Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 2: Company Law and Practice (CLP)

Mock Test 2 – 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

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This subject pack has 6 parts

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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. Kavya Fintech Ltd. is an unlisted public company. Its latest audited figures (₹ crore): paid-up share capital 12, free reserves 28, securities premium 5, turnover 320. Its existing borrowings (excluding temporary loans) are ₹40 crore, and its loans and investments in other bodies corporate total ₹20 crore. The Board has two directors (both executive) and no woman director. It now proposes to:

- borrow a further ₹10 crore from a bank for two years; and
- give an inter-corporate loan of ₹15 crore to Mira Logistics Ltd., an unrelated company.

Advise the company on the following with reasons:

(i) Must it appoint independent directors? How many? **(3 marks)**

(ii) Must it appoint a woman director? **(3 marks)**

(iii) What approval does the ₹15 crore loan need? **(3 marks)**

(iv) What approval does the ₹10 crore borrowing need? **(3 marks)**

(v) Is it required to have a secretarial audit? **(3 marks)**

Q2 Answer the following (3 marks each):

(i) Explain the doctrine of ultra vires with reference to *Ashbury Railway Carriage v. Riche*.

(ii) Can a company enforce a contract made by its promoters before incorporation?

(iii) State the procedure to convert a private company into a public company.

(iv) What approvals are needed to shift the registered office from one State to another?

(v) Can a minor become a member of a company?

Q3 (a) State the conditions for a valid private placement. What are the consequences if Starline Ltd. makes a private placement offer to 260 persons (none of them QIBs or ESOP employees)? **(5 marks)**

(b) Explain the procedure for the issue and redemption of preference shares under section 55. **(5 marks)**

(c) Distinguish a rights issue, a bonus issue and a preferential allotment. **(5 marks)**

Q4 (a) Which companies must have their cost records audited? How is a cost auditor appointed? **(5 marks)**

(b) Explain the provisions on unpaid dividend and its transfer to the Investor Education and Protection Fund. **(5 marks)**

(c) Explain the approval process for a compromise or arrangement with members and creditors under section 230. **(5 marks)**

OR Q4A (a) Explain the requirement of a Debenture Redemption Reserve. **(5 marks)**

(b) Explain the procedure for reduction of share capital under section 66. **(5 marks)**

(c) What is C-PACE? Explain its role in the removal of company names. **(5 marks)**

Part II (40 marks)

Q5 Case study. Rangoli Textiles Ltd. is an unlisted public company with paid-up capital of ₹25 crore. At a Board meeting in October 2026:

- The Board appointed Mr. Rao, aged 72, as Managing Director for five years from 1 November 2026.
- It fixed sitting fees of ₹1.2 lakh per Board meeting for independent directors.
- It proposed a loan of ₹50 lakh to Ms. Neha, the daughter of a director, for her higher studies abroad.

(i) Examine the appointment of Mr. Rao. **(5 marks)**

(ii) Comment on the sitting fees. **(5 marks)**

(iii) Can the company give the loan to Ms. Neha? **(5 marks)**

(iv) Draft the minutes of the Board meeting for the appointment of Mr. Rao as Managing Director. **(5 marks)**

Q6 (a) Ten members of a company holding paid-up voting capital of ₹45 lakh (total paid-up voting capital ₹5 crore) want an EGM called. Advise them on the procedure and whether their requisition is valid. **(5 marks)**

(b) Who can demand a poll at a general meeting, and how is a poll conducted? **(5 marks)**

(c) State any five grounds on which a director's office becomes vacant under section 167. **(5 marks)**

(d) Draft a Board resolution appointing a company secretary as KMP. **(5 marks)**

OR Q6A (a) Explain the requirements of SS-1 on the notice and agenda of a Board meeting. **(5 marks)**

(b) Which items must be transacted only by postal ballot? **(5 marks)**

(c) State any ten matters to be included in the Board's report. **(5 marks)**

(d) Draft a notice of a Board meeting with the agenda for approval of quarterly financial results. **(5 marks)**

Model Answers

SOLUTION Q1 Kavya Fintech Ltd.

(i) Independent directors – s.149(4) and Rule 4, Appointment and Qualification of Directors Rules: an unlisted public company with **paid-up capital ≥ ₹10 crore**, or **turnover ≥ ₹100 crore**, or aggregate loans, debentures and deposits **> ₹50 crore** must have **at least two independent directors**. Kavya (paid-up ₹12 crore; turnover ₹320 crore) → **must appoint at least two IDs**. As a public company it also needs at least **three directors** (s.149(1)) – it has only two.

(ii) Woman director – s.149(1) second proviso and Rule 3: every listed company, and every public company with **paid-up capital ≥ ₹100 crore or turnover ≥ ₹300 crore**, must have at least one woman director. Turnover ₹320 crore → **yes**. A vacancy must be filled by the next Board meeting or within three months, whichever is later.

(iii) Inter-corporate loan – s.186(2)–(3): limit = higher of **60% of paid-up + free reserves + securities premium** = 60% × 45 = ₹27 crore, or **100% of free reserves + securities premium** = ₹33 crore → **₹33 crore**. Existing 20 + proposed 15 = **₹35 crore > ₹33 crore** → **prior special resolution** needed. Also: **unanimous** Board approval at a meeting; prior approval of the public financial institution if a term loan from one is outstanding (s.186(5)); interest not lower than the yield on government securities of the nearest tenor (s.186(7)); entry in MBP-2.

(iv) Borrowing – s.180(1)(c): Board cannot borrow beyond **paid-up + free reserves + securities premium** (₹45 crore), excluding temporary loans, without a **special resolution**. 40 + 10 = **₹50 crore > ₹45 crore** → **special resolution** needed; the Board resolution under s.179(3)(d) must be at a meeting. File MGT-14.

(v) Secretarial audit – s.204 and Rule 9: required for every listed company, every public company with **paid-up capital ≥ ₹50 crore** or **turnover ≥ ₹250 crore**, and every company with outstanding borrowings from banks or public financial institutions **≥ ₹100 crore**. Turnover ₹320 crore → **yes**; report by a PCS in **MR-3**, annexed to the Board's report.

SOLUTION Q2

(i) An act beyond the **objects clause** of the memorandum is **ultra vires** and **void**; it cannot be ratified even by all the members. In *Ashbury Railway Carriage and Iron Co. v. Riche* (1875) a contract to finance a railway line, outside the objects, was held void. Consequences: no action by either party on the contract, directors personally liable, injunction available to members.

(ii) A company is not bound by a pre-incorporation contract and cannot ratify it (*Kelner v. Baxter*, 1866). However, under **ss.15(h) and 19(e) of the Specific Relief Act, 1963**, the company may enforce it, or have it enforced against it, if the contract was made for the purposes of the company, is **warranted by the terms of incorporation**, and the company has **accepted** it and communicated acceptance.

(iii) Alter the articles by **special resolution** to remove private-company restrictions (s.14); increase members to at least 7 and directors to at least 3 if needed; file **MGT-14** within 30 days and **INC-27** with the altered articles; the Registrar issues a fresh certificate of incorporation; the word "Private" is dropped from the name.

(iv) Special resolution altering the memorandum; **Central Government (Regional Director) approval** by application in **INC-23** (s.13(4)), with notice to creditors, debenture holders and the State Government; RD's decision within 60 days; file the order with the Registrars of both States in INC-28 within 30 days; registered office notice INC-22.

(v) A minor cannot contract, so he cannot become a member by subscribing to the memorandum or applying for shares himself. But **fully paid shares** may be acquired by **transmission** or allotted to a minor through a **guardian**, and the minor's name may be entered in the register, the guardian acting for him (MCA view; *Dewan Singh v. Minerva Films*, 1959). An OPC member or nominee cannot be a minor.

SOLUTION Q3 (a) Private placement – s.42 and Rule 14, PAS Rules

Conditions: offer only to persons identified by the Board, not more than **200 in a financial year** (excluding QIBs and ESOP employees); **special resolution** for each offer (once a year for NCDs); offer letter **PAS-4** and record **PAS-5**; minimum investment ₹20,000 of face value per person; money only through **banking channels** to a separate account; allotment within **60 days**, else refund within 15 days, then interest at **12% p.a.**; **PAS-3** within 15 days; no advertisement or public invitation.

Offer to 260 persons: it becomes a **public offer** and must comply with prospectus provisions (s.42(4)). Under **s.42(10)** the company, promoters and directors face a **penalty up to the amount raised or ₹2 crore, whichever is lower**, and the company must **refund all money within 30 days** of the penalty order.

SOLUTION Q3 (b) Preference shares – s.55 and Rule 9

- Issue needs authority in the **articles** and a **special resolution**; the company must not be in default in redeeming existing preference shares or paying dividends.
- All preference shares must be **redeemable**, within **20 years** (infrastructure projects: up to **30 years**, with at least 10% redeemed each year from the 21st year).
- Redemption only out of **profits available for dividend** or a **fresh issue** made for that purpose, and only **fully paid** shares.
- When redeemed out of profits, an equal amount is transferred to the **capital redemption reserve**; the premium on redemption comes from profits or securities premium (s.55(2)).
- If the company **cannot redeem** or pay dividend, it may with the consent of **three-fourths in value** of the preference shareholders and **Tribunal approval** issue further redeemable preference shares equal to the amount due (s.55(3)).

SOLUTION Q3 (c) Rights, bonus and preferential issues

Basis	Rights issue – s.62(1)(a)	Bonus issue – s.63	Preferential allotment – s.62(1)(c)
Offered to	Existing equity holders, pro rata	Existing holders, pro rata	Selected persons
Consideration	Payable (cash)	**Free** – capitalisation of reserves	Cash or other than cash
Approval	Board	Board + articles + general meeting	**Special resolution**
Renunciation	Allowed unless the articles bar it	Not applicable	Not applicable
Valuation	Not required	Not required	Registered valuer (unlisted); ICDR pricing (listed)
Effect on control	Unchanged if fully taken up	Unchanged	May change

SOLUTION Q4 (a) Cost audit – s.148 and Companies (Cost Records and Audit) Rules, 2014

Cost records are maintained by companies in specified industries with **turnover ≥ ₹35 crore** in the previous year. Cost audit applies to such companies: **regulated sectors** with overall turnover **≥ ₹50 crore** and individual product turnover **≥ ₹25 crore**; **non-regulated sectors** with overall turnover **≥ ₹100 crore** and individual product turnover **≥ ₹35 crore** (exemptions for SEZ units and largely export turnover).

Appointment: by the **Board**, on the Audit Committee's recommendation where one exists, within **180 days** of the start of the financial year; intimation to the Central Government in **CRA-2** within 30 days of the Board meeting or 180 days from FY start, whichever is earlier; remuneration **ratified by members**. Report to the Board in **CRA-3**; company files it in **CRA-4** within 30 days.

SOLUTION Q4 (b) Unpaid dividend and IEPF – ss.124, 125

- Dividend must be paid within **30 days** of declaration (s.127).
- Any amount unpaid is moved within **7 days** after the 30 days into a special **Unpaid Dividend Account** with a scheduled bank (s.124(1)); a statement is placed on the website within 90 days.
- Default: interest at **12% p.a.** on the amount not transferred.
- Money remaining unpaid for **7 years** is transferred to the **IEPF**; **shares** on which dividend is unpaid for **7 consecutive years** are also transferred to the IEPF (s.124(6)).
- The owner can claim refund from the IEPF Authority in **IEPF-5**.

SOLUTION Q4 (c) Compromise or arrangement – s.230

1. Application to the **Tribunal** (CAA-1) by the company, a member, a creditor or the liquidator, with disclosures (financial position, auditor's certificate on accounting treatment).
2. Tribunal orders **meetings** of the relevant classes of members and creditors (it may dispense with them where 90% in value consent by affidavit).
3. **Notice** of the meeting (CAA-2) with the scheme and explanatory statement, also to the Central Government, Income-tax, RBI, SEBI, the Registrar, stock exchanges and the Official Liquidator; representations within **30 days**.
4. Approval by a **majority in number representing three-fourths in value** of each class present and voting (in person, by proxy or postal ballot).
5. Objections can be raised only by persons holding **at least 10% of shareholding** or **5% of total outstanding debt**.
6. Tribunal **sanctions** the scheme; the order is filed with the Registrar (INC-28) within 30 days.

SOLUTION Q4A (a) Debenture Redemption Reserve – s.71(4) and Rule 18(7)

- DRR is created out of **profits available for dividend**.
- **Not required** for All India Financial Institutions, banks, listed companies, listed and unlisted NBFCs and HFCs (public issue and private placement) – after the 2019 amendment VERIFY.
- **Unlisted companies (other than NBFCs/HFCs):** DRR of **10% of outstanding debentures**.
- Every company required to keep DRR, and listed companies for public and private debentures, must also **deposit or invest at least 15%** of the debentures maturing in the year, by **30 April**, in specified securities or bank deposits.
- The DRR cannot be used except for redemption.

SOLUTION Q4A (b) Reduction of capital – s.66

1. Authority in the articles, and a **special resolution**.
2. Application to the **Tribunal** (RSC-1); the company must not be in **arrears in repaying deposits** or interest.
3. Tribunal gives notice to the **Central Government, the Registrar and SEBI** (listed) and to **creditors**; objections within **3 months**.
4. The Tribunal must be satisfied that every creditor has consented, been paid or secured; an auditor's certificate on accounting treatment conforming to the standards is required.
5. On confirmation, the company files the order and the minute with the Registrar in **INC-28** within 30 days; the Registrar registers it, and the order is published as directed.

Reduction includes extinguishing unpaid capital, cancelling lost capital or paying off surplus capital. (A buy-back under s.68 is not a reduction under s.66.)

SOLUTION Q4A (c) C-PACE

The **Centre for Processing Accelerated Corporate Exit** was set up by the MCA (operational from 1 May 2023) under the Registrar's powers in **s.396** and the strike-off provisions of **s.248**. It centrally processes **applications for voluntary strike-off (STK-2)** filed by companies under s.248(2), and removal of names of **LLPs**, so that exits are processed quickly and uniformly. It examines the application and documents (indemnity bond, statement of accounts, affidavits), publishes the public notice (STK-6), and issues the notice of striking off (STK-7) after considering objections VERIFY.

SOLUTION Q5 (i) Appointment of Mr. Rao, aged 72

- **s.196(3)(a):** a person above **70 years** cannot be appointed MD unless a **special resolution** is passed, with the **explanatory statement giving the justification**. Term cannot exceed **5 years** at a time (s.196(2)) – satisfied.
- The Board appoints, subject to **members' approval at the next general meeting** (s.196(4)); terms and remuneration as per **Schedule V** (if conditions there are not met, Central Government approval).
- Return of appointment in **MR-1** within 60 days; DIR-12 within 30 days; MGT-14 for the SR.

Conclusion: valid only if the members approve by **special resolution**; an ordinary resolution is not enough.

SOLUTION Q5 (ii) Sitting fees – s.197(5) and Rule 4, Appointment and Remuneration of Managerial Personnel Rules

Sitting fees for attending Board or committee meetings **may not exceed ₹1 lakh per meeting**. Fees for independent directors and women directors must not be less than those for other directors. **₹1.2 lakh exceeds the limit** → the excess of ₹20,000 per meeting is not permissible; the Board should fix fees at ₹1 lakh or less. Sitting fees are excluded from the s.197 overall limits.

SOLUTION Q5 (iii) Loan to a director's relative – s.185

s.185(1): a company shall not, directly or indirectly, give a loan to any **director of the company or of its holding company, or to any partner or relative of such director**, or a firm in which such director or relative is a partner. Neha, the director's daughter, is a **relative** (s.2(77)) → **the loan is prohibited**. The s.185(2) route (special resolution, loans to entities in which a director is interested, used for principal business) does not cover relatives. Exceptions in s.185(3) – loans to an MD/WTD as part of conditions of service or a scheme for all employees, loans by companies in the ordinary course of lending business – do not apply. Contravention: company fine ₹5 lakh–₹25 lakh; directors and the borrower imprisonment up to 6 months and/or fine ₹5 lakh–₹25 lakh.

SOLUTION Q5 (iv) Minutes – appointment of MD

Item No. [ ]: Appointment of Mr. Rao as Managing Director

The Chairman informed the Board that the Nomination and Remuneration Committee had recommended the appointment of Mr. Rao (DIN ...) as Managing Director for five years from 1 November 2026. Mr. Rao had given his consent in DIR-2 and declared that he is not disqualified under section 164 and Schedule V. As Mr. Rao is over 70 years of age, the appointment requires a special resolution of the members. After discussion, the Board passed the following resolution unanimously (Mr. Rao, being interested, did not participate):

"**RESOLVED THAT** pursuant to sections 196, 197, 203 and Schedule V of the Companies Act, 2013 and the Rules made thereunder, on the recommendation of the Nomination and Remuneration Committee and subject to the approval of the members by special resolution, Mr. Rao (DIN ...), aged 72 years, be and is hereby appointed as Managing Director of the Company for five years from 1 November 2026 on the terms and remuneration set out in the draft agreement placed before the meeting.

RESOLVED FURTHER THAT the Company Secretary be and is hereby authorised to file DIR-12, MR-1 and other forms and to include the item, with the justification for appointment beyond 70 years, in the notice of the next general meeting."

Signed: Chairman of the meeting / next meeting, Date, Place (minutes to be entered within 30 days – s.118; SS-1).

SOLUTION Q6 (a) Requisition of an EGM – s.100

- Members holding **at least one-tenth of paid-up capital carrying voting rights** may requisition an EGM (companies without share capital: one-tenth of voting power).
- Requisitionists hold ₹45 lakh of ₹5 crore = **9% → below 10%; the requisition is not valid**. They need more members to join until the holding reaches **₹50 lakh**.
- Procedure if valid: a signed requisition stating the matters, deposited at the registered office; the Board must **within 21 days** call a meeting to be held **within 45 days** of the requisition; failing which the requisitionists may call it themselves **within 3 months**, and reasonable expenses are recovered from the defaulting directors' fees (s.100(5)–(6)).

SOLUTION Q6 (b) Poll – ss.109, 110 and Rule 21

- A poll may be ordered by the chairman on his own, and must be ordered on a demand by members present in person or by proxy holding **at least one-tenth of the total voting power**, or shares with paid-up value of **at least ₹5 lakh** (as prescribed).
- The demand can be made before or on the declaration of the result of a show of hands; it can be withdrawn.
- A poll on adjournment or election of the chairman is taken **at once**; other polls within **48 hours**.
- The chairman appoints **two scrutinisers** (one may be a member not an officer); votes are counted per share; the result is declared and is the decision of the meeting (s.109(5)).
- Where e-voting (s.108) applies, a poll or ballot paper is offered at the meeting for those who did not vote electronically.

SOLUTION Q6 (c) Vacation of office – s.167(1)

A director's office becomes vacant if he: (1) incurs a **disqualification under s.164**; (2) **absents himself from all Board meetings for 12 months**, with or without leave; (3) acts in contravention of **s.184** (disclosure of interest); (4) fails to disclose interest under s.184; (5) is **disqualified by a court or Tribunal order**; (6) is **convicted** of an offence with imprisonment of at least 6 months; (7) is **removed** under the Act; (8) having been appointed because of his office or employment in a holding, subsidiary or associate company, **ceases to hold** that office or employment. A private company's articles may add further grounds.

SOLUTION Q6 (d) Board resolution – appointment of company secretary

"**RESOLVED THAT** pursuant to section 203 and other applicable provisions of the Companies Act, 2013 read with Rule 8 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, and on the recommendation of the Nomination and Remuneration Committee, Ms. [Name], a member of the Institute of Company Secretaries of India (Membership No. ...), be and is hereby appointed as the Company Secretary and Key Managerial Personnel of the Company with effect from [date], on a remuneration of ₹... per annum and other terms as set out in the appointment letter placed before the Board.

RESOLVED FURTHER THAT Ms. [Name] be and is hereby designated as the Compliance Officer of the Company, and any director be and is hereby authorised to file DIR-12 and MGT-14 (if applicable) with the Registrar and do all acts necessary to give effect to this resolution."

SOLUTION Q6A (a) SS-1 – notice and agenda

- Notice of every Board meeting in **writing** to every director, by hand, speed post, registered post, courier, e-mail or other electronic means, **at least 7 days** before the meeting (s.173(3)), unless the articles prescribe a longer period.
- Shorter notice for urgent business – at least one **independent director** must be present; if none, decisions are final only on ratification by at least one ID.
- The notice states the **serial number, day, date, time and full address of the venue**, and the option and contact details for participation by video conference.
- **Agenda and notes** are sent at least **7 days** before; notes on unpublished price-sensitive information may be sent at shorter notice with consent of the majority of directors including one ID.
- Items not on the agenda ("any other business") may be taken only with the permission of the chairman and consent of the majority of directors present, including one ID.

SOLUTION Q6A (b) Items by postal ballot – s.110 and Rule 22(16)

(1) Alteration of the objects clause (and change of objects where public money is unutilised – s.13(8)); (2) alteration of articles to convert to a private company or to remove private-company provisions; (3) change of registered office outside the local limits of a city, town or village (s.12(5)); (4) change in objects for which money was raised by prospectus (s.27(2)); (5) issue of shares with differential voting rights; (6) variation of rights of holders of different classes (s.48); (7) buy-back of shares (s.68(1)); (8) election of a small shareholders' director (s.151); (9) sale of the whole or substantially the whole of an undertaking (s.180(1)(a)); (10) giving loans, guarantees or security beyond limits (s.186(3)). Companies providing e-voting (s.108) may transact these items at a general meeting instead; companies with up to 200 members are excluded.

SOLUTION Q6A (c) Board's report – s.134(3) and Rule 8, Accounts Rules

Any ten of: (1) web link of the annual return; (2) number of Board meetings; (3) directors' responsibility statement; (4) fraud reported by auditors (other than to the CG); (5) statement on independent directors' declarations; (6) policy on directors' appointment and remuneration (where applicable); (7) explanations on auditors' qualifications; (8) particulars of loans, guarantees and investments under s.186; (9) RPT particulars in AOC-2; (10) state of affairs; (11) amounts carried to reserves; (12) dividend recommended; (13) material changes after the balance-sheet date; (14) conservation of energy, technology absorption, foreign exchange; (15) risk management policy; (16) CSR policy and initiatives; (17) annual evaluation of the Board (listed and large public companies); (18) number of complaints under the POSH Act and a statement of compliance with the Maternity Benefit Act (added in 2025) VERIFY.

SOLUTION **Q6A (d) Notice of a Board meeting**

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

Date: [ ]

To all the Directors of the Company

Notice of the [ ] meeting of the Board of Directors

Notice is hereby given, under section 173(3) of the Companies Act, 2013 and SS-1, that the [serial no.] meeting of the Board of Directors will be held on [day, date] at [time] at [full address of venue]. Directors may participate through video conferencing; please inform the Company Secretary at least [ ] days before the meeting if you wish to do so.

Agenda: (1) Leave of absence; (2) Confirmation of minutes of the previous Board meeting; (3) Noting of minutes of committee meetings; (4) Consideration and approval of unaudited financial results for the quarter ended [date], as reviewed and recommended by the Audit Committee; (5) Noting of the limited review report of the statutory auditors; (6) Noting of the compliance certificate and quarterly compliance reports; (7) Any other matter with the permission of the Chairman.

Notes on agenda items are enclosed.

By order of the Board, (Company Secretary), Membership No. ...