GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

Syllabus 2022

JUNE 2026

GROUP 1

भारतीय कम्पनी सचिव संस्थान
THE INSTITUTE OF
Company Secretaries of India
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)

CONTENTS

Group 1

The Guideline Answers contain information based on the Laws/Rules applicable at the time of preparation and should be treated as indicative rather than exhaustive. The Students may note that the applicability of amendments to laws for CS Examinations is as under:

December Session	upto 31 May of that Calendar year
June Session	upto 30 November of previous Calendar year

JURISPRUDENCE, INTERPRETATION & GENERAL LAWS

GROUP 1 PAPER 1

Time allowed : 3 hours **Maximum marks : 100**

Total number of questions : 6

NOTE : Answer ALL Questions.

Question 1

(a) *Rahul, a businessman living in Jaipur, supplied electronic goods worth ₹ 5 lakh to M/s Bright Electronics, owned by Ramesh, located in Jodhpur. The goods were supplied on credit and Ramesh issued a promissory note promising to pay the amount within three months. After the expiry of the stipulated period, Ramesh failed to make the payment. Rahul therefore filed a summary suit in the District Court at Jaipur for recovery of the amount.*

Meanwhile, Ramesh filed another civil suit in the Civil Court at Jodhpur alleging that the goods supplied were defective and claimed damages of ₹ 3 lakh from Rahul. During the proceedings, Ramesh argued that the Jaipur court did not have territorial jurisdiction, since his business and residence were in Jodhpur. He also requested the court to stay the proceedings in Jaipur because the Jodhpur case concerning the same dispute was already pending. Rahul, on the other hand, argued that the cause of action partly arose in Jaipur, since the contract was executed and goods were dispatched from Jaipur.

Later, the Jodhpur court decided the suit filed by Ramesh and held that the goods supplied were not defective. The court dismissed Ramesh's claim. After the decision, Ramesh attempted to raise the same issues again in the Jaipur court. Rahul objected, arguing that the matter had already been decided and therefore the principle of res judicata applied. Finally, the Jaipur court decided the recovery suit in favour of Rahul and ordered Ramesh to pay ₹ 5 lakh along with interest.

Based on the above situation answer the following questions :

(i) *Explain the structure of civil courts in India.*

(2 marks)

(ii) *Discuss whether the Jaipur court has territorial jurisdiction in this matter.*

(2 marks)

(iii) *What is meant by stay of suit under the Code of Civil Procedure, 1908 ?*

(2 marks)

(iv) *Explain the principle of res judicata. Can Ramesh raise the same issue again after the Jodhpur Court has decided it ?*

(2 marks)

(v) *What are summary proceedings ? Was Rahul justified in filing a summary suit for recovery of money ?*

(2 marks)

(b) *In the state of Uttar Pradesh, the Government, citing concerns of maintaining public order and preventing potential unrest, issued a comprehensive executive order prohibiting all public gatherings of more than five persons in several districts for an indefinite period. The order further imposed restrictions on the use of social media platforms, requiring prior permission from the authorities for organizing or promoting any form of protest or public assembly online. It also empowered local police authorities to take preventive action, including detention of individuals suspected of violating the order.*

A group of university students in Lucknow, concerned about the steep rise in educational fees and reduction in scholarships, organized a peaceful protest within their campus premises. The protest was non-violent, orderly and did not disrupt traffic or public services. Despite this, the police entered the campus, dispersed the gathering using force, detained several students and later blocked the social media accounts and messaging groups through which the protest had been organized.

One of the students, Riya, whose account was blocked and who was briefly detained, filed a writ petition before the High Court. She contended that the government order imposes a blanket ban on fundamental freedoms, which is excessive and arbitrary. Her rights under freedom of speech and expression and peaceful assembly have been violated. The blocking of her social media account amounts to unlawful censorship and restriction on digital expression. The detention of students without any immediate threat to public order is illegal and violative of personal liberty.

The State defended its action by arguing that the restrictions were imposed in the interest of public order and security. The executive has the authority to impose such restrictions in extraordinary circumstances. Based on the above situation answer the following questions :

(i) *What are the six freedoms guaranteed to the citizens of India under Article 19(1)?*

(2 marks)

(ii) *Explain whether the government order violates fundamental rights under Article 19(1)(a) and 19(1)(b) of the Constitution of India.*

(3 marks)

(iii) *What are the resonable restrictions on the freedom of speech and expression under Article 19(2) that may be imposed by the legislature ?*

(2 marks)

(iv) *Examine the validity of detention of students in light of liberties guaranteed under Article 21.*

(3 marks)

Answer 1(a)(i)

Section 3 of the Civil Procedure Code, 1908 lays down that for the purposes of this Code, the District Court is subordinate to the High Court and every Civil Court of a grade inferior, to that of a District and every Court of Small Causes is subordinate to the High Court and District Court.

Answer 1(a)(ii)

According to section 20 of the Civil Procedure Code, 1908 (CPC), subject to the limitations aforesaid (previous sections of CPC), every suit shall be instituted in a Court within the local limits of whose jurisdiction—

(a) the defendant, or each of the defendants where there are more than one, at the time of the commencement of the suit, actually and voluntarily resides, or carries on business, or personally works for gain; or

(b) any of the defendants, where there are more than one, at the time of the commencement of the suit, actually and voluntarily resides, or carries on business, or personally works for gain, provided that in such case either the leave of the Court is given, or the defendants who do not reside, or carry on business, or personally works for gain, as aforesaid, acquiesce in such institution; or

(c) the cause of action, wholly or in part, arises.

Although Ramesh resides in Jodhpur, the contract was executed and goods were dispatched from Jaipur. Therefore, part of the cause of action arose in Jaipur, giving the Jaipur Court territorial jurisdiction.

Answer 1(a)(iii)

Section 10 of the Civil Procedure Code, 1908 deals with the concept of stay of suit i.e. res sub judice. It provides that no Court shall proceed with the trial of any suit in which the matter in issue is also directly and substantially in issue in a previously instituted suit between the same parties or between parties under whom they or any of them claim, litigating under the same title, where such suit is pending in the same or any other Court (in India) having jurisdiction to grant the relief claimed, or in any Court beyond the limits of India established or continued by the Central Government and having like jurisdiction, or before the Supreme Court.

However, the pendency of a suit in a foreign court does not preclude the Courts in India from trying a suit founded on the same cause of action.

Answer 1(a)(iv)

Section 11 of the Civil Procedure Code, 1908 deals with the doctrine of Res Judicata. According to this provision, no Court shall try any suit or issue in which the matter has been directly and substantially in issue in a former suit (i.e., suit previously decided) either between the same parties, or between parties under whom they or any of them claim, litigating under the same title in a Court competent to try such subsequent suit or the suit in which such issue has been subsequently raised and finally decided by such Court.

Since, the Jodhpur court has already decided that the goods were not defective, Ramesh cannot raise the same issue in the Jaipur court.

Answer 1(a)(v)

Order 37 of Civil Procedure Code, 1908 provides for a summary procedure in respect of certain suits. A procedure by way of summary suit applies to suits upon bill of exchange, hundis or promissory notes, or to suits in which the plaintiff seeks only to recover a debt or liquidated demand in money payable by the defendant, with or without interest, arising—

a. on a written contract; or

b. on an enactment, where the sum sought to be recovered is a fixed sum of money or in the nature of a debt other than a penalty; or

c. on a guarantee, where the claim against the principal is in respect of a debt or liquidated demand only.

Since Ramesh issued a promissory note, Rahul was justified in filing a summary suit.

Answer 1(b)(i)

Article 19(1) of the Constitution of India, guarantees to the citizens of India six freedoms, namely:

1. Freedom of Speech and Expression: Includes the right to express opinions, free press, and the right to information.
2. Freedom of Assembly: Right to assemble peacefully without arms.
3. Freedom of Association: Right to form unions, associations, or cooperative societies.
4. Freedom of Movement: Right to move freely throughout India.
5. Freedom of Residence: Right to reside and settle in any part of India.
6. Freedom of Profession: Right to practice any profession, occupation, trade or business.

Answer 1(b)(ii)

Article 19(1)(a) and 19(1)(b) of the Constitution of India guarantee freedom of speech and expression and right to assemble peacefully without arms. In Shreya Singhal v. Union of India, the Court emphasized protection of online speech. In Anuradha Bhasin v. Union of India, it was held that internet access is integral to free speech. Here the protest was peaceful and within campus. Hence blanket ban restricts both physical and digital expression and blocking social media directly impacts freedom of speech. The order can result in a prima facie violation of Articles 19(1)(a) and 19(1)(b).

Answer 1(b)(iii)

Clause (2) of Article 19 of the Constitution of India specifies the limits up to which the freedom of speech and expression may be restricted. It enables the Legislature to impose by law reasonable restrictions on the freedom of speech and expression under the following heads:

- Sovereignty and integrity of India
- Security of the State

- Friendly relations with foreign States
- Public order
- Decency or morality
- Contempt of court
- Defamation
- Incitement to an offence.

Answer 1(b)(iv)

Article 21 of the Constitution of India confers on every person the fundamental right to life and personal liberty. It says that, "No person shall be deprived of his life or personal liberty except according to procedure established by law." The expression 'procedure established by law' means procedure laid down by statute or procedure prescribed by the law of the State. Accordingly, first, there must be a law justifying interference with the person's life or personal liberty, and secondly, the law should be a valid law, and thirdly, the procedure laid down by the law should have been strictly followed. The procedure must be fair, just and reasonable. It must not be arbitrary, fanciful or oppressive. In Maneka Gandhi v. Union of India, the Supreme Court held that the procedure under Article 21 must be fair, just and reasonable and not arbitrary.

In the given situation, the students were peaceful and no unlawful activity was established. Hence, detention can be said to be arbitrary and without due process. Therefore, detention may be said to be illegal and violative of Article 21.

Question 2

(a) *In the city of Bengaluru, Prabhu, a supplier, sent an email quotation of Meera, offering to sell goods at a discounted price. Meera's system automatically sent an email showing acceptance of the offer due to a technical glitch, even though she did not intend to accept it. Prabhu, relying on the email, dispatched the goods. Later, Meera refused to accept delivery, claiming that she never personally sent the acceptance and the email was sent due to an automated system error. Prabhu contended that the acceptance is valid as it originated from Meera's authorised system. Referring to the provisions of the Information Technology Act, 2000, discuss whether the electronic acceptance is valid and attributable to Meera and when the dispatch is complete.*

(5 marks)

(b) *ABC Manufacturing Ltd., a company registered under the Companies Act, 2013, is facing a criminal complaint for violation of environmental regulations. The trial court issues a summon to the company. The summon was served by delivering it to the company's receptionist, who refuses to accept it. Later, the summon is sent by registered post addressed to the company's Director. The letter is duly posted but the Director claims he never personally received it.*

Discuss whether the service of summon on ABC Manufacturing Ltd. is valid under Section 65 of the Bharatiya Nagarik Suraksha Sanhita, 2023.

(5 marks)

(c) *Anil entered into a betting agreement with Bhushan in the city of Delhi and lost ₹ 40,000. To discharge this liability, Anil borrowed the amount from Kapil, who directly paid to Bhushan. Later, Anil refused to repay Kapil, arguing that the original agreement between Anil and Bhushan was a wagering agreement and therefore not enforceable. Discuss whether Kapil can recover the amount from Anil. What would be your answer if the betting agreement took place in Mumbai ?*

(5 marks)

Answer 2(a)

The 2008 amendment to the Information Technology Act, 2000 introduced Sec 10A, which provides for a greater acceptance to the electronic contract, establishing without question its validity in the eyes of the law.

Since, in an electronic record, the maker remains behind the curtain, it was considered desirable to make a provision for "attribution" of the record. An electronic record is attributed to the "originator". [Defined in Section 2(1) (za)]. Broadly, the "originator" is the person at whose instance it was sent in the following cases -

(a) if it was sent by the originator himself; or

(b) if it was sent by a person authorised to act on behalf of the originator in respect of that electronic record; or

(c) if it was sent by an information system programmed by or on behalf of the originator to operate automatically. (Section 11)

Regarding acknowledgement of receipt of electronic records, the Act provides that where there is no agreement that the acknowledgment be given in a particular form etc. then the acknowledgement may be given by:

(a) any communication by the addressee (automated or otherwise); or

(b) any conduct of the addressee which is sufficient to indicate to the originator that the electronic record has been received. [Section 12(1)]

Subject to agreement between the parties, the dispatch of an electronic record occurs, when it enters a "computer resource" outside the control of the originator. [Section 13 (1)]

In this case, Prabhu sent an email quotation to Meera offering to sell goods at a discounted price. Meera's system automatically sent an email showing acceptance of the offer due to a technical glitch, even though she did not intend to accept it. Prabhu, relied on the email, dispatched the goods which Meera refused to accept claiming that she did not send the acceptance personally and the email was sent due to an automated system error. As per the provisions mentioned above, the communication originated from an information system programmed by or on behalf of Meera to operate automatically. So, this acceptance of offer can be said to be valid and attributable to Meera and the dispatch occurs when it enters a "computer resource" outside her control.

Alternate Answer

The 2008 amendment to the Information Technology Act, 2000 introduced Sec 10A, which provides for a greater acceptance to the electronic contract, establishing without question its validity in the eyes of the law.

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Although Section 11 attributes automated messages to the originator, the issue of actual consent remains relevant under the Indian Contract Act, 1872. If, Meera proves that the acceptance was generated solely due to a technical malfunction and did not represent consensus ad idem, a court may examine whether a valid contract was formed despite attribution under the Information Technology Act, 2000.

Answer 2(b)

Section 65 of the Bharatiya Nagarik Suraksha Sanhita, 2023 (BNSS) provides provisions relating to Service of summons on corporate bodies, firms, and societies. Service of a summons on a company or corporation may be effected by serving it on the Director, Manager, Secretary or other officer of the company or corporation, or by letter sent by registered post addressed to the Director, Manager, Secretary or other officer of the company or corporation in India, in which case the service shall be deemed to have been effected when the letter would arrive in ordinary course of post.

In this section, "company" means a body corporate and "corporation" means an incorporated company or other body corporate registered under the Companies Act, 2013 or a society registered under the Societies Registration Act, 1860.

As per the above explanation the service of summons at ABC Manufacturing Ltd. is valid because:

- The summon was properly sent by registered post to the Director, which is an accepted mode under Section 65 of BNSS.
- The Director's claim that he did not personally receive the letter does not invalidate the service once it is duly posted to the correct address.

Therefore, the summon is deemed to have been properly served on ABC Manufacturing Ltd. under Section 65 of the BNSS.

Answer 2(c)

The literal meaning of the word "wager" is a "bet". Wagering agreements are nothing but ordinary betting agreements. The essence of gaming and wagering is that one party is to win and the other to lose upon a future event which at the time of the contract is of an uncertain nature that is to say, if the event turns out one way A will lose; but if it turns out the other way he will win.

In India except Mumbai, wagering agreements are void (Section 30 of the Indian Contract, 1872). In Mumbai, wagering agreements have been declared illegal by the Avoiding Wagers (Amendment) Act, 1865. Therefore, in Mumbai a wagering agreement being illegal, is void not only between the immediate parties, but taints and renders void all collateral agreements to it. If wagering is illegal, collateral transactions are also void. If wagering is only void, collateral transactions remain valid.

Here in this case, Anil entered into a betting agreement with Bhushan in the city of Delhi and lost ₹40,000. To discharge this liability, Anil had borrowed the amount from Kapil who directly paid to Bhushan. Later, Anil refused to repay Kapil. Kapil can recover the amount from Anil as wagering transaction took place in Delhi and here wagering is only void. But if the betting agreement took place in Mumbai, Kapil cannot recover the amount from Anil if the wagering transaction is illegal and the loan is inseparably connected with that illegal transaction.

Question 3

(a) *Kamaldeep applied for the post of an Elementary Teacher Training (ETT) in the State of Punjab and submitted a certificate showing that she had worked in Gyandeep Public School for a specified period. During verification, it was found that the school was not recognized during that period. The prosecution alleged that the certificate was false and forged and initiated criminal proceedings against her for forgery. Examine whether Kamaldeep is guilty of forgery for submitting such a certificate. What are the punishments for committing forgery under the Bharatiya Nyaya Sanhita, 2023 ?*

(5 marks)

(b) *The Government of a State announces a welfare policy aimed at improving the living conditions of economically weaker sections of society. The policy is based on certain*

Directive Principles of State Policy (DPSPs) mentioned in Part IV of the Constitution. However, the government does not immediately pass any legislation to implement the policy. Rahul, a social activist, files a petition before the High Court claiming that the government has failed to implement the Directive Principles and requests the court to order the government to immediately enact a law and enforce the policy. At the same time, another citizen argues that an existing law of the state contradicts a Directive Principle and therefore should be declared void by the court. The State Government contends that Directive Principles are only guidelines for governance and cannot be directly enforced by courts. Explain the nature and constitutional status of Directive Principles of State Policy. Can Rahul enforce the Directive Principles in a court of law? Give reasons.

(5 marks)

(c) MediCare Plus Pvt. Ltd., a private healthcare company, maintains an online portal where patients upload their medical records, Aadhaar details, bank account information and diagnostic reports. The company stores this information on its own servers. Due to outdated firewall systems and lack of encryption, hackers gain unauthorized access to the database and leak sensitive medical and financial information of thousands of patients. Several patients suffer financial fraud and reputational harm as a result of the data breach. An internal inquiry reveals that MediCare Plus had not updated its cybersecurity systems for over two years and had failed to follow industry-standard security practices. The affected patients filed claims seeking compensation for the wrongful loss suffered by them. The matter is brought before the adjudicating authority under the provisions of the Information Technology Act, 2000. Examine whether MediCare Plus Pvt. Ltd. can be held liable under Section 43A of the Act.

(5 marks)

Answer 3(a)

According to Section 336 of the Bharatiya Nyaya Sanhita, 2023, whoever makes any false document or false electronic record or part of a document or electronic record, with intent to cause damage or injury, to the public or to any person, or to support any claim or title, or to cause any person to part with property, or to enter into any express or implied contract, or with intent to commit fraud or that fraud may be committed, commits forgery.

Hence forgery requires making a false document with an intent to deceive (*Balbir Kaur* v. *State of Punjab*). If a document does not contain a false representation, it is not forgery. The certificate stated only the period of service. It did not claim that the school was recognized. Thus, as there is absence of recognition and false statement in the document, Kamaldeep is not guilty of forgery.

The punishment for forgery as per Section 336 of the Bharatiya Nyaya Sanhita, 2023 are:

a. whoever commits forgery shall be punished with imprisonment of either description for a term which may extend to two years, or with fine, or with both.

b. whoever commits forgery, intending that the document or electronic record forged shall be used for the purpose of cheating, shall be punished with imprisonment of either description for a term which may extend to seven years, and shall also be liable to fine.

c. whoever commits forgery, intending that the document or electronic record forged shall harm the reputation of any party, or knowing that it is likely to be used for that purpose, shall be punished with imprisonment of either description for a term which may extend to three years, and shall also be liable to fine.

Answer 3(b)

The Articles included in Part IV of the Constitution (Articles 36 to 51) contain certain Directives which are the guidelines for the future Government to lead the country. Article 37 provides that the 'provisions contained in this part shall not be enforceable by any Court, but the principles therein laid down are nevertheless fundamental in the governance of the country and it shall be the duty of the state to apply these principles in making laws. The Directives, however, differ from the Fundamental Rights contained in Part III of the Constitution or the ordinary laws of the land in the following respects:

(i) The Directives are not enforceable in the courts and do not create any justiciable rights in favour of individuals.

(ii) The Directives require to be implemented by legislation and so long as there is no law carrying out the policy laid down in a Directive neither the state nor an individual can violate any existing law.

(iii) The Directives per-se do not confer upon or take away any legislative power from the appropriate legislature.

(iv) The courts cannot declare any law as void on the ground that it contravenes any of the Directive Principles.

(v) The courts are not competent to compel the Government to carry out any Directives or to make any law for that purpose.

(vi) Though it is the duty of the state to implement the Directives, it can do so only subject to the limitations imposed by the different provisions of the Constitution upon the exercise of the legislative and executive power by the state.

In the given situation, Rahul cannot enforce the Directive Principles in a court of law. According to Article 37 of the Constitution of India, the Directive Principles are not enforceable by any court. Therefore, courts cannot compel the government to implement these principles or to enact laws for their implementation.

However, the Directive Principles are fundamental in the governance of the country, and it is the duty of the State to apply them while making laws and policies.

Answer 3(c)

Section 43A of the Information Technology Act, 2000 provides that when a body corporate possesses, deals with, or handles sensitive personal data or information in a computer resource and fails to implement reasonable security practices and procedures, causing wrongful loss or wrongful gain, the body corporate is liable to pay compensation to the affected persons. A body corporate includes companies, firms, and other associations engaged in commercial or professional activities.

In the present situation, MediCare Plus Pvt. Ltd. is a private healthcare company, therefore it qualifies as a body corporate. The company collected and stored sensitive personal data such as, medical records, Aadhaar details, Bank account information, Diagnostic reports etc. These types of information are considered sensitive personal data. However, the company failed to implement reasonable security practices. Due to this negligence, hackers gained unauthorized access and leaked patient data, which resulted in financial fraud and reputational harm to the patients.

In view of the facts, MediCare Plus Pvt. Ltd. can be held liable under section 43A of Information Technology Act, 2000.

Attempt all parts of either Q. No. 4 or Q. No. 4A

Question 4

(a) *In the State of Rajasthan, a land reform statute was enacted to protect tenants from eviction and to ensure security of tenure. The law prohibited eviction of tenants except under specific conditions. However, the wordings of the provisions were ambiguous regarding whether certain categories of tenants were covered. A landlord, Raghav, sought eviction of Mohan, arguing that Mohan did not fall within the strict wordings of the statute. Mohan contented that the law should be interpreted in light of its protective purpose. In light of mischief rule, decide whether Mohan is entitled to protection.*

(5 marks)

(b) *Arjun had a commercial property in Udaipur. He leased out this commercial building for ten years to Bhavesh. Relying on this, Bhavesh entered into a lease agreement, invested substantial money in renovating the premises and started his business. After two and half years, when Bhavesh's business started doing well, Arjun's father filed a suit for eviction, claiming that Arjun had no authority to lease the property. Can Bhavesh be asked to evict the premises by Arjun's father ? Discuss referring to relevant provisions of the Bharatiya Sakshya Adhiniyam, 2023.*

(5 marks)

(c) *In the city of Patna, Amit wrote and signed a document stating, "I promise to pay ₹ 50,000 to Bharat after six months, provided I receive payment from my client." Bharat sues Amit after six months for payment. Does this document constitute a valid promissory note ? Explain the essential of a valid promissory note under the Negotiable Instruments Act, 1881.*

(5 marks)

OR (Alternate question to Q. No. 4)

Question 4A

(i) *What do you mean by arbitral tribunal ? Discuss the competence of arbitral tribunal to rule on its jurisdiction.*

(ii) *'Judicial precedents are an important source of law. They have enjoyed high authority at all times and in all countries.' Discuss. Explain various kinds of precedents.*

(iii) *Explain the provisions when a banker must refuse payment and when a banker may refuse payment under the Negotiable Instruments Act, 1881.*

(5 marks each)

Answer 4(a)

The case situation attracts the mischief rule or the Heydon's rule. In Heydon's Case, in [1584] [76 ER 637 360 REP 7a], it was resolved by the Barons of the Exchequer that, for the sure and true interpretation of all statutes in general (be they penal or beneficial, restrictive or enlarging of the Common Law) four things are to be discerned and considered:

(1) What was the Common Law before the making of the Act;

(2) What was the mischief and defect for which the Common Law did not provide;

(3) What remedy the Parliament had resolved and appointed to cure the disease of the Commonwealth; and

(4) The true reason of the remedy.

Although judges are unlikely to propound formally in their judgments the four questions in Heydon's Case, consideration of the "mischief" or "object" of the enactment is common and will often provide the solution to a problem of interpretation. Therefore, when the material words in question are ambiguous and are capable of bearing two or more constructions, the most firmly established rule for construction of such words is the rule laid down in Heydon's case.

The rule directs that the Courts must adopt that construction which "shall suppress the mischief and advance the remedy". (*Umed Singh* v. *Raj Singh, A.I.R. 1975 S.C. 43*)

Thus, under the Mischief Rule (Heydon's Case), courts must consider the defect (mischief) in the previous law and interpret the statute to suppress the mischief and advance the remedy.

In *Umed Singh* v. *Raj Singh*, the Court emphasized purposive interpretation, especially in beneficial legislation like tenancy laws, to protect weaker sections.

In the given situation, we can say that the law aims to protect tenants from eviction as it is a beneficial legislation. Evicting Mohan would defeat the purpose of the statute. Even if wording is ambiguous, interpretation should favour tenant protection. Mohan is entitled to protection, as the statute must be interpreted to advance its beneficial object.

Answer 4(b)

Under Section 121 of the Bharatiya Sakshya Adhiniyam, 2023, the general rule of estoppel is that when one person has by his declaration, act or omission, intentionally caused or permitted another person to believe a thing to be true and to act upon such belief, neither he nor his representative shall be allowed, in any suit or proceeding between himself and such person or his representative to deny the truth of that thing. Estoppel is based on the maxim 'allegans contratia non est audiendus' i.e. a person alleging contrary facts should not be heard. The principles of estoppel cover one kind of facts. It says that a man cannot approbate and reprobate, or that a man cannot blow hot and cold, or that a man shall not say one thing at one time and later on say a different thing.

The doctrine of estoppel is based on the principle that it would be most inequitable and unjust that if one person, by a representation made, or by conduct amounting to a representation, has induced another to act as he would not otherwise have done, the person who made the representation should not be allowed to deny or repudiate the effect of his former statement to the loss and injury of the person who acted on it.

Based on above provisions, Bhavesh has a strong legal defence against the eviction suit filed by Arjun's father, primarily relying on the Doctrine of Estoppel. Arjun leased the property, and Bhavesh acted on this by entering a lease agreement and investing substantial money. Crucially, if Arjun's father (the apparent true owner) remained silent and allowed Bhavesh to renovate and run the business for two and half years without objection, his silence constitutes an "omission" or "acquiescence." Under Section 121, Arjun's father is to be estopped now from denying Arjun's authority to lease the property. He cannot belatedly claim Arjun had "no authority" after allowing Bhavesh to act on that belief for two and half years.

Therefore, Bhavesh should not be asked to evict the premises by Arjun's father.

Answer 4(c)

Under the Negotiable Instrument Act, 1881, to be a promissory note, an instrument must possess the following essentials:

(a) It must be in writing. An oral promise to pay will not do.

(b) It must contain an express promise or clear undertaking to pay. A promise to pay cannot be inferred. A mere acknowledgement of debt is not sufficient. If A writes to B "I owe you (I.O.U.) ₹ 500", there is no promise to pay and the instrument is not a promissory note.

(c) The promise or undertaking to pay must be unconditional. A promise to pay "when able", or "as soon as possible", or "after your marriage to D", is conditional. But a promise to pay after a specific time or on the happening of an event which must happen, is not conditional, e.g. "I promise to pay ₹ 1,000 ten days after the death of B", is unconditional.

(d) The maker must sign the promissory note in token of an undertaking to pay to the payee or his order.

(e) The maker must be a certain person, i.e., the note must show clearly who the person is engaging himself to pay.

(f) The payee must be certain. The promissory note must contain a promise to pay to some person or persons ascertained by name or designation or to their order.

(g) The sum payable must be certain and the amount must not be capable of contingent additions or subtractions. If A promises to pay ₹ 100 and all other sums which shall become due to him, the instrument is not a promissory note.

(h) Payment must be in legal money of the country. Thus, a promise to pay ₹ 500 and deliver 10 quintals of rice is not a promissory note.

(i) It must be properly stamped in accordance with the provisions of the Indian Stamp Act, 1899. Each stamp must be duly cancelled by maker's signature or initials.

(j) It must contain the name of place, number and the date on which it is made. However, their omission will not render the instrument invalid, e.g. if it is undated, it is deemed to be dated on the date of delivery.

In the given situation, Amit wrote and signed a document stating, "I promise to pay ₹50,000 to Bharat after six months, provided I receive payment from my client." This is not a valid promissory note as it is not an unconditional promise to pay and depends on the happening of an uncertain event.

Answer 4A(i)

According to Section 2(1)(d) Arbitration and Conciliation Act, 1996, "Arbitral tribunal" means a sole arbitrator or a panel of arbitrators.

Section 16 deals with competence of arbitral tribunal to rule on its jurisdiction. According to this section, the arbitral tribunal may rule on its own jurisdiction, including ruling on any objections with respect to the existence or validity of the arbitration agreement, and for that purpose,

(a) an arbitration clause which forms part of a contract shall be treated as an agreement independent of the other terms of the contract; and

(b) a decision by the arbitral tribunal that the contract is null and void shall not entail ipso jure the invalidity of the arbitration clause.

A plea that the arbitral tribunal does not have jurisdiction shall be raised not later than the submission of the statement of defence; however, a party shall not be precluded from raising such a plea merely because that he has appointed, or participated in the appointment of, an arbitrator.

A plea that the arbitral tribunal is exceeding the scope of its authority shall be raised as soon as the matter alleged to be beyond the scope of its authority is raised during the arbitral proceedings.

The arbitral tribunal may, in either of the cases referred it, in sub-section (2) or sub-section (3) (stated in above paragraphs), admit a later plea if it considers the delay justified.

Further, the arbitral tribunal shall decide on a plea referred to in sub-section (2) or sub-section (3) (stated in above paragraphs) and, where the arbitral tribunal takes a decision rejecting the plea, continue with the arbitral proceedings and make an arbitral award.

A party aggrieved by such an arbitral award may make an application for setting aside such an arbitral award in accordance with section 34.

Answer 4A(ii)

'Judicial precedents are an important source of law. They have enjoyed high authority at all times and in all countries'. The term "precedent" means some set pattern guiding the future conduct. In the judicial field, it means the guidance or authority of past decisions of the courts for future cases. Only such decisions which lay down some new rule or principle are called judicial precedents.

Precedents may be classified as:

(i) *Declaratory and Original Precedents*: According to Salmond, a declaratory precedent is one which is merely the application of an already existing rule of law. An original precedent is one which creates and applies a new rule of law. In the case of a declaratory precedent, the rule is applied because it is already a law. In the case of an original precedent, it is law for the future because it is now applied. In the case of advanced countries, declaratory precedents are more numerous. The number of original precedents is small but their importance is very great. They alone develop the law of the country. They serve as good evidence of law for the future. A declaratory precedent is as good a source of law as an original precedent. The legal authority of both is exactly the same.

(ii) *Persuasive Precedents*: A persuasive precedent is one which the judges are not obliged to follow but which they will take into consideration and to which they will attach great weight as it seems to them to deserve. A persuasive precedent, therefore, is not a legal source of law; but is regarded as a historical source of law. Thus, in India, the decisions of one High Court are only persuasive precedents in the other High Courts. The rulings of the English and American Courts are persuasive precedents only. Obiter dicta also have only persuasive value.

(iii) *Absolutely Authoritative Precedents*: An authoritative precedent is one which judges must follow whether they approve of it or not. Its binding force is absolute and the judge's discretion is altogether excluded as he must follow it. Such a decision has a legal claim to implicit obedience, even if the judge considers it wrong. Unlike a persuasive precedent which is merely historical, an authoritative precedent is a legal source of law.

(iv) *Conditionally Authoritative Precedents*: A conditionally authoritative precedent is one which, though ordinarily binding on the court before which it is cited, is liable to be disregarded in certain circumstances. The court is entitled to disregard a decision if it is a wrong one, i.e., contrary to law and reason.

Answer 4A(iii)

Under the Negotiable Instrument Act, 1881, in the following cases the authority of the banker to honour customer's cheque comes to an end, he must refuse to honour cheques issued by the customer:

(a) When a customer countermands payment i.e., where or when a customer, after issuing a cheque issues instructions not to honour it, the banker must not pay it.

(b) When the banker receives notice of customer's death.

(c) When customer has been adjudged an insolvent.

(d) When the banker receives notice of customer's insanity.

(e) When an order (e.g., Garnishee Order) of the Court, prohibits payment.

(f) When the customer has given notice of assignment of the credit balance of his account.

(g) When the holder's title is defective and the banker comes to know of it.

(h) When the customer has given notice for closing his account.

In the following cases, the banker may refuse to pay a customer's cheque:

(a) When the cheque is post-dated.

(b) When the banker has no sufficient funds of the drawer with him and there is no communication between the bank and the customer to honour the cheque.

(c) When the cheque is of doubtful legality.

(d) When the cheque is not duly presented, e.g., it is presented after banking hours.

(e) When the cheque on the face of it is irregular, ambiguous or otherwise materially altered.

(f) When the cheque is presented at a branch where the customer has no account.

(g) When some persons have joint account and the cheque is not signed jointly by all or by the survivors of them.

(h) When the cheque has been allowed to become stale.

Question 5

(a) Mohit filed a civil suit against Rohit for recovery of money within the prescribed limitation period. However, due to a defect of jurisdiction, the court returned the plaint after several months.

Mohit then filed the same suit in a proper court, but by that time, the limitation period had expired. Whether Mohit is entitled to exclusion of time spent in earlier proceedings under the Limitation Act, 1963 ? Explain.

(b) In a rural area of Rajasthan, there exists a long-standing custom of arranging marriages of minor children at a very young age. The village elders justify this practice as an age-old tradition followed for generations. However, a statute prohibits child marriage and prescribes punishment for those involved. A social activist challenges the validity of such marriages and the custom supporting them. The villagers argue that the custom is ancient and continuously followed and it should be recognized as a valid source of law. Discuss as to what are the essential conditions of a valid custom and whether such a custom is valid in law when it conflicts with a statute ?

(c) Sita, by a deed of gift made over certain property to her daughter, Gita, asked her to continue paying an annuity to her sister Mita, as she was doing that before she gifted the property to Gita. Gita accepted the condition to pay annuity to Mita. Afterwards, when Sita died, Gita declined to pay Mita saying that no consideration had moved from her. Define consideration and explain, whether Mita can recover annuity from Gita.

(5 marks each)

Answer 5(a)

According to Section 14 of the Limitation Act 1963, the relief to a person is given when the period of limitation is over, because another civil proceeding related to the matter in issue had been initiated in a court which is unable to entertain it, by lack of jurisdiction or by any other like cause. The following conditions must co-exist for the applicability of this Section:

(a) that the plaintiff or the applicant was prosecuting another civil proceeding against the defendant with due diligence in the above said court;

(b) that the previous suit or application related to the same matter in issue;

(c) that the plaintiff or the applicant prosecuted in good-faith in that court; and

(d) that the court was unable to entertain a suit or application on account of defect of jurisdiction or other like cause.

Thus, referring to above provisions, it can be said that Mohit is entitled to exclusion of time spent in earlier proceedings under the Limitation Act, 1963 provided the conditions laid down in Section 14 of the Limitation Act, 1963 are satisfied.

Answer 5(b)

A custom will be valid at law and will have a binding force only if it fulfils the following essential conditions:

(i) *Immemorial (Antiquity)*: A custom to be valid must be proved to be immemorial; it must be ancient.

(ii) *Certainty*: The custom must be certain and definite, and must not be vague and ambiguous.

(iii) *Reasonableness*: A custom must be reasonable. It must be useful and convenient to the society. A custom is unreasonable if it is opposed to the principles of justice, equity and good conscience.

(iv) *Compulsory Observance*: A custom to be valid must have been continuously observed without any interruption from times immemorial and it must have been regarded by those affected by it as an obligatory or binding rule of conduct.

(v) *Conformity with Law and Public Morality*: A custom must not be opposed to morality or public policy nor must it conflict with statute law. If a custom is expressly forbidden by legislation and abrogated by a statute, it is inapplicable.

(vi) *Unanimity of Opinion*: The custom must be general or universal. If practice is left to individual choice, it cannot be termed as custom.

(vii) *Peaceable Enjoyment*: The custom must have been enjoyed peaceably without any dispute in a law court or otherwise.

(viii) *Consistency*: There must be consistency among the customs. Custom must not come into conflict with the other established customs.

In the given situation, although the custom is ancient and regularly observed, it cannot be followed and recognised as a valid source of law now, as a statute prohibits child marriages and prescribes punishment for those involved. Thus, a custom is valid in law only when it is not in conflict with a statute.

Answer 5(c)

Section 2(d) of the Indian Contract Act, 1872 defines consideration as, "when at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or to abstain from doing something, such act or abstinence or promise is called a consideration for the promise"

In English law, consideration must move from the promisee, so that a stranger to the consideration cannot sue on the contract. A person seeking to enforce a simple contract must prove in court that he himself has given the consideration in return for the promise he is seeking to enforce. However, in Indian law, consideration may move from the promisee or any other person, so that a stranger to the consideration may maintain a suit. (*Chinnaya* v. *Ramaiya, (1882) 4 Mad. 137*)

In the given situation, Sita had asked her daughter Gita to pay an annuity to her sister in return of the gift of certain property to her. Gita was also paying to Mita before this gift. When Sita died, Gita declined to pay Mita saying that no consideration had moved from her. In this situation, Mita could sue Gita even though no part of the consideration was received by her niece from her. The property transferred by the mother (Sita) was sufficient consideration. Therefore, in India, a promise is enforceable even if consideration moves from any person, not just the promisee.

In view of the above discussion, Mita can recover annuity from Gita.

Attempt all parts of either Q. No. 6 or Q. No. 6A

Question 6

(a) *Arvind, a government employee, is facing disciplinary proceedings for alleged miscounduct. An inquiry officer, a close relative of the complainant, is appointed by the department to conduct the inquiry. Aggrieved by the manner in which the inquiry is conducted, Arvind challenges the proceedings before the High Court, contending that the inquiry violated the principle of natural justice and the inquiry officer was biased.*

The department, however, argues that the inquiry was conducted in accordance with its internal rules and fair procedures. Explain, whether the principle of natural justice have been violated in the present case.

(5 marks)

(b) *Ravi owns a well-established bakery in a small village. Over the years, his business has built a strong reputation among the villagers for maintaining high standards of quality and hygiene. As a result, his bakery attracts a large number of customers. Meera, who also runs a bakery in the same village, is Ravi's direct competitor. With the intention of increasing her own sales and diverting customers away from Ravi's bakery, Meera begins spreading false rumours among the villagers. She tells them that Ravi uses expired ingredients in his cakes and mixes harmful artificial "tasting powders" to make his bakery items appear more delicious, despite knowing that they are completely untrue. Due to these false allegations, Ravi experiences a significant decline in sales, resulting in substantial financial loss and damage to his business reputation.*

Explain, which civil wrong under the Law of Torts is committed by Meera ? What legal remedies are available to Ravi ?

(5 marks)

(c) *ABC Ltd., an Indian company, enters into a contract with XYZ Corp., a company incorporated in the United States. A dispute arise regarding the delivery of goods and the matter is referred to international arbitration. The arbitral tribunal issues a foreign award in favour of XYZ Corp.*

When XYZ Corp. approaches the Indian courts for enforcement of the foreign award under the Arbitration and Conciliation Act, 1996, ABC Ltd. opposes it, claiming that certain conditions for enforcement under Section 48 of the Act have not been complied with. Explain the conditions for enforcement of foreign awards under Section 48 of the Arbitration and Conciliation Act, 1996.

(5 marks)

(d) *Ravi, a warehouse supervisor, is entrusted by his employer with custody of goods worth ₹ 10 lakh. The company's policy requires that the goods be released only upon written authorization from the head office. Instead, Ravi secretly sells part of the goods to a third party for personal profit. When confronted, Ravi argues that since he was in charge of the warehouse, he had the right to deal with the goods as he wished. Identify and explain the offence committed by Ravi. State the essential ingredients of that offence.*

(5 marks)

OR (Alternate question to Q. No. 6)

Question 6A

(i) *Explain the constitutional provisions governing government contracts under the Constitution of India. Discuss the essential conditions for a valid government contract.*

(ii) *Discuss the distinction between a Decree-holder and a Judgement-debtor under the Code of Civil Procedure, 1908. Give example.*

(iii) *Under the Right to Information Act, 2005, certain organizations are excluded from its purview. Explain which agencies are excluded under the Act and discuss the circumstances under which these excluded agencies are still required to provide information.*

(iv) *Discuss the provisions related to discharge of surety under the Indian Contract Act, 1872.*

(5 marks each)

Answer 6(a)

Natural justice is a concept of Common Law and represents procedural principles developed by judges. Though it enjoys no express constitutional status, it is one of the most important concepts that ensure that people retain their faith in the system of adjudication. According to rule against bias, no person should be made a judge in his own cause. Bias means an operative prejudice whether conscious or unconscious in relation to a party or issue. It is a presumption that a person cannot take an objective decision in a case in which he has an interest. The rule against bias has two main aspects- one, that the judge must not have any direct personal stake in the matter at hand and two, there must not be any real likelihood of bias.

There are number of situations which may create a personal bias in the Judge's mind against one party in dispute before him. He may be a friend of the party, or related to him through family, professional or business ties. The judge might also be hostile to one of the parties to a case. All these situations create bias either in favour of or against the party and will operate as a disqualification for a person to act as a Judge.

In the given situation, the inquiry officer happens to be a close relative of the complainant and although the Inquiry officer might have conducted fair inquiry, but according to principle "justice must not only be done but also seen to be done", principle of natural justice can be said to have been violated.

Therefore, the High Court may set aside the proceedings and order a fresh inquiry conducted by an impartial officer.

Answer 6(b)

Meera conducts amounts to the civil wrong of defamation under the Law of Torts. Her actions may also be considered injurious falsehood because the false statements were directed specifically at Ravi's business.

Defamation is an attack on the reputation of a person. It means that something is said or done by a person which affects the reputation of another. It is defined as follows:

"Defamation is the publication of a statement which tends to lower a person in the estimation of right thinking members of society generally; or which tends to make them shun or avoid that person."

Remedies Available to Ravi

Ravi can seek the following remedies from the court:

(i) Damages

Ravi may file a civil suit for damages against Meera to recover compensation for:

- Financial losses due to reduced sales
- Harm to his business reputation
- Loss of goodwill in the village

(ii) Injunction

Ravi can request the court to issue an injunction ordering Meera to:

- Stop spreading false statements about his bakery
- Refrain from making similar defamatory statements in the future.

Answer 6(c)

Section 48 of the Arbitration and Conciliation Act, 1996, enumerates the conditions for enforcement of foreign awards and provides that the party, against whom the award is invoked, may use one or more of the following grounds for the purpose of opposing enforcement of a foreign award, namely, –

(i) the parties to the agreement referred to in section 44 were, under the law applicable to them, under some incapacity, or the said agreement is not valid under the law to which the parties have subjected it or, failing any indication thereon, under the law of the country where the award was made; or

(ii) the party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitral proceedings or was otherwise unable to present his case; or

(iii) the award deals with a difference not contemplated by or not failing within the terms of the submission to arbitration, or it contains decisions on matters beyond the scope of the submission to arbitration: Provided that, if the decisions on matter submitted to arbitration can be separated from those not so submitted, that part of the award which contains decisions on matters submitted to arbitration may be enforced; or

(iv) the composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties, or, failing such agreement, was not in accordance with the law of the country where the arbitration took place; or

(v) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the law of which, that award was made.

Enforcement of an arbitral award may also be refused if the Court finds that:

(i) the subject-matter of the difference is not capable of settlement by arbitration under the law of India; or

(ii) the enforcement of the award would be contrary to the public policy of India.

Answer 6(d)

In the given situation, Ravi has committed the offence of Criminal Breach of Trust as defined in section 316 of Bharatiya Nyaya Sanhita, 2023.

According to this section, whoever, being in any manner entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property, or dishonestly uses or disposes of that property in violation of any direction of law prescribing the mode in which such trust is to be discharged, or of any legal contract, express or implied, which he has made touching the discharge of such trust, or wilfully suffers any other person so to do, commits criminal breach of trust.

The essential ingredients of the offence of criminal breach of trust are as under:

1. The accused must be entrusted with the property or with dominion over it,
2. The person so entrusted must use that property, or;
3. The accused must dishonestly use or dispose of that property or wilfully suffer any other person to do so in violation,
   (i) of any direction of law prescribing the mode in which such trust is to be discharged, or;
   (ii) of any legal contract made touching the discharge of such trust.

Answer 6A(i)

The Constitution of India allows the central and state governments to enter into contracts under Article 299 of the Constitution of India. According to its provisions a contract with the Government of the Union or state will be valid and binding only if the following conditions are followed:

1. The contract with the Government must be made in the name of the President or the Governor, as the case may be.
2. The contract must be executed on behalf of the President or the Governor of the State as the case may be. The word executed indicates that a contract with the Government will be valid only when it is in writing.
3. A person duly authorized by the President or the Governor of the State, as the case may be, must execute the contract.

Article 299 (2) of the Constitution makes it clear that neither the President nor the Governor shall be personally liable in respect of any contract or assurance made or executed for the purposes of the Constitution or for the purposes of any enactment relating to the Government of India. Subject to the provisions of Article 299 (1), the other provisions of the general law of contract apply even to the Government contract.

Thus, Article 299 provides a constitutional framework for government contracts to ensure legality and safeguard public interest. By requiring contracts to be made in the name of the President or Governor, executed in writing, and signed by authorized persons, the Constitution ensures that government obligations arise only through proper and lawful procedures.

Answer 6A(ii)

Decree-holder

"Decree-holder" means any person in whose favour a decree has been passed or an order capable of execution has been made. [Section 2(3) of Civil Procedure Code, 1908 (CPC)]

Thus, a person who is not a party to the suit but in whose favour an order capable of execution is passed is a decree-holder.

Judgement-debtor

"Judgement-debtor" means any person against whom a decree has been passed or an order capable of execution has been made. [Section 2(10) of CPC]. The definition does not include legal representative of a deceased judgement-debtor.

Example - Due to negligence of Y, person X suffers some injuries and approaches to the court to claim compensation against Y for the same. Court decides the case in favor of X providing him the compensation for the injuries inflicted to him due to Y's negligence.

- X will be the decree-holder
- Y will be the judgment debtor

Answer 6A(iii)

Under Section 24 of the Right to Information Act, 2005, the Act excludes certain Central and State intelligence and security agencies from its normal provisions. These agencies are considered sensitive due to matters of national security, defense, or intelligence operations.

The Act excludes Central Intelligence and Security agencies specified in the Second Schedule such as IB, R&AW, Directorate of Revenue Intelligence, Central Economic Intelligence Bureau, Directorate of Enforcement, Narcotics Control Bureau, Aviation Research Centre, Special Frontier Force, BSF, CRPF, ITBP, CISF, NSG, Assam Rifles, Special Service Bureau, Special Branch (CID), Andaman and Nicobar, the Crime Branch-CID- CB, Dadra and Nagar Haveli and Special Branch, Lakshadweep Police. Agencies specified by the State Governments through a Notification will also be excluded.

The exclusion, however, is not absolute and these organizations have an obligation to provide information pertaining to allegations of corruption and human rights violations. Further, information relating to allegations of human rights violation shall be given only with the approval of the Central Information Commission within forty- five days from the date of the receipt of request.

Answer 6A(iv)

Under Indian Contract Act, 1872, a surety may be discharged from liability under the following circumstances:

(a) By notice of revocation in case of a continuing guarantee as regards future transaction (Section 130.)

(b) By the death of the surety as regards future transactions, in a continuing guarantee in the absence of a contract to the contrary (Section 131).

(c) Any variation in the terms of the contract between the creditor and the principal debtor, without the consent of the surety, discharges the surety as regards all transactions taking place after the variation (Section 133).

(d) A surety will be discharged if the creditor releases the principal debtor, or acts or makes an omission which results in the discharge of the principal debtor (Section 134). But where the creditor fails to sue the principal debtor within the limitation period, the surety is not discharged.

(e) Where the creditor, without the consent of the surety, makes an arrangement with the principal debtor for composition, or promises to give time or not to sue him, the surety will be discharged (Section 135).

(f) If the creditor does any act which is against the rights of the surety, or omits to do an act which his duty to the surety requires him to do, and the eventual remedy of the surety himself against the principal debtor is thereby impaired, the surety is discharged (Section 139).

(g) If the creditor loses or parts with any security which at the time of the contract the debtor had given in favour of the creditor, the surety is discharged to the extent of the value of the security, unless the surety consented to the release of such security by creditor in favour of the debtor. It is immaterial whether the surety was or is aware of such security or not (Section 141).

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COMPANY LAW & PRACTICE

GROUP 1 PAPER 2

Time allowed : 3 hours **Maximum marks : 100**

Total number of questions : 6

NOTE : *(1) Answer ALL Questions.*

(2) All references to sections relate to the Companies Act, 2013 unless stated otherwise.

PART–I

Question 1

Case Study :

Background :

Swash Infra Limited, incorporated in 2021 under the provisions of Companies Act 2013 is presently engaged solely in infrastructure-related activities in line with its existing object clause. The company has built a strong market presence through high-quality products and robust post-sale services, resulting in consistent profits since inception. This operational success and evolving strategic outlook form the basis for the issues discussed in the subsequent paragraphs.

I. Name Change

Given its profitable operations, expanding business aspirations and also with the advice of one of the renowned astrologers the board of the directors of the company decided to change its name to reflect a broader business outlook.

The company passed a special resolution and filed an application with the Registrar of Companies (ROC) on 25 May 2026 for approval of a change in its name to Swaarna

Infra & Realty Limited. During examination of the application, the ROC noted that the company had not filed its annual return for FY 2024-25 in Form MGT-7, although the financial statements for the same year had been filed. The directors remain confident that the application will be approved.

II. Future Projects

Despite being profitable in the infrastructure sector, the promoters intend to diversify into the Renewable Energy Infrastructure business after three years. They have already developed certain intellectual properties for the proposed venture and also wish to purchase land now for use in the future project. However, the existing object clause of Swash Infra Limited does not permit such activities or holding assets relating to the renewable energy sector, and the promoters do not wish to alter the object clause at this stage. They also confirm that no accounting transaction or business activity relating to the proposed project will be undertaken at present and till the projects become *operational. The promoters, however want the intellectual property and the proposed land to be held under a corporate structure rather than in their personal names and therefore seek advice from the Practising Company Secretary (PCS) on how this may be achieved without altering the existing object clause.*

III. Status as a Listed Company

The Board of Directors is considering issuing non-convertible redeemable preference shares (NCRPS) to augment financial resources. During preliminary discussions, the Company Secretary suggested that the company could list the proposed issue of NCRPS on the National Stock Exchange of lndia (NSE). The Board seeks a legal opinion from the PCS on whether such a listing would confer the status of a "listed company".

IV. Threat of a Trade Union

A recognised trade union of the company is on strike, alleging unfair labour practices, including non-payment of bonus despite high profits. A workman of the union has created a video disk containing material that the company considers could be potentially defamatory and has also threatened to release it on social media. The Managing Director has instructed the Company Secretary to explore the possibility of obtaining legal measures to restrain the union and workmen from releasing the video.

V. CARO 2020

For the financial year ending 31st March 2026, the statutory auditor submitted the Companies (Auditor's Report) Order, 2020 (CARO 2020) report. In relation to physical verification of inventory, the auditor noted that :

- *The management has not conducted physical verification of inventory at reasonable intervals.*
- *No proper treatment of discrepancies of 10% or more has been made by the company.*

The auditor did not provide any explanation for these observations. The Board seeks clarification on the applicability of CARO 2020 to the company and whether the auditor's report complies with the reporting requirements, particularly in the light of the remarks on inventory verification.

Based on the information provided above and with reference to the provisions of the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, answer the following :

(a) Analyse the situation and advise the directors on the appropriate course of action to obtain approval for the change of name.

(3 marks)

(b) As a Practising Company Secretary, do you consider a dormant company mechanism would provide a solution to the issue raised by the promoters on how they can provide a corporate shield for the intellectual properties and the land linked to the future renewable energy projects without altering the existing object clause of Swash Infra Limited.

(3 marks)

(c) *Explain the meaning of a "listed company" and examine whether the Company Secretary's suggestion is justified i.e., whether the company would become a listed company by listing its proposed non-convertible redeemable preference shares on a recognized stock exchange such as the National Stock Exchange of India.*

(3 marks)

(d) *In view of the facts given under para-IV above, examine whether the Company Secretary is likely to succeed in obtaining an injunction from the appropriate court to restrain the trade union and workmen from releasing the video disk on social media or in any other manner.*

(3 marks)

(e) *Explain the provisions relating to the applicability of CARO 2020 to companies and determine whether the statutory auditor's report issued in this case is complaint with CARO 2020.*

(3 marks)

Answer 1(a)

As per Section 13(2) of the Companies Act 2013, the name of the company can be altered by a special resolution and with the approval of the Central Government in writing. Approval of the Central Government is not required, in case where the change in the name of the company relates to the addition/deletion of the word 'Private' to the name of the company consequent to the conversion of a company into a public company and vice versa.

According to Rule 29 of the Companies (Incorporation) Rules, 2014, the change of name shall not be allowed to a company which has not filed annual returns or financial statements due for filing with the Registrar or which has failed to pay or repay matured deposits or debentures or interest thereon. Provided that the change of name shall be allowed upon filing necessary documents or payment or repayment of matured deposits or debentures or interest thereon as the case may be.

Analysis and Conclusion: Since the annual return relating to the financial year 2024-25 is pending for filing the ROC will not approve the application. The Directors will be advised to comply with this default and an application shall be filed in Form No. INC-24 along with the fee for change in the name of the company and a new certificate of incorporation in Form No. INC-25 shall be issued to the company consequent upon change of name.

Answer 1(b)

As per Section 455 of the Companies Act, 2013 read with Companies (Miscellaneous) Rules, 2014, where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property without having any significant accounting transaction, such a company or an inactive company may make an application to the ROC in such a manner as may be prescribed for obtaining the status of a dormant company. A dormant company may either be a public company or a private company or a one-person company (OPC).

For the above purposes, 'inactive company' means a company which:

(a) has not been carrying on any business or operation; or

(b) has not made any significant accounting transaction during last two financial years; or

(c) has not filed financial statements and annual returns during the last two financial years.

Analysis and Conclusion:

Yes. A dormant company mechanism would provide a solution by providing a corporate shield for the intellectual properties and the land linked to future renewable energy projects. Since the existing company's object clause does not permit undertaking the proposed future projects, it cannot provide corporate protection for the related intellectual property and land. Accordingly, I, being a Practising Company Secretary, would advise the promoters to incorporate a new company and, upon incorporation, apply to the Registrar for dormant status under Section 455 of Companies Act, 2013, as the business activities will commence only after three years and no significant accounting transactions are expected. This approach ensures a corporate shield for holding the asset for its usage at a future date.

Answer 1(c)

As per Clause (52) of Section 2 of the Companies Act, 2013 "Listed Company" means a company which has any of its securities listed on any recognised stock exchange;

Provided that such class of companies, which have listed or intend to list such class of securities, as may be prescribed in consultation with the Securities and Exchange Board, shall not be considered as listed companies.

Companies not to be considered as listed companies [Rule 2A of the Companies (Specification of definitions details) Rules, 2014].

The following classes of companies shall not be considered as listed companies, namely: -

a) Public companies which have not listed their equity shares on a recognized stock exchange but have listed their –

    (i) non-convertible debt securities issued on private placement basis in terms of SEBI (Issue and Listing of Debt Securities) Regulations, 2008; or

    (ii) non-convertible redeemable preference shares issued on private placement basis in terms of SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013; or

b) Private companies which have listed their non-convertible debt securities on private placement basis on a recognized stock exchange in terms of SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

c) Public companies which have not listed their equity shares on a recognized stock exchange but whose equity shares are listed on a stock exchange in a jurisdiction as specified in section 23(3) of the Companies Act, 2013.

Analysis and Conclusion: Since the company has not listed its equity shares and the proposed non-convertible redeemable preference shares are to be listed only on a private placement basis, Rule 2A expressly provides that such public companies shall not be regarded as listed companies merely by listing Non-Convertible Redeemable Preference Shares. Therefore, listing these preference shares will not confer listed-company status on the company. Hence, the Company Secretary's suggestion is not justified.

Answer 1(d)

Legal Principle:

A company incorporated under the Companies Act, 2013 is a separate legal person and can sue for defamation if any publication harms its reputation. This was affirmed in *Floating Services Ltd. v. MV San Fransceco Dipaloa* (2004) 52 SCL 762 (Guj), where the court held that a company is entitled to sue for libel or slander.

Relevant Case Law:

In *TVS Employees Federation v. TVS and Sons Ltd.* (1996) 87 Comp Cas 37, workmen had prepared video cassettes depicting their struggle against the management. The court refused to grant an injunction as the company failed to show that the content was prima facie defamatory. The court held that mere apprehension of defamation does not justify restraining publication.

Analysis and Conclusion:

Although the company has the right to protect its reputation, an injunction can be issued only when a prima facie case of defamation is established. As per the given information the video disk has the defamatory contents. Hence, applying the principle from TVS Employees Federation (supra), the Company Secretary will be successful only if he demonstrates and proves that the video contains defamatory material. But if he fails to establish this before the court, the court is unlikely to restrain the trade union or workmen from publishing the video on social media or otherwise.

Answer 1(e)

The Companies (Auditor's Report) Order, 2020 (CARO 2020) will be applicable to all the companies including foreign companies except banking company, insurance company, section 8 company, OPC [section 2(62)], small company [section 2(85)], and certain private limited companies.

The order states that every report of the auditor under Section 143 of Companies Act, 2013 must contain the matters stated in 21 clauses as specified under paragraphs 3 and accord reasons for unfavourable or qualified answer as stated in paragraph 4 of CARO 2020.

Analysis and Conclusion:

In the present case, although the auditor has given unfavourable/qualified remarks relating to physical verification of inventory under Paragraph 3, no reasons have been provided for such remarks. Hence, the auditor's report is not compliant with the requirements of Paragraph 4 of CARO 2020.

Question 2

(a) Blue Crest Industries Ltd. created a combined charge over two factories to secure a loan of ₹ 100 crore, which was also registered with the ROC. After repaying ₹ 95 crore along with interest, the lender agreed to release the charge with respect to Factory-1. The

company then filed satisfaction of charge with the Registrar of Companies (ROC) seeking deletion of the charge on Factory-1.

As the Company Secretary, examine whether the ROC would issue a certificate of satisfaction of charge relating to Factory-1 under the Companies Act, 2013.

(3 marks)

(b) *Zen Wave Technologies Pvt. Ltd. earned a profit of ₹ 70 crore for the financial year ending 31st March 2026. The Board in its meeting on 30th May 2026, proposed a final dividend of 30% on the paid-up share capital. While preparing the financial statements, the company did not transfer 10% of its profits to the general reserve. At the Annual General Meeting (AGM), some shareholders objected that the final dividend cannot be declared without making such a transfer. With reference to the Companies Act, 2013, examine whether the shareholders' objection is justifiable and whether the proposed final dividend can be validly declared.*

(3 marks)

(c) *Ramakant is a debenture holder of Smart Tubes Ltd. with a turnover of ₹ 73 crores for the previous financial year. He wrote an email to the company about his requirement for a copy of the register of members within five days of his request. The company insisted on payment of fees of rupees twenty-five per page and stated that it will be given in fifteen days from date of resolution passed by Board in this aspect. Referring to the provisions of Companies Act, 2013 discuss the validity of action of the company.*

(3 marks)

(d) *(i)* *Board of Directors of Beta Ltd. an unlisted company has decided to proceed for making an offer of Equity Share on preferential basis. In this connection the Vice President (Corporate Affairs) wants to know the time limit for completion of allotment of shares on preferential basis.*

(1 mark)

(ii) *In a situation where convertible securities are offered on a preferential basis with an option to apply for and get equity shares allotted, how will the price for resultant shares pursuant to conversion be determined ? Advise.*

(2 marks)

(Total 1+2=3 marks)

(e) *Sona Boutique Pvt. Ltd. has not appointed a Company Secretary, as its paid-up share capital is below the statutory threshold. The Board of directors has authorized the Chief Financial Officer (CFO) to authenticate the entries in the Register of Members. The company has recently forfeited certain shares for non-payment of calls. Explain the statutory time limit for making entries in the Register of Members pursuant to such forfeiture and examine the validity of authentication of these entries by the CFO in light of the provisions of the Companies Act, 2013.*

(3 marks)

Answer 2(a)

Section 82(1) of Companies Act, 2013 read with Rule 8(1) of the Companies (Registration of Charges) Rules, 2014, provides that a company shall give intimation to ROC in Form No. CHG-4 along with the prescribed fees of the payment or satisfaction in full of any charge registered within a period of thirty days from the date of such payment or satisfaction.

Section 82(2) Companies Act 2013 read with Rule 8(2) further provides that where the Registrar enters a memorandum of satisfaction of charge in full in pursuance of section 82 or 83 of Companies Act 2013, he shall issue a certificate of registration of satisfaction of charge in Form No.CHG-5.

Analysis and Conclusion:

In the present case, the combined registered charge created over both factories has not been fully satisfied, yet the company has filed an intimation seeking satisfaction of charge only with respect to Factory-1. Such filing does not conform to the requirements of Section 82 and the relevant Rules. Consequently, the Registrar of Companies is not empowered to issue a certificate of satisfaction of charge in this situation, as issuance of such certificate is permissible only when the charge is satisfied in full.

Answer 2(b)

As per Section 123(1) of the Companies Act 2013 provides that no dividend shall be declared or paid by a company for any financial year except-(a) out of the profits of the company.

Under the second Proviso to sub-section (1) of Section 123 of the Companies Act 2013, a company may, before the declaration of any Dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company.

Analysis and Conclusion:

In this case, Zen wave Technologies Pvt. Ltd. earned a profit of ₹70 crore and the Board proposed a final dividend of 30% without transferring any portion of its profits to the general reserve. Since second proviso of Section 123(1) of Companies Act 2013, uses the expression “may”, the transfer of profits or some portion thereof to reserves is not mandatory but discretionary of the Board of Directors of the Company. The Board is not mandatorily required to transfer 10% or any minimum percentage of profits to reserves before recommending or declaring the dividend. Therefore, the shareholders’ objection is not justifiable, and the AGM may validly declare the proposed final dividend.

Answer 2(c)

As per section 94(3) of Companies Act, 2013 read with Rule 14 of the Companies (Management and Administration) Rules, 2014, any member, debenture-holder, other security holder or beneficial owner or any other person may–

(a) take extracts from any register, or index or return without payment of any fee; or

(b) require a copy of any such register or entries therein or return on payment of such fees as may be specified in the Articles of Association of the company but not exceeding

₹10 for each page. Such copy or entries or return shall be supplied within seven days of deposit of such fee.

Such particulars of the register or index or return as may be prescribed shall not be available for inspection under section 94(2) of the Companies Act, 2013 or for taking extracts or copies under section 94(3) of the Companies Act. 2013.

For the purposes of this sub-rule, reasonable time of not less than two hours on every working day shall be considered by the company.

Since, the permissible cost per page is ₹10 and the copy should be supplied within 7 days, the action of the company is not valid.

Answer 2(d)

The Companies (Share Capital and Debenture) Rules, 2014 deals with provisions on preferential offer by unlisted companies. Accordingly,

i) As per rule 13(2)(e), the allotment of shares on a preferential basis shall be completed within a period of twelve months of date of passing of special resolution.

ii) As per rule 13(2)(h), where convertible securities are offered on a preferential basis with an option to apply for and get equity shares allotted, the price of the resultant shares pursuant to conversion shall be determined-

   a. either upfront at the time when the offer of convertible securities is made, on the basis of valuation report of the registered valuer given at the stage of such offer; or

   b. at the time, which shall not be earlier than thirty days to the date when the holder of convertible security becomes entitled to apply for shares, on the basis of valuation report of the registered valuer given not earlier than sixty days of the date when the holder of convertible security becomes entitled to apply for shares.

The Vice President (Corporate Affairs) is to be updated accordingly.

Answer 2(e)

As per Rule 5(1) of the Companies (Management and Administration) Rules, 2014, the entries in the registers maintained under section 88 of the Companies Act, 2013, shall be made within 7 days after the Board of directors or its duly constituted committee approves the allotment or transfer of shares, debentures, or any other securities, as the case may be.

As per Rule 5(4) of the Companies (Management and Administration) Rules, 2014, if any change occurs in the status of a member or debenture holder or any other security holder whether due to death or insolvency or change of name or due to transfer to Investor Education Protection Fund or due to any other reason, entries thereof explaining the change shall be made in the respective register. As per Rule 5(3), since forfeiture results in a change in the status of the member, the corresponding entry in the Register of Members, consequent upon any forfeiture of shares should similarly be made within seven days of the Board's approval.

As per Rule 8(1) of the Companies (Management and Administration) Rules, 2014, the entries in the registers maintained under section 88 and index included therein shall be authenticated by the company secretary of the company or by any other person authorised by the Board for the purpose and the date of the board resolution authorising the same shall be mentioned. The law does not require that the Board must authorize a director. It may authorize any person, including an officer such as the CFO of the company.

Hence, the authorisation of CFO and authentication of entries in the register of members by him under the Board's authority is valid.

Question 3

(a) *The Board of directors of Shagun Ltd. has, for a considerable period, observed that Sampat, a member of the company, has been indulging in activities detrimental to the interests and reputation of the company. The Articles of Association of the company authorize the Board of Directors to expel a member whose conduct is detrimental to the company existance.*

In exercise of such power and claiming to act in the bona fide interests of the company, the Board of Directors, at its meeting held in March 2025, passed a resolution, with consent of all directors attending the meeting, to expel Sampat from the membership of the company.

Examine the validity of the Board's resolution under the provisions of the Companies Act, 2013.

(5 marks)

(b) *Vanna Private Limited proposes to accept deposits amounting to ₹ 50 crore from its members. The company has no existing outstanding deposits. As per the audited financial statements for the year ended 31st March 2026, its paid-up share capital is ₹ 25 crore (equity ₹ 20 crore and preference ₹ 5 crore), free reserves are ₹ 10 crore, and the securities premium account shows a balance of ₹ 5 crore. The company has an outstanding term loan of ₹ 40 crore. Vanna Private Limited is neither a holding company nor a subsidiary or associate company of any other company and it has not defaulted in repayment of its borrowings.*

With reference to the provisions of the Companies Act, 2013 and the Companies (Acceptance of Deposits) Rules, 2014 examine whether the company can accept the proposed deposits of ₹ 50 crore from its members.

(5 marks)

(c) *(i)* *Parimal is indebted to Intense Finance Solutions Ltd. for ₹ 95,000. Intense Finance Solutions Ltd. is the holding company of Xplore Financial Services Ltd.*

Parama is sister of Prateek. Prateek is employed as General Manager (Marketing) in the company with a salary of ₹ 1 lakh per month.

State if the following persons Parimal and Parama can be appointed as debenture trustee for Xplore Financial Services Ltd.

(3 marks)

(ii) Can a debenture trustee be removed from office before expiry of term ? How will casual vacancy in the office of trustee be filled up ? Referring to the provisions of the Companies Act, 2013 comment.

(2 marks)

Answer 3(a)

Expulsion of a Member

A controversy had arisen as to whether a public limited company had powers to insert an article in its Articles of Association relating to expulsion of a member by the Board of Directors of the company where the directors were of the view that the activities or conduct of such a member was detrimental to the interests of the company.

The Department of Company Affairs (now, Ministry of Corporate Affairs) clarified that an article for expulsion of a member is opposed to the fundamental principles of the Company Jurisprudence and is ultra vires the company, the reason being that such a provision against the provisions of the Companies Act relating to the rights of a member in a company, the powers of the Central Government as an appellate authority under Section 111 of the Act and the powers of the Court under Sections 107, 395 and 397 of the Companies Act, 1956. These sections correspond to sections 58, 48, 235 and 241 of the Companies Act, 2013 respectively.

According to Section 6 of the Companies Act, 2013, the Act overrides the Memorandum and Articles of Association and any provision contained in these documents repugnant to the provisions of the Companies Act, is void.

The Department of Company Affairs (now MCA) has, therefore, clarified that any assumption of the powers by the Board of Directors to expel a member by alteration of Articles of Association shall be illegal and void.

As, under Article 141 of the Constitution, the law declared by the Supreme Court is binding on all courts within the territory of India, any provision pertaining to the expulsion of a member by the management of a company which is against the law as laid down by the Supreme Court will be illegal and ultra vires. In the light of the aforesaid position, it is clarified that assumption by the Board of Directors of a company of any power to expel a member by amending its articles of association is illegal and void. [Circular: Letter No. 32/75, dated 1.11.1975].

Conclusion: Hence, the provision in the Articles empowering the board to expel the member from the membership is void ab initio. The decision taken by the board to expel Sampat, a member is therefore invalid under the Companies Act.

Answer 3(b)

As per Section 73(2) of the Companies Act 2013, a company may, subject to the passing of a resolution in general meeting and subject to such rules as may be prescribed in consultation with the Reserve Bank of India, accept deposits from its members on such terms and conditions, including the provision of security, if any, or for the repayment of such deposits with interest, as may be agreed upon between the company and its members.

The relevant extract of Rule 3(3) of the Companies (Acceptance of Deposits) Rules read with notification dated 19th September, 2017 provide as under:

"Provided that a Specified IFSC Public company and a private company may accept from its members monies not exceeding one hundred per cent. of aggregate of the paid-up share capital, free reserves and securities premium account and such company shall file the details of monies so accepted to the Registrar in Form DPT-3.

Provided further that the maximum limit in respect of deposits to be accepted from members shall not apply to the following classes of private companies, namely:-

(ii) a private company which fulfils all of the following conditions, namely: -

- a) which is not an associate or a subsidiary company of any other company;
- b) the borrowings of such a company from banks or financial institutions or anybody corporate is less than twice of its paid-up share capital or fifty crore rupees, whichever is less; and
- c) such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under section 73:

Provided also that all the companies accepting deposits shall file the details of monies so accepted to the Registrar in Form DPT-3.

Analysis and Conclusion:

The aggregate of paid-up share capital ₹25 crore, Free Reserve ₹10 crore and Securities Premium Account ₹5 crore is worked out to be ₹40 crore. Hence, the company in normal way cannot accept deposits more than ₹40 crore (i.e. exceeding 100%).

However, as per the proviso, a private company is exempt from the above ceiling if all three conditions are satisfied. The company is not a holding or subsidiary or an associate company of any other company. So, this first condition (clause a) is fulfilled. The second condition under clause (b) is analysed as below:

- (a) Twice of paid-up capital is ₹50 crore.
- (b) Borrowing is ₹40 crore which is less than the limit of ₹50 crore

Hence, this condition is also satisfied.

The company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under section 73.

As all three conditions are satisfied Vanna Private Limited can accept the proposed deposits of ₹50 crore even if that exceeds the aggregate of paid-up share capital, free reserves and the securities premium.

Answer 3(c)

(i) The conditions governing the appointment of debenture trustee or trustees is prescribed under Rule 18(2)(c) the Companies (Share Capital and Debenture) Rules, 2014.

A person shall not be appointed as a debenture trustee, if he-

i. beneficially holds shares in the company;

ii. is promoter, director or key managerial personnel or any other officer or an employee of the company or its holding, subsidiary or associate company;

iii. is beneficially entitled to moneys which are to be paid by the company otherwise than as remuneration payable to the debenture trustee;

iv. is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;

v. has furnished any guarantee in respect of the principal debts secured by the debentures or interest thereon;

vi. has any pecuniary relationship with the company amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;

vii. is relative of any promoter or any person who is in the employment of the company as director or key managerial personnel.

In view of the above, Parimal cannot be appointed as debenture trustee in Xplore Finance Services Ltd. by virtue of restriction under iv above.

However, Parama can be appointed as debenture trustee due to the fact that Prateek is not a KMP/Director/Promoter in the organisation. Further, she is neither an officer of the company nor the employee of the company. Here amount of indebtedness is not important.

(ii) In terms of rule 18(2)(d) of the Companies (Share Capital and Debenture) Rules, 2014, the Board may fill any casual vacancy in the office of the trustee but while any such vacancy continues, the remaining trustee or trustees, if any, may act:

Provided that where such vacancy is caused by the resignation of the debenture trustee, the vacancy shall only be filled with the written consent of the majority of the debenture holders.

Yes. A debenture trustee can be removed from office before expiry of term. Rule 18(2)(e) states any debenture trustee may be removed from office before the expiry of his term only if it is approved by the holders of not less than three fourth in value of the debentures outstanding, at their meeting.

Attempt all parts of either Q. No. 4 or Q. No. 4A

Question 4

(a) AD Ltd. is unable to redeem its preference shares amounting to ₹ 50 lakh along with the outstanding dividend of ₹ 5 lakh thereon on the due date for the reason of non-availability of adequate cash resources.

In the light of the provisions of the Companies Act, 2013, advise the company on the permissible method for redemption of the preference shares without resulting in either an increase or a reduction of its share capital.

(5 marks)

(b) *You are the senior partner of a firm of practising Company Secretaries. The turnover of your firm was ₹ 7 crores for year ended 31st March, 2026.*

Saugata is a director in AB Ltd., CD Private Ltd. and EF Ltd. He is confused if internal audit is required in these companies and has approached you on the applicability thereof.

Advise Saugata as per the information given below from the latest financial statements:

(₹ in crore)

Particulars	*AB Ltd. (listed)*	*CD Private Ltd. (subsidiary of GH Ltd. listed)*	*EF Ltd. (unlisted)*
Turnover	*90*	*150*	*180*
Paid-up share capital	*48*	*60*	*40*
Reserves & Surplus	*27*	*45*	*60*
Outstanding loans from Public financial institutions	*10*	*75*	*70*
Outstanding deposits	—	—	*50*

(5 marks)

(c) *The audited financial statements of Jo Ltd. for the year ended 31st March 2025 show the following :*

1. *Paid-up equity share capital : ₹ 50 lakh (5 lakh shares of ₹ 10 each)*
2. *Surplus in Profit & Loss Account : ₹ 10 lakh*
3. *Free Reserves : ₹ 30 lakh*

For the quarter ended 31st December 2025 and as on that day unaudited accounts shows a loss of ₹ 3 lakh.

The Board proposes to declare interim dividend @ ₹ 5 per share in January 2026. The company declared dividends at 10%, 12% and 8% in FYs 2022-23, 2023-24 and 2024-25 respectively.

Advise the Board suitably on declaration of interim dividend under the provisions of the Companies Act, 2013.

(5 marks)

Or (Alternate Question to Q. No. 4)

Question 4A

(i) *Glow Bright Ltd. was facing acute financial difficulties due to continuous disruption of operations. The company was facing the impact of :*

- *scarcity of raw materials;*
- *loss of demand of company's products;*
- *frequent lock down due to workmen's unrest.*

On verge of liquidation the management proposed one last arrangement between creditors and the company whereby the creditors would have to forego forty percent of their dues. This has aroused strong objection from some of the creditors who may block the arrangement.

Examine the facts to be disclosed by the applicant company while proposing scheme of compromise or arrangement to the Tribunal by affidavit under provisions of Companies Act, 2013.

(5 marks)

(ii) *Forward Troopers Ltd. is engaged in the manufacturing of wearable protective gear and accessories including helmets and shields for supply to the armed forces in the country.*

Following are the extracts of the audited financial statement of the company as on 31st March, 2026 :

Liabilities	*Amount (in ₹)*
Equity shares of ₹ 10 each fully paid	*20,00,000*
Reserves & surplus	*7,00,000*
Foreign exchange fluctuation reserve	*1,00,000*
Profit & loss account	*3,00,000*
8% debenture (issued to twenty five persons)	*25,00,000*
Unsecured loan (from a related party)	*15,00,000*

The company is considering buy-back of its shares without using any proceeds of shares or other securities. Ascertain the maximum quantum of buy-back of shares with shareholders' approval as on 1st April, 2026.

(5 marks)

(iii) *(a)* *Hipocam Ltd. has entered into a contract with Admenta Private Ltd. by which the former will reserve twenty-two percent of their output to be sold to Ultra Ltd. or to a buyer at the direction of Admenta Private Ltd. You are the company secretary of Hipocam Ltd. There is a query from accounts department if Admenta Private Ltd. can be called an associate company of Hipocam Ltd. Discuss.*

(b) *List out the situations when a company is liable for torts of its employees.*

(3+2=5 marks)

Answer 4(a)

As per Section 55(3) of Companies Act 2013, states that when a company is not in a position to redeem any preference shares or to pay dividend, if any, on such shares in accordance with the terms of issue (such shares here in after referred to as unredeemed preference shares), it may, with the consent of the holders of three-fourths in value of such preference shares and with the approval of the Tribunal on a petition made by it in this behalf, issue further redeemable preference shares equal to the amount due, including the dividend thereon, in respect of the unredeemed preference shares, and on the issue of such further redeemable preference shares, the unredeemed preference shares shall be deemed to have been redeemed.

The issue of further redeemable preference shares or the redemption of preference shares under this section shall not be deemed to be an increase or, as the case may be, a reduction, in the share capital of the company.

Hence, AD Ltd. may redeem the due preference shares by issuing further redeemable preference shares of ₹55 lakh (including dividend), after obtaining the consent of preference shareholders holding not less than three-fourths in value of such shares (i.e., ₹37.50 lakh) and the approval of the Tribunal. On such issue, the unredeemed preference shares shall be deemed to have been redeemed, and the transaction shall not be regarded as an increase or reduction of the company’s share capital.

Answer 4(b)

As per section 138 of the Companies Act, 2013 read with rule 13 of the Companies (Accounts) Rules, 2014:

The following class of companies shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate namely:

(a) Every listed company;

(b) Every unlisted public company having –

  i. Paid up share capital of fifty crore rupees or more during the preceding financial year; or

  ii. Turnover of two hundred crore rupees or more during the preceding financial year; or

  iii. Outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or

  iv. Outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year; and

(c) Every private company having –

  i. Turnover of two hundred crore rupees or more during the preceding financial year; or

ii. Outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

Applying the above prescriptions:

Internal audit is applicable to AB Ltd. as it is a listed company;

Internal audit is not applicable to CD Private Ltd. as limits are not exceeded for turnover or outstanding loans;

It is applicable to EF Ltd. as outstanding deposits is more than ₹25 crore.

Answer 4(c)

Advisory on Declaration of Interim Dividend: Under Section 123(3) of the Companies Act, 2013

As per Section 123(3), the Board of directors of a company may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the annual general meeting-

- Out of the surplus in the profit and loss account, or
- Out of profits of the financial year for which such interim dividend is sought to be declared, or
- Out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend.

In case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years. Further, SS-3 provides that in the event of loss or inadequacy of profits during the financial year, no interim dividend shall be declared/paid out of free reserves.

Analysis and Conclusion:

Jo Ltd. has a P&L surplus of ₹10 lakh, but the current-year loss up to 31 December 2025 is ₹3 lakh. Thus, only ₹7 lakh is available for interim dividend. The proposed dividend @ ₹5 per share requires ₹25 lakh, which exceeds the available amount.

The company has incurred a loss during the current year up to the preceding quarter-

Proviso to subsection (3) of Section 123 of the Companies Act, 2013 states that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during immediately preceding three financial years.

Average rate = (10% + 12% + 8%) / 3 = 10%. Maximum permissible interim dividend = 10% of ₹50 lakh = ₹5 lakh, i.e., ₹1 per share.

Free Reserves of ₹30 lakh are not available for interim dividend.

Hence, the Board cannot declare interim dividend @ ₹5 per share as proposed.

It may declare a maximum of ₹1 per share, being within both:

1. Available profits (₹7 lakh); and
2. The average of the past three years' dividend rates (10%).

Answer 4A(i)

Section 230(2) of the Companies Act, 2013, states that the company or any other person, by whom an application is made under sub-section (1), shall disclose to the Tribunal by affidavit–

(a) all material facts relating to the company, such as the latest financial position of the company, the latest auditor's report on the accounts of the company and the pendency of any investigation or proceedings against the company;

(b) reduction of share capital of the company, if any, included in the compromise or arrangement;

(c) any scheme of corporate debt restructuring consented to by not less than seventy-five per cent of the secured creditors in value, including—

(i) a creditors' responsibility statement in the prescribed form;

The Creditors' Responsibility Statement shall be in Form CAA-1 and be included in the scheme of corporate debt restructuring. A scheme of corporate debt restructuring as referred to in clause (c) of sub-section (2) of section 230 of the Act shall mean a scheme that restructures or varies the debt obligations of a company towards its creditors.

(ii) safeguards for the protection of other secured and unsecured creditors;

(iii) report by the auditor that the fund requirements of the company after the corporate debt restructuring as approved shall conform to the liquidity test based upon the estimates provided to them by the Board;

(iv) where the company proposes to adopt the corporate debt restructuring guidelines specified by the Reserve Bank of India, a statement to that effect; and y

(v) a valuation report in respect of the shares and the property and all assets, tangible and intangible, movable and immovable, of the company by a registered valuer.

Answer 4A(ii)

The maximum quantum of buy- back that company in question can make as on 1st April, 2026, in pursuance of section 68 of Companies Act, 2013 is 25% of aggregate of paid-up capital and free reserves of the company. Further provided that the reference to twenty-five per cent shall be construed with respect to its total paid-up equity capital in that financial year and the ratio of the aggregate of secured and unsecured debts owed by the company after buy-back should not be more than twice the paid-up capital and its free reserves.

Accordingly, in the present case we have,

Free Reserves - ₹10,00,000 (Reserve & Surplus + profit & loss account)

Securities premium Account – Nil; Proceeds of other specified securities- Nil

Total Debt i.e. (25,00,000+ 15,00,000) - ₹40,00,000 (debenture + unsecured loan)

Sum of paid-up Equity capital + free reserves - ₹30,00,000 (20,00,000+10,00,000)

Hence, the maximum fund available for buy-back (in absence of securities premium account and proceeds of issue of any other specified securities) is ₹10,00,000

Amount that must be maintained as sum total of free reserves and paid-up equity capital is half of total debt i.e., half of ₹40,00,000 i.e., ₹20,00,000

Buy back can be made up to 25% of Paid up capital and free reserves i.e. ₹30,00,000 *25% = ₹7,50,000.

Further debt equity ratio is:

Debt: ₹40,00,000

Capital after buy back: Total Capital= 20,00,000-7,50,000= ₹12,50,000

Free reserve= 10,00,000-7,50,000= ₹2,50,000

Capital + free reserve= ₹15,00,000

Debt equity ratio= ₹40,00,000 / ₹15,00,000= 2.67

The ratio being more than twice the paid-up capital and its free reserves the maximum quantum of ₹7,50,000 is not advisable.

As stated above post buyback debt equity ratio must not be more than 2. Accordingly, post buy back total capital and free reserve must be half of debts i.e. ₹40,00,000 /2 = ₹20,00,000.

The maximum buyback of equity may be (30,00,000 -20,00,000) / 2 = ₹5,00,000.

Therefore, in the given case, maximum possible buyback is of ₹5,00,000 amounting to 50,000 equity shares of ₹10 each.

Answer 4A(iii)

(a) According to section 2(6) of the Companies Act, 2013 "associate company" in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

"Significant influence" means control of at least 20% of total share capital or of business decisions under an agreement.

In the instant case, Admenta Private Ltd. controls 22% of the sale and disposal of the output of Hipocam Ltd. Thus, Hipocam Ltd. is the associate of Admenta Private Ltd. But Hipocam Ltd. neither influences the business decision of Admenta Private Ltd. in any manner nor does it control at least 20% of the total share capital of Admenta Private Ltd. Hence, Admenta Private Ltd. cannot be called an associate of Hipocam Ltd.

(b) A company will not be liable for torts committed outside its objects.

In order to make the company liable for the torts/crime of its employees, it will have to be proved that:

- the tort was committed in the course of an activity which is in the purview of company's memorandum, and
- it was committed by the employee within the course of his employment.

PART–II

Question 5

Case Study :

Diya Steels & Aluminium Ltd. (DSAL) was incorporated in December, 2019 in Rajasthan with the objective of manufacturing high quality steels. The plant was commissioned in May, 2021 at a cost of ₹ 250 crores. It was financed partly by the promoters (75%) and balance from bank loan from a consortium of banks. Currently, DSAL is not a listed company but plans to get listed after two years. The registered office is in Jaipur and the plant located in Jharkhand.

Over a period of time, the company has evolved to become one of India's top ten manufacturers of steel and its accessories. It has a significant share in the domestic and foreign market. It won an award from an Export Promotion Council for upholding highest standards of quality manufacturing activities, processes and preparation and maintenance of adequate cost records.

The company has now eleven hundred members. The Board consists of ten directors with two of them women. You are the Compliance Officer of the company designated as General Manager (Secretarial).

Situation I :

DSAL at the annual general meeting (AGM) held on 28th September, 2023 appointed Arup as a non-executive director for a period of three years. On 10th October, 2024 Arup suffered a severe brain stroke and expired. The Board of directors of the company on 24th October, 2024 appointed Prabhat to fill the casual vacancy so created. The appointment was made for a term of three years by the Board. Subsequently at the AGM held on 19th August, 2025 Prabhat's appointment was not proposed or approved as the Board was of the view that it is not needed. But the President (Corporate Affairs) is of the view that the company has contravened the provisions of the Companies Act, 2013 in respect of non-approval of the appointment of Prabhat and his office tenure at the AGM.

Situation II :

The articles of association of DSAL provides for a maximum of twelve directors. But the company has only ten directors and for two of them Julien and Brice representing foreign collaborators, alternate directors Bapi and Chinmoy have been appointed. Board meeting held on 31st August, 2025 which discussed the matter for issue of rights shares was attended by four directors including two alternate directors.

Situation III :

DSAL showed a net profit of ₹ 56 lakhs after including the following items credited/debited to the statement of profit & loss for year ended 31st March, 2025 for arriving at profit before tax.

Particulars	*Amount (in ₹)*
Other revenue	
Profit on sale of fixed assets	*5,60,000*
Revaluation of assets	*4,00,000*
Change in carrying amount of assets on measurement at fair value	*7,20,000*
Expenditure	
Bad debt	*4,80,000*
Loss of capital nature including sale of undertaking	*2,40,000*
Tax expenses, current tax payable	*12,00,000*

Details of sale of fixed assets (in ₹) :

Sale value – 16,00,000; Original Cost – 12,80,000; Written down value – 10,40,000.

Situation IV :

The company had its annual general meeting (AGM) on 19th August, 2025. After completion of all ordinary business as stated in the AGM notice, there was a commotion and disorder at the meeting subsequent to which the Chairman of the meeting adjourned the meeting to 26th August, 2025 though members present did not agree for such adjournment. The Chairman further stated that the unfinished agenda that were listed in the AGM notice alone will be taken up for discussion at the adjourned meeting.

Situation V :

As a separate issue, Bithin – director reported to you that he was possessing two director identification numbers.

Based on the above facts and integrated case, answer the following referring to the provisions of Companies Act, 2013 :

(a) *Examine if there is any non-compliance on the part of the company and statement of the President (Corporate Affairs) is tenable.*

(5 marks)

(b) *Analyse if the quorum was present in the board meeting held on 31st August, 2025. Will your answer be different if the articles stipulated a quorum of six directors ?*

(5 marks)

(c) *Compute company's net profit as laid down under Companies Act, 2013 to calculate managerial remuneration.*

(5 marks)

(d) *Comment on the action of Chairman with reference to Secretarial Standard and what would be the implications if there is no quorum in the adjourned general meeting.*

(3 marks)

(e) *As a separate case, advise Bithin next course of action for having two director identification numbers.*

(2 marks)

Answer 5(a)

According to section 161(4) of the Companies Act, 2013, if office of any director appointed by the company in general meeting is vacated before his term expires in the normal course, the resulting casual vacancy may, in default of and subject to, any regulations in the Articles of the company, be filled by the Board of directors at a meeting of the board which shall be subsequently approved by the members in the immediate next general meeting.

Provided that any person so appointed shall hold office only up to the date up to which the director in whose place he is appointed would have held office if it had not been vacated.

In the given case, casual vacancy caused due to death of Arup (who was appointed by the company in AGM held on 28/09/2023 for a period of three years) is filled by the Board of directors by appointing Prabhat for a period of three years. However, appointment of Prabhat for a period of three years is in contravention of above stated provisions.

As the appointment of Prabhat ought to be approved by members in the immediate next general meeting. However, the appointment was not even proposed or approved in the AGM held on 19/08/2025.

Hence appointment of Prabhat contravenes provisions of the Companies Act, 2013. Therefore, the opinion of President (Corporate Affairs) is correct.

Answer 5(b)

Section 174 of the Companies Act, 2013, provides that quorum for a meeting of board of directors of a company shall be one - third of its total strength or two directors, whichever is higher.

For purposes of this section –

i) Any fraction of a number shall be rounded off as one;

ii) Total strength shall not include directors whose places are vacant.

In the instant case, out of 10 directors, 4 including 2 alternate directors attended the board meeting held on 31/08/2025.

Required quorum = 1/3rd of 10 = 3.33 rounded off to 4.

Alternate directors shall be counted in quorum as they are holding office of original director.

Thus, presence of 4 directors (including 2 alternate) in the board meeting held on 31/08/2025 shall be counted as quorum. So, quorum was present in the meeting in this case.

If the Articles prescribe for a higher limit of quorum than the higher number will have to be complied with. The Act specifically mentions in section 174(1) of the Companies Act, 2013 that the quorum for a meeting of the board of directors of a company shall be one-third of its total strength or two whichever is higher. However, the Act does not provide cap on a higher number of quorum and similar views have been expressed in Secretarial Standard-1 in terms of section 118(10) of the Companies Act, 2013 and various judicial rulings.

Hence, if the articles provide for 6 directors as quorum the meeting held on 31/08/2025 is invalid as it was attended only by 4 directors.

Answer 5(c)

According to section 198 of the Companies Act, 2013 net profits for any financial year for the purpose of managerial remuneration payable under section 197 of the Act shall be calculated as follows:

Credit shall not be given for those sums specified in section 198(3)

Less: (if credited to P&L account for arriving at profit before tax)

- Profits from sale of any immovable property or fixed assets of capital nature comprised in the undertaking or any of the undertakings unless business of the company consists, whether wholly or partly, of buying and selling any such property or assets
- Provided where the amount for which any fixed asset is sold exceeds the written down value thereof, credit shall be given for so much of excess as is not higher than the difference between the original cost of that fixed asset and its written-down value
- Any change in carrying amount of an asset or of a liability recognised in equity reserves including surplus in profit & loss account on measurement of the asset or liability at fair value
- Any amount representing unrealised gains, notional gains or revaluation of assets

In making the computation aforesaid the following sum specified under section 198(4) shall be deducted – debts considered bad and written off or adjusted during the year

Non-deductible items [section 198(5)]

Loss of capital nature including loss on sale of undertaking

Current taxes payable by the company

Computation of net profit for purpose of calculating managerial remuneration as laid down under section 198 of the Act

	Particulars	*Amount (₹ in lakh)*
	Net profit as per P & L statement	56.00
Less	Profit on sale of fixed asset not to be included (refer working note)	3.20
Less	Revaluation of assets	4.00
Less	Change in carrying amount of asset on measurement at fair value	7.20
Balance		41.60
Add	Tax expenses, current tax payable	12.00
Add	Loss of a capital nature including loss on sale of undertaking	2.40
Net profit under section 198 for managerial remuneration		56.00

Working note:

	Particulars	*₹.in lakh*
A	Original cost	12.80
B	Written down value	10.40
C	Sale value	16.00
D	Profit on sale of fixed asset	5.60
E	Amount to be included in profit (A-B)	2.40
F	Amount not to be included in profit (D-E)	3.20

Note - credit shall not be given for profits from sale of any immovable property or fixed assets (provided credit shall be given for so much of excess as is not higher than the difference between the original cost of that fixed asset and its written down value.

Profit on sale of fixed assets = ₹. 16 lakh - ₹. 10.40 lakh = ₹. 5.60 lakh but credit cannot be greater than the difference of ₹. 12.80 lakh (original cost) - ₹. 10.40 lakh (WDV) = ₹. 2.40 lakh. Hence ₹. 3.20 lakh should be deducted from net profit.

Answer 5(d)

Secretarial Standard-2, Para 15.1 deals with the adjournment of meetings. Under that, Chairman of a general meeting may also adjourn a meeting in the event of disorder or other like causes, when it becomes impossible to conduct the meeting and complete its business. In the given case, since there was a disorder and commotion during the meeting, the Chairman was right in adjourning the meeting though the same was not accepted by members present.

Further, SS-2 says that at an adjourned meeting, only the unfinished business of the original meeting shall be considered. Hence, the Chairman was right in considering the unfinished special business as set out in the AGM notice in the adjourned meeting.

If, at an adjourned Meeting, Quorum is not present within half an hour from the time appointed, the Members present, being not less than two in number, will constitute the Quorum. Any Resolution passed at an adjourned Meeting would be deemed to have been passed on the date of the adjourned Meeting and not on any earlier date.

Answer 5(e)

Section 155 of the Companies Act, 2013 read with rule 11(1)(f) of the Companies (Appointment and Qualification) Rules, 2014, provides that no individual, who has already been allotted a DIN under Section 154, shall apply for, obtain or possess another DIN. Thus, Bithin has violated Section 155 and has to surrender additional DIN possessed by him.

He has to file e form DIR-5 to surrender the extra DIN obtained by him explaining that the extra DIN was obtained by mistake and without any mala fide intentions with a declaration that he has never been appointed as director in any company and the said DIN has never been used for filing of any document with any authority.

Attempt all parts of either Q. No. 6 or Q. No. 6A

Question 6

(a) *Ansari, a director of JB Ltd., is proceeding abroad for a continuous period of four months. Prior to his departure, he appoints Khushbu, not being a director of the company, to act in his place during his absence. However, at a Board Meeting held after departure of Ansari the Chairman did not permit Khushbu to participate in the meeting.*

With reference to the provisions of the Companies Act, 2013 :

(i) *Examine whether the decision of the Chairman was justified.*

(ii) *Draft a specimen Board Resolution for appointing a person to act in place of a director who is absent from India for a period exceeding three months.*

(5 marks)

(b) *XYZ Foundation, a company registered under Section 8 of the Companies Act, 2013 is engaged in charitable activities and proposes to receive foreign contribution for carrying out its objects. Under the Foreign Contribution (Regulation) Act, 2010, foreign contribution can be received only in a designated bank account opened with the State Bank of India, New Delhi Main Branch (FCRA Branch), 11 Sansad Marg, New Delhi - 110001, and such account is to be used exclusively for receipt of foreign contribution.*

Draft a specimen board resolution for opening the said designated FCRA bank account, and authorising the director and/or the company secretary for doing the needful in this regard under the provisions of the Companies Act, 2013.

(5 marks)

(c) *The Board of directors of your company is intending to take approval from members of the company for consolidation of shares. The Managing director has advised you, company secretary of the company, to show him a specimen Notice of general meeting containing the resolution. Draft the Notice covering all incidental matters.*

(5 marks)

(d) *Due to urgency, the Company Secretary suggested obtaining Board approval by a Circular Resolution for entering into a raw material purchase agreement with JK Suppliers which is an unrelated party. The company has nine directors, out of whom three*

are interested in the transaction. Two non-interested directors have requested that the matter be discussed and decided at a Board Meeting.

With reference to the provisions of the Companies Act, 2013 :

(i) *Examine whether it is mandatory for the Chairman to place the resolution before a Board Meeting instead of passing it by circulation in the given scenario mentioned above.*

(ii) *Draft a specimen circular resolution for approval of the purchase of raw material agreement with the Suppliers.*

(5 marks)

OR (Alternate question to Q. No. 6)

Question 6A

(i) *Z Ltd. appointed Saleem as its Managing Director for a period of five years. After completion of three years of his tenure, Saleem resigned from office and claimed compensation for loss of office in respect of the unexpired period of two years.*

With reference to the provisions of the Companies Act, 2013 :

(a) *Explain the provisions of Section 202 of the Companies Act, 2013 relating to compensation for loss of office of a Managing Director, Whole-time Director, or Manager. Also, discuss the cases where no compensation is payable and the statutory limit on payment of such compensation.*

(b) *Examine whether Saleem's claim for compensation for loss of office is legally sustainable.*

(5 marks)

(ii) *Considering the provisions of the Companies Act, 2013 relating to "Corporate Social Responsibility Obligations" answer on the following :*

(a) *The composition of the "Corporate Social Responsibility Committee" (CSR Committee) in case of a private company.*

(b) *The Quorum for the CSR Committee.*

(c) *The functions of the CSR Committee under the statute.*

(d) *Number of CSR Committee Meetings.*

(e) *Chairman of the CSR Committee.*

(5 marks)

(iii) *Shantilal, a customer of Cotton Textile Pvt. Ltd. intends to apply in writing to the company for inspection of its latest Annual Return and extracts thereof. If the company rejects his application as he is not a member or debenture holder of the company, can he seek any remedy from the Central Government. He also wants to know the evidentiary value of the copies of the annual return. Advise, with reference to the provisions of the Companies Act, 2013.*

(5 marks)

(iv) *Rohit has applied to the Indian Institute of Corporate Affairs (IICA) for inclusion of his name in the data bank of independent directors. He is working as a director of unlisted public companies JKL Ltd. and MNO Ltd., having paid-up share capital of ₹ 10 crore since last 7 years. Rohit clarifies that he is not required to pass the online proficiency self-assessment test as he is director of two unlisted companies with paid-up share capital of ₹ 10 crore since last 7 years. Explain if the contention of Rohit is correct as per Companies Act, 2013.*

(5 marks)

Answer 6(a)

(i) Chairman's decision whether justifiable:

The given case is regarding appointment of an alternate director in the company.

Section 161(2) of the Act empowers the Board, if so authorized by its Articles or by a resolution passed by the company in general meeting, to appoint a person, not being a person holding any alternate directorship for any other director in the company or holding directorship in the same company, to act as an alternate director for a director during his absence for a period of not less than three months from India.

The Act does not empower the original director to appoint an alternate director. In view of this, the appointment of Khushbu made by Ansari and not by the Board as an alternate director is invalid. The Chairman's decision to disallow Khushbu from participating in the board meeting is, therefore, justified.

(ii) Specimen Board Resolution:

SPECIMEN COPY OF THE RESOLUTION PASSED AT THE FIRST MEETING OF THE BOARD OF DIRECTORS OF …… LTD., HELD ON (DAY), (DATE)__________ AT (PLACE) __________AT (TIME) TO__________(TIME).

"**RESOLVED THAT** pursuant to the provisions of Section 161(2) of the Companies Act, 2013 and Articles of Association of the company, Ms Khushbo (DIN: ________), who has signified her consent to act as a director, be and is hereby appointed as an Alternate Director to Mr. Ansari (DIN:) of the Company to hold office with effect from the date of this board meeting but not beyond the period for which Mr. Ansari is entitled to hold office or when Mr. Ansari returns to India.

RESOLVED FURTHER THAT Mr. ---- (Director) or the Company Secretary of the Company be and is hereby authorized to do all acts, deeds, matters, and things as may be deemed necessary and to sign and execute all necessary documents, applications, and returns for the purpose of giving effect to the aforesaid resolution along with filing of necessary e-form(s) with the Registrar of Companies."

For and on behalf of JB LTD.

Name:

Designation:

Date:

Place:

Answer 6(b)

SPECIMEN COPY OF THE RESOLUTION PASSED AT THE FIRST MEETING OF THE BOARD OF DIRECTORS OF XYZ FOUNDATION, HELD ON (DAY), (DATE)_________ AT (PLACE) _________AT (TIME) TO_________(TIME).

"**RESOLVED THAT** in accordance with the provisions of the Companies Act, 2013, and pursuant to the requirement under the Foreign Contribution (Regulation) Act, 2010, consent of the Board be and is hereby accorded to open a designated bank account in the name of the company with the State Bank of India, New Delhi Main Branch (FCRA Branch), 11 Sansad Marg, New Delhi – 110001, for the exclusive purpose of receiving foreign contribution for carrying out the charitable objects of the Company.

RESOLVED FURTHER THAT the said designated bank account shall be used exclusively for receipt of foreign contribution in accordance with applicable law.

RESOLVED FURTHER THAT the authorised signatories be and are hereby authorised to operate the account for the purpose stated above.

RESOLVED FURTHER THAT Mr./Ms. ____________________, Director and/or Mr./Ms. ____________________, Company Secretary of the Company be and are hereby authorised to complete the account opening formalities and KYC compliance and to sign, execute, and submit all applications, forms, declarations, and documents as may be required by the Bank and to do all such acts, deeds and things as may be necessary to give effect to this resolution."

For and on behalf of XYZ FOUNDATION

Name:

Designation:

Date:

Place:

Answer 6(c)

Name of the company…………………..

Registered address: ………….

CIN…………. Email……. Telephone………Website……

NOTICE is hereby given that an (no. of meeting) Extra ordinary General Meeting of the members of .... (Name of the Company) will be held on ….day, ….. December, 2025, at 11 AM at .... (address) to transact the following business:

SPECIAL BUSINESS

To consider, and if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution:

"**RESOLVED THAT** pursuant to Section 13 read with Section 61(1)(b) and other applicable provisions, if any, of the Companies Act, 2013, and Article No.... of the Articles of Association of the company, all the …….. crore equity shares of ₹. … each of the company be and are hereby consolidated into …….. equity shares of ₹. …./- each. and consequently, Clause V of the Memorandum of Association shall stand restated as follows:”

“The Authorised Share Capital of the company is Rs. …….(… Crores) consisting of …… Equity Shares of Rs. …./- each.”

“**RESOLVED FURTHER THAT** all the present shareholders holding in all …… issued, subscribed and fully paid equity shares of ₹. …. (Rupees …) each be issued, in lieu of their present shareholding, the number of fully paid consolidated equity shares of ₹. …. (Rupees ….) each.”

“**RESOLVED FURTHER THAT** the Board of directors of the company be and is hereby authorised to take all the necessary steps for giving effect to the foregoing resolution, including recall of the existing share certificates, issue of new share certificates in lieu of the existing issued share certificates in terms of the foregoing resolutions and in accordance with the applicable provisions of the Companies Act, 2013 read with Companies (Share Capital and Debentures) Rules, 2014.”

Explanatory Statement pursuant to section 102 of the Companies Act, 2013:

In order to maintain uniformity in the nominal value of the company’s equity shares with the nominal value of equity shares of other companies, the Board of directors of the company, at its meeting held on .... resolved to alter Clause V of the Memorandum of Association consequent to consolidation of the company’s equity shares of ₹. …. (Rupees ….) each into shares of ₹. …. (Rupees ….) each.

Therefore, the proposed resolutions are commended to the shareholders of the company for their consideration and approval.

The directors of the company are interested in the proposed resolutions to the extent of their respective shareholdings in the company.

For and on behalf of …………………..

Name:

Designation:

Date:

Place:

Answer 6(d)

(i) As per SS-1 (para 6.1.2), if not less than one-third of the total number of directors, not-excluding interested directors, require that a resolution proposed to be passed by circulation be placed before a Board Meeting, the Chairman shall do so. In the given case, one-third of nine directors is three, whereas only two directors have made such a request. Hence, it is not mandatory for the Chairman to place the resolution before a Board Meeting.

(ii) **A specimen resolution by circulation**

Circular Resolution No. 1/2026-27: (Name of company)

Name of Director

Dear Sir,

Sub: Approval for entering into purchase agreement for raw materials

The following Resolution is intended to be passed by circulation as per the provisions of Section 175 of the Companies Act, 2013. A note explaining the urgency and necessity for passing the said Resolution by circulation and the supporting papers (if any) are enclosed.

"**RESOLVED THAT** pursuant to Section 175 of the Companies Act, 2013, approval of the Board be and is hereby accorded for entering into a purchase agreement for raw materials with M/s_______, on the terms placed before the Directors.

RESOLVED FURTHER THAT interested Directors, having disclosed their interest, shall not participate in circulation and voting.

RESOLVED FURTHER THAT the Managing Director be and is hereby authorised to execute the agreement and do all acts necessary to give effect to this resolution."

None of the Directors are deemed to be concerned or interested in the Resolution.

*Assent / Dissent / Require Meeting

Signature: ___________

Name: ______________

Date:________________

**(Please strike off whichever is not applicable)*

Kindly indicate your response to the aforesaid Resolution, by appending your signature and the date of signing in the space provided beneath the Resolution and return one copy to the undersigned or by e-mail at the address mentioned below so as to reach us on or before.....................................

Yours faithfully,

For .... (Name of Company).

Company Secretary

e-mail id:

Address:

Contact No:

OR (Alternate question to Q. No. 6)

Answer 6A(i)

(a) **Power of the company to pay compensation:** Section 202 of Companies Act 2013, provides that a company may make payment to a managing or whole-time director or manager, but not to any other director, by way of compensation for loss of office, or as consideration for retirement from office or in connection with such loss or retirement.

Cases where no compensation is payable (Exceptions): However, under Section 202(2) no payment shall be made in the following cases: —

(i) where the director resigns from his office as a result of the reconstruction of the company or of its amalgamation with any other body corporate or bodies corporate, and is appointed as the managing or whole-time director, manager, or other officer of the reconstructed company or of the body corporate resulting from the amalgamation;

(ii) where the director resigns from his office otherwise than on the reconstruction/ amalgamation of the company;

(iii) where the office of the director is vacated under Section 167(1);

(iv) where the company is being wound up, whether by an order of the Tribunal or voluntarily, provided the winding up was due to the negligence or default of the director;

(v) where the director has been guilty of fraud or breach of trust or gross negligence or mismanagement of the conduct of the affairs of the company or any subsidiary company or holding company; and

(vi) where the director has instigated, or has taken part directly or indirectly in bringing about, the termination of his office.

Statutory Limit on Compensation {Section 202(3)}

Any payment made to a managing or whole-time director or manager in pursuance of section 202 (1) shall not exceed the remuneration which he would have earned if he had been in office for (i) the remainder of his term; or (ii) for three years, whichever is shorter.

Also, such amount of compensation shall be calculated on the basis of the average remuneration actually earned by him during a period of three years immediately preceding the date on which he ceased to hold office, or where he held the office for a lesser period than three years, during such period.

(b) Hence, as stated under (ii) of exceptions, Saleem's claim for compensation for loss of office shall not be sustainable.

Answer 6A(ii)

(a) **Composition of CSR Committee {Section 135(1) read with Rule 5 of CSR Rules, 2014}:** A private company shall have the CSR Committee of two or more directors as it is not required to appoint independent directors. Where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

(b) Quorum for the CSR Committee: Law is also silent with regard to quorum for the committee meeting.

But as per Secretarial Standard 1: The presence of all the members of any Committee (applicable to CSR Committee also) constituted by the Board is necessary to form the Quorum for Meetings of such Committee unless otherwise stipulated in the Act or any other law or the Articles or by the Board.

(c) Functions of the CSR Committee [Section 135(3)]:

- To formulate and recommend to the Board, a CSR Policy which would indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII of the Act.
- To recommend the amount of the expenditure to be incurred on the activities undertaken in pursuance of the CSR policy.
- To monitor the CSR policy of the company time to time.

(d) Number of CSR Committee Meetings:

Law is silent with regard to number of CSR Committee meetings to be held in a year. But as per No. 2.2 of Secretarial Standard 1, "Committees shall meet as often as necessary subject to the minimum number and frequency stipulated by the Board or as prescribed by any law or authority.

(e) Chairman of the CSR Committee:

A member of the Committee appointed by the Board or elected by the Committee as Chairman of the Committee, in accordance with the Act or any other law or the Articles, shall conduct the Meetings of the Committee. If no Chairman has been so elected or if the elected Chairman is unable to attend the Meeting, the Committee shall elect one of its members present to chair and conduct the Meeting of the Committee, unless otherwise provided in the Articles.

Answer 6A(iii)

Inspection of Annual Return – Section 94 read with Rule 14 of the Companies (Management & Administration) Rules, 2014

- Copies of Annual returns prepared pursuant to Section 92, shall be open for inspection during business hours, of not less than two hours on every working day as the board may decide, by any member, debenture holder, other security holder or beneficial owner without payment of fee and by any other person on payment of such fee as may be specified in the articles of association of the company but not exceeding 50 rupees for each inspection.
- Any such member, debenture holder, security holder or beneficial owner or any other person may require a copy of return on payment of such fee as may be specified in the articles of association of the company but not exceeding 10 rupees for each page. Such copy of return shall be supplied within 7 days of deposit of such fee.

- The Central Government may also, by order, direct an immediate inspection of the document, or direct that the extract required shall forthwith be allowed to be taken by the person requiring it.

Return to be Evidence – Section 95

- Copies of annual returns maintained under Section 94 of the Companies Act, 2013 shall be prima facie evidence of any matter directed or authorised to be inserted therein by or under the Companies Act, 2013.

Shantilal falls in the category of 'Other Person' entitled for inspection of annual return and extracts thereof on payment of prescribed fees. If the company rejects his application, he can seek the relief from the Central Government.

Answer 6A(iv)

As per Rule 6(4) of the Companies (Appointment and Qualification of Directors) Rules, 2014, Every individual whose name is included in the data bank of independent directors of IICA shall pass an online proficiency self-assessment test conducted by the IICA within a period of two years from the date of inclusion of his name in the data bank, failing which, his name shall stand removed from the data bank of the institute.

The first proviso to this sub rule provides that the individual who has served for a period of not less than three years as on the date of inclusion of his name in the data bank as director or key managerial personnel in a listed public company or in an unlisted public company having a paid-up share capital of Rs. 10 crores or more shall not be required to pass the online proficiency self-assessment test.

It is further provided that for the purpose of calculation of the period of three years referred to in the first proviso, any period during which an individual was acting as director or as key managerial personnel in two or more companies or bodies corporate or statutory corporations at the same time shall be counted only once.

In view of this proviso, the contention of Rohit is valid, as the experience of director is 7 years.

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SETTING UP OF BUSINESS, INDUSTRIAL & LABOUR LAWS

GROUP 1 PAPER 3

Time allowed : 3 hours **Maximum marks : 100**

Total number of questions : 6

NOTE : *Answer ALL Questions.*

PART–I

Question 1

Arjun, Raghav and Karan had each spent several years working in different development-sector assignments across northern India. Their work regularly brought them into contact with small community groups, informal collectives and local organizations engaged in social welfare activities. Through these interactions, they noticed that many such groups lacked structured support in areas such as documentation, compliance, financial literacy and organizational development. Although these groups were committed to their respective causes, they often struggled to maintain proper records, prepare project proposals or meet regulatory requirements. These limitations affected their ability to expand their activities or collaborate with larger institutions.

To understand the situation more clearly, the three colleagues conducted informal consultations in several districts of Uttar Pradesh, Uttarakhand and Haryana. They met with representatives of community groups, local facilitators and district-level institutions. These discussions revealed that many organizations required assistance in areas such as training, compliance awareness, documentation support and capacity building. Based on these findings, the three colleagues decided to establish a formal institution in New Delhi that could provide structured support to grassroots social-impact initiatives.

They examined various legal structures available for establishing such an institution. They considered the features of trusts, societies and companies registered under the Companies Act, 2013. After evaluating the advantages and limitations of each structure, they concluded that incorporating a company under Section 8 of the Companies Act, 2013 would be appropriate for their objectives. They believed that this structure would allow them to operate for social-development purposes while maintaining a formal governance framework.

They proposed the name Centre for Rural Development Initiatives (CRDI) for the new entity. While initiating the incorporation process, they learned that the Ministry of Corporate Affairs (MCA) had introduced an integrated web-based system known as SPICe+ (INC 32). This system allowed applicants to complete several incorporation related activities through a single digital interface. The three colleagues prepared the required documents and submitted them through the SPICe+ system. After verification by the Registrar of Companies, CRDI was incorporated as a company under Section 8 of the Act. Arjun, Raghav and Karan became the first directors of the company.

CRDI began its operations from a rented office in New Delhi. The organization started conducting training programs, compliance-awareness sessions and documentation-support workshops for small community organizations. These programs were organized in collaboration with district-level institutions, voluntary groups and local facilitators. Over the next several months, CRDI conducted multiple capacity-building initiatives across different districts. The programs focused on areas such as record-keeping, project documentation, basic financial management and regulatory awareness. Participants expressed that such support was essential for strengthening their operations.

During one of the training programs, a participant named Sana raised a concern regarding financial challenges faced by several community organizations. She explained that many groups had applied for loans or grants from financial institutions or government schemes, but the disbursement of funds often took time. During this waiting period, the organizations faced difficulty in continuing their activities. Sana suggested that CRDI could consider helping the startups by providing guidance on the financing option of bridge round. She stated that even if CRDI did not provide funds directly, it could still support organizations by guiding them through the financial process.

The directors discussed this suggestion in detail. They reviewed the scope of activities that CRDI could undertake under its existing structure. They also consulted their legal advisor to understand the implications of providing any form of financial assistance or facilitation. The advisor explained the limitations applicable to the company and clarified the types of activities that could be undertaken without affecting its legal status. The Board considered the possibility of assisting organizations by facilitating loan documentation and connecting them with suitable financial institutions, subject to compliance with applicable laws and the company's objects.

As CRDI continued its operations, it began receiving requests from partner organizations to undertake specialized assignments such as consultancy projects, customized training programs and capacity-building initiatives. These assignments could potentially generate revenue that would help sustain CRDI operations. However, the directors recognized that the existing structure imposed certain restrictions on undertaking revenue-generating activities. They also noted that some opportunities required a more flexible operational framework.

In view of these developments, the Board began examining whether CRDI should consider converting into a private limited company. They understood that such conversion would involve compliance with specific legal requirements, including obtaining necessary approvals, altering the company's constitutional documents and addressing the treatment of existing assets. The directors sought legal advice to understand the implications of conversion, including the changes in regulatory obligations and the impact on the company's long-term objectives. They decided to evaluate the matter carefully before taking any final decision.

In view of the above, answer the following :

(a) What are the key legal features of a Section 8 company under the Companies Act, 2013 that apply to CRDI ?

(b) What is the purpose of the SPICe+ (INC 32) form in the incorporation of a company like CRDI ?

(c) How does bridge-round funding help startups to meet their financial needs ?

(d) What are the legal requirements for converting a Section 8 company into a private limited company ?

(e) What types of loan-facilitation support can CRDI provide through MUDRA-supported banks while remaining compliant with Section 8 restrictions ?

(3 marks each)

Answer 1(a)

Section 8 of the Companies Act, 2013 provides that:

- A Company may be formed for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or similar objects.
- Any profits or income must be applied solely for promoting its objects.
- The company is prohibited from distributing dividends to its members.
- The Central Government may allow the company to be registered without the words "Limited" or "Private Limited" in its name.
- There is not requirement for minimum paid-up capital.
- It is exempted from stamp duty registration.
- Section 8 company enjoy certain administrative and compliance related privileges and exemptions.

CRDI was incorporated for social-development and capacity building activities. Therefore, it operated without distributing profits, applied any surplus solely for promoting its objects, used a name without suffix "Limited" or "Private Limited", and benefitted from compliance privileges and exemptions available to section 8 companies.

Answer 1(b)

Rule 38 of the Companies (Incorporation) Rules, 2014 mandates the use of SPICe+ (INC 32) for incorporation. The form enables:

- Application for DIN for up to three proposed directors.
- Application for name reservation through SPICe+ Part A.
- Filing of incorporation documents without separate Form DIR-12 for the first directors.
- Filing of registered office details without separate Form INC-22 at incorporation stage.
- Allotment of PAN and TAN without separate applications.
- Facility of apply for GST registration and other statutory registrations.

CRDI used the SPICe+ form to complete name reservation, DIN allotment, incorporation filing and statutory registration though a single digital interface. This simplified and accelerated the incorporation process.

Answer 1(c)

Bridge round is a sort of financing option that helps startups "bridge" the gap between larger funding rounds. Bridge rounds can be termed as interim financing rounds raised between larger funding rounds. Bridge rounds are often structured as convertible debt. When a startup needs additional capital between two rounds of funding, they might raise a "bridge round". Bridge rounds also provide an interim cash infusion to capitalize the rapid growth or prepare for an IPO of start-ups.

Startups will first target existing investors during the bridge round and raise from new investors, if additional funding is needed.

Example: M/s XYZ Ltd., is already approved for a term loan of INR 5,00,00,000/- from bank, but the loan is broken into tranches, with the first tranche set to come in six months, the company may seek a bridge loan. It can apply for a six-month short-term loan that gives it just enough money to survive until the first tranche hits the company's bank account.

Answer 1(d)

Section 8(4)(ii) of the Companies Act, 2013 read with Rule 21 and Rule 22 of the Companies (Incorporation) Rules, 2014, provides that a company registered under Section 8 may convert itself after complying with such conditions as may be prescribed:

- Conversion requires prior approval of the Regional Director
- A special resolution must be passed and filed with MGT-14 with the Registrar.
- The Memorandum and Articles of Association must be altered and filed with MGT-14 with the Registrar.
- Filing of INC 18 with Regional Director seeking prior approval for conversion and with the Registrar
- Publish notice of advertisement in INC-19 in one English and one vernacular newspaper and on the website of the company, if any. The advertisement to be published within one week from the date of submission of application to Regional Director.
- Serve notices on prescribed authorities, including the Income Tax Department, Charity Commissioner, Chief Secretary of the State, and other concerned regulators.
- Obtain NOCs, wherever required, from authorities granting any exemption, benefit, privilege, or concession.
- Ensure all statutory filings (financial statements, annual returns, and other returns) are up to date.
- Submit a declaration that no income or property of the company has been distributed to its members.
- Attach a compliance certificate from a Practising CA/CS/CMA certifying compliance with the applicable provisions.

- Obtain approval of the Regional Director, who may impose conditions while granting approval.
- Upon approval, amend the MOA and AOA and file the RD's order with the Registrar in Form INC-20 within 30 days.
- Comply with all conditions imposed by the RD, including surrender of Section 8 privileges and treatment of accumulated funds/assets, if applicable.
- The Registrar issues a Fresh Certificate of Incorporation, upon which the conversion becomes effective.

Answer 1(e)

Different types of funding support available from MUDRA Banks are as under:

1. **Micro Credit Scheme:** It is offered mainly through Micro Finance Institutions (MFIs), which deliver the credit up to Rs.1 lakh, for various micro enterprise activities. Although, the mode of delivery may be through groups like SHGs/JLGs, the loans are given to the individuals for specific income generating micro enterprise activity. The MFIs for availing financial support need to enroll with MUDRA by complying with some of the requirements as notified by MUDRA, from time to time.
2. **Refinance scheme for Banks:** Different banks like Commercial Banks, Regional Rural Banks and Scheduled Cooperative Banks are eligible to avail of refinance support from MUDRA for financing micro enterprise activities. The refinance is available for term loan and working capital loans, up to an amount of 10 lakh per unit. The eligible banks, who have enrolled with MUDRA by complying with the requirements as notified, can avail of refinance from MUDRA for the loan issued under Shishu, Kishor and Tarun categories.
3. **Women Enterprise programme:** To encourage women entrepreneurs, the financing banks / MFIs may consider extending additional facilities, including interest reduction on their loan. At present, MUDRA extends a reduction of 25bps in its interest rates to MFIs / NBFCs, who are providing loans to women entrepreneurs
4. **Securitization of loan portfolio:** MUDRA also supports Banks / NBFCs / MFIs for raising funds for financing micro enterprises by participating in securitization of their loan assets against micro enterprise portfolio, by providing second loss default guarantee, for credit enhancement and participating in investment of Pass-Through Certificate (PTCs) either as Senior or Junior investor. PTC is a certificate that is given to an investor against certain mortgaged backed securities that lie with the issuer.

CRDI can assist eligible groups by preparing loan documentation, guiding them on eligibility under Shishu, Kishor and Tarun categories, connecting them with MFIs or banks and helping women-led groups access concessional credit. CRDI must restrict its role to facilitation only and cannot provide direct provide direct loans guarantees.

Question 2

(a) *Ravi, who runs a micro manufacturing unit, supplied goods to a buyer who accepted the delivery on 1st March. The buyer has not made payment even after 18 days. Ravi wants* *to understand whether this delay is covered under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 and how the "appointed day" is determined. Explain the legal position.*

(3 marks)

(b) Nikhil is planning to establish a Non-Banking Financial Company (NBFC) and is currently in discussions with potential investors to raise his initial capital. During one such meeting, an investor informs him that the Reserve Bank of India has introduced a Scale-Based Regulatory Framework for NBFCs. Since Nikhil is unfamiliar with this framework, he seeks your guidance to understand its key regulatory features.

Explain the main elements of the scale-based regulatory framework to help Nikhil make informed decisions while setting up his NBFC.

(3 marks)

(c) Mahesh, who grew up in the slum areas of Mumbai, has always wanted to improve the living conditions in his neighbourhood. Now that he has secured a job, he plans to form a society to work towards community development.

Explain the purposes for which a society can be registered under the Societies Registration Act, 1860.

(3 marks)

(d) Nexonova Engineering Corp, a foreign company, operates a Branch Office in Pune. During the financial year ending 31st March 2026, the Branch Office earned significant profits from its Indian and overseas clients. The Head Office, located in Zurich, now intends to remit 50% of the profit earned in India to its parent company abroad. Before initiating the remittance, the Branch Office wants to ensure full compliance with Indian foreign exchange regulations.

Explain the compliances that the Indian Branch Office must complete before remitting the surplus profit to its foreign Head Office.

(3 marks)

(e) Rohit, a partner in an LLP, intentionally conceals material information from a client and induces the client to enter into a contract with the LLP. Later, the client discovers the concealment and alleges that the LLP obtained the contract through fraud.

Explain, under the Limited Liability Partnership Act, 2008, the liability of a partner in cases involving fraud and whether the LLP and its other innocent partners remain protected.

(3 marks)

Answer 2(a)

As per Section 2(b) of the of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the term appointed day is defined as to mean the day following immediately after the expiry of the period of fifteen days from the day of acceptance or the day of deemed acceptance of any goods or any services by a buyer from a supplier. Once this 15-day period ends, any unpaid amount becomes legally classified as a delayed payment.

In Ravi's case, the buyer accepted the goods on 1st March, so the 15-day period ends on 16th March. This makes 17th March the appointed day.

Since the buyer has not paid even after 18 days, the payment is overdue beyond the appointed day. As a micro enterprise, Ravi qualifies as a supplier under the Act, and the delay entitles him to the statutory protections available for delayed payments, including the right to claim interest as per the Act.

Answer 2(b)

Non-Banking Financial Companies (NBFCs) play an important role in extending credit, especially in underserved and unbanked regions. To strengthen governance and risk management in this sector, the Reserve Bank of India introduced the Scale-Based Regulatory Framework (SBR) in October 2021, effective from 1st October 2022. The framework aims to enhance transparency, improve disclosures, and apply regulation proportionate to the systemic significance of NBFCs.

SBR follows a four-layered pyramid structure:

> **Base Layer:** The Base Layer shall comprise of non-deposit taking NBFCs below the asset size of Rs.1000 crore, Peer to Peer Lending Platform, Account Aggregator, Non-Operative Financial Holding Company and NBFCs not availing public funds and not having any customer interface.
>
> **Middle Layer:** The Middle Layer shall consist of all deposit taking NBFCs, non-deposit taking NBFCs with asset size of Rs.1000 crore and above and NBFCs undertaking the activities of Standalone Primary Dealers, Infrastructure Debt Fund, Core Investment Companies, Housing Finance Companies and Infrastructure Finance Companies.
>
> **Upper Layer:** The Upper Layer comprise of those NBFCs which require enhanced regulatory supervision. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.
>
> **Top Layer:** The Top Layer is empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

Accordingly, Nikhil may be advised.

Answer 2(c)

A society is an association of persons who voluntarily unite to deliberate, determine and act jointly for a common purpose. Societies are generally formed for the promotion of charitable objectives such as education, art, religion, culture, music, spots and similar activities.

According to Section 20 of the Societies Registration Act, 1860, societies can be formed for the following purposes:

i. Charitable societies;

ii. The military orphan funds or societies established at the several presidencies of India;

iii. Societies established for the promotion of science, literature, or the fine arts for instruction, the diffusion of useful knowledge;

iv. The diffusion of political education;

v. The foundation or maintenance of libraries or reading-rooms for general use among the members or open to the public;

vi. Public museums and galleries of paintings and other works of art, collections of natural history, mechanical and philosophical inventions, instruments, or designs.

Besides these purposes, the respective State Governments may provide for any other objects by their legislations.

Answer 2(d)

Remittances of profit or surplus earned or generated in India, by a Branch Office of a foreign company is permitted, subject to fulfilment of the following conditions:

1. Remittance amount is permitted subject to net of taxes
2. Following documents to be submitted with AD Bank:
   - (i) Certified copy of audited balance sheet and profit and loss account for the relevant year.
   - (ii) Chartered Accountant certificate certifying:
     - (a) the manner of arriving remittable profits
     - (b) that the remittable profit has been earned by undertaking permitted activities
     - (c) that the profits do not include any profit on revaluation of assets of the branch.

Once these conditions are satisfied, the Branch Office may remit the surplus profit to its foreign Head Office.

Answer 2(e)

Under the Limited Liability Partnership Act, 2008, the protection of limited liability does not apply in cases involving fraud. Section 30 of the Act provides that if a partner acts with intent to defraud creditors of the LLP or any other person, or for any fraudulent purpose, the liability of such partner becomes unlimited for all or any of the debts or liabilities of the LLP. The Act further states that the LLP itself is liable for wrongful acts or omissions of a partner when such acts are carried out in the course of business, but in cases of fraud, the partner who acted fraudulently is personally responsible without limitation.

The Act also clarifies that the liability of the LLP and of the other partners remains limited unless they had knowledge of the fraud or participated in it. Therefore, only the partner who committed the fraudulent act loses the benefit of limited liability, while innocent partners continue to enjoy protection under the Act.

Question 3

(a) *Noventrix Labs Pvt. Ltd. has recently been incorporated as a new startup entity. The company has not yet applied for recognition from the Department for Promotion of Industry and Internal Trade (DPIIT). In the second board meeting, one of the directors, D, pointed out that without DPIIT recognition, the company cannot access tax benefits or funding support available to Startups.*

As the Company Secretary, explain the process through which Noventrix Labs Pvt. Ltd. can obtain Startup recognition.

(3 marks)

(b) *Bluewave Tech. Pvt. Ltd. attempted to file incorporation forms without properly preparing its Memorandum of Association and Articles of Association. The promoters now want to understand the statutory requirements relating to these documents.*

Explain the procedure for preparing, stamping, signing and filing the Memorandum of Association and Articles of Association during company incorporation.

(3 marks)

(c) *Crestview Labs Pvt. Ltd. is in the process of incorporation and intends to appoint new directors.*

Explain the statutory requirements for obtaining a Director Identification Number (DIN) and a Digital Signature Certificate (DSC) for the proposed directors.

(3 marks)

(d) *InfoEdge Pvt. Ltd. plans to invest in a foreign entity that does not have limited liability. The foreign entity is not in a strategic sector.*

Explain whether the investment can be treated as Overseas Direct Investment (ODI).

(3 marks)

(e) *Finovate Finance Pvt. Ltd. has financial assets equal to 48% of its total assets and income from financial assets equal to 52% of its gross income.*

Explain whether the company qualifies as an NBFC.

(3 marks)

Answer 3(a)

The process of recognition of an eligible entity as startup shall be as under:

A. A Startup shall make an online application over the mobile app or portal set up by the DPIIT

B. The application shall be accompanied by –

   a. a copy of Certificate of Incorporation or Registration, as the case may be, and

   b. a write-up about the nature of business highlighting how it is working towards innovation, development or improvement of products or processes or services, or its scalability in terms of employment generation or wealth creation.

C. The DPIIT may, after calling for such documents or information and making such enquires, as it may deem fit–

   a. recognise the eligible entity as Startup; or

   b. reject the application by providing reasons.

Answer 3(b)

The Memorandum of Association and Articles of Association are the most important documents to be submitted to the ROC for the purpose of incorporation of a company. The Memorandum of Association is a document that states the constitution of the company, objectives, scope of activities of the company and also defines the relationship of the company with the outside world. The Articles of Association contain the rules and regulations of the company for the management of its internal affairs. These documents should be stamped and submitted to the ROC along with relevant forms and registration fee. These MOA & AOA are prepared in Spice INC 33 & INC-34 and stamp duty is paid during the incorporation of the company.

In the company registration process, applicants must prepare the Memorandum of Association (MOA) and Articles of Association (AOA) as the charter documents of the company. The MoA sets out the name clause, registered office clause and the main objects for which the company is incorporated. The AoA contains the internal rules and regulations for management of the company. These documents must be prepared diligently because authorisation from the MoA and AoA is required for actions such as issuance of new class of shares, buy-back of shares or issue of bonus shares.

After preparation, the MoA and AoA must be stamped, digitally signed, and e-filed with the Registrar along with the prescribed forms and registration fee. The Registrar scrutinizes the documents and may instruct corrections. Once satisfied, the Registrar issues the Certificate of Incorporation, from which date the company legally comes into existence.

Answer 3(c)

For appointing directors during incorporation, every proposed director of Crestview Labs Pvt. Ltd. must obtain a Director Identification Number (DIN). All directors are required to acquire DIN, which is a unique 8-digit number issued under Section 153 of the Companies Act, 2013. The requirements for DIN include the proposed director's full name, father's name, date of birth, identity proof, address with proof, PAN card copy and two photographs.

The DIN-1 form is available online on the MCA website and must be duly filled and uploaded after paying the applicable fees. In addition, every proposed director must obtain a Digital Signature Certificate (DSC) to authenticate documents submitted electronically during incorporation. The requisites for a DSC include the proposed director's full name, father's name, date of birth, address with proof, PAN card copy, identity proof and a photograph. A DSC is normally valid for one or two years, and after expiry, it must be renewed by the Controller of Certification Agencies (CCA). Both DIN and DSC are mandatory before filing incorporation documents.

Answer 3(d)

Under the Overseas Investment Rules, a foreign entity must have limited liability to qualify for Overseas Direct Investment (ODI), except where the foreign entity operates in a strategic sector. Strategic sectors include energy and natural resources such as oil, gas, coal, mineral ores, submarine cable systems and start-ups, or any other sector notified by the Central Government.

In this case, the foreign entity does not have a limited liability structure and is not engaged in a strategic sector. Therefore, it does not meet the structural requirements of a "foreign entity" eligible for ODI. ODI requires investment in unlisted equity capital, subscription to memorandum, or investment of 10% or more in listed equity capital of a foreign entity with limited liability. Since these conditions are not meet, the investment cannot be treated as ODI.

Answer 3(e)

A company is classified as a Non-Banking Financial Company (NBFC) only if it satisfies the 50-50 test. This requires that financial assets constitute more than 50% of total assets and income from financial assets constitute more than 50% of gross income. Both conditions must be satisfied simultaneously.

In this case, although income from financial assets constitutes 52% of gross income, financial assets constitute only 48% of total assets. Since the threshold of more than 50% is not met for financial assets, the company does not satisfy the principal business criteria. Therefore, Finovate Finance Pvt. Ltd. does not qualify as an NBFC under the statutory definition and cannot apply for NBFC registration under Section 45-IA of the RBI Act, 1934.

Attempt all parts of either Q. No. 4 or Q. No. 4A

Question 4

(a) *Describe the essential characteristics that define a Micro Finance Institution (MFI).*

(b) *Under the Companies Act, 2013, outline the precautions that must be observed while drafting the Articles of Association of a company.*

(c) *Under Section 12 of the Income Tax Act, 1961, specify the categories of income of a Trust or Society that are excluded from the computation of taxable income.*

(d) *Explain the manner in which foreign financial business collaborations support the economic development of developing countries.*

(e) *State the benefits of incorporating a Housing Finance Company.*

(3 marks each)

OR (Alternative question to Q. No. 4)

Question 4A

(i) *Why is selecting the correct form of business entity important before starting operations?*

(ii) *Explain the key corporate changes that take place when a private company converts into a public company.*

(iii) *Describe how the concept of limited liability operates within an LLP structure.*

(iv) *Outline the functional role of a Project Office established by a foreign company in India.*

(v) *State the significance of obtaining a Trade License for certain types of businesses.*

(3 marks each)

Answer 4(a)

Characteristics of a Micro Finance Institution, are as under:

(1) Micro finance provides financial services to those whose income is small and unstable. These people are in need of credit facilities for several reasons. To name a few:

a. their needs are small and arise suddenly.

b. the institutional providers of finance, namely, the banks, demand collateral security which they cannot provide.

c. most of the time, they are in urgent need of funds to meet their consumption demands, for example, to meet expenses related to education, illness, funerals, weddings for which it is difficult to obtain institution finance.

d. for purpose of investment in income generating activities.

(2) Concept of Self Help Group (SHGs) is the most exciting discovery in the context of microfinance. The Indian microfinance scene is dominated by SHGs and their linkage with banks. This has helped in empowerment of women and eradication of poverty among people with low income.

(3) Microfinance provides a greater menu of options whereby the small loan can be garnered not just from the external sources but also through self-mobilization, by way of saving and sale of assets.

(4) The biggest flexibility in the case of microfinance is the lack of any physical collateral, even in case of loan from the bank.

Answer 4(b)

Precautions to be taken while framing the Articles of Association:

Under the Companies Act, 2013, following precautions to be taken while framing the Articles of Association;

1) Articles of association must be divided into paragraphs and numbered consecutively,

2) It shall not contain something that is contrary to the Memorandum of association,

3) Anything that would be stated or amended in the Articles shall be in accordance with the Companies Act.

   For example - Section 272 of the Companies Act, 2013 states contributories right for presentation of petition of winding up of a company, in any circumstances this right cannot be limited/ restricted by the Articles.

4) The Articles shall be signed by each subscriber of the Memorandum of association who shall add his address, description and occupation.

5) Subscribers shall sign the Articles in the presence of at least one witness who shall attest the signature and shall likewise add his address, description and occupation.

Answer 4(c)

Tax exemption under Section 12 of the Income Tax Act, 1961

Under Section 12 of the Income Tax Act, 1961, various incomes these are excluded from the computation of taxable income of a trust or a society are as follows:

1) Income which is derived from the property that is held under the authority of trust with the purposes which are wholly charitable or religious in nature.

2) Income which is kept aside to the extent that does not exceed 25% of the total income received in lieu of the property.

3) In cases of charitable trusts, specifically those formed before 1st of April 1961, income which is acquired from the property which is held partially for religious or charitable purposes within India.

4) In furtherance of the above case, the income which is set apart to a certain extent and which does not exceed twenty five percent of the total income.

5) In cases of income that is obtained from a trust created before 1st April 1952 for charitable purposes and spent outside India.

6) Income made by way of voluntary contributions towards the corpus of the trust.

7) Charitable trusts created for the benefit of any of the socially and economically backward castes such as Scheduled Castes, Scheduled Tribes or women or children.

Trusts are allowed to set apart or accumulate some of the funds received from voluntary contributions for certain specific purposes. The resultant benefit obtained by the trust is that amount so deducted is not considered as forming part of income of the previous year and therefore not taxed.

Answer 4(d)

Foreign collaboration is a mutual co-operation or a business understanding, between one or more resident and non-resident entities. Therefore, in a foreign financial collaboration, the inflow of foreign investment takes place in the domestic (host) country.

In this process, the foreign company lends finance by:

a) Purchasing ownership shares: Here, foreign company purchases ownership shares of the domestic company and in return gets the dividend for these shares.

b) Giving long-term loans: Here, foreign company gives long-term loans to the domestic company and in return gets interest from these loans.

c) Giving credit facility: Here, foreign company gives credit facility to the domestic (native) company. The native company uses this credit facility to purchase raw-materials, plant and machinery.

Thus, in foreign financial collaboration, there is an inflow of finance from developed countries to developing countries. Hence, foreign financial collaborations help the developing countries more than the developed countries.

Answer 4(e)

Benefits of incorporating a Housing Finance Company

1. Among the financial services, housing finance creates employment, both directly and indirectly.
2. Industries such as cement, brick manufacturing, sanitary products, electrical fittings and glass industries experience more demand due to house construction.
3. Rural housing develops not only rural areas but prevents migration of labor to urban areas.
4. Housing finance helps in creation of more houses which results in building up more infrastructure facilities, such as roads, electricity generation, drinking water facilities, etc.
5. Factories or industrial establishments create townships by providing more housing facilities to their employees. Housing finance thereby reduces congestion in urban areas.
6. Due to housing finance, there is a vertical expansion and re building of dilapidated houses and remodeling of the existing houses.
7. Housing facilities not only improve; they also reflect the culture of the country. Chandigarh city is an example for modern housing which has been built by a French architect.
8. Non-conventional energy gets popularized due to modern housing facilities which is one of the major benefits of housing finance.
9. The holding period for capital gains tax in case of immovable properties has been reduced from three to two years. Moreover, the Finance Minister has proposed to shift the base year for indexation from 1.4.1981 to 1.4.2001 for all classes of assets, including immovable property. This step would allow more realistic calculation of the cost of acquisition of the house while claiming indexation benefits.
10. It is expected that with several associated benefits and the advantage of digital documents, the cost of finance is expected to come down, which may be passed on to the real buyers.
11. In the days to come, supported by growth drivers such as rising disposable income, personal income-tax benefits, increasing urbanization and economic growth of tier II and tier-II cities, the sector is likely to see immense growth.

OR (Alternative question to Q. No. 4)

Answer 4A(i)

Selecting the correct form of business entity is important because it determines the legal status, liability, taxation, compliance requirements, and long term flexibility of the business. Each structure-proprietorship, partnership, LLP, private company, public company, or OPC-comes with different obligations and benefits. For example, some structures offer limited liability, while others expose owners to unlimited personal risk. Taxation also varies, with companies taxed differently from partnerships or proprietorships. The choice affects the ability to raise capital, transfer ownership, and attract investors. It also influences the level of regulatory compliance, such as annual filings, audits, and statutory meetings. Choosing the right structure ensures that the business aligns with its goals, resources, and risk appetite, creating a stable foundation for future growth and compliance.

Answer 4A(ii)

The provisions related to conversion of private company into public company are provided under section 18 (conversion of companies already registered) and 14 (alteration of articles) of the Companies Act, 2013 read with Rule 33 of Companies (Incorporation) Rules, 2014.

When a private company converts into a public company, several structural and legal changes take place to align it with public company requirements:

- Appropriate steps should be taken to increase the number of members to at least seven, if the company has less than seven members.
- Name clause of Memorandum needs to be amended to exclude the word 'Private'.
- The Articles of Association should be amended to remove the restrictive provisions applicable to the Private Company.
- If the number of directors of the Company is two, the number of directors should be increased to at least three.
- Company has not defaulted in filing of Annual Returns or financial Statement due for filing with the Registrar.

Answer 4A(iii)

In an LLP, limited liability means that each partner's financial responsibility is restricted to the amount they have agreed to contribute to the LLP. Partners are not personally liable for the debts and obligations of the LLP beyond their contribution. They are also not responsible for the wrongful or negligent acts of other partners, which protects their personal assets. The LLP itself is a separate legal entity, capable of owning property, entering contracts, and being sued independently of its partners. This separation ensures that business risks do not spill over into the personal finances of partners. Limited liability encourages professionals and entrepreneurs to collaborate without fear of unlimited personal exposure, making LLPs a secure and attractive structure for service based and knowledge driven businesses.

In other words, the LLP is an alternative operating vehicle that offers the distinctive feature of limited liability for its members while maintaining an open and flexible internal structure based on mutual understanding and a duly executed agreement. This flexibility makes LLP a suitable vehicle for small and medium enterprises and investment venture capitalists, which allows them to provide services with minimum cost and risk, thereby enhancing competitiveness in the global market and making it an attractive choice for their business endeavors and that is why nowadays many start-ups choose LLP over private companies.

Answer 4A(iv)

Project office means a place of business in India to represent the interests of the foreign company executing a project in India but excludes a Liaison Office. A Project Office serves as a temporary business presence for a foreign company that has secured a specific project in India. Its role is limited to activities directly related to executing that project. It can manage project operations, coordinate with Indian stakeholders, procure materials, hire staff, and oversee implementation. However, it cannot undertake unrelated commercial activities or operate beyond the scope of the assigned project. A Project Office is typically allowed where

i. the project is funded directly by inward remittance from abroad; or

ii. the project is funded by a bilateral or multilateral International Financing Agency; or

iii. the project has been cleared by an appropriate authority; or

iv. company or entity in India awarding the contract has been granted term loan by a Public Financial Institution or a bank in India for the Project.

This structure enables foreign companies to complete project based assignments efficiently without establishing a full fledged business entity. It ensures compliance with Indian regulations while allowing focused execution of the contracted work.

Answer 4A(v)

A Trade License is a permission issued by the local municipal authority allowing a business to operate in a specific location and engage in particular activities. It is required for businesses that may impact public health, safety, or the environment, such as restaurants, manufacturing units, warehouses, salons, and commercial shops. The license ensures that the business follows local regulations related to hygiene, safety, building norms, and zoning laws. It also helps authorities monitor commercial activities within their jurisdiction. Without a Trade License, a business may face closure, penalties, or legal action. The license must be renewed periodically to maintain compliance. It provides legitimacy to the business and assures customers that the establishment meets required standards.

In other words, Licenses are integral to run any business. Depending on the nature and size of business, several licenses are applicable in India. Knowing the applicable licenses for the enterprises and obtaining them is always the best way to start a business. The lack of relevant licenses can lead to costly lawsuits and unwanted legal battles. Business licenses are the legal documents that allow a business to operate while business registration is the official process of listing a business (along with relevant information) with the official registering authority.

There are many factors affecting authorizations of business licenses which may include the type of business ownership, such as partnership, sole proprietor or company, & the number of employees, location of business etc. Business licenses are not only required for new business entity but also required for already established Companies.

PART–II

Question 5

NovaGen Life Sciences Pvt. Ltd., located in Hyderabad, is a biotechnology manufacturing company engaged in producing diagnostic reagents and enzyme-based medical testing kits. The establishment consists of fermentation units, reagent-mixing chambers, cold-storage rooms, packaging lines, and a molecular biology laboratory. As on 31st March 2026, NovaGen employed 628 workers, including scientists, technicians, machine operators and administrative staff. Out of these, 214 were women employees working in laboratory, packaging, HR and documentation departments.

Due to the nature of its production, the State Government classified NovaGen as a hazardous process establishment. The company operates three shifts (6 a.m. to 2 p.m., 2 p.m. to 10 p.m. and 10 p.m. to 6 a.m.) to maintain continuous production. As per company policy, all supervisory and managerial employees must work in rotational shifts, including night duties.

On 12th January, 2025, Tanya, a postgraduate in Molecular Biology, joined NovaGen as a Quality Assurance Supervisor. Her duties included sterility testing, reagent validation and batch approval. Her work area was adjacent to the fermentation hall, where exposure to disinfectants and biological agents was common. She was provided PPE such as gloves, masks, and lab coats.

Her performance was consistently rated excellent and on 10th August 2025, she was promoted to Deputy Manager (Quality Assurance). Her responsibilities increased, and she was required to supervise multiple testing lines and ensure compliance with quality protocols.

On 15th October 2025, the HR department informed her that she would now be included in the night-shift rotation. Tanya expressed concerns about travelling at night due to limited public transport and inadequate lighting in the industrial zone. She also highlighted that the company-provided cab service for women employees was irregular and often unavailable during late hours. Despite her concerns, management insisted that rotational shifts were mandatory for all supervisory staff and that no exceptions could be made.

During November and early December, Tanya experienced fatigue and discomfort, which she initially attributed to the demanding shift schedule. On 22nd December 2025, after a routine medical examination, she was informed that she was pregnant. She immediately notified HR and submitted a medical certificate advising her to avoid night shifts, prolonged standing, and exposure to disinfectants and biological agents.

Tanya formally requested exemption from night duties and temporary reassignment to a safer work area. However, management rejected her request, stating that the rotational shift policy applied uniformly and that the laboratory environment was safe enough. She was instructed to continue performing her duties without modification.

On 12th February 2026, during a night shift, Tanya experienced dizziness due to chemical fumes from a disinfectant spill in the adjacent fermentation area. She was taken to a nearby hospital, *where doctors reiterated that she must avoid hazardous exposure. She again requested reassignment, but the company refused, stating that operational requirements did not permit any deviation from the shift policy.*

On 1st April 2026, Tanya proceeded on maternity leave as per company procedure. She delivered a child on 10th May 2026 and formally informed the company on 12th May 2026.

Due to shortage of supervisory staff in the Quality Assurance Department, management emailed her on 20th May 2026, asking her to resume duties by 5th June 2026, offering her a morning shift. The communication stated that her early return would help stabilize production schedules and reduce workload pressure on the department.

Tanya replied that she could consider joining only if the company arranged a creche facility, as she had an infant and required childcare support. She also pointed out that several women employees had been requesting a creche for years, but no action had been taken. She emphasized that without a creche, it would be impossible for her to resume duties so soon after childbirth.

Management responded that due to financial constraints and lack of space within the premises, establishing a creche was not possible at present. They stated that the matter might be reviewed in the future but could not be implemented immediately.

The situation created significant concern among women employees, who felt that the company was not providing adequate welfare measures. Tanya's case highlighted issues relating to workplace safety, maternity protection and statutory welfare facilities in hazardous establishments.

In view of the above, answer the following :

(a) Analyze whether NovaGen's actions of compelling a pregnant woman to work night shifts in a hazardous establishment and refusing reassignment violate constitutional protections relating to labour welfare.

(b) Explain the statutory responsibilities of the Appropriate Authority to ensure safety of women employed in hazardous operations under the Occupational Safety, Health and Working Conditions Code 2020.

(c) Assess whether the management's request directing Tanya to resume duty by 5th June 2026 shortly after childbirth is legally valid under the Code on Social Security 2020.

(d) To what extent the demand of Tanya to the management, to provide childcare Creche facility is valid under the Code of Social Security, 2020 ?

(5 marks each)

Answer 5(a)

The Constitution of India embeds labour welfare principles through Fundamental Rights and Directive Principles. The constitutional mandate emphasises that "the health and strength of workers including men, women and children are not abused." This establishes a clear expectation that employers must not expose workers to unsafe or harmful conditions.

Article 21 guarantees the right to life, which includes the right to live with dignity and humane working conditions. Forcing a pregnant woman to work night shifts in a hazardous environment compromises her dignity, safety and physical well being.

Article 42 directs the State to ensure "just and humane conditions of work" and maternity relief. These provisions collectively impose an obligation to protect pregnant women from unsafe work environments.

Article 14 guarantees equality before law. Equality requires reasonable classification, and treating a pregnant woman identically to other employees without accommodation amounts to discrimination. The constitutional scheme therefore expects employers to provide special protection to pregnant women.

Compelling Tanya to work night shifts in a hazardous establishment despite medical advice violates the constitutional mandate that the health and strength of workers must not be abused. It contradicts Article 42, which emphasises humane work conditions and maternity relief. The refusal to reassign her disregards her right to dignity under Article 21 and fails to provide the reasonable accommodation required under Article 14. Therefore, NovaGen's actions are inconsistent with constitutional protections relating to labour welfare and the safety of women workers.

Answer 5(b)

Section 43 of The Occupational Safety, Health and Working Conditions Code 2020 progressive provision that affirms the right of women to be employed across all establishments and types of work, while balancing this entitlement with safeguards for safety and working conditions Women shall be entitled to be employed in all establishments for all types of work under this Code and they may also be employed, with their consent before 6 a.m. and beyond 7 p.m. subject to such conditions relating to safety, holidays and working hours or any other condition to be observed by the employer as may be prescribed by the appropriate Government.

Section 44 complements Section 43 by focusing specifically on women's employment in hazardous or dangerous operations. It ensures that equality in employment is balanced with mandatory safeguards for health and safety. If the appropriate Government considers that employment of women in an establishment, or a class of establishments, or any particular hazardous/dangerous process therein, is dangerous to their health and safety, Then, the Government may, in the prescribed manner, require the employer to provide adequate safeguards before employing women in such operations.

The Occupational Safety, Health and Working Conditions Code, 2020, consolidates workplace safety laws and prescribes duties for authorities overseeing hazardous establishments. The Code aims "to consolidate and amend the laws regulating the occupational safety, health and working conditions of persons employed in an establishment." The Appropriate Authority is empowered to enforce compliance with safety standards, conduct inspections and issue directions to employers.

The Authority may "confer such powers to ensure that the provisions of this Act are properly carried out." This includes ensuring that hazardous processes are operated with adequate safeguards, that workers are not exposed to harmful chemicals or biological agents and that employers implement prescribed safety measures.

The Code also provides that women may work between 7 p.m. and 6 a.m. only with their consent and subject to adequate safety arrangements. This includes transportation, lighting, supervision and protection from hazardous exposure.

In the case of NovaGen, the Appropriate Government/Authority is responsible for ensuring that pregnant women are not assigned hazardous duties or night shifts without consent. The Government/Authority must intervene when an employer compels a woman to work in unsafe conditions or fails to provide adequate protection. NovaGen's refusal to exempt Tanya from hazardous exposure and its failure to obtain her consent for night work indicate non-compliance with the OSHWC Code. The Appropriate Government/Authority is therefore obligated to take corrective action to safeguard women workers.

Answer 5(c)

The Code on Social Security 2020 consolidates and rationalises various social security laws, including those relating to maternity benefit. Section 59 states that

(1) No employer shall knowingly employ a woman in any establishment during the six weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy.

(2) No woman shall work in any establishment during the six weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy.

(3) Without prejudice to the provisions of section 62, no pregnant woman shall, on a request being made by her in this behalf, be required by her employer to do, during the period specified in sub-section

(4) Any work which is of an arduous nature or which involves long hours of standing or which in any way is likely to interfere with her pregnancy or the normal development of the foetus or is likely to cause her miscarriage or otherwise to adversely affect her health.

The period referred to in sub-section (3) shall be–

(a) the period of one month immediately preceding the period of six weeks, before the date of her expected delivery;

(b) any period during the said period of six weeks for which the pregnant woman does not avail of leave of absence under section 62.

It provides that a woman who has worked for the prescribed qualifying period in an establishment is entitled to maternity benefit for a maximum period of 26 weeks for the first two surviving children. During this period, she is entitled to leave with benefit at the prescribed rate and protection from adverse employment action.

The Code clearly intends that maternity benefit is not merely leave, but a period of protection for the health of the mother and child. It prohibits the employer from requiring a woman to do any arduous work or work that is likely to interfere with her pregnancy or the normal development of the foetus, or is likely to cause her miscarriage or otherwise adversely affect her health. It also prohibits dismissal, discharge or any form of disadvantageous treatment during the period of maternity benefit.

The employer is not permitted to reduce benefits, alter conditions of service to her disadvantage, or indirectly compel her to resume work before the expiry of the maternity benefit period. Any such act would be contrary to the protective purpose of the Code.

Conclusion

Tanya delivered her child on 10th May 2026 and was asked to resume duty by 5th June 2026, which is well within the 26 week maternity benefit period. The request for early resumption, even if couched as a "request" and justified on grounds of staff shortage, is inconsistent with the statutory protection that she must not be required or pressured to return during the maternity benefit period. It undermines the health and recovery of the mother and the care of the newborn, which the Code seeks to safeguard. Therefore, the management's request is not legally valid under the Code on Social Security 2020 and is contrary to the protective scheme of maternity benefit.

Answer 5(d)

The Code on Social Security 2020 brings together various welfare provisions, including those relating to creche facilities in establishments. It prescribes that every establishment employing 50 or such number of employees as may be prescribed by the Central Government is required to provide and maintain a creche facility at such a distance as may be prescribed either separately or along with common facilities for the use of employees' children. The threshold is clearly stated as "crèche 50 workers", which means that once the number of workers crosses this limit, the obligation becomes mandatory.

The creche is to be located within such distance as may be prescribed, and the employer must ensure that it is properly maintained, staffed and equipped. The Code also contemplates that the employer shall allow four visits a day to the crèche by the woman, which shall also include

the intervals of rest allowed to her. The purpose is to enable women to continue in employment without having to withdraw from the workforce due to childcare responsibilities.

The obligation to provide a creche is statutory and does not depend on the financial convenience of the employer. Non availability of space, financial constraints or internal policy cannot override a legal mandate. Failure to provide a creche where required amounts to non-compliance with the Code and denial of a welfare facility intended specifically for working parents.

Conclusion

NovaGen employs more than 600 workers, including a substantial number of women, and therefore clearly falls within the category of establishments required to provide a creche facility. Tanya's demand is squarely supported by the statutory provisions. The employer's refusal on the grounds of financial constraints and lack of space is not a valid legal defence, because statutory obligations cannot be avoided on such grounds. By not providing a creche, NovaGen is in breach of its duty under the Code on Social Security, 2020, and is denying women employees a mandatory welfare facility. Hence, Tanya's demand is legally valid, and the employer's refusal is unlawful.

Attempt all parts of either Q. No. 6 or Q. No. 6A

Question 6

(a) *Karan has recently completed his engineering degree and joined ABC Ltd. as a trainee engineer. During his orientation, he is informed that every employee has specific statutory duties under Section 13 of the Occupational Safety, Health and Working Conditions Code 2020.*

Since Karan is not familiar with these legal duties, advise him on the duties that an employee is required to follow at the workplace under this provision.

(5 marks)

(b) *XYZ Ltd. is engaged in the manufacturing of heavy capital machinery and employs approximately 740 workers due to its labour-intensive operations. Until 31st March 2026, the establishment did not have any trade union. In May 2026, a group of 47 workers from the Finishing and Warehouse Section decided to form a trade union and submit an application for its registration.*

Examine the statutory criteria for registration of a new trade union under Section 6 of the Industrial Relations Code 2020 in the context of their proposal.

(5 marks)

(c) *Raghav is a mechanical engineer who worked for two years with RST Limited, a public limited company engaged in the manufacture of heavy industrial chemicals. He recently accepted a higher-paying position with ABC Co-operative Society, a housing society and joined the new organization immediately. When he receives his first salary, Raghav notices that ABC Co-operative Society has not deducted any provident fund contribution from his wages, neither his share nor the employer's share. He believes that ABC Co-operative Society is not complying with statutory requirements. Examine the validity of Raghav's viewpoint in light of the applicability provisions of the Code on Social Security 2020.*

(5 marks)

(d) *Rohan is an adolescent employed at GS General Grocery Store. His regular working hours are from 10:00 a.m. to 4:00 p.m., which include intervals for rest and lunch. In May 2026, a new manager named Kunal joined the store. Observing a higher customer turnout during evening hours, Kunal changed Rohan's shift from the morning slot (10:00 a.m. to 4:00 p.m.) to an evening slot (5:00 p.m. to 9:00 p.m.), stating that the new shift reduces his total working hours from six to four.*

Considering the provisions of the Child and Adolescent Labour (Prohibition and Regulation) Act 1986, examine the validity of the new shift timing proposed for Rohan.

(5 marks)

OR (Alternative question to Q. No. 6)

Question 6A

(i) Discuss the need and objectives of bringing in the New Labour Codes.

(ii) Explain the qualifications required for engaging an apprentice and outline the contractual formalities prescribed under the Apprentices Act, 1961.

(iii) What interim measures can the Internal Committee recommend to the employer during the pendency of an inquiry under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, when such measures are requested in writing by the aggrieved woman ?

(iv) What are the records, returns and notices that an employer is required to maintain and comply with under the Code on Wages, 2019 ?

(5 marks each)

Answer 6(a)

Duties of Employees at the Workplace

Under Section 13 of the Occupational Safety, Health and Working Conditions Code 2020, following are the duties of each & every employee, at their workplace.

(a) take reasonable care for their own health and safety, and that of others who may be affected by their acts or omissions,

(b) comply with safety and health requirements specified in applicable standards,

(c) co-operate with the employer in fulfilling statutory obligations under this Code,

(d) report unsafe or unhealthy situations promptly to the employer, health and safety representative, or in case of mines: the agent, manager (Section 67), safety officers, or designated officials,

(e) not wilfully interfere with, misuse, or neglect any appliance, convenience, or facility provided for health, safety, and welfare,

(f) not wilfully, and without reasonable cause, do anything likely to endanger themselves or others,

(g) perform such other duties as may be prescribed by the appropriate Government.

Answer 6(b)

Section 6 of the Industrial Relations Code, 2020, provides the following criteria for registration of a Trade Union.

Minimum number of members to apply for registration : Any seven or more members of a Trade Union may, by subscribing their names to the rules of the Trade Union and by otherwise complying with the provisions of this Code with respect to registration, apply for registration of the Trade Union under this Code.

Membership threshold for registration : No Trade Union of workers shall be registered unless at least ten per cent of the workers or one hundred workers, whichever is less, engaged or employed in the industrial establishment or industry with which it is connected are the members of such Trade Union on the date of making of application for registration.

Validity of Application in case of withdrawal of applicants : Where an application has been made under sub section (1) for registration of a Trade Union, such application shall not be deemed to have become invalid merely by reason of the fact that, at any time after the date of the application but before the registration of the Trade Union, some of the applicants, but not exceeding half of the total number of persons who made the application, have ceased to be members of the Trade Union or have given notice in writing to the Registrar dissociating themselves from the application.

Condition for continuing registration: A registered Trade Union shall at all times maintain, at least 10% of the workers or 100 workers, whichever is less, as members, subject to a minimum of seven members engaged in the establishment/ industry with which it is connected.

Conclusion:

As the proposed trade union has only 47 members, instead of minimum 74 [10% strength of the total 740 workers, or 100 workers, whichever is less], hence registration of Trade Union is not possible.

Answer 6(c)

Section 20 of the Code on Social Security, 2020, provides that:

1. The Code on Social Security, 2020, shall not apply:

    (a) to any establishment registered under the Co-operative Societies Act, 1912 or under any other law for the time being in force in any State relating to co-operative societies employing less than fifty persons and working without the aid of power; or

    (b) to any other establishment belonging to or under the control of the Central Government or a State Government and whose employees are entitled to the benefit of contributory provident fund or old age pension in accordance with any scheme or rule framed by the Central Government or the State Government governing such benefits; or

    (c) to any other establishment set up under any Central or State or any other law for the time being in force and whose employees are entitled to the benefits of contributory provident fund or old age pension in accordance with any scheme or rule framed under that law governing such benefits; or

    (d) to the employees who, immediately before the commencement of this Code, were receiving benefits of Provident Fund under any Central or State enactment.

2. If the Central Government is of the opinion that having regard to the financial position of any class of establishment or other circumstances of the case, it is necessary or expedient so to do, it may, by notification and subject to such conditions, as may be specified in the notification, exempt, whether prospectively or retrospectively, that class of establishments from the operation of this Chapter for such period as may be specified in the notification.

Conclusion:

Therefore, viewpoints of Raghav are not correct as per the provisions of this Code.

Answer 6(d)

Section 7 of the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986, provides that no adolescent shall be required or permitted to work in any establishment in excess of such number of hours, as may be prescribed for such establishment or class of establishments.

The period of work on each day shall be so fixed that no period shall exceed three hours and that no adolescent shall work for more than three hours before he has had an interval for rest for at least one hour. The period of work of a child shall be so arranged that inclusive of his interval for rest, it shall not be spread over more than six hours, including the time spent in waiting for work on any day.

This section also stipulates that;

(a) No adolescent shall be permitted or required to work between 7 p.m. and 8 a.m.

(b) No adolescent shall be required or permitted to work overtime.

(c) No adolescent shall be required or permitted to work in, any establishment on any day on which he has already been working in another establishment.

Conclusion:

The new shift timing proposed for Rohan is not valid under the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986. Although the total working hours have been reduced from six to four, the shift requires him to work after 7 p.m., which is expressly prohibited for adolescents. The Act prioritizes the protection of adolescents from late-hour work, regardless of the number of hours worked. Therefore, the evening shift from 5:00 p.m. to 9:00 p.m. violates statutory provisions and cannot be legally assigned to Rohan.

Answer 6A(i)

The need for new Labour Codes arose from the limitations of India's earlier labour law framework, which was fragmented, outdated, and difficult to administer. Labour laws must evolve with "emerging economic and industrial scenarios" to remain effective. The earlier system consisted of numerous laws with overlapping provisions, inconsistent definitions, and varying thresholds, creating confusion for employers and workers alike.

One major objective of the new Labour Codes is simplification. By consolidating 29 central laws into four comprehensive codes, the government aimed to create a unified, coherent, and easily understandable legal structure. This simplification reduces compliance burden, eliminates duplication, and promotes transparency.

Another objective is standardisation. The Codes seek to harmonise definitions, procedures, and regulatory requirements across different labour laws. This ensures uniformity in the application of concepts such as wages, contractor, employee, and employer.

A key objective is expanding social security. The Social Security Code aims to extend benefits such as provident fund, insurance, gratuity, and maternity benefits to all workers, including those in the unorganised, gig, and platform sectors. This reflects the government's commitment to inclusive welfare.

The Codes also aim to promote ease of doing business by introducing single registration, single licensing, and single returns. This reduces administrative hurdles and encourages formalisation of employment.

Another objective is strengthening worker protection. The Codes ensure minimum wages for all workers, prohibit gender discrimination, and enhance safety and health standards across industries.

Finally, the Codes aim to improve industrial relations by providing mechanisms for recognition of trade unions, regulating strikes, and balancing employer flexibility with worker rights.

Overall, the Labour Codes aim to create a modern, efficient, and equitable labour regulatory system that supports economic growth while safeguarding worker welfare.

Answer 6A(ii)

The Apprentices Act, 1961 establishes a structured framework for apprenticeship training, and two of its most fundamental pillars are: who may be engaged as an apprentice, and how such engagement must be formalised. Together, these ensure that apprenticeship is not treated as casual labour but as a regulated training relationship.

Section 4 of the Act deals with Contract of apprenticeship. It states that -

(1) No person shall be engaged as an apprentice to undergo apprenticeship training in a designated trade unless such person or, if he is minor, his guardian has entered into a contract of apprenticeship with the employer.

(2) The apprenticeship training shall be deemed to have commenced on the date on which the contract of apprenticeship has been entered into under sub-section (1).

(3) Every contract of apprenticeship may contain such terms and conditions as may be agreed to by the parties to the contract: Provided that no such term or condition shall be inconsistent with any provision of this Act or any rule made thereunder.

(4) Every contract of apprenticeship entered into under sub-section (1) shall be sent by the employer within thirty days to the Apprenticeship Adviser until a portal-site is developed by the Central Government, and thereafter the details of contract of apprenticeship shall be entered on the portal-site within seven days, for verification and registration.

(4A) In the case of objection in the contract of apprenticeship, the Apprenticeship Adviser shall convey the objection to the employer within fifteen days from the date of its receipt.

(4B) The Apprenticeship Adviser shall register the contract of apprenticeship within thirty days from the date of its receipt.

As per section 4(6) where the Central Government, after consulting the Central Apprenticeship Council, makes any rule varying the terms and conditions of apprenticeship training of any category of apprentices undergoing such training, then, the terms and conditions of every contract of apprenticeship relating to that category of apprentices and subsisting immediately before the making of such rule shall be deemed to have been modified accordingly.

Taken together, the qualification criteria ensure that only suitable candidates enter apprenticeship, while the contractual requirements ensure that the engagement is lawful, structured, and monitored. This dual mechanism protects apprentices from exploitation and provides employers with clarity and accountability, thereby strengthening the overall apprenticeship ecosystem.

Answer 6A(iii)

Section 12 of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 provides for the relief that can be given by Internal Committee (IC) to the aggrieved woman during pendency of inquiry. During the pendency of an inquiry, on a written request made by the aggrieved woman, the Internal Committee or the Local Committee, as the case may be, may recommend to the employer to:

a) transfer the aggrieved woman or the respondent to any other workplace, or

b) grant leave to the aggrieved woman up to a period of three months, or

c) grant such other relief to the aggrieved woman as may be prescribed.

The leave granted to the aggrieved woman under this section shall be in addition to the leave she would be otherwise entitled.

On such recommendation of the Internal Committee or the Local Committee, as the case may be, the employer shall implement the recommendations so made and send the report of such implementation to the Internal Committee or the Local Committee, as the case may be.

Answer 6A(iv)

Section 50 of the Code on Wages, 2019, provides following as the specific responsibilities of the Employer towards maintenance of records, returns, and notices etc.

a) *Maintenance of Register by employer* : Every employer of an establishment to which this Code applies shall maintain a register containing the details with regard to persons employed, muster roll, wages, and such other details in such manner as may be prescribed.

b) *Display of notice* : Every employer shall display a notice on the notice board at a prominent place of the establishment containing the abstract of this Code, category wise wage rates of employees, wage period, day or date and time of payment of wages, and the name and address of the Inspector cum Facilitator having jurisdiction.

c) *Issue of wage slip* : Every employer shall issue wage slips to the employees in such form and manner as may be prescribed.

d) *Exemption for Small Employers* : The above provisions of sub sections shall not apply in respect of the employer to the extent he employs not more than five persons for agriculture or domestic purpose.

It further provides that such employer, when demanded, shall produce before the Inspector cum Facilitator, the reasonable proof of the payment of wages to the persons so employed.

It is also explained that for the purposes of this sub section, the expression "domestic purpose" means the purpose exclusively relating to the home or family affairs of the employer and does not include any affair relating to any establishment, industry, trade, business, manufacture or occupation.

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CORPORATE ACCOUNTING AND FINANCIAL MANAGEMENT

GROUP 1 PAPER 4

Time allowed : 3 hours **Maximum marks : 100**

Total number of questions : 6

NOTE : *Answer ALL Questions.*

PART–I

Question 1

Vibha Project Ltd., a mid-sized manufacturing company, is reviewing its financial performance for the year ended 31st March 2025. The Finance Director has sought a detailed analysis of the company's working capital efficiency and profitability position. During an internal review, the following key performance indicators and financial information were identified :

- *Debtors Collection Period : 3 months*
- *Inventory Holding Period (Stock Velocity) : 6 months*
- *Creditors Payment Period : 2 months*
- *Gross Profit Ratio : 20%.*

It was further observed that :

- *The Gross Profit for the year amounted to ₹5,00,000.*
- *The closing stock exceeded the opening stock by ₹20,000.*
- *The value of Bills Receivable stood at ₹60,000, while Bills payable amounted to ₹36,667.*

The Finance Director is particularly interested in understanding how efficiently the company is managing its receivables, payables, and inventory and how these factors impact liquidity and profitability.

Based on the above information, you are required to :

(a) *Calculate the Total Sales of the company*

(b) *Determine the value of Sundry Debtors.*

(c) *Compute the value of Sundry Creditors.*

(d) *Ascertain the Closing Stock.*

(e) *Analyse the working capital cycle of the company based on the given turnover ratios.*

(f) *Comment on the liquidity position and efficiency in managing receivables, payables, and inventory.*

(g) *Draft a brief note to the Finance Director highlighting :*

  (i) *Key observations from the financial analysis* *(ii)* *Strengths and weaknesses in working capital management*

(iii) *Suggestions for improvement.*

(2+2+2+2+2+2+3=15 marks)

Answer 1

a)	**Total Sales**		
	Gross Profit	₹ 5,00,000	
	Gross Profit Ratio	20%	
	Total Sales of the Company	$\frac{₹500000 \times 100}{20}$	₹ 25,00,000

b)	Sundry Debtors		
	Sales	₹ 25,00,000	
	Debtors Collection Period	3 months	
	Year-end Sales outstanding (Average Trade Receivables)	$\frac{25,00,000 \times 3}{12}$	₹6,25,000
	Less: Bills Receivable		60,000
			₹5,65,000

c)	**Sundry Creditors**		
	Purchase = Sales- Gross profit + Increase in Stock Or Cost of goods sold + Increase in Stock		
	Cost of goods sold	₹ 25,00,000 - ₹5,00,000	₹20,00,000
	Increase in stock		₹20,000
	Purchases		₹20,20,000
	Creditors Payment Period	2 Months	
	Year-end outstanding for purchase (Average Trade Payables)	$\frac{₹ 20,20,000 \times 2}{12}$	₹3,36,667
	Less:- Bills Payable		₹36667
	Sundry creditors		₹3,00,000

d)	Closing Stock		
	Cost of goods sold	₹ 20,00,000	
	Stock velocity	6 months	
	Average Stock	₹ 20,00,000 × 6 / 12	₹ 10,00,000
	Let Opening stock be 'x' Closing Stock = x + ₹ 20,000 Twice Average stock = 2x + ₹ 20,000 = ₹20,00,000= 2x + ₹ 20,000 2x = ₹ 19,80,000; x = ₹ 9,90,000 Thus, the opening stock = ₹ 9,90,000; hence, closing stock = ₹ 9,90,000 + ₹ 20,000 = ₹ 10,10,000		

e)	**Working Capital Cycle**	
	Inventory Holding Period	6 months
	Debtors Collection Period	3 months
	Gross Operating Cycle	**9 months**
	Less: Creditors Payment	2 months
	Net Working Capital Cycle	**7 months**

f)	**Liquidity & Efficiency Analysis**
	• **Inventory Period (6 months)** → High → Slow Movement of Stock • **Debtors Period (3 months)** → Moderate → Average Collection Efficiency • **Creditors Period (2 months)** → Low → Company pays suppliers quickly **Conclusion:** • Funds are blocked for 7 months • Liquidity pressure exists due to high inventory holding period and short credit period from suppliers

g) Note to Finance Director

(i) Key Observations

- Sales: ₹25,00,000 with Gross Profit margin of 20%
- Working capital cycle is long (7 months)
- Inventory holding is relatively high
- Debtors recovery is moderate

(ii) Strengths & Weaknesses

Strengths	**Weaknesses:**
Stable profitability (20% Gross Profit)	Excess inventory holding
Reasonable debtor management	Short credit period from suppliers
	Long cash conversion cycle

(iii) Suggestions for Improvement

- *Reduce Inventory Holding* - Adopt better inventory control through better inventory planning and forecasting.
- *Improve Collection Efficiency* - Offer cash discounts, Strengthen credit policy.
- *Negotiate Better Credit Terms* - Increase creditors payment period.
- *Working Capital Optimization* - Reduce cycle from 7 months to lower level.

Question 2

(a) *X applied for 2,000 shares of ₹10 each at a premium of ₹2.50 per share. He was allotted 1000 shares. After having paid ₹3 per share on application, he did not pay the allotment money of ₹4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹2 per share, his shares were forfeited.*

These shares were reissued @ ₹8 per share credited as fully paid-up.

Pass Journal entries to record forfeiture and reissue of shares.

(b) *On 1st April, 2024, XY Ltd. took over assets of ₹4,50,000 and liabilities of ₹60,000 of Himalyan Ltd. for the purchase consideration of ₹4,40,000. It paid the purchase consideration by issuing 8% Debenture of ₹100 each at l0% premium. On same date it issued another 3,000, 8% Debenture of ₹100 at discount of 10%, redeemable at premium of 5% after 5 years. According to the terms of the issue ₹30 is payable on application and the balance on the allotment of debentures. You are required to pass journal entries for the financial year 2024-25 in the books of XY Ltd. to record the above transactions.*

(5 marks)

(c) *The following balances are extracted from XYZ Ltd. at the end of the year 2024-25 :*

Assets	01.04.2024 ₹	31.03.2025 ₹	Liability	1.04.2024 ₹	31.03.2025 ₹
Land & Building	75,000	75,000	Share Capital	1,15,000	1,15,000
Machinery	26,000	35,000	Profit & Loss A/C	8,000	11,500
Temporary Investment	55,000	37,000	Reserve for Contingencies	30,000	30,000
Stock in Trade	41,000	53,000	Depreciation Fund	20,000	22,000
Sundry Debtors	33,500	21,500	8% Debentures	45,000	35,000
Cash and Bank Balance	45,000	45,000	Sundry Creditors	51,500	48,000
Prepaid Expenses	500	1,000	Outstanding Expenses	6,500	6,000

Additional Information :

i. *10% dividend was paid in cash,*

ii. *New machinery for ₹15,000 was purchased and old machinery costing*

iii. *₹6,000 was sold for ₹2,000; accumulated depreciation was ₹3,000.*

iv. *₹10,000, 8% debentures were redeemed by purchase from open market @ ₹96 for a debenture of ₹100.*

v. *An investment of ₹ 18,000 was sold at a book value.*

You are required to prepare a cash flow statement for the year ended 31.03.2025 as per AS 3 (revised) using the indirect method.

(5 marks)

Answer 2(a)

Journal Entries

Date	*Particulars*	*L.F*	*Dr (in ₹)*	*Cr. (In ₹)*
	Share Capital A/c Dr.		7,000	
	Securities Premium A/c Dr.		1,500	
	To Forfeited Share A/c			5,000
	To Shares Allotment A/c			1,500
	To Shares First Call A/c			2,000

	(Being 1000 shares forfeited for non-payment of allotment money and first call)			
	Bank A/c Dr. Forfeited Shares A/c Dr. To Share capital A/c (Being 1000 forfeited shares reissued as fully paid-up for ₹ 8 per share)		8,000 2,000	 10,000
	Forfeited Share A/c Dr. To Capital Reserve A/c (Being the transfer of gain on reissue)		3,000	 3,000

Working Note: Calculation of the amount due but not paid on allotment:

(a) Total number of shares 2000

(b) Total money paid on application (2,000 x ₹3) ₹ 6000

(c) Excess application money [₹ 6,000 - (1,000 x ₹3)] ₹ 3000

(d) Total amount due on allotment (1,000 x ₹ 4.50) ₹ 4500

(e) Amount due but not paid (₹ 4,500 – ₹ 3,000) ₹ 1500

(f) *Out of ₹ 4,500, ₹ 2,000 are for Share Capital and ₹ 2,500 are for Securities Premium. Out of excess application money of ₹ 3,000, ₹2,000 are adjusted towards allotment as Share Capital and ₹ 1,000 are adjusted towards allotment as Securities Premium. Therefore, Securities Premium of ₹ 1,500 (i.e., ₹ 2,500 – ₹ 1,000) is not received. Hence, Securities Premium is debited by ₹1,500.

Answer 2(b)

Journal of XY Ltd.

Date	*Particulars*	*L.F*	*Dr (in ₹)*	*Cr. (In ₹)*
April 1, 2024	Sundry Assets A/c Dr. Goodwill A/c (Bal. fig) Dr. To Himalyan Ltd. To Sundry Liabilities A/c (Being Asset and liabilities taken over for a net consideration of ₹ 4,40,000)		4,50,000 50,000	 4,40,000 60,000
	Himalyan Ltd. Dr. To 8% Debentures A/c To Securities Premium A/c (Being 4000; 8% Debenture of ₹100 each issued at a premium of 10%)		4,40,000	 4,00,000 40,000
	Bank A/c Dr.		90,000	

	To Debenture Application A/c (Being the application money receive for 3000, 8% Debenture)			90,000
	Debenture Application A/c Dr. To 8% Debenture A/c (Being 3000; 8% Debenture allotted)		90,000	 90,000
	Debentures Allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)		1,80,000 45,000	 2,10,000 15,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)		1,80,000	 1,80,000
March 31, 2025	Securities Premium A/c Dr. Statement of P&L (Finance cost) Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)		40,000 5,000	 45,000

Answer 2(c)

Cash Flow Statement for the year ending 31st March, 2025

Particulars	*(in ₹)*	*(in ₹)*
Cash Flow from Operating Activities Net Profit for the year (11,500-8,000) Loss on sale of Machinery Depreciation current year Dividend Paid Profit on Redemption of Debenture	 1,000 5,000 11,500 (400)	3,500
		17,100

Operating profit before working capital changes		20,600
Increase in stock	(12,000)	
Decrease in debtors	12,000	
Increase in prepaid Exp.	(500)	
Decrease in Creditors	(3,500)	
Decrease in out. Exp.	(500)	
		(4,500)
Net Cash Flow from Operating Activities (A)		**16,100**
Cash Flow from Investing Activities		
Sale of Machinery	2,000	
Purchase of Machinery	(15,000)	
Net Cash flow from Investing activities (B)		**(13,000)**
Cash Flow from Financing Activities		
Dividend Paid	(11,500)	
Redemption of debentures	(9,600)	
Net Cash Flow from Financial Activities (C)		**(21,100)**
Net decrease in Cash and Cash Equivalents (A+B+C)		(18,000)
Cash and Cash Equivalents at the beginning		1,00,000
Cash and Cash Equivalents at the end		**82,000**

Working Note:

Calculation of Cash and Cash Equivalents

	1.04.2024	**31.03.2025**
Cash & Bank Balance	₹ 45,000	₹ 45,000
Temporary Investment	₹ 55,000	₹ 37,000
	₹ 1,00,000	₹ 82,000

Machinery A/c (at cost)

Particulars	*(Amount in ₹)*	*Particulars*	*(Amount in ₹)*
To Balance b/d To Cash (Purchase)	26,000 15,000	By Cash (Sales) By P&L (Loss on sale) By Provision for depreciation By Balance c/d	2,000 1,000 3,000 35,000
	41,000		41,000

Provision for Depreciation A/c

Particulars	*Amount (in ₹)*	*Particulars*	*Amount (in ₹)*
To Machinery To Balance c/d	3,000 22,000	By Balance b/d By P&L (CY Dep.)	20,000 5,000
	25,000		25,000

Question 3

(a) *The Summary Balance Sheet of ABC Ltd. as on 3lst March, 2025 read as under :*

Liabilities	***Amount***	***Assets***	***Amount***
Share Capital :		*Freehold property*	*1,15,000*
Authorized share		*Stock*	*1,35,000*
Capital :		*Trade Receivables*	*75,000*
40,000 Equity Shares of	*4,00,000*	*Cash*	*30,000*
₹10 each.		*Balance at Bank*	*2,00,000*
Issued and Subscribed :			
20,000 Equity Shares of			
₹10 each fully paid.	*2,00,000*		
Profit and Loss Account	*1,20,000*		
12% Debentures	*1,20,000*		
Trade Payables	*1,15,000*		
	5,55,000		***5,55,000***

The Annual General Meeting of ABC Ltd, it was resolved that :

(a) To issue one bonus share for every four shares held.

(b) To give option to existing shareholders to be purchased one share of ₹10 at a premium of ₹5 for every four share held (held prior to the bonus distribution), this option being taken up by all shareholders.

(c) To repay the debentures at a premium of 3%.

You are requested to pass necessary journal entries and after completion of these transactions, prepare the Balance Sheet of ABC Ltd. as per Company Act 2013.

(5 marks)

(b) Raj Ltd recently reported the following income Statement :

Particulars	**in Cr.**
Sales	700
Operating Cost	500
EBIT	200
Interest	40
PBT	160
Taxes @40 %	64
PAT (Net Income)	96
Dividend	32
Retained Earnings	64

This year company is forecasting 25% increase in sales and it expects that its year end operating cost will be around 70% of sales. It is expected that tax rate, interest and dividend pay-out ratio will be constant.

You are required to compute projected Net Income and expected growth rate in dividend.

(5 marks)

(c) A company made a public issue of ₹1,25,000 equity shares of ₹100 each as on 15th March, 2026, ₹50 payable on application. The entire issue was underwritten by A, B, C, and D in the proportion of 30%, 25%, 25% and 20% respectively. Under the terms agreed upon a maximum limit of underwriting commission was payable to underwriters. A, B, C and D also agreed on firm underwriting of 4000, 6000, Nil, 15,000 shares respectively. The total subscription excluding firm underwriting but including marked application received were 90,000. Marked applications were received from A-24,000, B-20,000, C-12,000 and D-24,000. Consider firm underwriting shares are treated as unmarked application.

Prepare a statement showing net underwriter liability.

(5 marks)

Answer 3(a)

Journal of ABC Ltd.

Particulars	*LF*	*Dr. (₹)*	*Cr. (₹)*
Bank A/c Dr. Dr. To Equity Shareholders A/c (Application money received on 5,000 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)		75,000	 75,000
Equity Shareholders A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Share application money on 5,000 shares @ ₹10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated….)		75,000	 50,000 25,000
Securities Premium A/c Dr. Profit & Loss A/c Dr. To Bonus to Shareholders A/c (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:4 vide General Body's resolution dated...) (refer note below)		25,000 25,000	 50,000
Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Issue of bonus shares in the ratio of 1:4 vide Board's resolution dated....)		50,000	 50,000
12% Debentures A/c Dr. Premium Payable on Redemption A/c @ 3% Dr. To Debenture holders A/c (Amount payable to debentures holders)		1,20,000 3,600	 1,23,600
Profit & Loss A/c Dr. To Premium Payable on Redemption A/c (Premium payable on redemption charged to Profit & Loss A/c)		3,600	 3,600

Debenture holders A/c Dr. To Bank A/c (Amount paid to debenture holders on redemption)		1,23,600	1,23,600

Note:

The number of bonus shares issued has been calculated on the basis of issued capital before rights issued i.e., 20,000 shares (and not 25,000 shares after rights issue).

Balance Sheet of ABC Ltd. as on...... (After completion of transactions)

Particulars	*Note No.*	*Amount (in ₹)*
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	91,400
(2) Current Liabilities		
(a) Trade payables		1,15,000
Total		**5,06,400**
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible Assets	3	1,15,000
(2) Current assets		
(a) Inventories		1,35,000
(b) Trade receivables		75,000
(c) Cash and bank balances	4	1,81,400
Total		**5,06,400**

Notes to Accounts

		Amount (in ₹)	*Amount (in ₹)*
1.	**Share Capital** 30,000 shares of ₹10 each fully paid (5,000 shares of ₹ 10 each, fully paid issued as bonus shares out of securities premium and P&L Account)		3,00,000

2.	**Reserve and Surplus** Profit & Loss Account (₹ 1,20,000 – ₹ 3,600) Less: Utilization for issue of bonus shares	 1,16,400 (25,000)	 91,400
3.	**Tangible assets** Freehold Property		 1,15,000
4.	**Cash and bank balances** Cash at Bank (2,00,000 + 75,000 – 1,23,600) Cash in Hand	 1,51,400 30,000	 1,81,400

Answer 3(b)

Statement showing Projected Profit & Loss

Particulars	**Amount (₹ in cr.)**
Sales (700+25%)	875
Less: Operating Cost (70% of 875)	612.5
Earnings before Interest and Tax (EBIT)	262.5
Less: Interest	40
Profits before Tax (PBT)	222.5
Less: Tax @40%	89
Profits after Tax PAT	133.5
Dividend (33.33% *133.5)	44.50

Note: 1

Dividend Pay-out Ratio (Existing Year) = [Dividend/Net Income] *100

= [₹32/₹96] *100 = 33.33%

Note: 2

Expected Growth in Dividend = [(₹44.5 - ₹32)/ ₹32] *100

= 39.06%

Answer 3(c)

Statement showing Underwriter's Liability

Particulars	*A*	*B*	*C*	*D*
Gross Liability	37,500	31,250	31,250	25,000
Less: Unmarked application	10,500	8,750	8,750	7,000
Total	27,000	22,500	22,500	18,000

Less: Marked application	24,000	20,000	12,000	24,000
Total	3,000	2,500	10,500	(-)6,000
Less: surplus of D allocated to A,B,C in the ratio of 6:5:5	(-) 2,250	(-) 1875	(-) 1875	(+)6,000
Total	**750**	**625**	**8625**	**---**
Add: Firm underwriting	4,000	6,000	----	15,000
Net liability	**4,750**	**6,625**	**8,625**	**15,000**

Working Note: Unmarked application = (90,000-80,000) + 25,000=35000

(Firm underwriting treated as unmarked)

Attempt all parts of either Q. No. 4 or Q. No. 4A

Question 4

(a) *The Balance Sheets of H Ltd. and S Ltd. as on 31st March 2026 were as under :*

Particulars	***H Ltd. (₹)***	***S Ltd. (₹)***
I. EQUITY AND LIABILITIES		
(1) Shareholder's Funds		
a) Authorised Share Capital :	–	–
Issued and Subscribed Equity Shares capital of Rs. 100 each	*5,00,000*	*2,00,000*
b) Reserves and Surplus : General Reserve 1-4-2025	*1,00,000*	*60,000*
P. & L. A/c	*1,40,000*	*90,000*
(2) Non-Current Liabilities	–	–
(3) Current Liabilities		
Bills Payables	–	*40,000*
Trade Payables (Creditors)	*80,000*	*50,000*
Total	***8,20,000***	***4,40,000***
II. ASSETS		
(1) Non-Current Assets		
a) Fixed Assets :		
(i) Tangible Assets	*3,60,000*	*2,20,000*
(ii) Intangible Assets : Goodwill	*40,000*	*30,000*

b) Non-Current Investments		
1,500 Shares in S Ltd.	*2,40,000*	–
c) Other Non-Current Assets	–	–
(2) Current Assets		
Stock	*1,00,000*	*90,000*
Bills Receivables (Debtors)	*20,000*	*75,000*
Cash and Cash Equivalent	*60,000*	*25,000*
Total	***8,20,000***	***4,40,000***

The Profit & Loss Account of S Ltd. showed a credit balance of ₹ 50,000 on 01.04.2025. A dividend of l5% was paid in January 2026 for the year 2024-2025. This dividend was credited by H. Ltd. to its Profit & Loss Account. The shares were acquired on 1st October 2025. The bills payable was all issued in favour of H Ltd. included in the creditors of S Ltd. ₹20,000 are related to goods sold by S Ltd. included in the stock of S Ltd. are goods of the value of ₹8,000 supplied by H Ltd. at a profit of $33\frac{1}{3}$*% on cost.*

You are required to calculate consolidated profit of the companies, Net Worth of S Ltd. as on 1st October 2025 and minority interest.

(6 marks)

(b) Solar Equipment Ltd. wants to arrange overdraft facilities with its bankers during the period March to May. Prepare a cash budget for the above period on the basis of the under-mentioned data indicating the extent of bank overdraft facilities, the company will require at the end of each month :

Month	**Sales (₹ in Lakh)**	**Purchases (₹ in Lakh)**	**Wages (₹ in Lakh)**
January	9000	6,240	600
February	9600	7,200	700
March	5400	12,150	550
April	8700	12,300	500
May	11,300	13,400	750

Additional Information :

(i) *50% of the credit sales will be realized in the month following the month of sales and remaining 50% in the second month following the month of sales.*

(ii) *The creditors for purchases will be paid in the month following the month of purchases.*

(iii) *Workers are paid in the same month for their wages.*

(iv) *Cash at bank on 1st March, is estimated to be ₹1,250 lakh.*

(5 marks)

(c) *PQR Ltd. has issued 10000, 12% convertible debentures ₹100 each redeemable after a period of five years at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 30% of their holdings into equity shares of ₹ 10 each at a price of ₹20 per share and balance in cash. Debenture holders amounting ₹2,00,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of remaining debentures.*

(4 marks)

OR (Alternate question to Q. No. 4)

Question 4A

(i) *What are differences between Ind AS 16 and IGAAP 10 ?*

(5 marks)

(ii) *Explain the components and factors of financial forecasting.*

(5 marks)

(iii) *"The accounting standards seek to describe the accounting principles, valuation techniques, and the methods of applying these accounting principles in the preparation and presentation of the financial statements so that they represent a true and fair view of the financial position and financial performance of the enterprise."*

Discuss the need for Accounting Standards.

(5 marks)

Answer 4(a)

Working Note:

1. Profit earned during the year by S Ltd.	**Amount in ₹**
Balance of Profit on 31-3-2026	90,000
Less: Opening balance of profit on 1-4-2025	50,000
	40,000
Add: Dividend paid (15% on ₹ 2,00,000)	30,000

Profit earned during 2025-26	70,000
2. Calculation of Unrealized Profit	
Closing stock of S Ltd. out of goods purchased from H Ltd.	8,000
Profit included @$33\frac{1}{3}$% on cost i.e., 25% on sale value	2,000

Calculation of Consolidated Profit	
Balance of Profit of H Ltd.	1,40,000
Less: Dividend received from S Ltd. out of Pre-acquisition Profit	22,500
	1,17,500
Less: Unrealized profit in closing stock of S Ltd.	2,000
	1,15,500
Add: Share in post-acquisition profit of S Ltd. $\left(₹\ 70{,}000 \text{ X } \frac{6}{12} \text{X } \frac{75}{100}\right)$	26,250
Consolidated Profit	1,41,750
Calculation of Net Worth of S Ltd. as on 1st October 2025	
Paid up share capital	2,00,000
Add: General Reserve	60,000
Profit & Loss a/c (1-4-2025)	
(After dividend for 2024-25 i.e. ₹ 50,000- ₹ 30,000)	20,000
Profit earned upto 1st October 2025 or Pre-acquisition profit: $\left(₹\ 70{,}000 \text{ X } \frac{6}{12}\right)$	35,000
Net Worth	3,15,000
Calculation of Minority Interest	
25% Share in Net worth	78,750
Add: 25% Share in Post-acquisition Profit $\left(₹\ 70{,}000 \text{ X } \frac{6}{12} \text{X } \frac{25}{100}\right)$	8,750
Minority Interest	87,500

Answer 4(b)

Cash Budget

(March-May)

(₹ in Lakh)

Particulars	**March**	**April**	**May**
Opening balance	1,250	2,800	(-)2,350
Receipts: Cash collection from Debtors	9,300	7,500	7,050
Total	**10,550**	**10,300**	**4,700**

Payments			
Creditors	7,200	12,150	12,300
Wages	550	500	750
Total	**7,750**	**12,650**	**13,050**
Cash at bank or Overdraft	2,800	(-) 2,350	(-) 8,350

Comments: By analysis of forecast cash budget, it appears that at the end of the April, the company will need an overdraft of ₹ 2350 lakh while at the end of May, it will need an additional overdraft of ₹6,000 lakh and the total overdraft amount will be ₹ 8,350 Lakh.

Answer 4(c)

Total Debenture holders (₹200000 /₹100)	2000
Option for conversion	30%
Number of debentures to be converted (30% of 2000)	600
Redemption value of 600 debentures at a premium of 5% [600 x (₹ 100+5)]	₹ 63000
Equity shares of ₹10 each issued on conversion [₹63000/ ₹20]	3150 shares

Calculation of cash to be paid:

Number of debentures	2000
Less: number of debentures to be converted into equity shares	(600)
Remaining number of debentures	1400
Redemption value of 1400 debentures (1400 x ₹105)	₹ 147000

Answer 4A(i)

Comparison of Ind AS 16 with existing IGAAP 10

S.No	*Bases of Comparison*	*Ind AS 16 (Property, Plant, and Equipment)*	*IGAAP 10 (Property, Plant, and Equipment)*
1.	Property, Plant, and Equipment retired from active use and held for sale	Does not deal with the assets held for non-continuing activities, because the treatment of such assets is covered under Ind AS 105 “Non-current assets held for sale and Discontinued operation”.	Deals with the accounting for items of fixed assets retired from active use and held for sale.
2.	Stripping costs in the production phase of a surface mine	Ind AS 16 provide guideline on measuring the stripping cost in the production phase of a surface mine.	Does not contain this guideline.

Answer 4A(ii)

The following components and factors should be considered and incorporated for financial forecasting.

a) Define the purpose of financial forecasting.

b) Collection of historical data and accuracy of data sources.

c) A forward looking time horizon (12-18-25 month span).

d) Formulate to determine how much weight to give any piece of data.

e) Consideration of internal and micro economic risk.

f) Best/ Worst case scenario.

g) Selection of financial forecast method.

h) Documentation/ monitoring/ Analysis of data

Answer 4A(iii)

Need for Accounting Standards

The ostensible purpose of the standards-setting bodies is to promote the dissemination of timely and useful financial information to the users. The need for Accounting Standards may be enumerated as under:

(i) *Improvement of credibility and reliability of financial statements*: The accounting standards create an environment of confidence among the users of accounting information by providing a uniform structure of guidelines, which provide credibility and reliability to the accounting information. In this way, the financial statements present a true and fair view of the financial position and financial performance of an entity.

(ii) *Comparability of financial Statements made easy*: The value of the accounting information is enhanced if the same can be compared in the same line of business activity. But the comparability is possible only if the same accounting standards are used in the preparation of the financial statements of the different enterprises in the same industry. It is a positive step to protect the interests of the users of the accounting information.

(iii) *Benefits to the accountants and auditors*: The accounting standards provide a basis for the uniform accounting principles. Due to this reason, there is a lower possibility of fraud being committed by the accountant. There is more transparency in the accounting information. Since the accounting profession follows the accounting standards without any exception, they are helpful not only to the accounting entity but also to the accountants and the auditors. Any type of misinformation can lead to strict action against the accountants and the auditors.

(iv) *Additional disclosures*: There are certain areas where important information is not required to be disclosed by the law. The accounting standards require the disclosure of such matters as the method of depreciation and the change in the method of depreciation, which help the users of the financial statements to make important financial decisions.

(v) *Evaluation of the managerial ability*: Accounting standards are useful in measuring the efficiency of the management regarding profitability, liquidity, solvency, and other general areas of progress of the enterprise. In the absence of Accounting Standards, it would be difficult to evaluate managerial efficiency because there is no basis to compare the financial statements of one enterprise with those of another. Each enterprise would evolve its own rules and standards to suit its own purpose, and users would, therefore, not be able to get a true and fair view of the functioning of the enterprise.

(vi) *Helpful to the Government*: The Government officials would find the financial information useful for economic planning, market analysis, and tax collection if the financial statements are based on the established accounting standards.

PART–II

Question 5

A capital budgeting decision is faced by Sunrise manufacturing company. The company is planning to introduce a new product line requiring additional machine. The management must choose between two imported machines with same capital cost but different annual operating costs, operating lives, overheads and cash flow implications. Based on projected sales, operating costs, advertisement expenditure, depreciation, taxation and additional equipment requirements, the company evaluates the financial feasibility of the imported machine and identifies one of the most suitable machines in current scenario.

The company is planning to diversify its operations by launching a new product line. The decision to introduce the product is driven by changing market conditions, technological advancements and the need to remain competitive. The management team, led by the CEO and supported by the financial analyst, operations manager and marketing manager, undertakes a detailed evaluation of market demand, pricing strategy, desired quality product of additional output and production requirements. Due to fast changing technology, the expected life span of machine is not for longer period.

After carefully marketing the new product line and analysis of both the imported machines, the management team desires to consider the most profitable machine out of two imported machines.

The details of both the machines and expected sales revenue and cost associated with output from these machines are as follows :

Particulars	Machine X	Machine Y
Expected economic life of machine	2 years	3 years
Capital cost of machine (₹ in Lakh)	60,000	60,000
Annual sales of additional output at standard price (₹ in Lakh)	1,00,000	80,000
Annual cost (other than depreciation of machine) related to additional output: (₹ in lakh) Wages Material Factory Overhead Administration Cost Selling cost	 10,000 8,000 12,000 4,000 2,000	 6,000 10,000 10,000 2,000 2,000
Salvage value at the end of the economic life of machine	NIL	NIL
Depreciation for tax purposes	(straight line method)	(straight line method)
Effective tax rate on company taxable income	@ 35 %	@ 35 %
Ignore interest on capital cost of machine.		
The discount factors at appropriate discount rate of 10 % are 1st year 2nd year 3rd year 0.909 0.826 0.751		

On the basis of above facts given, you are required to calculate the most profitable investment option by following method :

(a) Average Accounting Rate of Return Method;

(b) Pay-back period Method;

(c) Equivalent Net Present Value Method;

(d) Determine Annual profit after tax and Annual Cash Flow after tax.

(5×4=20 marks)

Answer 5

Evaluation of Most Profitable Investment Option

(a) On the basis of Average Accounting Rate of Return Method:

(₹ in Lakh)

	Machine X	Machine Y
Average Accounting Profit After Tax	22,100	19,500
Average Investment in machine= ₹ 60000 - Nil / 2	30,000	30,000
Average rate of return= (₹22,100/₹30,000) * 100	73.67%	
Average rate of return= (₹19,500/₹30,000) * 100		65%

Decision: Investment in Machine X is more profitable than that in Machine Y.

(b) On the basis of Pay-back Period Method:

	Machine X	**Machine Y**
Annuity cash flow	₹52,100	₹39,500
Initial investment in machine	₹60,000	₹60,000
Pay-back Period= Initial Investment / Annual CF	₹60,000 / ₹52,100 **1.15 Year**	₹60,000 / ₹39,500 **1.52 Year**

Decision: Machine X is recommended because its Pay-back period is less.

(c) On the basis of NPV method:

As lives of two machines are unequal, decision of most profitable option is to be based on Equivalent Net Present Value.

Computation of NPV of both imported machine and Equivalent NPV

Year	*Discount Factor at 10 %*	*Machine X*		*Machine Y*	
		CFAT	**P.V. of CFAT**	**CFAT**	**P.V. of CFAT**
1.	0.909	₹52,100	₹47,359	₹39,500	₹35,906
2.	0.826	₹52,100	₹43,035	₹39,500	₹32,627
3.	0.751	NIL	NIL	₹39,500	₹29,665
Present Value of Project			₹90,394		₹98,198
Less: Initial investment			₹60,000		₹60,000
NPV of Machines			₹30,394		₹38,198

Calculation of Equivalent NPV:

NPV of the machine / Cumulative Discount Factors for life of the machine (₹ in lakh)

Machine X= ₹ 30,394 / 1.735= ₹ 17,518

Machine Y= ₹ 38198 / 2.486= ₹ 15,365

Decision: Machine X is more profitable than machine Y because its equivalent NPV is more than that of machine Y.

(d) Computation of Annual PAT & Annual CFAT of both imported machines

(₹ in Lakh)

	Machine X	*Machine Y*
Annual sales of additional output of machine	1,00,000	80,000
Less: Annual cash cost of additional output of M/C: Wages	10,000	6,000

Material Factory O/H Administrative cost Selling cost	8,000 12,000 4,000 2,000	10,000 10,000 2,000 2,000
Annual profit before Depreciation & Tax	**64,000**	**50,000**
Less: Depreciation	30,000	20,000
Annual Operating profit before tax	34,000	30,000
Less: Tax 35 %	11,900	10,500
Annual Profit after Depreciation & Tax	22,100	19,500
Add: Depreciation	30,000	20,000
Annual Cash Flow after tax	**52,100**	**39,500**

Attempt all parts of either Q. No. 6 or Q. No. 6A

Question 6

(a) The CFO of KKK Limited started restructuring of company's capital structure. He is concerned with what the company has to pay for the capital it has mobilized through various sources of finance. The cost of capital has to be specially considered because cost of capital has direct effect on profit earning capacity of the company. Therefore, it is necessary for the CFO to take into consideration the cost of capital which should not be burdensome for the company and should try to develop an optimum capital structure so that the cost of capital can be minimized.

The CFO is considering the restructuring plan and possibility of raising ₹50,00,000 by issuing equity shares, preference shares and debentures. The details are as follows:

(i)	*2,00,000 Equity Shares of ₹ 10 each*	*20,00,000*
(ii)	*1,00,000 10% Debenture of ₹ 10 each*	*10,00,000*
(iii)	*1,00,000 11% Preference Shares of ₹10 each*	*10,00,000*
(iv)	*Retained Earnings*	*10,00,000*
	Total	*50,00,000*

Market Price of :

Equity shares is ₹18, Preference shares is ₹12, and Debenture is ₹12.

Earnings per share of the company are ₹2. The corporate tax rate is 50%.

You are the Company Secretary of the Company, help the CFO in determining weighted average cost of capital (using weights based on market values.)

(5 marks)

(b) *Calculate operating and financial leverage under situations A, B and C and financial plans 1, 2 and 3 respectively from the following information and find which plan will give the highest value and the least value.*

Installed capacity 1,200 (units)

Actual production and sales 800 (units) Selling price per unit ₹15

Variable cost per unit ₹10

Fixed costs	*(₹)*
Situation A	*1,000*
Situation B	*2,000*
Situation C	*3,000*

Financial Plan			
Sources of Fund	**1**	**2**	**3**
Equity ₹	5,000	7,500	2,500
Debt ₹	5,000	2,500	7,500
Cost of debt	12 per cent per annum		

(c) *The Production of ABC Ltd., during the previous year was 1000000 units. The same level of activity is intended to be maintained during the current year also.*

The expected ratios of cost to selling price are :

Raw material 40%

Direct Wages 20%

Overheads 20%

The raw materials ordinarily remain in stores for 3 months before production. Every unit of production remains in the process for 2 months and is assumed to be consisting of 100% raw material, wages and overheads.

Finished goods remain in the warehouse for 3 months. Credit allowed by creditors is 4 months from the date of the delivery of raw material and credit given to debtors is 3 months from the date of dispatch.

The estimated balance of cash is to be held ₹ 2,00,000. Lag in payment of wages 1/2 month.

Lag in payment of expenses l/2 month.

Selling price is ₹8 per unit. Both production and sales are in a regular cycle. Company makes a provision of 10% for contingency (except cash).

Prepare a working capital forecast from the above information.

(5 marks)

(d) The value of the company can be maximized if the shareholders' wealth is maximized. The par value of equity share of COMOS Limited is ₹ 100 per share. The company's earning per share is ₹10. The return on retained earnings of the company is 15% and the rate of capitalization of the market is 10%.

The following are the alternates available before the management regarding the distribution of dividend :

(i) To have a pay-out ratio of 20%

(ii) To have a pay-out ratio of 40%

(iii) To have a pay-out ratio of 60%

(iv) To have a pay-out ratio of 0% or To have a retention of earning 100%.

You are required to calculate market price of the equity shares of the company in all above circumstances and suggest which alternative consider the best by using Walters' Model.

(5 marks)

OR (Alternate question to Q. No. 6)

Question 6A

(i) "Cash Flow Analysis is an important financial tool for management in decision making." Explain this statement and discuss the advantages of cash flow analysis.

(ii) "Capital Budgeting is important not only because of the high investment cost of capital projects, but also due to their irreversible nature, long-term commitment and impact on profitability."

Explain this statement and discuss the importance of capital budgeting.

(iii) Decisions on investments are determined by various factors like risk involved, return, purpose, period etc. Do you think there are differences between investment and speculation? If so, what are the differences ? Give examples.

(iv) One of the main objectives of a business organization is profit maximization though there are other objectives like service to society, nation's development, providing employment opportunities etc. Are there any arguments against the goal of profit maximization by business organization ?

(5 marks each)

Answer 6(a)

(i) Calculation of Market value

Market value of Equity shares = ₹2,00,000 x ₹18	=	₹ 36,00,000
Market value of Preference shares= ₹1,00,000 x ₹12	=	₹ 12,00,000
Market value of Debenture= ₹1,00,000 x ₹12	=	₹ 12,00,000
Total	=	₹ 60,00,000

(ii) Calculation of specific costs:

Cost of Equity Shares: ke = (EPS / MP) * 100= (2 /18) * 100 = **11.11 %**

Cost of Preference Shares: kp = (DPS / NP) * 100= (1.1 /10) * 100= **11 %**

Cost of Debenture: kd (after tax)= (1/NP) * 100(1-t)= (1 /10) *100(1-0.50)= **5 %**

(iii) Weighted Average Cost of Capital (Based on Market Value Weights)

Sources	*Market Value (R)*	*Weights Cost*	*Specific Cost*	*Weight*
Equity Shares capital	₹36,00,000	0.60	11.11 %	6.67%
Preference Shares capital	₹12,00,000	0.20	11.00 %	2.20%
Debenture	₹12,00,000	0.20	5.00 %	1.00%
Weighted Average Cost of Capital				**9.87 %**

Alternative Answer

(i) Calculation of Market value

Market value of Equity shares = ₹2,00,000 x ₹18	=	₹ 36,00,000
Market value of Preference shares= ₹1,00,000 x ₹12	=	₹ 12,00,000
Market value of Debenture= ₹1,00,000 x ₹12	=	₹ 12,00,000
Market Value of Retained Earnings = ₹10,00,000 x18/10	=	₹18,00,000
Total	=	₹78,00,000

(ii) Calculation of specific costs:

Cost of Equity Shares: ke = (EPS / MP) * 100= (2 /18) * 100 = 11.11 %

Cost of Preference Shares: kp = (DPS / NP) * 100= (1.1 /10) * 100 = 11 %

Cost of Debenture: kd (after tax)= (1/NP) * 100(1-t)= (1 /10) *100(1-0.50) = 5 %

Cost of Retained Earnings = DPS (1-Ti) (1-B)/MP (1-Tc) *100 = 2/18*100 = 11.11%

Considering 100% payout, since no information is given for payout i.e. EPS=DPS

(iii) Weighted Average Cost of Capital (Based on Market Value Weights)

Sources	*Market Value (R)*	*Weights Cost*	*Specific Cost*	*Weight*
Equity Shares capital	₹36,00,000	0.462	11.11 %	5.13%
Preference Shares capital	₹12,00,000	0.154	11.00 %	1.69%
Debenture	₹12,00,000	0.154	5.00 %	0.77%
Retained Earnings	₹18,00,000	0.230	11.11%	2.56%
Weighted Average Cost of Capital				**10.15%**

Answer 6(b)

Operating Leverage

Amount in (₹)

	A	B	C
Sales (S) – Variable Cost (VC) (i.e ₹5 x 800)	4,000	4,000	4,000
Less: Fixed Cost	1,000	2,000	3,000
Earnings before Interest and Tax (EBIT)	3,000	2,000	1,000
Degree of Operative Leverage = (S – VC)/EBIT	1.33	2	4

Financial Leverage

Situation A	**1**	**2**	**3**
Earnings before Interest and Tax (EBIT)	3,000	3,000	3,000
Less: Interest	600	300	900
Earnings before Tax (EBT)	2,400	2,700	2,100
Financial Leverage (EBIT/EBT)	1.25	1.11	1.43
Situation B			
EBIT	2,000	2,000	2,000
Less: Interest	600	300	900
EBT	1,400	1,700	1,100
Financial Leverage	1.43	1.18	1.82
Situation C			
EBIT	1,000	1,000	1,000
Less: Interest	600	300	900
EBT	400	700	100
Financial Leverage	2.5	1.43	10

Answer 6(c)

Total Sales = 10,00,000 × ₹ 8= ₹ 80, 00,000

	Amount (in ₹)
A. Current Assets:	
Debtors (₹ 80,00,000 × 80% ×3/12)	16,00,000
Finished Goods (₹80,00,000 × 80% ×3/12)	16,00,000
Work-in-progress (₹80,00,000 × 80% ×2/12)	10,66,667
Raw Materials (₹80,00,000 × 40% × 3/12)	8,00,000
Total current assets	**50, 66,667**

B. Current Liabilities:	
Creditors (80,00,000 × 40% × 4/12)	10, 66,667
Wages (80,00,000 × 20% × 1/24)	66,667
Expenses (80,00,000 × 20% × 1/24)	66,666
Total current liabilities	**12,00,000**

Excess of Current Assets over Current Liabilities = ₹ 38,66,667

Add: 10% contingency = ₹ 3,86,667

Add: Cash = ₹ 2,00,000

Working Capital Requirement = ₹ 44,53,334

Answer 6(d)

Calculation of Market price of share by using the Walters' Model:

$$Po = \frac{D + r(E-D)/K_e}{K_e}$$

Po = Market price of the Equity Share

D = Dividend per Share (DPS)

E = Earnings per Share (EPS)

r = Internal Rate of Return / Return on Investment

K_e = Cost of equity/Capitalization rate

(i) $Po = \frac{2 + 0.15(10-2)/0.10}{0.10}$ = ₹ 140

(ii) $Po = \frac{4 + 0.15(10-4)/0.10}{0.10}$ = ₹ 130

(iii) $Po = \frac{6 + 0.15(10-6)/0.10}{0.10}$ = ₹ 120

(iv) $Po = \frac{0 + 0.15(10-0)/0.10}{0.10}$ = ₹ 150

Comments:

Alternative (iv) is the best because it maximizes the value of equity shares.

Answer 6A(i)

A business enterprise needs sufficient cash to meet its various obligations in the near future such as payment for purchase of fixed assets, payment of debts maturing in the near future, expenses of the business, etc. A historical analysis of the different sources and applications of cash will enable the management to make reliable cash flow projections for the immediate future. It may then plan out for investment of surplus to meet the deficit, if any. Thus, a cash flow analysis is an important financial tool for the management in decision making.

Advantages of cash flow analysis

1) *Helps in efficient cash management*: Cash flow analysis helps in evaluating financial policies and cash position. Cash is the basis for all operations; hence a projected cash flow statement will enable the management to plan and coordinate the financial operations properly. The management can know how much cash is needed, from which source it will be derived, how much can be generated internally and how much could be obtained from outside.

2) *Helps in internal financial management*: Cash flow analysis provides information about funds which will be available from operations. This will help the management in determining policies regarding internal financial management, e.g., possibility of repayment of long-term debts, dividend policies and planning the replacement of plant and machinery.

3) *Discloses the movements of cash*: Cash flow statement discloses the complete story of cash movement. The increase or decrease in cash, and the reasons therefore can be known. It discloses the reasons for low cash balance in spite of heavy operating profits or for heavy cash balance in spite of low profits. However, comparison of original forecast with the actual results highlights the trends of movements of cash which may otherwise go undetected.

4) *Discloses success or failure of cash planning*: The extent of success or failure of cash planning can be known by comparing the projected cash flow statement with the actual cash flow statement so that necessary remedial measures can be taken.

5) *Evaluate management decisions*: The statement of cash flows reports the companies' investing and financing activities and thus gives the investors and creditors about cash flow information for evaluating managers' decisions.

6) *Show the relationship of net income to changes in the business cash*: Usually cash and net income move together. High levels of income tend to lead to increase in cash and vice-versa. However, a company's cash balance can decrease when its net income is high, and cash can increase when income is low. The users want to know the difference between the net profit and net cash provided by operations. The net profit shows the progress of the business during the year while cash flow relates more to the liquidity of the business. The users can assess the reliability of net profit with the help of cash flow statement.

7) *Efficiency in cash management*: Cash flow analysis helps in evaluating financial policies and cash position. It facilitates the management to plan and co-ordinate the financial operations properly. The management can estimate how much funds are needed, from which source they will be derived, how much can be generated internally and how much should be arranged from outside.

Answer 6A(ii)

Capital budgeting is important because projects like new plants or machinery involve high investment costs, if a wrong decision is taken it will be very expensive. These projects also have an irreversible nature, once started they cannot easily be reversed without losses. They require a permanent commitment, locking the business into a long-term path, and their outcomes have long-run effects on profitability, shaping growth and competitiveness for years.

Capital Budgeting is important because of the following reasons:

1. Capital budgeting highlights the possibilities of expansion of production facilities to cover up the additional demand shown in projected sales budget.
2. It shows comparative position of available different alternative assets for the replacement of old or obsolete assets.
3. It helps in long-term planning and formulation of policy. Appropriate time of purchase of assets and of improvement in the quality of purchased assets is known by proper capital budgeting.
4. It helps in estimating the total requirement of capital with its break-up over the years. This analysis helps in timely arrangement of funds required for the purpose.
5. It also helps in planning capital structure because the net surplus of a project depends on the cost of capital, which in its turn depends upon the capital structure of the firm.
6. Capital budgeting provides necessary information for cash forecasts and budget.
7. It helps in preparing a sound policy for depreciation and replacement of assets.
8. The firm can plan its dividend policy, which is in keeping with profit and wealth maximization objective of the firm as well as the necessary internal resource generation for further business expansion.
9. It can prove beneficial for considering the methods and measures to minimize cost. It can thus help in planning modernization of existing production facilities.
10. It highlights the desirability of replacement of men by machines.

Answer 6A(iii)

Investment and speculation though look alike in several ways there are many differences between them.

Basis for Comparison	*Investment*	*Speculation*
Meaning	The purchase of an asset with the hope of getting returns is called investment.	Speculation is an act of conducting a risky financial transaction, in the hope of substantial profit.
Basis for decision	Basis for decision Fundamental factors, i.e. performance of the company.	Hearsay, technical charts and market psychology.

Time horizon	Long term	Short term
Risk involved	Moderate risk	High risk
Intent to profit	Changes in value	Changes in prices
Expected rate of return	Modest rate of return	High rate of return
Funds	An investor uses his own funds	A speculator uses borrowed funds.
Income	Stable	Uncertain and Erratic
Behavior of participants	Conservative and Cautious	Daring and Careless

Examples for investments are bank deposits, post office schemes etc. Examples for speculation are stock markets trade, mutual funds, derivatives etc.

Answer 6A(iv)

Profit maximization objectives have been criticized on innumerable grounds. Under the changed economic and corporate environment, profit-maximization is regarded as unrealistic, difficult, and inappropriate and socially not much liked goal for business organizations. Profit maximization as an objective of financial management has been considered inadequate and rejected because of the following drawbacks.

(i) It is vague conceptually.

(ii) It ignores timing of returns.

(iii) It ignores the risk factor.

(iv) It may tempt to make such decisions which may in the long run prove disastrous.

(v) Its emphasis is generally on short run projects.

(vi) It may cause decreasing share prices.

(vii) The profit is only one of the many objectives and variables that a firm considers

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