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Questions & Answers

CORPORATE LAW

Relevant For:

- CA
- CS
- CMA



CA CS Shantam Gupta



Chapter 1

The Companies Act, 2013 PRELIMINARY

Multiple Choice Questions (Answers given at the end of this Chapter)

1.	_____ 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.			
	(a)	Associate company	(b)	Subsidiary company
	(c)	Investing company	(d)	None of these

2.	A company incorporated outside India which has no place of business in India and which does not conduct any business activity in India in any manner is .			
	(a)	A foreign company	(b)	An Indian company
	(c)	Company as defined in section 2(20)	(d)	None of these

3.	'Company limited by guarantee' means a company having the liability of its members limited by to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.			
	(a)	The Companies Act, 2013	(b)	The Articles
	(c)	The memorandum	(d)	The Rules

4.	Government Company means any company in which not less than 51% of the paid up share capital is held -			
	(a)	By the Central Government	(b)	By any State Government(s)
	(c)	Jointly by the Central Government and any State Government(s)	(d)	Any of these

5.	A private company shall have a minimum of members and a maximum of members.			
	(a)	1; 100	(b)	2; 200
	(c)	2; 100	(d)	7; 50

6.	Private company means a company which by _____, prohibits any invitation to subscribe for any securities of the company.			
	(a)	Its articles; any person	(b)	Its articles; the public
	(c)	Its memorandum; the public	(d)	Its memorandum; any person



7.	An institution may be notified as a public financial institution if of the paid-up share capital of such institution is held or controlled by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments.			
(a)	25% or more	(b)	50% or more	
(c)	More than 50%	(d)	51% or more	

8.	An institution may be notified as a public financial institution if it has been established or constituted by or under other than this Act or the previous company law.			
(a)	Any Central Act	(b)	Any State Act	
(c)	Either (a) or (b)	(d)	None of these	

9.	A company shall be a small company only if its paid-up share capital does not exceed and its turnover (as per profit and loss account for the immediately preceding FY) does not exceed _____.			
(a)	Rs. 50 lakh;	(b)	Rs. 10 crore; Rs. 100 crore	
(c)	Rs. 4 crore; Rs. 40 crore	(d)	Rs. 2 crore; Rs. 20 crore	

10.	Statement (1): A public company having a paid-up share capital of Rs. 10 lakh and a turnover of Rs. 40 lakh is a small company. Statement (2): A private company having a paid-up share capital of Rs. 10 lakh and a turnover of Rs. 40 lakh is a small company even though it is a subsidiary of another private company.			
(a)	Only Statement (1) is correct	(b)	Only Statement (2) is correct	
(c)	Both the Statements are correct	(d)	None of the statement is correct	

11.	The paid up capital and turnover of Sush Ltd. is Rs. 45 lakh and Rs. 1.5 crore respectively. Sush Ltd. is a wholly owned subsidiary of Khush Ltd. Choose the right answer from amongst the following			
(a)	Sush Ltd. is a small company since its paid up capital and turnover do not exceed the limits contained in Sec.2(85)			
(b)	Sush Ltd. is not a small company since it is a subsidiary of a public company			
(c)	Sush Ltd. is not a small company since its paid up capital exceeds the limit contained in Sec. 2(85)			
(d)	Sush Ltd. is not a small company since its turnover exceeds the limit contained in Sec. 2(85)			



1	2	3	4	5	6	7	8	9	10	11
A	D	C	D	B	B	D	C	C	D	B



May 2004	Explain clearly the concept of 'Perpetual Succession' and 'Common Seal' in relation to a company Incorporated under the May 2011 Companies Act, 2013.
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Nov.	Some of the creditors of M/s Get Rich Quick Ltd. have complained that the company was formed by the promoters only to defraud 2004 the creditors and circumvent the compliance of legal provisions of the Companies Act. In this context they seek your advice as to the meaning of corporate veil and when the promoters can be made personally liable for the debts of the company.
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May	2008 Whether the existence of a company comes to an end where all the members die (Sec. 9)
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ABC Pvt. Ltd., Company is a Private Company having five members only. All the members of the company were going by car to Mumbai in relation to some business. An accident took place and all of them died. Answer with reasons, under the Companies Act, 2013 whether existence of the company has also come to the end?

Answer	
The existence of the company does not come to an end	<ul style="list-style-type: none"> - since the existence of the company does not depend upon the life of any or all the members of the company; - since the existence of the company can come to an end only in accordance with the provisions of law, viz. winding up and dissolution of the company; - since one of the characteristics of the company is 'perpetual succession'.

The nominees / legal representatives of deceased members	<ul style="list-style-type: none"> - shall become the new members of the company; - by giving intimation of transmission to the company, in accordance with the provisions of Sec. 56 and Sec. 72.
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June 2009	Whether the corporate personality of a company can be ignored where the company is formed for the purpose of avoiding tax liability?
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P 1.4B. F, an assessee, was a wealthy man earning huge income by way of dividend and interest. He formed three Private Companies and agreed with each to hold a bloc of investment as an agent for it. The dividend and interest income received by the company was handed back to F as a pretended loan. This way F divided his income into three parts in a bid to reduce his tax liability.

Decide, for what purpose three companies were established? Whether the legal personality of all the three companies may be disregarded?

Answer	
The three companies were established	for the purpose of avoiding tax liability, and not for any legitimate purpose.
The legal personality of all the three companies shall be disregarded	since, on similar facts, it was held in Re, Sir Dinshaw Maneckjee Pettit that each of these three companies was a sham, and therefore, income earned by all the three companies was to be treated as the income of the assessee.



Nov. 2002	Explain clearly the meaning of a private company as per the Companies Act, 2013.
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Nov. 2003	State the conditions of restrictions with which private company is incorporated under the Companies Act, 2013.
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May 2005	The articles of association of a private limited company contain provisions restricting the right to transfer shares and limiting the number of members to 200. What restrictions are generally incorporated in the articles in restricting the right to transfer shares?
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Nov. 2002	Explain clearly the meaning of a public company as per the Companies Act, 2013.
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Nov. 2018	Define the term Small Company as defined in Companies Act, 2013.
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May 2018	Whether the company is a small company? [Sec. 2(85)] MNP Private Ltd. is a company registered under the Companies Act, 2013 with a Paid Up Share Capital of Rs. 45 lakh and turnover of Rs. 3 crores. Explain the meaning of the "Small Company" and examine the following in accordance with the provisions of the Companies Act 2013: (i) Whether the MNP Private Ltd. can avail the status of small company? (ii) What will be your answer if the turnover of the company is Rs. 1.50 crore?
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Answer	
MNP Private Ltd. is a small company	- since the company satisfies the condition with respect to 'paid up capital not exceeding Rs. 4 crore' as well as the condition with respect to 'turnover not exceeding Rs. 40 crore'
If the turnover of MNP Private Ltd. is Rs. 1.5 crore	- even then, the answer shall remain same. •

July 2021	Whether the company is a small company and whether it is required to file cash flow statement as a part of its financial statement?
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The information extracted from the audited Financial Statement of Smart Solutions Private Limited as at 31 st March, 2020 is as below:

- (1) Paid-up equity share capital ? 50,00,000 divided into f 5,00,000 equity shares (carrying voting rights) of ?10 each. There is no change in the paid-up share capital thereafter.
- (2) The turnover is ? 2,00,00,000.

It is further understood that Nice Software Limited, which is a public limited company, is holding 2,00,000 equity shares, fully paid-up, of Smart Solutions Private Limited. Smart Solutions Private Limited has filed its Financial Statement for the said year with the Registrar of Companies (ROC) excluding the Cash Flow Statement within the prescribed time line during the financial year 2020-21. The ROC has issued a notice to Smart Solutions Private Limited as it has failed to file the cash flow statement along with the Balance Sheet and Profit and Loss Account. You are to advise on the following points explaining the provisions of the Companies Act, 2013:



- (i) Whether Smart Solutions Private Limited shall be deemed to be a small company whose significant equity shares are held by a public company?
- (ii) Whether Smart Solutions Private Limited has defaulted in filing its financial statement?

Answer

- (i) Smart Solutions Private Limited is a small company
since the company satisfies the condition with respect to 'paid up capital not exceeding Rs. 4 crore' as well as the condition with respect to 'turnover not exceeding Rs. 40 crore':
since it is not a subsidiary of any public company (since Nice Software Limited does not exercise or control more than 50% of the total voting power of Smart Solutions Private Limited).
- (ii) Smart Solutions Private Limited has not made any default in filing its financial statement
since it is a small company, and so it is not required to file cash flow statement as a part of its financial statement.

Nov. 2004	What is meant by a Guarantee Company? State the similarities and dissimilarities between a Guarantee Company and a Company having Share Capital.
May 1995	State the circumstances under which a company becomes the subsidiary of another company under the provisions of the Companies Act, 2013. Provisions contained in the Act.

May 1996	Determination of holding-subsidary relationship on the basis of shareholding [Sec. 2(46) and 2(87)]
<p>The paid-up share capital of XYZ (Private) Company Limited is Rs. 20 lakhs consisting of 2,00,000 Equity shares of Rs. 10 each fully paid-up. ABC (Private) Limited and its subsidiary DEF (Private) Limited are holding 60,000 and 50,000 shares respectively in XYZ (Private) Company Limited.</p> <p>Examine with reference to the provisions of the Companies Act, 2013 whether XYZ (Private) Company Limited is a subsidiary of ABC (Private) Limited. Would your answer be different if DEF (Private) Limited is holding 1,10,000 shares in XYZ (Private) Company Limited and no shares are held by ABC (Private) Limited in XYZ (Private) Company Limited?</p>	

Answer	
Total ESC of XYZ (Private) Co. Ltd.	- is Rs. 20.00,000.
ESC held by ABC (Private) Ltd. in XYZ (Private) Co. Ltd.	- is Rs. 6,00,000.
ESC held by DEF (Private) Ltd. in XYZ (Private) Co. Ltd.	- is Rs. 5.00,000.
ESC held by ABC (Private) Ltd. in XYZ (Private) Co. Ltd.	- is Rs. 11,00,000, since for the purpose of determining holding-subsidary relationship, the share capital held in XYZ (Private) Ltd. by ABC (Private) Ltd. on its own (viz. Rs. 6,00,000) together with share capital held in XYZ (Private) Ltd. by its Subsidiary DEF (Private) Ltd. (viz. Rs. 5,00,000) shall be considered.



XYZ (Private) Co. Ltd. is a subsidiary of ABC (Private) Ltd.	- since ABC (Private) Ltd. exercises and controls more than half of the ESC of XYZ (Private) Ltd.
Answer would remain same	- even if DEF (Private) Ltd. is holding 1,10,000 shares in XYZ (Private) Ltd. and no shares are held by ABC (Private) Ltd. in XYZ (Private) Ltd.

Determination of holding-subsidary relationship on the basis of shareholding [Sec. 2(46) and 2(87)] |

The paid up share capital of Advanced Castings Private Ltd. is Rs. one crore consisting of 8,00,000 equity shares of Rs. 10 each fully paid up and 2,00,000 cumulative preference shares of Rs. 10 each fully paid up. Quality Forgings Pvt. Ltd. and Supreme Engineering Pvt. Ltd. are holding 3 00,000 equity shares and 1,50,000 equity shares respectively in Advanced Castings Private Ltd. Quality Forgings Pvt. Ltd. and Supreme Engineering Pvt. Ltd. are the subsidiaries of Unique Machineries Pvt. Ltd. Examine with reference to the provisions of the Companies Act, 2013 whether Advanced Castings Private Ltd. is a subsidiary of Unique Machineries Pvt. Ltd. Will your answer be different, if Unique Machineries Pvt. Ltd. controls the composition of Board of Directors of Advanced Castings Private Ltd.?

Answer

Total ESC of Advanced Castings Pvt. Ltd.	- is Rs. 80,00,000.
ESC held by Quality Forgings Pvt. Ltd. in Advanced Castings Pvt. Ltd.	- is Rs. 30.00,000.

ESC held by Supreme Engineering Pvt. Ltd. in Advanced Castings Pvt. Ltd.	- is Rs. 15,00,000.
ESC held by Unique Machineries Pvt. Ltd. in Advanced Castings Pvt. Ltd.	Rs. 45,00,000 since for the purpose of determining holding-subsidary relationship, ESC held in Advanced Castings (Private) Ltd. by its Subsidiaries Quality Forgings Pvt. Ltd. (viz. Rs. 30,00,000) and Supreme Engineering Pvt. Ltd. (viz. Rs. 15,00,000) shall be considered.
Advanced Castings Pvt. Ltd. is a subsidiary of Unique Machineries Pvt. Ltd.	since Unique Machineries Pvt. Ltd. holds more than one-half of ESC of Advanced Castings Pvt. Ltd.
Answer would remain same	even if Unique Machineries Pvt. Ltd. controls the composition of Board of Directors of Advanced Castings Pvt. Ltd.



The paid-up Share Capital of AVS Private Limited is Rs. 1 crore, consisting of 8 lacs Equity Shares of Rs. 10 each, fully paid-up and 2 lacs Cumulative Preference Shares of Rs. 10 each, fully paid-up. XYZ Private Limited and BCL Private Limited are holding 3 lacs Equity Shares and 1,50,000 Equity Shares respectively in AVS Private Limited.

XYZ Private Limited and BCL Private Limited are the subsidiaries of TSR Private Limited. With reference to the provisions of the Companies Act, 2013 examines whether AVS Private Limited is a subsidiary of TSR Private Limited? Would your answer be different if TSR Private Limited has 8 out of total 10 directors on the Board of Directors of AVS Private Limited?

Answer	
Total ESC of AVS Pvt. Ltd.	- is Rs. 80,00,000.
ESC held by XYZ Pvt. Ltd. in AVS Pvt. Ltd.	- is Rs. 30,00,000.
ESC held by BCL Pvt. Ltd. in AVS Pvt. Ltd.	- is Rs. 15,00,000.
ESC held by TSR Pvt. Ltd. in AVS Pvt. Ltd.	Rs. 45,00,000, since for the purpose of determining holding-subsidary relationship, ESC held in AVS Ltd. by its Subsidiaries XYZ Pvt. Ltd. (viz. Rs. 30,00,000) and BCL Pvt. Ltd. (viz. Rs. 15,00,000) shall be considered.
AVS Pvt. Ltd. is a subsidiary of TSR Pvt. Ltd.	since TSR Pvt. Ltd. holds more than one-half of ESC of AVS Pvt. Ltd

Answer would remain same

even if TSR Pvt. Ltd. has 8 out of 10 directors on the Board of Directors of AVS Pvt. Ltd. since in such a case TSR Pvt. Ltd. controls the composition of Board of Directors of AVS Pvt. Ltd.

June 2009 Determination of holding-subsidary relationship on the basis of shareholding [Sec. 2(46) and 2(87)]

The paid up share capital of ABC Private Limited is Rs. one crore consisting of 8,00,000 equity shares of Rs. 10 each and 2,00,000 cumulative preference shares of Rs. 10 each, both fully paid up. PQR Private Limited and MNO Private Limited are holding 3,00,000 equity shares and 1,50,000 equity shares respectively in ABC Private Limited. PQR Private Limited and MNO Private Limited are the subsidiaries of UMC Private Limited. Examine with reference to the provisions of the Companies Act, 2013 whether ABC Private Limited is a subsidiary of UMC Private Limited. Would your answer be different, if UMC Private Limited controls the composition of Board of Directors of ABC Private Limited?

Answer	
Total ESC of ABC Pvt. Ltd.	- is Rs. 80,00,000.
ESC held by PQR Pvt. Ltd. in ABC Pvt. Ltd.	- is Rs. 30,00,000.
ESC held by MNO Pvt Ltd. in ABC Pvt. Ltd.	- is Rs. 15,00,000.



ESC held by UMC Pvt Ltd. in ABC Pvt. Ltd.	- is Rs. 45,00,000, since for the purpose of determining holding-subsidary relationship, ESC held in ABC Pvt. Ltd. by its Subsidiaries PQR Pvt. Ltd. (viz. Rs. 30,00,000) and MNO Pvt. Ltd. (viz. Rs. 15,00,000) shall be considered.
ABC Pvt. Ltd. is a subsidiary of UMC Pvt. Ltd.	- since UMC Pvt. Ltd. holds more than one-half of ESC of ABC Pvt. Ltd.
Answer would remain same	- even if UMC Pvt. Ltd. controls the composition of Board of Directors of ABC Pvt. Ltd.

NOV. 2017	Determination of holding-subsidary relationship [Sec. 2(46) and 2(87)]
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The paid-up share capital of SAB Private Limited is Rs. 1 crore, consisting of 8 lakhs Equity Shares of Rs. 10 each, fully paid-up and 2 lakhs Cumulative Preference shares of Rs. 10 each, fully paid-up. JVN Private Limited and SARA Private Limited are holding 3 lakhs Equity Shares and 50,000 Equity Shares respectively in SAB Private Limited. JVN Private Limited and SARA Private Limited are the subsidiaries of PQR Private Limited. With reference to the provisions of the Companies Act, 2013 examine whether SAB Private Limited is a subsidiary of PQR Private Limited? Would your answer be different if PQR Private Limited has 8 out of 9 Directors on the Board of SAB Private Limited?

Answer	
Total ESC of SAB Pvt. Ltd.	- is Rs. 80,00,000.
ESC held by JVN Pvt Ltd. in SAB Pvt. Ltd.	- is Rs. 30,00,000.

ESC held by SARA Pvt. Ltd. in SAB Pvt. Ltd.	- is Rs. 5,00,000.
ESC held by PQR Pvt Ltd. in SAB Pvt. Ltd.	- is Rs. 35,00,000, since for the purpose of determining holding-subsidary relationship, ESC held in SAB Pvt. Ltd. by its Subsidiaries JVN Pvt. Ltd. (viz. Rs. 30,00,000) and SARA Pvt. Ltd. (viz. Rs. 5,00,000) shall be considered.
SAB Pvt. Ltd. is not a subsidiary of PQR Pvt. Ltd.	- since PQR Pvt. Ltd. does not hold more than one-half of ESC of SAB Pvt. Ltd.
Answer would be different (i.e. SAB Pvt. Ltd. shall be a subsidiary of PQR Pvt. Ltd.)	- if PQR Pvt. Ltd. has 8 out of 9 directors on the Board of SAB Pvt. Ltd. since in such a case PQR Pvt. Ltd. would have control over the composition of Board of Directors of SAB Pvt. Ltd.

Nov. 2018	Whether a company carrying on online business through data exchange in India is a foreign company
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Teresa Ltd. is a company registered in New York (U.S.A.). The company has no place of business established in India, but it is doing online business through data interchange in India. Explain with reference to relevant provisions of the Companies Act, 2013 whether Teresa Ltd. will be treated as Foreign Company.

Teresa Ltd, has a place of business in India Teresa Ltd. is a foreign company since electronic mode includes providing online services through data exchange;



- since a company incorporated outside India which has a place of business in India through electronic mode is a foreign company if it conducts any business activity in India.

Whether an Association constituted by two Joint Hindu Families consisting of 51 adult and 5 minor members is an illegal association? (Sec. 464)

The United Traders Association was constituted by two Joint Hindu Families consisting of 51 major and 5 minor members. The Association was carrying the business of trading as retailers with the object for acquisitions of gain. The Association was not registered as a company under the Companies Act or other law.

State whether United Traders Association is having any legal status? Will there be any change in the status of this Association if the members of the United Traders Association is subsequently reduced to 45.

Answer

United Traders Association is an illegal association

Effect of subsequent reduction in number of members

since the number of adult members exceeds 50.

- would not make any change in the status of United Traders Association, since an illegal association continues to be an illegal association even though, subsequently, the number of members is reduced below 50.

Nov. 2014	Whether an Association constituted by four Joint Hindu Families consisting of 60 adult and 10 (Modified) minor members is an illegal association?
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The XYZ Traders Association was constituted by four joint Hindu families consisting of 60 major and 10 minors members. The Association was carrying on the business of trading as retailers with the object for acquisition of gains. The Association was not registered as a company under the Company under the Companies Act, 2013 or any other law. State whether the XYZ Traders Association is having any legal status?

Will there be any change in the status of this Association if the members of the XYZ Traders Association subsequently were reduced to 40?

Answer

XYZ Traders Association is an illegal association	since the number of adult members exceeds 50.
Effect of subsequent reduction in number of members	would not make any change in the status of XYZ Traders Association, since an illegal association continues to be an illegal association even though, subsequently, the number of members is reduced below 50.

Nov. 2014	Define the term "Free Reserves" as contained in the Companies Act, 2013.
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Nov. 2014	Explain what is meant by "Financial Statement" as per the Companies Act, 2013.
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Nov. 2014	Who shall be considered as promoter according to the definition given in the Companies Act, 2013? Explain.
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May 2015	Define the term 'Small Company' as contained in the Companies Act, 2013.
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TRUE OR FALSE

Nov. 2011	<p>A company is a legal person but not a citizen.</p> <p>Ans. The given statement is true.</p> <p>Reason: Citizenship under the Citizenship Act is available only to an individual. Therefore, no company can be a citizen of India.</p>
May 2014	<p>The concept of legal personality of a company is of absolute nature.</p> <p>Ans. The given statement is false.</p> <p>Reason: in certain cases, the separate identity (t.e. corporate personality or legal personality) of a company is ignored, termed as lifting of corporate veil.</p>

CHOOSE THE CORRECT ANSWER

Pick out the correct answer from the following and give reasons (1 Mark each):

May 2007 (Modified)	<p>A Private Company and Public Company must have a minimum paid-up capital of</p> <p>(a) Rs. 1 lakh and Rs. 2 lakhs respectively</p> <p>(b) Rs. 3 lakhs and Rs. 5 lakhs respectively</p> <p>(c) Rs. 2 lakhs and Rs. 3 lakhs respectively</p> <p>(d) such amount as may be prescribed.</p> <p>Ans. (d).</p> <p>Reason: As per Sec. 2(68), a private company must have such minimum paid up capital as may be prescribed. As per Sec. 2(71), a public company must have such minimum paid up capital as may be prescribed.</p>
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Chapter 2

Incorporation of Company and Matters
INCIDENTAL THERETO

May 2004	Explain the provisions of the Companies Act, 2013 relating to registration of a non-profit organization as a company. What procedure is required to be adopted for the said purpose?
May 2006	What is meaning of "Certificate of Incorporation" under the provisions of the Companies Act, 2013?
May 2007	Mr. Ram Lai and his friend desire to incorporate a Public Company and approach you for help. Advise
Nov. 2007	Mr. V, alongwith six other persons desires to float a company for charitable purposes, as permissible under Section 8 of the Companies Act, 2013. He seeks your advice about the procedure to be followed to give effect to the above proposal Advise him.
May 2011	Which documents are required to be filed with the Registrar of Companies at the time of registration of a company under the provisions of the Companies Act, 2013?
May 2016	State the documents and information for registration of One Person Company (OPC) required to be filled with the Registrar of Companies.



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About The Author

I am a Qualified CA engaged in the profession of coaching and mentoring students for over 6 years now with 11 AIR 's in CA and CMA Courses. Mentored over 15000 + students on offline and online medium.

Testimonials



I would like to thank you for being such a wonderful teacher. Your teaching style is wonderful. You made law very interesting and easy to understand. You have always provided doubt solving facility which makes you different from others. I have never thought that in online teaching, teacher will have a strong bond with his student but you proved me wrong thank you sir for always supporting and mentoring me.



The experience with CSG class are good. All the queries doubts are resolved in a blink of eyes. Concepts + examples are relatable to practicality. Regular MCQs and subjective tests are conducted by weekly AND let's roll-on.



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