post, speed post or electronic mode, at least **3 days before** the issue opens.
3. Offer open for **at least 15 days and not more than 30 days** (private companies may shorten with 90% members' consent).
4. The offer includes a **right to renounce** in favour of any other person unless the articles say otherwise.
5. After the offer closes, the Board may dispose of unsubscribed shares in a manner not disadvantageous to members and the company.
6. Allot and file **PAS-3 within 15 days**; issue certificates within **2 months**.

SOLUTION Q5 (i) Quorum

s.174(1): quorum is **one-third of total strength or two, whichever is higher** = 9 / 3 = **3**. Under **s.174(3) and s.184(2)**, an **interested director** cannot take part in or be counted for quorum on that item. Present: 4, of whom 2 are interested → **only 2 eligible directors** for the Medchem item. **No valid quorum** for that item; it must be taken up at another meeting with at least three non-interested directors.

SOLUTION Q5 (ii) Approvals for the Medchem contract

- Medchem & Co. is a firm in which directors are partners → **related party** (s.2(76)).
- **Companies Act s.188:** purchase of goods exceeding **10% of turnover** (₹50 crore) needs members' **ordinary resolution**; related parties cannot vote. But a transaction in the **ordinary course of business at arm's length** is outside s.188 – buying raw materials at market prices may qualify.
- Even then, a listed company needs **Audit Committee approval** under s.177(4)(iv) and **LODR Reg. 23**.
- **LODR Reg. 23:** a **material RPT** (above ₹1,000 crore or **10% of annual consolidated turnover**, whichever is lower) = ₹50 crore. ₹60 crore is material → **prior shareholders' approval by ordinary resolution**, with related parties not voting, irrespective of arm's length.
- Disclose in AOC-2 in the Board's report (if s.188 applies) and in the half-yearly RPT disclosure to the exchanges.

SOLUTION Q5 (iii) Managerial remuneration – ss.197 and 198

Limit	Rule	Amount (₹ crore)	Proposed	Result
Overall	11% of net profit	4.4	4.2	Within
MD + WTD (more than one)	10%	4.0	3.6	Within
Any one MD / WTD	5%	2.0	MD 2.4	**Exceeds**
Non-executive directors (company has MD / WTD)	1%	0.4	0.6	**Exceeds**

The MD's ₹2.4 crore and the NEDs' ₹0.6 crore need approval of the members by **special resolution** (s.197(1) provisos). The overall limit is not crossed. Listed companies also need Nomination and Remuneration Committee recommendation and LODR Reg. 17(6) approvals where applicable.

SOLUTION Q5 (iv) Board resolution for an RPT

CERTIFIED TRUE COPY OF THE RESOLUTION PASSED BY THE BOARD OF DIRECTORS OF OJAS PHARMA LIMITED AT ITS MEETING HELD ON [date] AT [place]

"**RESOLVED THAT** pursuant to section 188 and other applicable provisions of the Companies Act, 2013, Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014, Regulation 23 of the SEBI (LODR) Regulations, 2015, on the approval and recommendation of the Audit Committee, and subject to the approval of the members, the consent of the Board be and is hereby accorded to enter into a contract with Medchem & Co., a related party, for purchase of raw materials up to ₹60 crore during the financial year 2026-27, at prevailing market prices and on arm's length terms.

RESOLVED FURTHER THAT the matter be placed before the members for approval by ordinary resolution, and that Mr. A and Mrs. B, being interested, did not take part in the discussion or voting.

RESOLVED FURTHER THAT the Managing Director and the Company Secretary be and are hereby severally authorised to sign the agreement, file the necessary forms and do all acts necessary to give effect to this resolution."

For Ojas Pharma Limited, (Company Secretary), Membership No. ..., Date, Place.

SOLUTION Q6 (a) Adjourned meeting for want of quorum

Quorum for a public company with **more than 1,000 but up to 5,000 members** is **15 members personally present** (s.103(1)(a)(ii)). With 12 present after **half an hour**, the meeting **stands adjourned** to the **same day in the next week, same time and place**, or to another day, time and place the Board decides (s.103(2)). If adjourned to a different date, notice of at least **3 days** must be given to members (individually or by newspaper). At the adjourned meeting, if quorum is not present within half an hour, the **members present form the quorum** (s.103(2)(b)). SS-2 requires the chairman to record the adjournment, and no business is transacted at a meeting without quorum.

SOLUTION Q6 (b) Proxies – s.105 and Rule 19

- A member entitled to vote may appoint a proxy, member or not (unless the articles restrict it); a s.8 company may restrict proxies.
- Proxy form **MGT-11** must be deposited at least **48 hours** before the meeting.
- A proxy **cannot speak** and can vote **only on a poll** (not on a show of hands).
- One person may be proxy for **not more than 50 members** holding in aggregate **not more than 10%** of share capital carrying voting rights (a member holding more than 10% may appoint one proxy who cannot act for others).
- Every notice must state the right to appoint a proxy; members may inspect proxies from 24 hours before the meeting with 3 days' notice.

SOLUTION Q6 (c) KMP – s.203 and Rule 8

Who must appoint: every **listed company** and every **public company with paid-up capital of ₹10 crore or more** must have (1) an MD / CEO / manager, or a whole-time director if none; (2) a **company secretary**; and (3) a **CFO**. A **private company with paid-up capital of ₹10 crore or more** must appoint a **whole-time company secretary** (Rule 8A).

Appointment: by **Board resolution** with terms and remuneration; file MGT-14 / DIR-12.

Vacancy: must be filled by the Board **within 6 months** of the vacancy (s.203(4)).

Penalty: company ₹5 lakh; every defaulting director or KMP ₹50,000 and ₹1,000 per day of continuing default, up to ₹5 lakh.

SOLUTION Q6 (d) Notice of EGM – alteration of objects clause

[NAME] LIMITED – CIN ..., Registered office ...

NOTICE is hereby given that an Extraordinary General Meeting of the members of [Name] Limited will be held on [day, date] at [time] at [venue / through video conferencing] to transact the following special business:

Alteration of the Objects Clause of the Memorandum of Association – to consider and, if thought fit, pass the following resolution as a **special resolution**: "**RESOLVED THAT** pursuant to sections 4 and 13 and other applicable provisions of the Companies Act, 2013 and the Rules made thereunder, the Objects Clause of the Memorandum of Association be altered by inserting the following new sub-clause after sub-clause [ ]: '...'. **RESOLVED FURTHER THAT** the Board be authorised to do all acts necessary to give effect to this resolution, including filing MGT-14 with the Registrar."

By order of the Board, (Company Secretary), Place, Date.

Notes: (1) A member may appoint a proxy, who need not be a member; proxies to reach the registered office at least 48 hours before the meeting. (2) The explanatory statement under s.102 is annexed. (3) E-voting details (s.108, if applicable). (4) As the company has raised money from the public, the resolution is passed through **postal ballot** (s.110 and s.13(8)) and dissenting shareholders get an exit opportunity VERIFY.

SOLUTION Q6A (a) Resolution by circulation – s.175

A resolution is validly passed by circulation if the draft, with necessary papers, is circulated to **all directors** at their addresses in India (by hand, post, courier or electronic means), and it is **approved by a majority of the directors entitled to vote** on it. If **one-third of the total directors** require that it be decided at a meeting, the chairperson must put it to a meeting. It is noted at the next Board meeting and recorded in the minutes (SS-1). Items that need a resolution **at a meeting** – the s.179(3) powers (calls, buy-back, issue of securities, borrowing, investment, loans, approving financial statements and the Board's report, diversification, amalgamation, takeover, KMP appointment), and **RPT consent under s.188** – cannot be passed by circulation.

SOLUTION Q6A (b) Limit on directorships – s.165

A person may be a director in **not more than 20 companies**, of which **not more than 10 public companies** (a private company that is a holding or subsidiary of a public company counts as public). **Directorships in dormant companies are excluded.** Mr. K: 9 public + 6 private = 15 counted (the 3 dormant are excluded). Accepting one more public company gives 10 public and 16 total → **within both limits; he may accept**, after giving notice to the companies (and the new company files DIR-12). If any of his private companies is a subsidiary of a public company, recount.

SOLUTION Q6A (c) CSR Committee – s.135

- Applies to a company with **net worth ≥ ₹500 crore**, or **turnover ≥ ₹1,000 crore**, or **net profit ≥ ₹5 crore** in the immediately preceding financial year.
- Composition: **three or more directors**, of whom **at least one independent director**. An unlisted public or private company not required to have an ID may have a committee without one; a private company with only two directors may have two.
- Functions: formulate and recommend the **CSR Policy** and annual action plan; recommend the expenditure; monitor the policy.
- **No committee needed** where the CSR amount to be spent does **not exceed ₹50 lakh** – the Board discharges its functions (s.135(9)).

SOLUTION Q6A (d) Annual return – s.92

- Every company files its annual return in **MGT-7** (**MGT-7A** for OPCs and small companies) within **60 days** of the AGM (or of the date when the AGM should have been held).
- **Signed** by a director **and** the company secretary, or by a **company secretary in practice** if there is no CS (OPC / small company: CS, or a director if there is no CS).
- **Certification by a PCS in MGT-8** for listed companies and companies with **paid-up capital ≥ ₹10 crore or turnover ≥ ₹50 crore**.
- A copy is placed on the company's **website**, with the web link given in the Board's report.
- Penalty for default: company and every officer in default ₹10,000 plus ₹100 per day, up to ₹2 lakh (company) and ₹50,000 (officer).