

Attempt All MCQs (1 marks each X 15 MCQs = 15 Marks)

- Q1: A Company limited by shares can issue equity shares with differential voting rights. Which of the following is not a necessary condition to be fulfilled before issue of such shares**
- (a) The articles of association of the company shall authorize issue of shares with differential rights;
 - (b) The issue of shares shall be authorized by an ordinary resolution passed at a general meeting of the shareholders;
 - (c) The company shall have consistent track record of distributable profits for the last three years;
 - (d) The company has not defaulted in filing financial statements and annual returns for 3 financial years immediately preceding the financial year in which it is decided to issue such shares
- Q2: The Articles of Association of a private limited company state that the company may issue preference shares which will have preference of dividend only but no preference as to the repayment of capital, in the case of winding up. Is it possible for the company to issue such preference shares?**
- (a) No; as per section 43 preference shares should have both preferences.
 - (b) No; this will become equity share as per section 43.
 - (c) Yes; because as per section 43 preference shares should have any one preference.
 - (d) Yes; because Articles of Association of the company allow issue of such preference shares and the issuing company is a private limited company.
- Q3: In a company if any change of right of one class also affects the right of other class, then:**
- (a) A resolution should be passed in general meeting in this case
 - (b) Company need not to do anything else
 - (c) Written consent of three fourth majority of that other class should be obtained
 - (d) A resolution in joint meeting of both the classes should be passed
- Q4: If a company has Authorised Share Capital of ₹ 6,00,000; Paid-up Share Capital of ₹ 5,00,000; a loan of ₹ 2,00,000 obtained from the State Government. The State Government ask the company to convert its loan into shares, then such order shall have the effect of increasing:**
- (a) The subscribed share capital of the company
 - (b) The paid-up share capital of the company
 - (c) The Authorised Share Capital of the company
 - (d) All of the above
- Q5: A company bought back 10% of its equity shares in August 2020. Due to certain miscalculations during the first buy-back, it again buy back another 10% equity shares in September 2020. Whether the company can resort to second buy-back?**
- (a) It can do so subject to the fulfilment of other conditions because maximum buy-back in a financial year is up to 25%
 - (b) It can buy back shares within one year but the company need to pass an ordinary resolution by its board of directors
 - (c) It can buy back shares within one year but the company will have to pass a special resolution
 - (d) It cannot do so because there must be a time gap of 12 months between two buy-backs
- Q6: Swagat Hospitality Limited defaulted in the repayment of last two instalments of term loan availed from National Commercial Bank. On 30th September, 2019, they cleared all the dues by repaying it. When can it issue equity shares with differential voting rights?**
- (a) Upon expiry of five years from the date on which the default was made good
 - (b) Upon expiry of three years from the date on which the default was made good
 - (c) Upon expiry of three years from the end of the financial Year in which the default was made good
 - (d) Upon expiry of five years from the end of the financial Year in which the default was made good
- Q7: Ruchi was handed over an instrument of transfer dated 21st August, 2020, duly stamped and signed by Radha who had transferred 2000 equity shares of ₹ 100 each allotted to her by Murti Mechanical Toys Private Limited. Advise Ruchi regarding the date by which the instrument of transfer along with share certificates must be delivered to the company, to register the transfer in its register of members.**
- (a) 21st August, 2020.
 - (b) 20th September, 2020
 - (c) 20th October, 2020.

(d) 19th November, 2020.

Q8: Shreem Lakshmi Jewellery Store Private Limited was incorporated on 27th August, 2020 with 30 persons as subscribers to the Memorandum of Association and with Authorised share capital of ₹ 1.00 crore divided into equal number of shares of ₹ 1 each. Each subscriber subscribed for ₹ 1.00 lac shares. Advise the company about the company by what date it needs to deliver the share certificates to the subscribers.

- (a) 17th September, 2020.
- (b) 30th September, 2020.
- (c) 27th October, 2020.
- (d) 27th November, 2020.

Q9: Keshika is the original owner of 1000 equity shares of ₹ 50 each being allotted by Modern Biscuits Private Limited. As she wanted these shares to be transferred to her younger sister Vanshika as a gift, she completed the transfer deed in all respects and delivered the same to the company along with share certificates on 17th July, 2020. However, the company did not register the transfer even after the expiry of more than one month nor did it send any notice of refusal. The lone reminder to the company remained unanswered. An appeal needs to be filed against the company with the National Company Law Tribunal (NCLT). Advise by choosing the correct option as to who has the right to file the appeal.

- (a) Keshika, who continues to remain owner and transferor of equity shares till they are registered in the name of Vanshika, has the right to file an appeal with NCLT against the company.
- (b) Vanshika, as transferee and 'would be' owner of equity shares, has the right to file an appeal with NCLT against the company.
- (c) Both Keshika and Vanshika have to file a joint appeal with NCLT against the company, for neither Keshika nor Vanshika are authorised to file the appeal individually.
- (d) As per its discretion, NCLT may allow either Keshika or Vanshika to file an appeal against the company.

Q10: It has been decided by Vanita Watches Limited to issue sweat equity shares to five of its employees for the 'value additions' made by them in term of economic benefits which proved beneficial to the company. For how many year(s), the employees who have been allotted sweat equity shares cannot transfer them:

- (a) One year from the date of allotment
- (b) Three years from the date of allotment
- (c) Five years from the date of allotment
- (d) Six months from the date of allotment

Q11: While making an application to the Tribunal for seeking its confirmation in respect of extinguishing the liability of ₹ 3 per equity share, Medhavi Publishers Limited has to file a certificate along with the application, that the accounting treatment proposed by it for such reduction of share capital is in conformity with the accounting standards specified in the prescribed Section. Advise the company as to who can issue such certificate?

- (a) Any of the directors of the company as authorised by the Board may issue such certificate
- (b) A practicing company secretary is authorised to issue such certificate
- (c) The auditor of the company is authorised to issue such certificate
- (d) The legal advisor of the company is authorised to issue such certificate

Q12: A company may convert all or any of its fully paid-up shares into stock

- (a) By special resolution
- (b) By ordinary resolution
- (c) With the approval of the tribunal
- (d) All of the above

Case Study Based MCQ 1

It was time for Triveni Kitchen and Home Gadgets Limited (TKHGL) based at Kozhikode, Kerala to redeem 30,000 redeemable preference shares of ₹ 100 each at a premium of ₹ 30 per share. These preference shares were issued five years back in January, 2015 i.e. during the Financial Year 2014-15 to finance the purchase of a state-of-the art compact plant which would replace certain worn-out machineries responsible for higher production costs. As a complimentary gesture, the employees who were required to operate the newly purchased plant were given the requisite training of fifteen days by the seller of the plant without any charge.

Triveni is an established name in the world of kitchen and home gadgets with Twelve Years of presence – be it pressure cook wares, cooktops, grinders, OTGs, Microwaves, Built-in Gas HOBs, or kitchen hoods, to name a few.

It was clarified by Shipra Dass, the financial controller of the company, that the profits were sufficient to meet the resultant liability arising out of the redemption of preference shares at a premium. Therefore, the redemption was carried out of the profits which were otherwise available for declaration of dividend to the shareholders of the company. After the redemption of preference shares, a requisite amount was transferred out of profits to Capital Redemption Reserve Account. As on the date of redemption, no liability on account of dividend payment to the preference shareholders was existing.

It may be noted that the company was incorporated with an Authorised Capital of ₹ 250.00 lacs divided into twenty-two lacs equity shares of ₹ 10 each and 30,000 redeemable preference shares of ₹100 each. The equity shares were fully subscribed at the time of incorporation but the preference shares were issued as fully paid-up only five years back. The reserves of Triveni consisted of General Reserves, Dividend Equalisation Fund, Workmen Compensation Reserve and Investment Fluctuation Reserve. Included in the list of non-current assets were Land and Building, Plant and Machinery, Vehicles, and Furniture and Fixtures.

Earlier, for the Financial Year 2018-19, the company had declared a dividend of ₹ 4 per share at its Annual General Meeting held on 7th September, 2019. However, a dividend of ₹ 42,000 payable on 10500 equity shares remained unclaimed even after the expiry of statutory period within which dividend was required to be paid.

The company owned a plot of land in Kochi, a prominent urban area of Kerala which was purchased by it after the date of its incorporation. As the property rates were going up, it was decided by Hariharan Nair, Venkatesh, Siva Kumar and Balakrishnan, the directors of the company, to revalue the plot during the current Financial Year 2019-20. It was found that the fair market value of the plot was approximately six times the original price based on a moderate estimate. This resulted in a revaluation profit of ₹ 75.00 lacs.

Q13: In the above case scenario, the company has created Capital Redemption Reserve (CRR) Account after redemption 30,000 preference shares of ₹ 100 each at a premium of ₹ 30 per share. Out of the given options, which should be the purpose for which amount lying to the credit of CRR Account needs to be utilised:

- (a) Amount lying to the credit of CRR Account cannot be utilized for any purpose during the life-time of the company.
- (b) Amount lying to the credit of CRR Account can be utilised for issuing fully paid-up bonus shares to the members of the company.
- (c) Amount lying to the credit of CRR Account can be utilised for declaration of dividend.
- (d) Amount lying to the credit of CRR Account can be utilised for paying up fresh issue of debentures to the members and such debentures shall be redeemed only after ten years from the date of issue.

Q14: The given case scenario states that after redeeming 30,000 preference shares of ₹ 100 each at a premium of ₹ 30 per share, the company transferred the requisite amount to the Capital Redemption Reserve (CRR) Account. How much was that amount?

- (a) ₹ 39,00,000
- (b) ₹ 30,00,000
- (c) ₹ 19,50,000
- (d) ₹ 15,00,000

Q15: In the given case scenario, the redemption of preference shares was carried out by TKHGL through utilisation of the profits which were otherwise available for declaration of dividend to the shareholders of the company. If the company had decided not to utilise such profits for the purpose of redemption which other option could it have used for accomplishing the redemption.

- (a) No other option is available for the purpose of redemption of preference shares except profits which are otherwise available for declaration of dividend to the shareholders of the company.
- (b) Out of the proceeds of a fresh issue of shares made for the purpose of redemption of preference shares.
- (c) Out of the proceeds of a fresh issue of debentures to be redeemed only after ten years.
- (d) Out of the proceeds of a long-term loan raised from the bankers of the company for the purpose of redemption of preference shares.

Questions 1 & 2 are compulsory

Attempt any 4 out of remaining 5

1. Following is the extract of the Balance sheet Beltex Ltd. as on 31st March, 2020:

Particulars	Amount (₹)	
Equity & Liabilities		
(1) Shareholder's Fund		
a. Share capital		
Authorised capital		
10,000, 12% Preference shares of ₹ 10 each	1,00,000	
1,00,000 equity shares of ₹ 10 each	<u>10,00,000</u>	<u>11,00,000</u>
Issued & Subscribed capital		
9,000, 12% Preference shares of ₹ 10 each		90,000
80,000 equity shares of ₹ 10 each, ₹ 7 paid-up		5,60,000
b. Reserves & Surplus		
Capital Redemption Reserve	1,00,000	
Capital Reserve	75,000	
Securities Premium	20,000	
Surplus in statement of P&L	<u>1,00,000</u>	<u>2,95,000</u>
(2) Non-current liabilities		
a. Long-term borrowings		
Secured loans – 12% partly convertible Debentures @ ₹ 100 each		5,00,000

On 1st April, 2020 the company has made final call at ₹ 3 each on 80,000 Equity Shares. The call money was received by 25th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus @ 1 share for every 4 shares to existing shareholders.

Answer the following questions according to the Companies Act, 2013, in above case -

- Which of the above-mentioned sources can be used by company to issue bonus shares?
 - Calculate the amount to be capitalized from free reserves to issue bonus shares?
 - If the company did not ask for the final call on April 1st, 2020. Can it still issue bonus shares to its members?
- Yellow Pvt Ltd. is an unlisted company incorporated in the year 2012. The company have share capital of rupees fifty crores. The company has decided to issue sweat equity shares to its directors and employees. The company decided to issue 10% sweat equity shares (which in total will add up to 30% of its paid up equity shares), with a locking period of five years, as it is a start-up company. How would you justify these facts in relation to the provision for issue of sweat equity shares by a start-up company, with reference to the provision of the Company Act, 2013. Explain?
 - The Board of Directors of Rajesh Exports Limited, a subsidiary of Manish Limited, decides to grant a loan of ₹ 3 lakh to Bhaskar, the finance manager of Manish Limited, getting salary of ₹ 40,000 per month, to buy 500 partly paid-up shares of ₹ 1,000 each of Rajesh Exports Limited. Examine the validity of the Board's decision with reference to the provisions of the Companies Act, 2013.
 - Due to insufficient profits, Silver Robotics Limited is unable to redeem its existing preference shares amounting to ₹ 10,00,000 (10,000 preference shares of 100 each) though as per the terms of issue they need to be redeemed within next two months. It did not, however, default in payment of dividend as and when it became due. What is the remedy available to the company in respect of outstanding preference shares as per the Companies Act, 2013?

5. Shree Limited has an Authorized Capital of 10,00,000 equity shares of the face value of ₹ 100 each. Some of the shareholders expressed their opinion in the Annual General Meeting that it is very difficult for them to trade in the shares of the company in the stock market and requested the company to reduce the face value of each share to ₹ 10 and increase the number of shares to 1,00,00,000. Examine, whether the request of the shareholders is considerable, as per the provisions of the Companies Act, 2013.
6. What are provisions of the Companies Act, 2013 relating to the appointment of 'Debenture Trustee' by a company? Whether the following can be appointed as 'Debenture Trustee'?
- (a) A shareholder of the company who has shares of ₹ 10,000.
 - (b) A creditor whom the company owes ₹ 999 only.
 - (c) A person who has given a guarantee for repayment of amount of debentures issued by the company.
7. "The offer of buy-back of its own shares by a company shall not be made within a period of six months from the date of the closure of the preceding offer of buy -back, if any and cooling period to make further issue of same kind of shares including allotment of further shares shall be a period of one year from the completion of buy back subject to certain exceptions." Examine the validity of this statement by explaining the provisions of the Companies Act, 2013 in this regard.
8. Satvikya Private Limited was formed on 25th April, 2020. At the time of formation, it had provided in its articles that the company shall not be permitted to accept or keep advance subscription or call money in advance. However, in the August 2023, the need was felt to amend the articles with respect to retention of calls-in-advance.

Decide whether the provision inserted in the articles at the time of formation of the company, can be considered as void?

(5 marks each)

Part A - MCQ

Q1.	c
Q2.	d
Q3.	c
Q4.	d
Q5.	d
Q6.	d
Q7.	c
Q8.	c
Q9.	b
Q10.	b
Q11.	c
Q12.	b
Q13.	b
Q14.	b
Q15.	b

Part B – Subjective

1. Issue of Bonus Shares

- (1) According to section 63(1) of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of –
- its free reserves;
 - the securities premium account; or
 - the capital redemption reserve account.

However, no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

- (2) Section 63(2) provides that the company can issue bonus shares only when the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up.

(A) The following sources can be used by the company to issue bonus shares –

- Capital Redemption Reserve
- Securities Premium
- Surplus in statement of P&L

(B) Amount of bonus shares to be issued = 80,000 shares x 1/4 = 20,000 shares

Amount that ought to be capitalized for issue of bonus shares
= 20,000 x ₹ 10 per share
= ₹ 2,00,000

Total amount available to be capitalized to issue bonus shares
= 1,00,000+20,000+1,00,000
= ₹ 2,20,000

Hence, the amount to be capitalized from free reserves to issue bonus shares will be ₹ 2,00,000.

(C) A company can issue bonus shares on only fully paid shares. Hence, if the company did not ask for the final call on 1st April, 2020, it cannot issue bonus shares to its members.

2. Sweat Equity Shares are governed by **section 54** of the Companies Act, 2013 and Rule 8 of Companies (Share capital and debentures) Rules, 2014. According to section 54, the company can issue sweat equity shares to its director and permanent employees of the company.

According to proviso to **Rule 8**, a start-up company, may issue sweat equity share not exceeding 50% of its paid up share capital up to 10 years from the date of its incorporation or registration.

According to Rule 8(5), the sweat equity shares issued to directors or employees shall be locked in/ non- transferable for a period of 3 years from the date of allotment.

Hence in the above case, the company can issue sweat equity shares by passing special resolution at its general meeting. The company as a start-up company is right in issue of 10% sweat equity share as it is overall within the limit of 50% of its paid up share capital. But the lock in period of the shares is limited to maximum 3 years period from the date of allotment (as not 5 years, as given in the question).

3. As per **section 67(2)** of the Companies Act, 2013, no public company shall give, whether directly or indirectly and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of, or in connection with, a purchase or subscription made or to be made, by any person of or for any shares in the company or in its holding company.

As per the provisions of **section 67(3)(c)** of the Companies Act, 2013, nothing stated above, shall apply to the

- giving of loans by a company to persons in the employment of the company other than its directors or key managerial personnel,
- for an amount not exceeding their salary or wages for a period of 6 months
- with a view to enabling them to purchase or subscribe for fully paid-up shares in the company or its holding company to be held by them by way of beneficial ownership.

If we analyse the provisions of section 67(3)(c) of the Companies Act, 2013, we can come to know that the relaxation given here can be availed only when all the following three conditions are fulfilled.

1. **The loan has been given to the employees of the company other than its directors or key managerial personnel (not the employee of its holding company)** - Therefore this condition has not been fulfilled;
2. **The amount does not exceed their salary or wages for a period of 6 months** - This condition has not been fulfilled.
3. **The amount should be utilized by the employee for purchase of fully shares or subscribe for fully paid-up shares in the company or its holding company to be held by them by way of beneficial ownership** - Here Mr. Bhaskar is going to purchase the shares in Rajesh Exports Ltd., which is neither his employer company, nor holding company of his employer company and the shares are not fully paid-up. Therefore, this condition has also not been fulfilled.

Even in case Mr. Bhaskar would not have fulfilled any one of the above conditions, the decision of the Board of Directors of Rajesh Exports Ltd. would **not have been valid**. Therefore we can conclude that the decision of the Board of Directors of Rajesh Exports Ltd. is not valid.

4. According to **Section 55(3)** of the Companies Act, 2013, where 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 hereinafter 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.

Provided that the Tribunal shall, while giving approval under this sub-section, order the redemption forthwith of preference shares held by such persons who have not consented to the issue of further redeemable preference shares.

In view of the provisions of Section 55 (3), Silver Robotics Limited can initiate steps for the issue of further redeemable preference shares equal to the amount due i.e. ₹ 10,00,000. For this purpose, it shall obtain the consent of the holders of three-fourths in value of such preference shares and also seek approval of the Tribunal by making a petition. In case, there are certain preference shareholders who have not accorded their consent for the proposal of issuing further redeemable preference shares, the Tribunal may order the company to redeem forthwith such preference shares. Accordingly, Silver Robotics Limited must be ready with sufficient funds for the redemption of preference shares held by those who have not consented.

On the issue of such further redeemable preference shares by the company, the unredeemed preference shares shall be deemed to have been redeemed.

5. According to **section 61(1)(d)** of the Companies Act, 2013, a limited company having a share capital may, if so authorised by its articles, alter its memorandum in its general meeting to sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum, so, however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

Section 64 of the Act states that a company shall, within 30 days of its share capital having been altered in the manner provided in section 61(1), give notice to the Registrar in the prescribed form along with an altered memorandum.

In the given situation, shareholders of Shree Limited, in the Annual General Meeting requested the company to reduce the face value of each share (from ₹ 100 to ₹ 10) and increase the number of shares than fixed by the memorandum (i.e. from 10 Lakh to 1 crore).

According to the above provision, Shree Limited, having authorized capital of 10,00,000 equity shares (face value ₹ 100 each) can reduce the face value of each share to ₹ 10 each and increase the shares to 1,00,00,000 [thereby keeping the total amount of authorized share capital to ₹ 10,00,00,000], if authorised by the articles of association. Hence, the request of the shareholders is considerable.

6. Appointment of Debenture Trustee –

Under **section 71(5)** of the Companies Act, 2013, no company shall issue a prospectus or make an offer or invitation to the public or to its members exceeding 500 for the subscription of its debentures, unless the company has, before such issue or offer, appointed one or more debenture trustees and the conditions governing the appointment of such trustees shall be such as may be prescribed.

Rule 18 (2) of the Companies (Share Capital and Debentures) Rules, 2014, framed under the Companies Act for the issue of secured debentures provide that before the appointment of debenture trustee or trustees, a written consent shall be obtained from such debenture trustee or trustees proposed to be appointed and a statement to that effect shall appear in the letter of offer issued for inviting the subscription of the debentures.

Further according to the provided rules inter-alia, no person shall be appointed as a debenture trustee, if he-

1. beneficially holds shares in the company;
2. is beneficially entitled to moneys which are to be paid by the company otherwise than as remuneration payable to the debenture trustee;
3. has furnished any guarantee in respect of the principal debts secured by the debentures or interest thereon;

Thus, based on the above provisions answers to the given questions are as follows:

- a. A shareholder who has holds shares of ₹ 10,000, cannot be appointed as a debenture trustee.
- b. A creditor whom company owes ₹ 999 cannot be appointed as a debenture trustee. The amount owed is immaterial.
- c. A person who has given guarantee for repayment of principal and interest thereon in respect of debentures also cannot be appointed as a debenture trustee.

7. According to proviso to **section 68(2)** of the Companies Act, 2013, **no offer of buy-back**, shall be made **within a period of one year** from the date of the closure of the preceding offer of buy-back, if any.

Section **68(8)** casts an obligation that where a company completes a buy -back of its shares or other specified securities under this section, it shall **not make further issue of same kind of shares** including allotment of further shares under section 62 (1) (a) or other specified securities within a period of **6 months** except by way of

- bonus issue or
- in the discharge of subsisting obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares.

Keeping in view of the above provisions, the statement “the offer of buy-back of its own shares by a company shall not be made within a period of six months from the date of the closure of the preceding offer of buy back, if any and cooling period to make further issue of same kind of shares including allotment of further shares shall be a period of one year from the completion of buy back subject to certain exceptions” is **not valid**.

8. **Section 50** of the Companies Act, 2013, deals with acceptance of call money in advance by a company which requires that such acceptance can be made only if the company is authorised by its articles to do so.

According to **section 6** of the Companies Act, 2013,

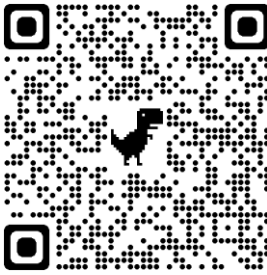

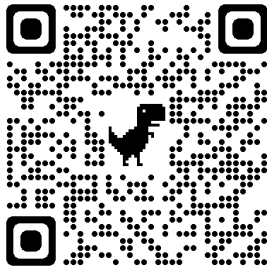
‘Save as otherwise expressly provided in this Act -

- (a) the provisions of this Act shall have effect notwithstanding anything to the contrary contained in the memorandum or articles of a company, or in any agreement executed by it, or in any resolution passed by the company in general meeting or by its Board of Directors, whether the same be registered, executed or passed, as the case may be, before or after the commencement of this Act; and
- (b) any provision contained in the memorandum, articles, agreement or resolution shall to the extent to which it is repugnant (in conflict) to the provisions of this Act, become or be void, as the case may be.'

In simple words, the provisions of this Act shall have overriding effect. It is also to be noted that section 6, starts with "Save as otherwise". It means that if any other section of the Act says that article is superior then we will treat it accordingly.

Here, in the given case, articles of Satvikya Private Limited provide that the company shall not be permitted to accept or keep advance subscription or call money in advance and accordingly here, such provision contained in the articles of association will prevail and cannot be considered as void

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