Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 2: Company Law and Practice (CLP)

# Chapter-wise Practice Questions with Answers

For each of the 17 chapters: 2 quick-check MCQs (a self-test only – the CS Executive paper is fully descriptive) and 1 exam-style question with a model answer · Laws as amended up to 31 May 2026

34 quick-check MCQs | 17 descriptive questions | Answers with section, rule and form

## Contents


| | | | |
|---|---|---|---|
| How to use this set | 2 | 1. Introduction to Company Law | 2 |
| 2. Legal Status and Types of Companies | 2 | 3. MOA, AOA and Incorporation | 3 |
| 4. Shares and Share Capital | 3 | 5. Members and Shareholders | 4 |
| 6. Debt Instruments – Deposits and Debentures | 4 | 7. Charges | 5 |
| 8. Distribution of Profits | 5 | 9. Accounts and Auditors | 6 |
| 10. Compromise, Arrangement and Amalgamation | 6 | 11. Dormant Company | 7 |
| 12. General Meetings (SS-2) | 7 | 13. Directors | 8 |
| 14. Board Composition, Powers and Related Party Transactions | 8 | 15. Meetings of Board and Committees (SS-1) | 9 |
| 16. Annual Report | 9 | 17. KMP and Remuneration | 10 |


## 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.

# How to use this set

EXAM TIP Do the two MCQs as a recall check, then write the descriptive answer in 8–9 minutes (5 marks) by hand. In company law, marks come from the **section, the threshold or majority, the approving authority, the e-form and the time limit** – check each against the model answer.

# 1. Introduction to Company Law

**1.** The doctrine of indoor management protects:

(a) directors against members
(b) outsiders dealing with the company in good faith against internal irregularities
(c) the company against forged documents
(d) promoters against creditors

**2.** *Salomon v. Salomon & Co.* established:

(a) the ultra vires rule
(b) the separate legal entity of a company
(c) indoor management
(d) the enemy-character test

QUESTION **When is a company liable for torts committed by its employees? (5 marks)**

SOLUTION **Answer**

A company acts through agents and employees, so it is **vicariously liable** for torts they commit **in the course of employment** and within the scope of authority (actual or ostensible) – e.g. negligence, fraud, defamation by an employee while acting for the company (*Lloyd v. Grace Smith*, 1912; *Citizens' Life Assurance v. Brown*, 1904). It is liable even for malice-based torts (malicious prosecution) if committed in the course of business. It is **not liable** for an act wholly outside employment (a frolic of the employee's own), or for an **ultra vires** activity unless done within an intra vires object. Directors who personally commit or direct the tort are liable along with the company.

# 2. Legal Status and Types of Companies

**3.** From 1 December 2025, the paid-up capital limit for a small company is:

(a) ₹2 crore (b) ₹4 crore
(c) ₹10 crore (d) ₹50 crore

**4.** "Significant influence" for an associate company means control of at least:

(a) 10% of total voting power (b) 20% of total voting power
(c) 26% of share capital (d) 51% of share capital

QUESTION **A private company that is a subsidiary of a public company has articles restricting transfer of shares. Is it a private or public company? (5 marks)**

**SOLUTION Answer**

Under the **proviso to s.2(71)**, a company that is a **subsidiary of a company which is not a private company** is **deemed to be a public company** for the purposes of the Act, even if its articles continue to contain private-company restrictions. Consequences: it must follow public-company rules – minimum 3 directors, s.149 and s.152 provisions on retirement by rotation (unless excluded), restrictions under ss.180, 181 and 186 as applicable to public companies, and counting as a public company for s.165 limits. It is still registered as a private company and retains "Private" in its name; the restriction on transfers in its articles is not invalid.

## 3. MOA, AOA and Incorporation

**5.** Under s.10A, the declaration of commencement of business must be filed within:

(a) 30 days of incorporation
(b) 90 days of incorporation
(c) 180 days of incorporation
(d) one year of incorporation

**6.** Alteration of articles to convert a public company into a private company requires:

(a) Board resolution only
(b) Special resolution and Tribunal approval
(c) Special resolution and Regional Director approval
(d) Ordinary resolution and ROC approval

**QUESTION What are the consequences when a company is incorporated by furnishing false information? (5 marks)**

**SOLUTION Answer**

**s.7(6)**: any person furnishing false or incorrect particulars or suppressing material information is liable for **fraud under s.447**. **s.7(7)**: where it is proved that a company was incorporated by false or incorrect information or by fraud, the **Tribunal**, on an application, may: (a) pass orders to regulate the management, including changes in the memorandum and articles in public interest or the interest of members and creditors; (b) direct that the liability of members be **unlimited**; (c) direct **removal of the name** from the register; (d) order **winding up**; or (e) any other order. Before that, the company gets a reasonable opportunity of being heard, and the Tribunal considers transactions already entered into. Promoters, first directors and the professional who certified the documents are liable under s.447.

## 4. Shares and Share Capital

**7.** A private placement offer can be made in a year to not more than:

(a) 50 persons
(b) 200 persons, excluding QIBs and ESOP employees
(c) 500 persons
(d) 1,000 persons

**8.** A company that fails to redeem its preference shares may issue further redeemable preference shares with:

(a) Board approval only
(b) consent of three-fourths in value of preference holders and Tribunal approval
(c) RBI approval
(d) SEBI approval

**QUESTION State the conditions for issue of shares on a preferential basis by an unlisted company. (5 marks)**

**SOLUTION Answer**

**s.62(1)(c) and Rule 13, SCD Rules:** (1) authorised by the **articles**; (2) **special resolution** (for each offer); (3) price determined by a **registered valuer's report**; (4) explanatory statement disclosing objects, total number and price of shares, basis of price, intention of promoters and directors to subscribe, proposed time for completion, identity and pre- and post-issue holding of allottees, change in control, and number of persons allotted during the year; (5) allotment completed within **12 months** of the SR, else a fresh SR; (6) shares fully paid at allotment; (7) private placement procedure of s.42 also applies (PAS-4, separate bank account, PAS-3 within 15 days). For **convertible securities**, the price of the resultant shares is fixed either upfront or within 30 days before the conversion date on a valuation report.

## 5. Members and Shareholders

**9.** A beneficial owner whose name is in the depository's records is:

(a) not a member
(b) a member under s.2(55)(iii)
(c) a debenture holder
(d) a member only after Board approval

**10.** A subsidiary company may hold shares in its holding company when it holds them:

(a) as legal representative of a deceased member
(b) by allotment for cash
(c) by bonus issue only
(d) never

**QUESTION Distinguish "member" and "shareholder". (5 marks)**

**SOLUTION Answer**

A **member** (s.2(55)) is: (i) a subscriber to the memorandum (deemed member, entered in the register); (ii) every other person who agrees in writing to become a member and whose name is entered in the register of members; (iii) every person holding shares whose name is entered as a beneficial owner in the depository's records. A **shareholder** is a person who holds shares. Differences: (1) a company **without share capital** has members but no shareholders; (2) a subscriber is a member before allotment of shares; (3) a holder of a **share warrant** (pre-2013) is a shareholder but not a member; (4) a person who has transferred shares remains a member until the transferee is registered; (5) the legal representative of a deceased shareholder becomes a member only on registration.

## 6. Debt Instruments – Deposits and Debentures

**11.** A debenture trustee is required when debentures are offered to the public or to more than:

(a) 100 persons
(b) 200 persons
(c) 500 persons
(d) 1,000 persons

**12.** The maximum tenure of a deposit accepted by a company under the Deposit Rules is:

(a) 12 months
(b) 24 months
(c) 36 months
(d) 60 months

**QUESTION Which public companies can accept deposits from the public, and up to what limit? (5 marks)**

SOLUTION **Answer**

**s.76 and Rule 2(1)(e):** an **eligible company** – a public company with **net worth ≥ ₹100 crore** or **turnover ≥ ₹500 crore** – may accept deposits from persons other than members, after a **special resolution** and filing it with the Registrar before inviting deposits. It must obtain a **credit rating** every year and give the rating in the circular. Limits (Rule 3(4)): deposits from members up to **10%** and from the public up to **25%** of paid-up capital + free reserves + securities premium. Other conditions: circular in **DPT-1** published in a newspaper and on the website; deposit repayment reserve of **20%** of deposits maturing in the next financial year; maximum interest as per RBI's NBFC ceiling; charge on assets if secured; DPT-3 return by 30 June.

## 7. Charges

**13.** A charge must be registered within:

(a) 30 days of creation
(b) 60 days of creation
(c) 90 days of creation
(d) 6 months of creation

**14.** The e-form for intimation of satisfaction of charge is:

(a) CHG-1
(b) CHG-4
(c) CHG-9
(d) MGT-14

QUESTION **A bank assigns a loan, and the charge securing it, to another bank. What must the company do? (5 marks)**

SOLUTION **Answer**

An assignment of the charge to a new charge-holder is a **modification of the terms of the charge** (s.79). The company must file **CHG-1** (CHG-9 for debentures) with the Registrar within **30 days** of the modification (further 60 days with additional fees), signed by the company and the new charge-holder, with the assignment deed. The Registrar registers the modification and issues a certificate (CHG-3). The company updates its register of charges (CHG-7) and keeps the instrument at the registered office for inspection by members and creditors (s.85). The original registration date continues for priority. The company itself remains bound to repay the assignee.

## 8. Distribution of Profits

**15.** Dividend declared must be paid within:

(a) 7 days
(b) 15 days
(c) 30 days
(d) 45 days

**16.** Interim dividend in a year with losses up to the end of the quarter before declaration cannot exceed:

(a) the average rate of the three preceding years
(b) 10% of paid-up capital
(c) the last final dividend
(d) 50% of profits

QUESTION **What are the consequences of failure to pay a declared dividend within 30 days? (5 marks)**

**SOLUTION Answer**

**s.127:** every **director** knowingly a party to the default is punishable with **imprisonment up to 2 years** and **fine of at least ₹1,000 per day** of continuing default; the **company** pays **simple interest at 18% p.a.** for the period of default. No offence where: the dividend could not be paid due to law; the shareholder's instructions could not be complied with; there was a **dispute regarding the right** to receive the dividend; the dividend was lawfully adjusted against a sum due from the shareholder; or the failure was not due to the company's default. The unpaid amount must also go to the Unpaid Dividend Account within 7 days after the 30 days (s.124).

## 9. Accounts and Auditors

**17.** An individual auditor of a listed company can hold office for not more than:

(a) one term of 5 years
(b) two terms of 5 years
(c) 3 years
(d) 10 years continuously

**18.** The secretarial audit report is in form:

(a) MR-1
(b) MR-3
(c) ADT-1
(d) MGT-8

**QUESTION An auditor resigns mid-term. Explain the procedure for filling the vacancy and the auditor's obligations. (5 marks)**

**SOLUTION Answer**

**Resignation – s.140(2):** the auditor files **ADT-3** with the company and the Registrar within **30 days**, stating the reasons and other facts (for a company whose accounts are audited by the CAG, also to the CAG). Failure attracts a penalty of ₹50,000 or the remuneration, whichever is less, plus ₹500 per day up to ₹2 lakh. **Casual vacancy – s.139(8):** in a non-CAG company, the vacancy caused by **resignation** is filled by the **Board within 30 days**, and the appointment is **approved by members at a general meeting within 3 months** of the Board's recommendation; the new auditor holds office until the next AGM. Other casual vacancies are filled by the Board within 30 days. File ADT-1.

## 10. Compromise, Arrangement and Amalgamation

**19.** In a fast-track merger under s.233, the scheme must be approved by members holding at least:

(a) three-fourths of total shares
(b) 90% of total number of shares
(c) a simple majority
(d) all the members

**20.** Under s.230, an objection to a scheme can be made by persons holding at least:

(a) 5% of shareholding or 10% of debt
(b) 10% of shareholding or 5% of total outstanding debt
(c) 25% of shareholding
(d) any number

**QUESTION Explain the procedure for merger of a wholly owned subsidiary into its holding company under s.233. (5 marks)**

**SOLUTION Answer**

1. Board approval of the draft scheme in both companies.
2. Notice of the scheme in **CAA-9** to the **Registrar and the Official Liquidator** (and other regulators) inviting objections within **30 days**.
3. **Declaration of solvency** in **CAA-10** filed with the Registrar by each company.
4. Approval at general meetings by members holding **at least 90% of total shares**, and by creditors representing **nine-tenths in value** (meeting or written consent), with 21 days' notice.
5. File the approved scheme with the **Regional Director** (CAA-11) and copies with the ROC and OL.
6. If the RD has no objection, he confirms the scheme (CAA-12); if he considers it against public interest, he may refer it to the **Tribunal**. The confirmation order is filed with the Registrar in INC-28 within 30 days. The transferor's authorised capital merges with the transferee's.

## 11. Dormant Company

**21.** Application for dormant status is made in form:

(a) MSC-1 (b) MSC-3
(c) MSC-4 (d) STK-2

**22.** An "inactive company" has made no significant accounting transactions during the last:

(a) 1 financial year (b) 2 financial years
(c) 3 financial years (d) 5 financial years

**QUESTION List the compliance requirements of a dormant company. (5 marks)**

**SOLUTION Answer**

(1) Keep the **minimum number of directors** – 3 (public), 2 (private), 1 (OPC); (2) hold at least **one Board meeting in each half of a calendar year**, with a gap of at least 90 days; (3) file the **return of dormant company in MSC-3** within 30 days from the end of each financial year, with an auditor's certificate; (4) keep its accounts and get the **auditor's certificate** attached to MSC-3; (5) pay the annual fee; (6) intimate the Registrar of any change in the conditions on which status was granted; (7) the Registrar can strike off its name under s.455(5) if it fails to comply; (8) directorships in dormant companies are **not counted** for the s.165 limits; (9) to become active, apply in **MSC-4** VERIFY.

## 12. General Meetings (SS-2)

**23.** The quorum for a general meeting of a public company with 6,000 members is:

(a) 5 (b) 15
(c) 30 (d) 2

**24.** Shorter notice for an AGM needs consent of members holding at least:

(a) 51% of voting capital
(b) 75% of members
(c) 95% of members entitled to vote
(d) all members

**QUESTION Explain the provisions on the first and subsequent AGMs. (5 marks)**

SOLUTION **Answer**

**s.96:** every company (other than an OPC) holds an AGM every year. The **first AGM** is held within **9 months** of the close of the first financial year; it need not be held in the year of incorporation. **Subsequent AGMs:** within **6 months** of the close of the financial year, with **not more than 15 months** between two AGMs. The Registrar may **extend** the time for any AGM other than the first by up to **3 months** for special reasons (application in GNL-1). Held during **business hours (9 am–6 pm)** on a day that is **not a national holiday**, at the registered office or another place in the same city, town or village. Penalty for default s.99; the Tribunal may call the meeting on a member's application (s.97).

## 13. Directors

**25.** A person can be a director of at most:

(a) 10 companies
(b) 15 companies
(c) 20 companies, of which not more than 10 public
(d) 25 companies

**26.** An alternate director may be appointed for a director absent from India for at least:

(a) 1 month (b) 2 months
(c) 3 months (d) 6 months

QUESTION **State the disqualifications for appointment as a director under s.164. (5 marks)**

SOLUTION **Answer**

**s.164(1):** a person is not eligible if he: (a) is of **unsound mind** declared by a court; (b) is an **undischarged insolvent**; (c) has applied to be adjudicated insolvent and the application is pending; (d) has been **convicted** of an offence and sentenced to imprisonment of at least **6 months** (5 years must have elapsed since the expiry of the sentence; 7 years or more – never eligible); (e) is disqualified by a **court or Tribunal order**; (f) has **not paid calls** for 6 months; (g) has been convicted of an offence relating to **related party transactions** (s.188) in the last 5 years; (h) has **no DIN**; (i) has exceeded the **s.165** limits VERIFY. **s.164(2):** a director of a company that has not filed financial statements or annual returns for **3 continuous years**, or has failed to repay deposits, debentures or dividend for one year, is not eligible for reappointment in that company or appointment elsewhere for **5 years**.

## 14. Board Composition, Powers and Related Party Transactions

**27.** Sale of the whole or substantially the whole of an undertaking requires:

(a) Board resolution
(b) special resolution under s.180(1)(a)
(c) ordinary resolution
(d) Tribunal approval

**28.** Appointment of a director's relative to an office of profit needs members' approval when monthly remuneration exceeds:

(a) ₹1 lakh (b) ₹2.5 lakh
(c) ₹5 lakh (d) ₹10 lakh

QUESTION **What powers of the Board can be exercised only at a meeting? (5 marks)**

SOLUTION **Answer**

**s.179(3) and Rule 8:** (a) make **calls** on unpaid shares; (b) authorise **buy-back** under s.68; (c) **issue securities**, including debentures; (d) **borrow** monies; (e) **invest** funds; (f) grant **loans** or give guarantees or security; (g) approve **financial statements and the Board's report**; (h) **diversify** the business; (i) approve **amalgamation, merger or reconstruction**; (j) **take over** a company or acquire a controlling or substantial stake; (k) make political contributions; (l) appoint or remove **KMP**; (m) appoint internal and secretarial auditors. Items (d)–(f) may be delegated by Board resolution to a committee, MD, manager or principal officer within limits. **RPT consent under s.188** and the s.186 unanimous resolution are also taken at a meeting.

## 15. Meetings of Board and Committees (SS-1)

**29.** The maximum gap between two Board meetings is:

(a) 90 days (b) 120 days
(c) 150 days (d) 180 days

**30.** Draft minutes of a Board meeting must be circulated within:

(a) 7 days (b) 15 days
(c) 30 days (d) 45 days

QUESTION **Which companies must constitute an Audit Committee? State its composition. (5 marks)**

SOLUTION **Answer**

**s.177 and Rule 6:** every **listed company**, and every **public company** with **paid-up capital ≥ ₹10 crore**, or **turnover ≥ ₹100 crore**, or aggregate outstanding **loans, debentures and deposits > ₹50 crore**. Composition: at least **three directors**, with **independent directors forming a majority**; the chairperson and majority of members must be able to **read and understand financial statements**. Under LODR Reg. 18 (listed): at least three directors, **two-thirds independent**, all financially literate, at least one with accounting or related financial management expertise; the chairperson an independent director who attends the AGM. The CS acts as secretary to the committee.

## 16. Annual Report

**31.** Certification of the annual return by a PCS in MGT-8 is needed for companies with turnover of at least:

(a) ₹10 crore (b) ₹50 crore
(c) ₹100 crore (d) ₹250 crore

**32.** A company need not constitute a CSR Committee if its CSR spend obligation does not exceed:

(a) ₹10 lakh (b) ₹25 lakh
(c) ₹50 lakh (d) ₹1 crore

QUESTION **Who signs the financial statements and the Board's report? (5 marks)**

SOLUTION **Answer**

**s.134(1):** the financial statements, including consolidated statements, are approved by the **Board** and signed on its behalf by the **chairperson** if authorised, or by **two directors** of whom one is the **MD** (if any), and by the **CEO, CFO and company secretary** wherever they are appointed. In an **OPC**, by one director. The auditor's report is attached. **s.134(6):** the Board's report and annexures are signed by the **chairperson** if authorised by the Board, or else by **at least two directors**, one of whom is the MD (or by the director in an OPC). The financial statements are filed in **AOC-4** within 30 days of the AGM.

# 17. KMP and Remuneration

**33.** The maximum overall managerial remuneration of a public company without a special resolution is:

(a) 5% of net profit (b) 10% of net profit
(c) 11% of net profit (d) 15% of net profit

**34.** Sitting fees per meeting cannot exceed:

(a) ₹20,000 (b) ₹50,000
(c) ₹1 lakh (d) ₹2.5 lakh

**QUESTION When is compensation for loss of office not payable to an MD under s.202? (5 marks)**

**SOLUTION Answer**

s.202 allows compensation to an **MD, WTD or manager** for loss of office (not to other directors). It is **capped** at the remuneration he would have earned for the **unexpired term or 3 years, whichever is shorter**, calculated on the average of the last three years. **Not payable** where: (1) the director **resigns**, including in consequence of a reconstruction or amalgamation, and is appointed MD/WTD/manager of the resulting company; (2) he resigns otherwise than on reconstruction or amalgamation; (3) his office is vacated under **s.167(1)**; (4) the company is **wound up** due to his negligence or default; (5) he is guilty of **fraud, breach of trust, gross negligence or mismanagement**; (6) he **instigated** or took part in bringing about the termination.

## Answer key with explanations

| Q | Ans | Explanation / working |
|---|---|---|
| 1 | (b) | *Royal British Bank v. Turquand*; exceptions include knowledge, negligence and forgery. |
| 2 | (b) | A company is distinct from its members. |
| 3 | (c) | ₹10 crore paid-up and ₹100 crore turnover. |
| 4 | (b) | s.2(6) Explanation – 20% of total voting power or control of or participation in business decisions under an agreement. |
| 5 | (c) | INC-20A within 180 days. |
| 6 | (c) | s.14(1) proviso; the power moved from the Tribunal to the RD (Central Government) in 2019 VERIFY. |
| 7 | (b) | s.42(2) and Rule 14(2). |
| 8 | (b) | s.55(3). |
| 9 | (b) | Every person holding shares and whose name is entered as beneficial owner in the depository's records. |
| 10 | (a) | s.19 exceptions – legal representative, trustee (no beneficial interest), or shares held before becoming a subsidiary. |
| 11 | (c) | s.71(5). |
| 12 | (c) | Minimum 6 months; maximum 36 months (Rule 3(1)). |
| 13 | (a) | s.77(1); a further 60 days with additional fees. |
| 14 | (b) | CHG-4 within 30 days of satisfaction. |
| 15 | (c) | s.127. |
| 16 | (a) | s.123(3) proviso. |
| 17 | (a) | s.139(2)(a); an audit firm – two terms of 5 years; cooling-off 5 years. |
| 18 | (b) | s.204. |
| 19 | (b) | And creditors representing nine-tenths in value. |
| 20 | (b) | s.230(4) proviso. |
| 21 | (a) | MSC-2 is the certificate; MSC-3 the annual return; MSC-4 to become active. |
| 22 | (b) | s.455 Explanation. |
| 23 | (c) | More than 5,000 members – 30 members personally present. |
| 24 | (c) | s.101(1) proviso; for other general meetings – majority in number holding 95% of paid-up voting capital. |

| Q | Ans | Explanation / working |
|---|---|---|
| 25 | (c) | s.165(1); dormant companies are excluded. |
| 26 | (c) | s.161(2). |
| 27 | (b) | "Undertaking" – investment above 20% of net worth or income above 20% of total income. |
| 28 | (b) | Rule 15(3), Meetings of Board Rules. |
| 29 | (b) | s.173(1); at least four meetings a year. |
| 30 | (b) | SS-1: within 15 days; comments within 7 days; signed within 30 days. |
| 31 | (b) | Or paid-up capital ₹10 crore, or listed. |
| 32 | (c) | s.135(9). |
| 33 | (c) | s.197(1). |
| 34 | (c) | Rule 4, Managerial Personnel Rules. |