

Attempt All MCQs (1 marks each X 10 MCQ = 10 Marks)

Q1: The Best Dry Fruits Ltd was incorporated under the Companies Act, 1913. Whether the provisions of the Companies Act, 2013 shall apply on it:

- (a) No, the provisions of the Companies Act, 2013 shall not apply on it.
- (b) Yes, the provisions of the Companies Act, 2013 shall apply on it.
- (c) The Companies Act, 1913 was enacted by the British Government, hence only an Act made by British Government shall apply on such company.
- (d) Since, this company was incorporated by the British Government, hence the Companies Act of UK Govt shall apply.

Q2: Which of the following is true in relation to OPC?

- (a) OPC can have only 1 member and only 1 director
- (b) OPC has minimum 1 member and minimum 1 director
- (c) OPC can have only 1 member but minimum 1 director
- (d) OPC can have only 1 director but minimum 1 member

Q3: Company X, a leading automobile manufacturer, has invested in Company Y, a start-up specializing in electric vehicle technology. Company X holds a 25% stake in Company Y and actively participates in its strategic decisions. Based on the provisions of the Companies Act 2013 regarding associate companies, which of the following statements is correct?

- (a) Company X's investment in Company Y does not qualify as an associate company because Company X does not have control of at least 50% of the total voting power.
- (b) Company Y qualifies as an associate company of Company X since Company X holds a 25% stake in Company Y and actively participates in its strategic decisions.
- (c) Company Y cannot be considered an associate company of Company X because it is a start-up and does not meet the minimum criteria for significant influence.
- (d) Company X's investment in Company Y falls under the category of joint venture and does not qualify as an associate company according to the Companies Act 2013

Q4: In case of a company limited by guarantee, the liability of the members can be enforced

- (a) At any time when the company so decides
- (b) Only at the time of winding-up of the company
- (c) Only by an order of NCLT
- (d) Only by order of Registrar of companies

Q5: In Sumit Marketing Company Private Limited (Authorised capital 50,000 shares of Rs. 10 each and paid-up share capital of Rs. 4,50,000), 1000 shares are jointly held by Abeer and Abheek; another 800 shares are jointly held by Seema and Srividya; another 1200 are jointly held by Ramesh, Raksha and Rajneesh and another 3 shares are held by Vishnu and Vishal. Further, 42,000 shares are held by 193 individual persons in their individual capacity. Is it possible for the company to induct more persons?

- (a) The company is unable to induct more persons since it already has two hundred individual members.
- (b) The company can induct four more persons as members.
- (c) The company can induct three more persons as members.
- (d) The company can induct one more person as its member.

Q6: BPCL Limited is a company registered under Companies Act, 2013. Apart from ordinary equity shares, BPCL Limited has also issued equity shares with differential voting rights. It will be classified as a Government company when _____ is held by Government

- (a) More than 50% of the Paid-up share capital
- (b) More than 50% of the Total Voting Power
- (c) 51% or more of the Paid-up share capital
- (d) 51% or more of the Total Voting Power

Q7: Which of the following are true in relation to a Private company?

- (a) It prohibits the transfer of shares and invitation to public to subscribe to its securities
- (b) It restricts the transfer of shares and invitation to public to subscribe to its securities
- (c) It prohibits the transfer of shares and restricts the invitation to public to subscribe to its securities
- (d) It restricts the transfer of shares and prohibits the invitation to public to subscribe to its securities

Q8: Roma along with her six friends has got incorporated Roma Trading Ltd. in May 2017. She kept the paid-up share capital at Rs. 90 lakhs. Further, in April 2018, she noticed that in the last financial year, the turnover of the company was well below Rs. 20 crores. Advise whether the company can be treated as a 'small company'.

- (a) Roma Trading Ltd. is definitely a 'small company' since its paid-up capital is much below Rs. 2 crores and also its turnover has not exceeded the threshold limit of Rs. 20 crores.
- (b) The concept of 'small company' is applicable only in case of a private limited company/OPC and therefore, despite meeting the criteria of 'small company' it being a public limited company cannot enjoy benefits of 'small company'.
- (c) Unlike a private limited company/OPC which automatically becomes a 'small company' as soon as it meets the criteria of 'small company', Roma Trading Ltd. being a public limited company has to maintain the norms applicable to a 'small company' continuously for two years so that, thereafter, it is treated as a 'small company'.
- (d) If all the shareholders of Roma Trading Ltd. give an undertaking to the ROC stating that they will not let the paid share capital and also turnover exceed the limits applicable to a 'small company' in the next two years, then it can be treated as a 'small company'.

Q9: A Ltd. is the holding company of B Ltd. Another company C Ltd. is the subsidiary company of B Ltd. Is there any relationship between A Ltd. and C Ltd?

- (a) There is no relationship between A Ltd. and C Ltd.
- (b) C Ltd. is deemed to be the subsidiary of A Ltd.
- (c) A Ltd. shall be deemed to be the holding company of C Ltd. provided A Ltd. acquires at least 10% stake in C Ltd.
- (d) C Ltd. shall be deemed to be the subsidiary of A Ltd. if the latter company acquires minimum 10% stake in the former company within six months after C Ltd. becomes subsidiary of B Ltd.

Q10: Which one of the following statements is least likely to be true? A company is a subsidiary if another company:

- (a) exercises more than 50% of the total voting power
- (b) controls the composition of its board of directors
- (c) is holding of a company which is the holding for the first mentioned company
- (d) is subsidiary of a company which is subsidiary of the first mentioned company

Question 1 is compulsory

Attempt any 2 out of remaining 3

1. The State Government of Madhya Pradesh is holding 49 lakh shares of Z Limited. The paid-up capital of Z Limited is ₹ 9.5 crore (95 lakh shares of ₹ 10 each). Z Limited directly holds 2,50,400 shares of HG Private Limited which is having a paid-up capital of 5 lakh shares of ₹ 100 each. HG Private Limited claimed the status of a Government company as well as a Private company. Comment as per the provisions of Companies Act, 2013.
2. The information extracted from the audited Financial Statement of Bear Private Limited as at 31st March, 2020 is as below -
 - i. Paid-up equity share capital ₹ 60,00,000 divided into 6,00,000 equity shares (carrying voting rights) of ₹ 10 each. There is no change in the paid-up share capital thereafter.
 - ii. The turnover is ₹ 19,00,00,000.

It is further understood that Bull Limited, which is a public limited company, is holding 3,00,000 equity shares, fully paid-up, of Bear Private Limited. You are to advise on the following points explaining the provisions of the Companies Act, 2013 -

- a. Whether Bear Private Limited shall be deemed to be a small company whose significant equity shares are held by a public company?
 - b. Is there any relation between Bear Private Limited and Bull Limited?
3. Sincere Limited was registered as a public company. There are 235 members in the company as noted below –

a. Relatives of Directors	40
b. Employees	20
c. Ex-employees (they acquired the shares after leaving the employment)	15
d. 10 couples holding shares jointly in the name of husband and wife (10*2)	20
e. Others	140

The Board of Directors of the company propose to convert it into a private company. Advise whether reduction in the number of members is necessary.

4. Cross Limited is a company incorporated under the erstwhile the Companies Act, 1956 while XYZ Private Limited is a company registered under the Companies Act, 2013. XYZ Private Limited has issued 1,00,000 convertible preference shares (carrying right to vote) of ₹ 100 each and 10,00,000 equity shares of ₹ 10 each fully paid. Cross Limited is holding all the preference share and 1,00,000 equity shares of XYZ Private Limited. Examine whether:
 - a. The provisions of the Companies Act, 2013 are applicable on Cross Limited?
 - b. XYZ Private Limited is a public company as per the Companies Act, 2013?

(5 marks each)

CA Intermediate (Batch Aug 2024)

Solution of Test of

Chapter 1 - Preliminary

Part A - MCQ

Q1.	b
Q2.	c
Q3.	b
Q4.	b
Q5.	c
Q6.	d
Q7.	d
Q8.	b
Q9.	b
Q10.	d

Part B - Subjective

1. As per **section 2(45)** of the Companies Act, 2013; "**Government company**" means a company means any company in which not less than **51%** of the paid-up share capital (total voting power, in case the company has issued equity shares with differential voting rights) is held
- by the CG, or
 - by any State Government or Governments, or
 - partly by the CG and partly by one or more State Governments, and
 - includes a company which is a subsidiary company of such a Government company

Further, as per **section 2(87)**, a company becomes a **subsidiary** of another company if that other company exercised or controls **more than one-half** of the total voting power.

Also, as per **section 2(71)**, if a private company is subsidiary of a public company, then it will **deemed to be a public company** even though it is a private company as per its articles.

Now, in the current case, State Government of Madhya Pradesh is holding 49 lakh shares of Z Limited. The paid-up capital of Z Limited is ₹ 9.5 crore (95 lakh shares of ₹ 10 each).

Accordingly, the State Government of Madhya Pradesh is holding **51.58%** (49 lakh / 95 lakh shares) paid-up capital of Z Limited. So, **Z Limited is a Government company.**

Now, Z Limited directly holds 2,50,400 shares of HG Private Limited which is having a paid-up capital of 5 lakh shares of ₹ 100 each. It means that Z Limited is holding **50.08%** (2,50,400 / 5,00,000 shares) of the total voting power of HG Private Limited. Thus, **HG Private Limited is subsidiary of Z Limited**, which is a Government company.

Thus, we can conclude that **HG Private Limited is also a Government company** because it is subsidiary of a Government company. But since, HG Private Limited is subsidiary of a public company, it cannot claim the status of a private company and is a **deemed public company** as per section 2(71).

- 2.
- a. According to **section 2(85)** of the Companies Act, 2013, **small company** means a company, other than a public company, having –
- (A) **paid-up share capital** not exceeding INR 50 lakh or such higher amount as may be prescribed which shall not be more than INR 10 crore (the prescribed limit is **INR 4 crore**); and
- (B) **turnover** as per profit and loss account for the immediately preceding financial year not exceeding INR 2 crore or such higher amount as may be prescribed which shall not be more than INR 100 crore (the prescribed limit is **INR 40 crore**):

Provided that nothing in this clause shall apply to a holding company or a subsidiary company.

Also, according to **section 2(87)**, subsidiary company, in relation to any other company (that is to say the holding company), means a company in which the holding company exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

Further, as per the proviso to **section 2(71)**, if a Private company is a subsidiary of a Public company, it is deemed to be a public company.

In the given question, Bull Limited (a public company) holds 3,00,000 equity shares of Bear Private Limited (having paid up share capital of 6,00,000 equity shares @ ₹ 10 totalling ₹ 60 lakhs). Hence, Bear Private Limited is not a subsidiary of Bull Limited and hence it is a private company and not a deemed public company.

Further, the paid-up share capital (₹ 60 lakhs) and turnover (₹ 19 crores) is within the limit as prescribed under section 2(87), hence, **Bear Private Limited** can be categorised as a **small company**.

- b. According to section 2(6) of the Companies Act, 2013; a company becomes an **associate** of another company if that other company exercises significant influence in the first mentioned company. Significant influence means control of at least 20% of the total voting power.

Since, Bull Limits controls 50% of the total voting power in Bear Private Limited (i.e. holding 3,00,000 shares out of total 6,00,000 shares), Bear Private Limited is an associate company of Bull Limited.

3. As per the provisions of **section 2(68)** of the Companies Act, 2013; 'Private company' means a company having a minimum paid-up share capital as may be prescribed and which by its articles, except in case of OPC, limits the number of its members to 200

Provided that where 2 or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member.

Provided further that -

- a. persons who are in the employment of the company; and
 b. persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased,

shall NOT be included in the number of members.

In the instant case, Sincere Limited is a public company has 235 members. But its total members for the purpose of section 2(68) will be as follows –

a. Relatives of Directors	40
b. Employees (not counted in 200)	-
c. Ex-employees (they acquired the shares after leaving the employment, so they will be counted)	15
d. 10 couples holding shares jointly in the name of husband and wife (will be counted a single member)	10
e. Others	140
Total members	205

Thus, to convert Sincere Limited into a private company, its number of members shall be reduced by 5 by the Board of directors.

4. a. **Section 1** of the Companies Act, 2013, provides that the provisions of this Act shall apply to companies incorporated under this Act or under any previous company law. Hence, the provisions of the Companies Act, 2013 are also applicable on Cross Limited.
- b. According to **section 2(71)** of the Companies Act, 2013, public company means a company which is not a private company.

Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

According to **section 2(87)** of the Companies Act, 2013, "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company:

- controls the composition of the Board of Directors; or
- exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

In the given question, total voting power in XYZ Private Limited is –


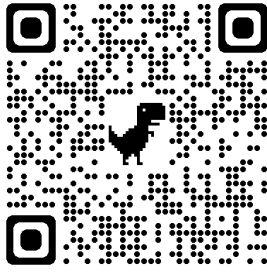

Particulars	Amount (in ₹)
Convertible preference shares (carrying voting rights)	1,00,00,000
Equity shares	<u>1,00,00,000</u>
Total voting power	<u>2,00,00,000</u>

Cross Limited holds more than one- half of the total voting power [(₹ 10,00,000 equity shares + ₹ 1,00,00,000 preference shares)/ ₹ 2,00,00,000]. Therefore, **XYZ Private Limited is a subsidiary of Cross Limited.**

Further, in terms of the provisions of section 2(71), XYZ Private Limited being subsidiary of Cross Limited (a public company), shall also be **deemed to be a public company.**



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