



CA INTERMEDIATE · PAPER 2 · CORPORATE AND OTHER LAWS

Scanner Notes 2.0

Topic by Topic · October 2026 Edition



2 Parts · 15 Chapters · 148 Topics · 613 Classified Questions

Based on the ICAI Study Material and the Scanner, Corporate and Other Laws 2026 October Edition (V2), with Front Matter V4

How this book works

For each topic, first read the Study Material paragraphs named in the “Read first” line. Then work down the skill bands — each band names the skill the examiner has actually used on that topic, and lists the exact Scanner questions to practise at it.

The section that follows the Contents — **How to Use These Notes** — explains the question lines, ICAI’s Manner of Assessment, and what the skill mix should change about your preparation. Read it once before you begin.

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BEFORE YOU START

How to Use These Notes

Every question in the Scanner has been read and classified — **613 of them in this paper** — against the skill framework ICAI itself publishes. These notes are built around that classification rather than around the syllabus order. Ten minutes spent on this page will change how you use the rest of the book.

1. How a topic is laid out

Read it like this	
Read first	The exact Study Material paragraphs the topic rests on. Open the Study Material and read them before the notes — the notes assume you have.
Notes	What the topic actually turns on, written for the examination rather than for coverage. Short, and meant to be re-read the night before.
Skill bands	One band for each skill the examiner has actually used on that topic, each with a few lines of guidance and the exact Scanner questions to practise. Work down the bands in the order printed: they run from the least demanding skill to the most.
Concept base	A topic the examiner has not yet reached. It is not optional — it has simply not been asked, and it is examinable.

2. Reading a question line

CSQ 3.4 · PYQ 2025-Sep [1] (b) {C} · 5M · Pg 347 **LEVEL II Application** **Medium**

Part of the line	What it tells you
CSQ 3.4	The Scanner's own question number. CSQ is a case-scenario question, TQ a theory question.
PYQ 2025-Sep [1] (b)	Where it was asked — PYQ past examination, MTP mock test paper, RTP revision test paper — then the sitting, and its number in that paper.
{C}	A compulsory question in that paper.
5M	Marks, as printed in the Scanner. Blank where the source does not print them — RTPs do not.
Pg 347	The page of the Scanner where the question and its answer are printed.
LEVEL II Application	ICAI's skill level, and the sub-skill within it. Section 3 explains these.

Part of the line	What it tells you
Easy	How demanding the question is — judged on the marks it carries and the number of separate things it asks for.

3. The Manner of Assessment — what each skill asks of you

ICAI publishes a **Skill Assessment Specification Grid**. It states three skill levels, and in its **Manner of Assessment of Skills** column it describes each level as two distinct skills. Those six skills are the band headings that run through this book.

Skill	Rolls up to	What the examiner is asking you to do	Directive verbs to watch for
Remembering	Level I	Reproduce what you have learnt, as you learnt it.	Define · List · State · Name · Enumerate · Recognise
Understanding	Level I	Explain it, and place it in context — show you have grasped why the rule is what it is.	Describe · Explain · Distinguish · Identify · Illustrate · Outline
Application	Level II	Use the knowledge — take the stated provision to the stated facts and reach a conclusion.	Apply · Calculate · Determine · Prepare · Reconcile · Record · Perform · Use · Conduct · Demonstrate
Analysis	Level II	Examine the interrelationships between distinct areas to identify root causes and find evidence that supports a judgement.	Analyse · Discuss · Compare and Contrast · Examine · Develop · Monitor · Prioritise · Produce · Align · Communicate
Evaluation	Level III	Assess the problem and use judgement to reach a conclusion.	Advise · Evaluate · Recommend · Review · Select · Assess
Synthesis	Level III	Integrate data and information, separating the relevant facts from the irrelevant.	ICAI lists no verb for synthesis.

ICAI prints the verbs for **Application** and **Analysis** as two separate lists, so that division is the Institute's own. For Level I and for Level III it prints one combined list each — so the line between **Remembering and Understanding**, and between **Evaluation and Synthesis**, follows ICAI's description of the manner of assessment rather than a published list of verbs.

CA Intermediate is assessed at **Levels I and II only** — the Intermediate table carries no Level III column at all, and Evaluation & Synthesis begins at Final. That matters here more than it does in other papers, because a law question is very often worded "**Advise whether...**", "**Examine the validity of...**", "**Is the contention correct?**" — the Institute's Level III verbs. In a law paper those words are not asking you to judge a rule against a standard. They are asking you to take a stated section to stated facts and reach a conclusion, which is **Application**. Every such question in this book is therefore banded at Application, or at Analysis where the ask takes more than one party or limb separately. That reading is ours, not the Institute's, and it is recorded question by question in the Question Register.

4. What the skill mix should change about your preparation

ICAI's Skill Assessment Specification Grid gives CA Intermediate **no Level III column at all** — Evaluation and Synthesis enter the scheme only at Final. This paper is examined at **Level I** and **Level II**, and on the classified Scanner questions the marks divide **28%** Level I to **72%** Level II. Two things follow that are easy to miss.

- **Do not read "Analysis & Application" as an even split.** Inside Level II this paper puts about **72%** of the marks on Application and about **28%** on Analysis. Most of the work is taking a stated section to a stated set of facts and reaching a conclusion — not writing about the section.
- **The paper's balance is not each chapter's balance.** Every chapter opens with its own **ICAI Skill Profile** panel, showing how that chapter's marks actually divide and what that means for preparing it. Some chapters are a third theory; others carry almost none. Read the panel before you start the chapter.

5. Two guides at the front of the book

	What it is for
Study Priority Guide	Every examined topic ranked by its share of the classified Scanner questions, and graded A, B or C on cumulative coverage. Category A carries the first 60% of all questions — secure those to full command first.
Importance grade	The A-D grade printed against each chapter in the Contents. This is ICAI's syllabus weightage signal, and it is separate from the question-frequency ranking. Where the two disagree, prepare the chapter to the higher of the two.

STUDY PRIORITY GUIDE

Topic Ranking — Exam Weightage

Read first: Every topic in this booklet that the examiner has actually asked is ranked below by its share of the 613 classified Scanner questions (2026 October Edition, V2), aggregated across all 15 Units — and graded A, B or C on cumulative coverage. **Category A (ranks 1–25)** covers the first 60% of all classified questions: with the passing standard at 50%, a student who prepares the A-topics to full command holds a clear margin above it. **Category B (ranks 26–40)** adds the next 15%, taking coverage to about 75% — work through these as time allows. **Category C (ranks 41–113)** is the remaining 25%: a long tail that is slower to mine for marks, much of which gets covered automatically while preparing A and B. The **Pg.** column cross-references the page on which that topic's study notes begin.

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
1	A	Interpretation of Statutes	Rules of Interpretation/Construction	4.4%	4.4%	249
2	A	The General Clauses Act, 1897	General Rules of Construction (Sections 5-13)	3.6%	8.0%	236
3	A	Audit and Auditors	Appointment of Auditors (Section 139)	3.4%	11.4%	175
4	A	The General Clauses Act, 1897	Definitions (Section 3)	3.4%	14.8%	232
5	A	Share Capital and Debentures	Alteration of Share Capital (Section 61 to 70)	3.3%	18.1%	80
6	A	Management and Administration	General Meetings (Section 96 to 100 and 121)	2.9%	21.0%	135
7	A	The Foreign Exchange Management Act, 1999	Residential Status Under FEMA, 1999	2.9%	24.0%	263
8	A	Management and Administration	Pre-Requisites of a Meeting (Section 101 to 104)	2.8%	26.8%	120
9	A	Declaration and Payment of Dividend	Provisions Regarding Declaration and Payment of Dividend	2.8%	29.5%	142
10	A	The Foreign Exchange Management Act, 1999	Regulation and Management of Foreign Exchange	2.6%	32.1%	266
11	A	Acceptance of Deposits by Companies	Certain Important Terms Explained	2.4%	34.6%	88
12	A	Acceptance of Deposits by Companies	Provisions Regarding Acceptance of Deposits from Public by Eligible Companies (Section 76)	2.3%	36.9%	94
13	A	Audit and Auditors	Eligibility, Qualifications and Disqualifications of Auditors (Section 141)	2.3%	39.2%	181

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
14	A	Interpretation of Statutes	Internal aids to Interpretation/Construction	2.3%	41.4%	255
15	A	Preliminary	Definition	2.1%	43.6%	17
16	A	Prospectus and Allotment of Securities	Prospectus (Section 25 to 33)	2.1%	45.7%	51
17	A	Accounts of Companies	Books of Accounts etc, to be Kept by Company (Section 128)	2.0%	47.6%	153
18	A	Accounts of Companies	Financial Statement, Board's Report Etc. (Section 134)	1.8%	49.4%	162
19	A	Registration of Charges	Duty to Register Charges, Etc. (Section 77)	1.6%	51.1%	101
20	A	Declaration and Payment of Dividend	Punishment for Failure to Distribute Dividends within 30 Days	1.6%	52.7%	150
21	A	Accounts of Companies	Corporate Social Responsibility (Section 135)	1.6%	54.3%	166
22	A	Incorporation of Company and Matters Incidental Thereto	Formation of Company (Section 3) OPC	1.5%	55.8%	22
23	A	Management and Administration	Voting (Section 106 to 109)	1.5%	57.3%	124
24	A	Accounts of Companies	Copy of Financial Statement to be Filed with Registrar (Section 137)	1.5%	58.7%	169
25	A	The Limited Liability Partnership Act, 2008	Incorporation of LLP	1.5%	60.2%	214
26	B	The General Clauses Act, 1897	Miscellaneous (Sections 25-30)	1.5%	61.7%	243
27	B	Management and Administration	Annual Return (Section 92 and 94)	1.3%	63.0%	118
28	B	Accounts of Companies	Internal Audit (Section 138)	1.3%	64.3%	172
29	B	Audit and Auditors	Removal, Resignation of Auditors and Giving of Special Notice (Section 140)	1.1%	65.4%	179
30	B	Incorporation of Company and Matters Incidental Thereto	Formation of Companies with Charitable Objects (Section 8)	1.0%	66.4%	27
31	B	Prospectus and Allotment of Securities	Mis-statement in Prospectus (Section 34 and 35)	1.0%	67.4%	55
32	B	Share Capital and Debentures	Issue of Sweat Equity Shares (Section 54)	1.0%	68.4%	75
33	B	Management and Administration	Resolutions (Sections 114 to 117)	1.0%	69.3%	131
34	B	Companies Incorporated Outside India	Application of Act to Foreign Companies (Section 379)	1.0%	70.3%	193
35	B	The Limited Liability Partnership Act, 2008	Partners and their Relations	1.0%	71.3%	217
36	B	Incorporation of Company and Matters Incidental Thereto	Doctrine of Constructive Notice and Doctrine of Indoor Management	0.8%	72.1%	32

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
37	B	Incorporation of Company and Matters Incidental Thereto	Subsidiary Company Not to hold Shares in its Holding Company (Section 19)	0.8%	72.9%	43
38	B	Prospectus and Allotment of Securities	Private Placement (Section 42)	0.8%	73.7%	64
39	B	The General Clauses Act, 1897	Power and Functionaries (Sections 14-19)	0.8%	74.6%	240
40	B	Share Capital and Debentures	Variations of Shareholders' Rights (Section 48)	0.7%	75.2%	70
41	C	Share Capital and Debentures	Issue of Shares at a Premium or Discount (Section 52 & 53)	0.7%	75.9%	73
42	C	Acceptance of Deposits by Companies	Provisions Regarding Acceptance of Deposits from Members [Section 73(2), 73(3), 73(4), 73(5)]	0.7%	76.5%	92
43	C	Declaration and Payment of Dividend	Unpaid Dividend Account (UDA)	0.7%	77.2%	146
44	C	Accounts of Companies	Voluntary Revision of Financial Statements or Board's Report (Section 131)	0.7%	77.8%	159
45	C	Audit and Auditors	Remuneration of Auditors (Section 142)	0.7%	78.5%	184
46	C	Companies Incorporated Outside India	Accounts of Foreign Companies (Section 381)	0.7%	79.1%	197
47	C	The Limited Liability Partnership Act, 2008	LLP- Meaning and Concept	0.7%	79.8%	212
48	C	The General Clauses Act, 1897	Provision as to Orders, Rules Etc. Made Under Enactments (Sections 20-24)	0.7%	80.4%	241
49	C	Interpretation of Statutes	Introduction	0.7%	81.1%	246
50	C	Interpretation of Statutes	External aids to Interpretation/Construction	0.7%	81.7%	258
51	C	The Foreign Exchange Management Act, 1999	Introduction, Preamble Definitions etc.	0.7%	82.4%	261
52	C	Incorporation of Company and Matters Incidental Thereto	Alteration of Memorandum (Section 13)	0.5%	82.9%	36
53	C	Incorporation of Company and Matters Incidental Thereto	Service of Documents (Section 20)	0.5%	83.4%	45
54	C	Share Capital and Debentures	Debenture (Section 71)	0.5%	83.8%	85
55	C	Registration of Charges	Introduction	0.5%	84.3%	100
56	C	Registration of Charges	Company to Report Satisfaction of Charge (Section 82)	0.5%	84.8%	109
57	C	Registration of Charges	Power of Registrar to Make Entries of Satisfaction and Release in Absence of Intimation from Company (Section 83)	0.5%	85.3%	111

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
58	C	Management and Administration	Representation of the President & Governors in Meetings of Companies to which they are Member (Section 112)	0.5%	85.8%	128
59	C	Accounts of Companies	Periodical Financial Results (Section 129 A)	0.5%	86.3%	157
60	C	Accounts of Companies	Re Opening of Accounts on Court's or Tribunal's Orders (Section 130)	0.5%	86.8%	158
61	C	Audit and Auditors	Auditors not to Render Certain Services (Section 144)	0.5%	87.3%	187
62	C	The Limited Liability Partnership Act, 2008	Financial Disclosures	0.5%	87.8%	219
63	C	The Limited Liability Partnership Act, 2008	Compromise, Arrangement or Reconstruction of LLPs	0.5%	88.3%	222
64	C	The Limited Liability Partnership Act, 2008	Winding Up And Dissolution	0.5%	88.7%	224
65	C	Interpretation of Statutes	Why do we need Interpretation/Construction?	0.5%	89.2%	248
66	C	Incorporation of Company and Matters Incidental Thereto	Incorporation of Company (Section 7)	0.3%	89.6%	26
67	C	Incorporation of Company and Matters Incidental Thereto	Registered Office Of Company (Section 12)	0.3%	89.9%	39
68	C	Prospectus and Allotment of Securities	Public Offer and Private Placement (Section 23)	0.3%	90.2%	49
69	C	Prospectus and Allotment of Securities	Allotment of Securities by Company (Section 39)	0.3%	90.5%	60
70	C	Prospectus and Allotment of Securities	Securities to be Dealt with in Stock Exchange (Section 40)	0.3%	90.9%	61
71	C	Share Capital and Debentures	Call on Share (Section 49 to 51)	0.3%	91.2%	72
72	C	Share Capital and Debentures	Issue and Redemption of Preference Shares (Section 55)	0.3%	91.5%	77
73	C	Registration of Charges	Acquisition of Property Subject to Charge and Modification of Charge (Section 79)	0.3%	91.8%	106
74	C	Registration of Charges	Register of Charges (Section 81 and 85)	0.3%	92.2%	108
75	C	Management and Administration	Registers (Section 88 to 91 and 95)	0.3%	92.5%	116
76	C	Management and Administration	Proxies (Section 105)	0.3%	92.8%	123
77	C	Management and Administration	Minutes (Sections 118)	0.3%	93.1%	133
78	C	Management and Administration	Inspection of Minutes-Books of General Meetings (Section 119)	0.3%	93.5%	134

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
79	C	Declaration and Payment of Dividend	Investor Education and Protection Fund (IEPF)	0.3%	93.8%	148
80	C	Accounts of Companies	Constitution of National Financial Reporting Authority (Section 132)	0.3%	94.1%	161
81	C	Companies Incorporated Outside India	Documents, Etc., to be Delivered to Registrar by Foreign Companies (Section 380)	0.3%	94.5%	195
82	C	Companies Incorporated Outside India	Registration of Prospectus (Section 389)	0.3%	94.8%	204
83	C	The Limited Liability Partnership Act, 2008	Assessment and Transfer of Partnership Rights	0.3%	95.1%	220
84	C	Incorporation of Company and Matters Incidental Thereto	Introduction to Incorporation of Companies and Promoters	0.2%	95.3%	21
85	C	Incorporation of Company and Matters Incidental Thereto	Members Severally Liable in Certain Cases i.e. Reduction in Minimum Membership (Section 3A)	0.2%	95.4%	25
86	C	Incorporation of Company and Matters Incidental Thereto	Effect of Registration (Section 9)	0.2%	95.6%	29
87	C	Incorporation of Company and Matters Incidental Thereto	Article of Association - AoA (Section 5)	0.2%	95.8%	31
88	C	Incorporation of Company and Matters Incidental Thereto	Act to Override Memorandum, Articles etc. (Section 6)	0.2%	95.9%	34
89	C	Incorporation of Company and Matters Incidental Thereto	Commencement of Business etc. (Section 10A)	0.2%	96.1%	41
90	C	Incorporation of Company and Matters Incidental Thereto	Conversion of Companies Already Registered (Section 18)	0.2%	96.2%	42
91	C	Prospectus and Allotment of Securities	Global Depository Receipt (Section 41)	0.2%	96.4%	63
92	C	Share Capital and Debentures	Share Capital - Types	0.2%	96.6%	67
93	C	Share Capital and Debentures	Certificate of Shares (Section 46)	0.2%	96.7%	68
94	C	Share Capital and Debentures	Voting Rights (Section 47)	0.2%	96.9%	69
95	C	Share Capital and Debentures	Transfer and Transmission of Securities and the Allied Provisions (Sections 56 to 59)	0.2%	97.1%	79
96	C	Acceptance of Deposits by Companies	Repayment of Deposits Accepted Before Commencement of The Companies Act, 2013 (Section 74)	0.2%	97.2%	98
97	C	Registration of Charges	Deemed Notice of Charge (Section 80)	0.2%	97.4%	104
98	C	Registration of Charges	Application For Registration of Charge by Charge-Holder (Section 78)	0.2%	97.6%	106

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
99	C	Registration of Charges	Intimation of Appointment of Receiver or Manager (Section 84)	0.2%	97.7%	112
100	C	Registration of Charges	Rectification by Central Government in Register of Charges (Section 87)	0.2%	97.9%	114
101	C	Management and Administration	Circulation of Members' Resolution (Section 111)	0.2%	98.0%	128
102	C	Management and Administration	Representation of Corporations in Meetings of Companies and Creditors (Section 113)	0.2%	98.2%	130
103	C	Accounts of Companies	Financial Statements (Section 129)	0.2%	98.4%	156
104	C	Audit and Auditors	Powers and Duties of Auditors and Auditing Standards (Section 143)	0.2%	98.5%	186
105	C	Audit and Auditors	Auditors to Attend General Meetings (Section 146)	0.2%	98.7%	189
106	C	Audit and Auditors	Punishment for Contravention (Section 147)	0.2%	98.9%	190
107	C	Audit and Auditors	Central Government to Specify Audit of Items of Cost in Respect of Certain Companies (Section 148)	0.2%	99.0%	191
108	C	Companies Incorporated Outside India	Dating of Prospectus and Particulars to be Contained Therein (Section 387)	0.2%	99.2%	202
109	C	Companies Incorporated Outside India	Provisions as to Expert's Consent and Allotment (Section 388)	0.2%	99.3%	203
110	C	Companies Incorporated Outside India	Punishment for Contravention (Section 392)	0.2%	99.5%	207
111	C	Companies Incorporated Outside India	Company's Failure to Comply with Provisions of this Chapter not to affect Validity of Contracts, Etc. (Section 393)	0.2%	99.7%	208
112	C	The Limited Liability Partnership Act, 2008	Conversion into LLP	0.2%	99.8%	221
113	C	The Limited Liability Partnership Act, 2008	Differences with other forms of Organisation	0.2%	100.0%	226

Share % is a question-frequency signal drawn from the Scanner — what has actually been asked. The **Importance** grade (A–D) printed against each Chapter and Unit heading is ICAI's own weightage signal, taken from the Chapter Priority Table, Front Matter V4 — ICAI marks over the 8 papers set under the 2023 scheme, including September 2026. The two measure different things, and where they diverge, prepare to the higher of the two standards. A further **35 topics** are declared in the Scanner's frequency tables but carry no question yet; they are badged **CONCEPT BASE** in the notes and are not ranked here.

PART

2A

Corporate Laws

12 chapters

PART 2A · CORPORATE LAWS · CHAPTER 1

Preliminary

2 Topics · 13 Classified Questions · Importance: D

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **scenario-driven**

Level I — Comprehension & Knowledge **6.9%** 4 of 58 marks

Level II — Analysis & Application **93.1%** 54 of 58 marks

This chapter is examined more through application than the paper as a whole — only 7% of its marks are Comprehension and Knowledge against 28% across Paper 2. Knowing the section is not enough here; the marks are in taking it to the facts.

Topic 1: Short Title, Extent, Commencement and Application

L2P2-2A-C1-T01

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 1, Preliminary — the short title, extent, commencement and application provisions with which the Companies Act, 2013 opens.

NOTES

What this topic actually contains: four gateway matters, and nothing more. **The short title** — the name by which the Act is cited. **The extent** — the territory over which it operates. **The commencement** — the date from which the Act, or a particular provision of it, takes effect. **The application** — the classes of bodies the Act governs. None of this is a rule you apply to facts; it is the frame every other section in the paper sits inside.

Why commencement is worth a minute of your time: a provision binds only from the date it is brought into force, and the Companies Act, 2013 has been worked on repeatedly since. You can see the consequence all through this chapter's answers — the **small company limits stand revised** and an answer built on the old figures is marked wrong, and the **Companies (Incorporation) Second Amendment Rules, 2021** swept away conditions that earlier answers turned on. **Always answer on the law as amended**, never on the version you first learnt.

Application, and the one place it is examined: the Act reaches a body incorporated outside India only through the door the definitions build for it. A company incorporated outside India comes inside the Act as a **foreign company** under section 2(42), and only where it **has a place of business in India** — by itself or through an agent, physically or through electronic mode — **and conducts business activity in India**. That is the whole of the Act's reach over an outside incorporation, and it is examined as a definition question, not as an application question.

Topic 2: Definition

L2P2-2A-C1-T02

Read first Read ICAI Study Material Chapter 1, Preliminary — the definitions in section 2, particularly sections 2(40), 2(41), 2(42), 2(52), 2(71), 2(76), 2(85) and 2(87), together with section 19.

NOTES

Subsidiary — section 2(87), the most examined definition in the chapter. A company is a subsidiary of another (the holding company) where 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 on its own or together with one or more of its subsidiary companies. The two limbs are alternatives — satisfy either and the relationship exists. **Explanation (a):** the company is a subsidiary even where the control is exercised by another subsidiary of the holding company. **Explanation (b):** the Board's composition is deemed to be controlled where the other company, by exercise of a power exercisable at its discretion, **can appoint or remove all or a majority of the directors**. The proviso adds that prescribed classes of holding companies shall not have layers of subsidiaries beyond the prescribed number. **The trap that recurs in every subsidiary problem:** the examiner gives shareholdings that fall **just short of one-half**, then adds a second limb of facts about the Board. Count the votes first — where two subsidiaries together hold three lacs and fifty thousand equity shares out of eight lacs, that is less than one-half and there is **no** holding relationship on the voting-power limb. Then take the Board facts separately — **eight directors out of nine** is control of the composition, and the same company that failed the first test passes on the second. **The classic wrong answer is to stop at the shareholding.** Note also that the second limb runs on **voting power**; preference shares are put into the capital structure to see whether you wrongly count them as votes. **Two additions from the chain question. Section 2(46):** a **holding company**, in relation to one or more other companies, means **a company of which such companies are subsidiary companies** — and by **Explanation (c)** to section 2(87) the expression 'company' **includes any body corporate**, while **Explanation (d)** defines a 'layer' in relation to a holding company as **its subsidiary or subsidiaries**. **And the fiduciary carve-out:** by the **notification dated 27 December, 2013**, shares held, or power exercisable, by a company in another company in a fiduciary capacity are not counted in determining the holding-subsidiary relationship under section 2(87). **Work a chain from the top down.** Where A can appoint **two-thirds of the directors** of B, B is A's subsidiary on the Board-control limb; where B holds **60% of the voting power** in C, C is B's subsidiary on the voting limb; and by **Explanation (a)**, C is **deemed to be a subsidiary of A** as well, because the control is that of another subsidiary of A. Set the relationships out pair by pair, in that order.

Small company — section 2(85), and the numbers are the whole answer. A small company is a company **other than a public company** whose **paid-up share capital does not exceed ₹10 crore** and whose turnover, as per the profit and loss account for the immediately preceding financial year, does not exceed ₹100 crore. **The proviso excludes** (a) a **holding company or a subsidiary company**, (b) a company registered under **section 8**, and (c) a company or body corporate

governed by any **special Act**. Two warnings the answers make repeatedly. First, the limits stand revised — an answer that applies **₹4 crore and ₹40 crore** is wrong, and the examiner has printed a question in which the whole point is that a Company Secretary advised on the erstwhile limits. Second, **a company inside both limits is still not a small company if it is a subsidiary** — the proviso is absolute, and this single point has been set at least four times.

Financial statement — section 2(40) — and the cash flow exemption that hangs off it. Financial statement includes **a balance sheet** as at the end of the financial year; **a profit and loss account**, or for a not-for-profit activity an **income and expenditure account**; **a cash flow statement**; **a statement of changes in equity, if applicable**; and **any explanatory note** annexed to or forming part of any of those documents. **Proviso:** the financial statement of a one person company, small company, dormant company and a private company which is a start-up may not include the cash flow statement. **How the question is actually built:** the examiner never asks 'is a cash flow statement required'. He gives a private company and asks you to run it through **each exempt category in turn** — one person company, small company, dormant company, start-up private company — and the company fails at least one for a reason planted in the facts: forty members and no 'OPC' in the name kills the first; **being a subsidiary kills the small company route** under the proviso to section 2(85); actively carrying on business kills dormant; and being told the company is not a start-up kills the fourth. Add the sting in the tail — under the **proviso to section 2(71)**, a company which is a subsidiary of a company that is not a private company **is deemed to be a public company** even where its articles continue to make it private. Take the four categories one at a time; a single sweeping paragraph loses the marks.

Listed company — section 2(52) read with Rule 2A. A listed company is one which has **any of its securities** listed on any recognised stock exchange; the proviso lets prescribed classes be taken out. **Rule 2A of the Companies (Specification of Definitions Details) Rules, 2014** takes out: (a) **public companies which have not listed their equity shares** but have listed their **non-convertible debt securities** issued on private placement basis under the SEBI (Issue and Listing of Non-convertible Securities) Regulations, 2021, or their **non-convertible redeemable preference shares** so issued, or both; (b) **private companies** which have listed non-convertible debt securities on private placement basis on a recognised stock exchange under those Regulations; and (c) public companies whose equity shares are not listed here but are **listed in a jurisdiction specified under section 23(3)**. So the answer turns on one question: **are the equity shares listed?** If only privately placed debt or preference securities are listed, the company is **not** a listed company.

Foreign company — section 2(42) — and the electronic mode point that decides it. A foreign company is a company or body corporate **incorporated outside India** which **has a place of business in India**, whether by itself or through an agent, **physically or through electronic mode**, and **conducts any business activity in India** in any other manner. **Rule 2(1)(c)(iv)** of the Companies (Registration of Foreign Companies) Rules, 2014 defines electronic mode as carrying out electronically based transactions **whether the main server is installed in India or not**, including online services such as **telemarketing**, telecommuting, telemedicine, education and information research. So a company with no physical place of business here, selling into India by telemarketing

off a server abroad, **is a foreign company** — the server's location is expressly irrelevant. The Explanation carves out electronic offering, subscription or listing of securities in an **International Financial Services Centre** set up under section 18 of the Special Economic Zones Act, 2005.

Two smaller definitions the pack examines. Financial year, section 2(41): where a company or body corporate is a **holding, subsidiary or associate company of a company incorporated outside India** and is required to follow a different financial year for **consolidation of its accounts outside India**, the **Central Government** may, on application in the prescribed form and manner, allow any period as its financial year, **whether or not that period is a year**; applications pending before the Tribunal when the Companies (Amendment) Act, 2019 commenced are disposed of by the Tribunal under the earlier law, and an existing company had **two years from commencement** to align.

Related party, section 2(76): clause (viii)(B) brings in any body corporate which is a subsidiary of a holding company to which the company is also a subsidiary — so two fellow subsidiaries are related parties; but **Notification G.S.R. 464(E) dated 5 June, 2015** disapplies clause (viii) to a **private company for the purposes of section 188**, and where the two subsidiary private companies have **common directors** they are caught instead by section 2(76)(iv).

Where the definitions collide — section 19. A definitions question can carry a section 19 tail. Once you have established, on section 2(87), which company is the holding and which the subsidiary, **no company may hold shares in its holding company, by itself or through nominees**, and **no holding company may allot or transfer its shares to its subsidiary** — any such allotment or transfer is **void**. The only escapes are where the subsidiary holds **as the legal representative of a deceased member, as a trustee**, or where it was **already a shareholder before it became a subsidiary**. So where a profitable subsidiary proposes to buy a tenth of its holding company's capital, the answer is no — the acquisition falls within none of the three exceptions.

Understanding explain it, and place it in context · 1 question

- Quote the definition in full and in the Act's own words before you touch the facts. In section 2(87) both limbs carry marks, and so do both Explanations.
- Where the definition is completed by a rule — Rule 2A for listed company, Rule 2(1)(c)(iv) for electronic mode — name the rule. The section alone does not answer the question.

CSQ 2.2 · PYQ 2019-Nov [1] (a) {C} · 4M · Pg 3

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 4 questions

- Set out the section, then apply it to the facts, then state the conclusion. An answer that jumps to the conclusion loses the application marks even when the conclusion is right.
- Do the arithmetic on the page. Write out the shareholding as a fraction of the total, or the paid-up capital and turnover against the ₹10 crore and ₹100 crore limits, so the examiner can see the comparison you made.

CSQ 2.6 · RTP 2022-Nov [1] · Pg 11	LEVEL II Application	Medium
CSQ 2.8 · PYQ 2023-May [4] (a) · 5M · Pg 14	LEVEL II Application	Medium
CSQ 2.11 · RTP 2024-May [11] · Pg 18	LEVEL II Application	Medium
CSQ 2.13 · MQ · 4M · Pg 21	LEVEL II Application	Medium

Analysis break it down and take the parts separately · 8 questions

- Where the question lists several companies, or asks you to test one company against several categories, take them one at a time under a separate heading and give each its own conclusion.
- Where the question has a second half beginning 'would your answer be different if', answer it as a fresh application of the other limb of the definition, not as an afterthought.

CSQ 2.5 · PYQ 2022-May [4] (a) (i) · 3M · Pg 11	LEVEL II Analysis	Easy
CSQ 2.1 · RTP 2018-May [1] · Pg 0	LEVEL II Analysis	Medium
CSQ 2.3 · MTP 2021-Mar [5] (a) · 5M · Pg 5	LEVEL II Analysis	Medium
CSQ 2.7 · PYQ 2022-Nov [3] (a) · 5M · Pg 12	LEVEL II Analysis	Medium
CSQ 2.9 · RTP 2023-May [11] · Pg 15	LEVEL II Analysis	Medium
CSQ 2.10 · PYQ 2021-Jul [1] (a) {C} · 5M · Pg 16	LEVEL II Analysis	Medium
CSQ 2.12 · RTP 2025-Jan [14] · Pg 19	LEVEL II Analysis	Medium
CSQ 2.4 · RTP 2022-May [1] · Pg 6	LEVEL II Analysis	Hard

PART 2A · CORPORATE LAWS · CHAPTER 2

Incorporation of Company and Matters Incidental Thereto

21 Topics · 42 Classified Questions · Importance: B

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**

Level I — Comprehension & Knowledge **24.6%** 48 of 195 marks

Level II — Analysis & Application **75.4%** 147 of 195 marks

This chapter sits on the paper's own profile — 25% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: Introduction to Incorporation of Companies and Promoters

L2P2-2A-C2-T01

Read first Read ICAI Study Material Chapter 2, the introduction to incorporation of companies and the meaning of promoter — section 2(69).

NOTES

Promoter — section 2(69), and the definition has three limbs, any one of which is enough. A promoter is a person (a) who has been named as such in a prospectus or is identified by the company in the annual return; or (b) who has control over the affairs of the company, directly or indirectly, whether as a shareholder, director or otherwise; or (c) in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act. Limb (a) is formal, limb (b) is about control, limb (c) is about influence over the Board.

The proviso is the whole of the examined point: nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity. A professional adviser whose advice the Board follows is not thereby a promoter. Note where the proviso bites — it cuts down **limb (c) only**, so a professional who is named in the prospectus, or who in fact controls the company, is still caught by (a) or (b).

How the question is built, and the order to answer it in. You are given a qualified professional appointed to the Board — a Chartered Accountant and MBA made an Executive Director — whose job is to **advise the Board on compliance matters, strategies, business plans and risk**. Run the limbs in turn: he is not named in a prospectus or identified in the annual return; he has no control over the affairs of the company; his advice engages limb (c) but is given **merely in a professional capacity**, so the proviso applies. Conclusion: **not a promoter**. The classic wrong answer is to treat the title 'Executive Director' as decisive — the designation is not one of the three limbs.

Application use the section - apply it to the facts · 1 question

- Take the limbs one at a time against the facts and say why each is or is not satisfied, then conclude. The marks are in the elimination, not in the conclusion.

CSQ 1.1 · RTP 2022-May [6] · Pg 27

LEVEL II
Application

Medium

Topic 2: Formation of Company (Section 3) OPC

L2P2-2A-C2-T02

Read first Read ICAI Study Material Chapter 2, formation of company and the One Person Company — section 3 read with Rules 3, 6 and 13 of the Companies (Incorporation) Rules, 2014.

NOTES

The nominee is what section 3 adds for an OPC. The memorandum of an OPC shall indicate the name of the other person — the nominee — who shall, in the event of the subscriber's death or his incapacity to contract, become the member of the company. The nominee must give his **prior written consent in the prescribed form**, and that consent is filed with the Registrar at the time of incorporation along with the memorandum and articles. The nominee **may withdraw his consent** in the manner prescribed.

Who may be a member or nominee — Rule 3, as amended by the Companies (Incorporation) Second Amendment Rules, 2021. Only a natural person who is an Indian citizen, whether resident in India or otherwise, is eligible to incorporate an OPC or to be the nominee for its sole member. Four consequences, and each has been set as a question. **Residence is no longer a condition** — the old requirement is gone, and where a question still needs the term, 'resident in India' means a person who has stayed in India for not less than 120 days during the immediately preceding financial year. **A body corporate cannot be a nominee** — a private limited company proposed as nominee is not valid, because only a natural person qualifies. **No minor** shall become a member or a nominee of an OPC. And a person **shall not be a member of more than one OPC at any point of time**, nor a **nominee of more than one OPC** [Rule 3(2)].

The trap in the nominee questions is a fact about leaving India. The examiner tells you the nominee is emigrating permanently and asks whether she must withdraw. **She need not.** An Indian citizen may be a nominee **whether resident in India or otherwise**, so she may continue so long as she remains an Indian citizen; she may of course withdraw voluntarily. Any answer that makes withdrawal mandatory on loss of residence is applying the pre-2021 rule.

Withdrawal and replacement of the nominee — the steps, in order. The nominee gives written notice to both the sole member and the company. The member then has **fifteen days to appoint a new nominee**. The new nominee gives his **written consent in Form INC-4**, and **Form INC-4 is filed with the Registrar** to update the company's records. Note the point students miss: **a change of nominee does not alter the memorandum** and needs no formal amendment of it, even though it

is the memorandum that names him.

Conversion of an OPC — the restrictions have gone. The **Companies (Incorporation) Second Amendment Rules, 2021** did away with the requirement of paid-up capital of fifty lakh rupees or less and turnover of two crore rupees or less for conversion, and with the rule that an OPC could not convert voluntarily until **two years** had expired from incorporation. An OPC may now be converted into a private company or a public company, other than a section 8 company, with no paid-up capital or turnover restriction. So the answer to 'can it convert immediately after a capital increase' is now **yes** — but say what the old law was and that it stands amended, because the question is usually drafted on the old figures.

The procedure for conversion — Rule 6 of the Companies (Incorporation) Amendment Rules, 2023. (1) The OPC **alters its memorandum and articles by passing a resolution under section 122(3)** to give effect to the conversion. (2) It increases the minimum number of members and directors to two or seven members and two or three directors, according as it converts into a private or a public company. (3) It files an application in **e-Form INC-6** with the fee under the Companies (Registration Offices and Fees) Rules, 2014, together with the **altered e-MOA and e-AOA**. (4) The Registrar, **after examining the latest audited financial statement** and on being satisfied that the requirements are complied with, approves the form and **issues the certificate**. The old **Form INC-5** is no longer required.

Documents and information for registering an OPC — the list question. Filed with the Registrar within whose jurisdiction the registered office is proposed to be situated: (1) the **memorandum and articles** duly signed by the subscriber in the manner in **Rule 13** — the memorandum indicating the nominee; (2) a **declaration in Form INC-8** by the person engaged in the formation of the company, being an advocate, a Chartered Accountant, a Cost Accountant or a Company Secretary in practice, and by a person named in the articles as **director, manager or secretary**, that all requirements of the Act and the rules in respect of registration and matters precedent or incidental have been complied with; (3) a **declaration from the subscriber and from the person named as first director** that he is not convicted of any offence in connection with the promotion, formation or management of any company, has not been found guilty of any fraud or misfeasance or breach of duty to any company under this Act or any previous company law during the last five years, and that the documents filed are **correct and complete and true** to the best of his knowledge and belief; (4) the **address for correspondence till the registered office is established**; and (5) the **particulars of every subscriber** — name including surname or family name, residential address, nationality — with **proof of identity**, and for a **body corporate subscriber** such particulars as are prescribed under **Rule 16** of the Companies (Incorporation) Rules, 2014; (6) the **particulars of the persons named in the articles as the first directors** — name including surname or family name, **Director Identification Number**, residential address, nationality — with such other particulars including **proof of identity** as prescribed under **Rule 17**; and (7) the particulars of the interests of those first directors in other firms or bodies corporate, along with their consent to act as directors, in the form and manner prescribed under Rule 17. **Note:** the particulars required are those of the **individual subscriber, not of the professional engaged in the incorporation**.

Remembering reproduce what you have learnt · 1 question

- The registration-documents question is a straight list. Number the items and give each its form number — INC-8 for the declaration of compliance, and the Rule 13 reference for the signing of the memorandum.

TQ 2.1 · PYQ 2016-May [5] (b) · 6M · Pg 28

LEVEL I
Remembering**Hard****Understanding** explain it, and place it in context · 1 question

- Where the answer rests on an amendment, name the amending rules and say what the position was before. The examiner is testing whether you know the law has moved.

CSQ 2.8 · MTP 2025-Mar S2 [3] (b) · 5M · Pg 37

LEVEL I
Understanding**Medium****Application** use the section - apply it to the facts · 4 questions

- Set out Rule 3 first and then test the person against it — citizen or not, natural person or not, minor or not, already a member or nominee of another OPC or not. One line per condition.

CSQ 2.2 · PYQ 2019-Nov [1] (a) (iii) {C} · 2M · Pg 31

LEVEL II
Application**Easy**

CSQ 2.5 · PYQ 2021-Dec [1] (a) (i) {C} · 3M · Pg 35

LEVEL II
Application**Easy**

CSQ 2.3 · RTP 2020-May [8] · Pg 32

LEVEL II
Application**Medium**

CSQ 2.6 · RTP 2022-Nov [2] · Pg 36

LEVEL II
Application**Medium****Analysis** break it down and take the parts separately · 3 questions

- The OPC question usually comes in three or four parts. Answer each part under its own number and give each its own conclusion; a running paragraph loses the part marks.

CSQ 2.1 · PYQ 2018-Nov [1] (a) {C} · 4M · Pg 30

LEVEL II
Analysis**Medium**

CSQ 2.7 · RTP 2024-Sep [11] · Pg 37

LEVEL II
Analysis**Medium**

CSQ 2.4 · PYQ 2020-Nov [1] (a) · 6M · Pg 33

LEVEL II
Analysis**Hard**

Topic 3: Members Severally Liable in Certain Cases i.e. Reduction in Minimum Membership (Section 3A)

L2P2-2A-C2-T03

Read first Read ICAI Study Material Chapter 2, members severally liable where the membership falls below the statutory minimum — section 3A.

NOTES

The rule in one line: under **section 3A**, inserted by the **Companies (Amendment) Act, 2017**, if at any time the number of members of a company is reduced — in the case of a public company below seven, in the case of a private company below two — and the company **carries on business for more than six months while the number is so reduced**, then every person who is a member of the company during the time that it so carries on business after those six months, and is cognisant of the fact, shall be severally liable for the payment of the whole debts of the company contracted during that time, and may be severally sued therefor.

Four conditions, and all four must be met. (1) The number falls below **seven** for a public company or **two** for a private company. (2) The company **carries on business** while so reduced. (3) It does so for **more than six months**. (4) The member is **cognisant** of the fact that the company is carrying on business with fewer than the minimum. Knowledge is a condition of liability, not an afterthought — a member who does not know is not caught.

What the liability covers, and what it does not. It is liability for **the whole debts of the company contracted during that time** — that is, during the period after the six months while the reduced membership continues. It is **not** liability for everything the company has ever owed, and it does not begin on the day the membership falls. The classic wrong answer is to make the remaining members liable for all the company's debts from the date of the reduction. Liability is **several**, so each such member may be sued on his own for the whole.

How to apply it. Fix the number of members before and after: 250 members, 244 withdraw, **six remain** — below seven, so a public company is in section 3A territory. Then fix the dates: the six months runs from the reduction, and only business carried on **after** it exposes the members. Then ask who among the members was **cognisant**. State the three findings and then the conclusion.

Application use the section - apply it to the facts · 1 question

- Do the subtraction on the page and name the floor you are measuring against, then deal with the six months and with knowledge as separate findings before you conclude.

CSQ 3.1 · RTP 2019-Nov [6] · Pg 39

LEVEL II
Application

Medium

Topic 4: Incorporation of Company (Section 7)

L2P2-2A-C2-T04

Read first Read ICAI Study Material Chapter 2, incorporation of company — section 7 read with Rule 13 of the Companies (Incorporation) Rules, 2014.

NOTES

The filing — section 7(1)(a). An application for registration is filed with the Registrar within whose jurisdiction the proposed registered office is to be situated, in Form SPICe+ (Simplified Proforma for Incorporating Company Electronically), Form INC-32, with the fee under the **Companies (Registration Offices and Fees) Rules, 2014**, together with the **memorandum in e-MoA Form INC-33** and the **articles in e-AoA Form INC-34**, duly signed by **all subscribers** in the manner specified in **Rule 13** of the Companies (Incorporation) Rules, 2014.

Rule 13, subscriber by subscriber — this is how the subscription question is marked. **Rule 13(a):** each subscriber writes his name, address, description and occupation, if any, in the presence of at least one witness, and the witness **attests the signature** and adds his own name, address, description and occupation. **Rule 13(b):** an **illiterate subscriber** affixes his **thumb impression or mark**, and the person writing for him must describe the mark as such, write the subscriber's name under or next to it, sign it, and state the number of shares she is taking.

The foreign subscriber, and the two rules that apply to different people. **Rule 13(f):** a foreign national **residing outside India** may subscribe only if he holds a **valid Business Visa** during his visit to India — so a subscriber who flies in to sign needs the right visa. **Rule 13(e):** where a foreign national residing outside India subscribes, his signature and address on the memorandum and articles, and his proof of identity, must be notarised by a Notary Public; and if he resides in a country **outside the Commonwealth** or one **not a party to the Hague Apostille Convention, 1961**, the notary's certificate must in addition be **authenticated by a Diplomatic or Consular Officer**. Take each foreign subscriber separately — the visiting subscriber and the non-visiting subscriber do not get the same answer.

Subscribers that are not individuals — two more clauses of Rule 13. **Rule 13(d):** where the subscriber is a **Limited Liability Partnership**, the memorandum and articles must be signed by a partner of the LLP duly authorised by a resolution approved by all the partners. **Rule 13(c):** where the subscriber is a **body corporate**, they must be signed by a director, officer or employee of the body corporate duly authorised by a resolution of its Board of Directors. Note the difference in the authorising body — **all the partners for an LLP, the Board for a company** — because that is the point of putting both in the same set of facts.

Incorporation obtained by furnishing incorrect information — the Tribunal's menu. Under **section 7**, where a company has been got incorporated by **furnishing any incorrect information**, the **Tribunal** may, on an application made to it and on being satisfied that the situation so warrants: (1) pass such orders as it thinks fit for the regulation of the management of the company, including changes in its memorandum and articles, in the public interest or in the interest of the company

and its members and creditors; or (2) direct that the **liability of the members shall be unlimited**; or (3) direct **removal of the name of the company from the register of companies**; or (4) pass an order for the **winding up** of the company; or (5) pass such other orders as it may deem fit. Give all five — the question is worth the list.

The proviso, and the personal liability that runs alongside. Before making any such order the **company shall be given a reasonable opportunity of being heard**, and the Tribunal shall take into consideration the transactions entered into by the company, including the obligations, if any, contracted or payment of any liability. Separately from anything done to the company, the promoters, the persons named as the first directors, and the persons making the declaration at the time of registration shall each be liable for action under section 447. So the answer to 'what action may be taken against the company **and its promoters**' has two halves, and the second half is the section 447 liability.

Remembering reproduce what you have learnt • 1 question

- Learn the form numbers as a set — SPICe+ / INC-32 for incorporation, INC-33 for e-MoA, INC-34 for e-AoA. They are cheap marks and they are printed in the answers.

TQ 4.1 • MTP 2026-Apr S2 [2] (b) • 5M • Pg 40

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context • 1 question

- For the incorrect-information question, give the Tribunal's five orders, then the proviso, then section 447. Missing the proviso costs the marks for procedure.

CSQ 4.1 • PYQ 2025-May [1] (a) {C} • 5M • Pg 41

LEVEL I
Understanding

Medium

Topic 5: Formation of Companies with Charitable Objects (Section 8)

L2P2-2A-C2-T05

Read first Read ICAI Study Material Chapter 2, formation of companies with charitable objects — section 8 read with Rule 3(5) of the Companies (Incorporation) Rules, 2014.

NOTES

The licence, and its three conditions — section 8(1). Where it is proved to the satisfaction of the **Central Government (the power is delegated to the Registrar of Companies)** that a person or an association of persons proposed to be registered as a limited company (a) has in its objects the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object; (b) **intends to apply its profits, if any, or**

other income in promoting its objects; and (c) intends to prohibit the payment of any dividend to its members — the Central Government may **by issue of a licence** allow it to be registered as a limited company without the addition to its name of the word 'Limited' or the words 'Private Limited'.

The fact pattern the examiner keeps setting, and the order to answer it in. A club or association with an unimpeachable object — flight training for pilots, training for nurses, promotion of tribal art — proposes to run for ten years and then dissolve, distributing the surplus of assets among the members; or proposes to **distribute the net profits equally among the members as a goodwill gesture**. Take it in three steps. The **object clears condition (a)** — say so, because it earns marks. The **distribution of profits fails condition (b)**, which requires income to be applied **only** in promoting the objects. And the **distribution of surplus assets is independently blocked by section 8(9)**. Conclusion: the proposal is **not feasible**, and the promoters must bring it into conformity with the Act.

Section 8(9) — what happens to the surplus. If on the **winding up or dissolution** of a section 8 company there remains, after satisfaction of its debts and liabilities, any asset, it may be transferred to another company registered under section 8 having similar objects, subject to such conditions as the Tribunal may impose, or may be sold and the proceeds credited to the Insolvency and Bankruptcy Fund formed under section 224 of the Insolvency and Bankruptcy Code, 2016. Members do not take the surplus on dissolution, any more than they take profits during the life of the company.

Alteration of the memorandum or articles — the trap. A company registered under section 8 shall not alter the provisions of its memorandum or articles except with the previous approval of the Central Government (delegated to the Registrar of Companies). **Previous approval** — so a company that passes a **special resolution in general meeting and then intimates the Registrar** has done it in the wrong order and the alteration is bad. A member objecting on that ground is right. The classic wrong answer is to treat a special resolution as sufficient because that is what section 14 says for other companies.

Section 8(3) — a firm may be a member. A partnership firm may be a member of a company registered under section 8. This is an express departure worth stating in terms, because a firm is not ordinarily capable of membership. It is regularly paired with the alteration point in the same question.

No minimum paid-up capital. The requirement of having a minimum paid-up share capital shall not apply to a section 8 company, vide **notification dated 5 June, 2015**.

An OPC cannot take the section 8 route. Under **Rule 3(5)** of the Companies (Incorporation) Rules, 2014, a One Person Company cannot be incorporated as, or converted into, a company registered under section 8. So where the intended members refuse to join and the promoter is left alone, the answer is not 'incorporate a section 8 OPC instead' — the law does not allow it.

Understanding explain it, and place it in context · 1 question

- Set out all three conditions of section 8(1) even where the facts break only one of them; the marks are distributed across the conditions.
- Say who grants the licence and note that the Central Government's power is delegated to the Registrar of Companies — the answers say it every time.

TQ 5.1 · MTP 2024-Nov [3] (a) · 5M · Pg 43

LEVEL I
Understanding**Medium****Application** use the section - apply it to the facts · 4 questions

- Deal with the object clause and the profit-distribution proposal as separate findings, then bring in section 8(9) for the surplus on dissolution, then conclude that the proposal is not feasible.
- Where the question is put as advice to promoters, end with the advice — that the proposal must be brought into conformity with the Act — not merely with a finding.

CSQ 5.1 · PYQ 2019-May [5] (a) · 5M · Pg 44

LEVEL II
Application**Medium**

CSQ 5.2 · RTP 2022-May [5] · Pg 45

LEVEL II
Application**Medium**

CSQ 5.3 · PYQ 2023-Nov [3] (a) · 5M · Pg 46

LEVEL II
Application**Medium**

CSQ 5.4 · MTP 2026-Apr S2 [2] (a) · 5M · Pg 47

LEVEL II
Application**Medium****Analysis** break it down and take the parts separately · 1 question

- The scenario gives you a purpose and asks whether it fits section 8. Take the objects one at a time — is each a **charitable object within the section** — and only then ask whether the income is applied to those objects and dividend is prohibited.
- Where the facts mix a charitable purpose with an income-generating activity, say expressly that generating income for the beneficiaries is not the same as **paying profit to members**. That distinction is the mark.

CSQ 5.5 · PYQ 2026-May [1] (a) {C} · 5M · Pg 48

LEVEL II
Analysis**Medium****Topic 6: Effect of Registration (Section 9)**

L2P2-2A-C2-T06

Read first Read ICAI Study Material Chapter 2, effect of registration — sections 9 and 10.**NOTES**

What registration does to the company — section 9. From the date of incorporation mentioned in the certificate of incorporation, the subscribers to the memorandum and all other persons who may from time to time become members of the company **shall be a body corporate by the name contained in the memorandum**. The date in the certificate is the operative date; nothing turns on the date the application was filed.

The capacities that come with incorporation. The registered company is **capable of exercising all the functions of an incorporated company**, with **perpetual succession**, and with power to acquire, hold and dispose of property, both movable and immovable, tangible and intangible, to contract, and to sue and be sued. Quote the string in full — it is a list, and the marks are spread across it.

What registration does to the members — section 10. The memorandum and articles, when registered, bind the company and the members thereof to the same extent as if they had respectively been signed by the company and by each member, and as if they contained covenants on its and his part to observe all the provisions of the memorandum and of the articles. And all monies payable by any member to the company under the memorandum or articles shall be a debt due from him to the company.

The question asks for both halves — write it in two parts. 'The effect of registration on the company itself and on its members' is a two-headed question. **On the company:** body corporate from the date in the certificate, perpetual succession, the property, contracting and litigation powers. **On the members:** the statutory contract in section 10, and the debt. Give each its own heading and the marks fall out cleanly; a single undivided paragraph does not.

Application use the section - apply it to the facts · 1 question

- Where a date of registration is given, tie the effects to that date in the concluding line rather than leaving them abstract.

TQ 6.1 · PYQ 2022-May [4] (a) (ii) · 3M · Pg 49

LEVEL II
Application

Easy

Topic 7: Memorandum of Association-MoA (Section 4)

L2P2-2A-C2-T07

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 2, the memorandum of association — section 4.

NOTES

Name reservation, and the number that decides the question. On an application, the Registrar may approve the reservation of a name for twenty days from the date of approval, or for such

other period as may be prescribed. Count from the **date of approval**, not from the date of the application. Where approval came on 6 April and the incorporation form was filed on 15 May — **thirty-nine days later** — the reservation had lapsed and the name was **no longer valid** at the date of filing. This is the point on which the incorporation case scenario opens.

The registered office clause names only the State. Because the memorandum records the State in which the registered office is to be situated and nothing narrower, a shift of the office from one town or city to another within the same State is not an alteration of the memorandum at all, and **section 13 does not apply to it**. That single proposition disposes of a whole line of registered office questions — the challenge has to be brought under section 12, not section 13.

The OPC memorandum carries one clause the others do not. It shall indicate the name of the other person — the nominee — who shall, in the event of the subscriber's death or his incapacity to contract, become the member of the company. Note that it is the **memorandum**, not the articles, that names him; and note that despite that, a **later change of nominee does not amount to an alteration of the memorandum**.

How the memorandum is signed. The memorandum is filed as **e-MoA in Form INC-33** with the SPICe+ application, and must be **signed by all the subscribers in the manner prescribed by Rule 13** of the Companies (Incorporation) Rules, 2014 — with a witness for each subscriber, a thumb impression for an illiterate subscriber, and notarisation for a foreign subscriber residing outside India.

Topic 8: Article of Association - AoA (Section 5)

L2P2-2A-C2-T08

Read first Read ICAI Study Material Chapter 2, the articles of association and provisions for entrenchment — section 5.

NOTES

Entrenchment, in one line. Articles are ordinarily altered by **special resolution**; entrenchment makes a specified provision **harder to alter than that**. **Section 5(3)**: the articles may contain provisions for entrenchment to the effect that specified provisions of the articles may be altered only if conditions or procedures that are more restrictive than those applicable in the case of a special resolution are met or complied with. Entrenchment means making something more protective — that is the sentence to open with.

Section 5(4) — how entrenchment gets in, and the asymmetry that carries the marks. Provisions for entrenchment shall only be made either on formation of the company, or by an amendment in the articles agreed to by all the members of the company in the case of a private company, and by a special resolution in the case of a public company. So: **unanimity for a private company, special resolution for a public company**. The classic wrong answer swaps the two, or says a special

resolution will do in both cases.

Section 5(5) — notice to the Registrar. Where the articles contain provisions for entrenchment, whether made on formation or by amendment, the company shall give notice to the Registrar of such provisions in such form and manner as may be prescribed. An entrenchment answer that stops at the resolution is incomplete; the notice is the last step and it is separately marked.

The application. A private company wants its article on **forfeiture of shares** to be alterable only by a **90% majority**, and a director objects that section 14 allows alteration by special resolution and the company cannot legislate against the Act. **The objection is wrong.** What the company wants is entrenchment, and section 5 expressly permits a condition more restrictive than a special resolution. But the company must take the two procedural steps: since it is a **private company**, the **amendment must be agreed to by all the members**, and it must **give notice to the Registrar**.

Remembering reproduce what you have learnt · 1 question

- Two things are asked and both carry marks: **what entrenchment means**, and **the provisions that govern it**. Answer them as two separate paragraphs so neither is lost inside the other.
- Name the majority required and how entrenchment is notified to the Registrar. A definition without the machinery is half an answer.

TQ 8.1 · PYQ 2020-Nov [5] (Or) (a) (iii) · 3M · Pg 50

LEVEL I
Remembering

Easy

Topic 9: Doctrine of Constructive Notice and Doctrine of Indoor Management

L2P2-2A-C2-T09

Read first Read ICAI Study Material Chapter 2, the doctrine of constructive notice and the doctrine of indoor management.

NOTES

Constructive notice, in one line: the memorandum and articles are public documents, so a person dealing with the company is taken to have read them and to know their contents, whether he has read them or not. The doctrine **protects the company against outsiders**.

Indoor management, in one line: once satisfied that the transaction is **in accordance with the memorandum and articles**, a person dealing with the company need not enquire whether the internal proceedings relating to the contract were correctly followed — whether the necessary meeting was convened and held properly, whether the necessary resolution was properly passed. He is entitled to take it for granted that the company went through those proceedings in a regular manner. The rule is that in **Royal British Bank v. Turquand**, and it rests on the maxim **omnia praesumuntur rite esse acta** — all things are presumed to have been done rightly. **The facts are**

worth a line: in *Turquand* the **directors gave a bond to T**; the articles empowered them to issue such bonds **under the authority of a proper resolution**; **no such resolution was passed**; and it was held that T could sue on the bonds, being entitled to assume that the resolution had been duly passed.

The relationship — and this is the whole of the 'comment' question. The two doctrines run in **opposite directions**: constructive notice protects the **company against outsiders**; indoor management protects **outsiders against the company**. Indoor management is an **exception to the rule of constructive notice** and a **safeguard against the possibility of its abuse** — it cures the disadvantage constructive notice would otherwise inflict on an outsider. Say both halves. An answer that defines the two doctrines side by side without stating the opposition does not answer the question asked.

The exceptions — the most-set part of the topic. Relief on the ground of indoor management cannot be claimed: (1) **Knowledge of irregularity** — where the outsider has actual knowledge of the irregularity in the company's internal management; he may well be treated as part of the irregularity [*Howard v. Patent Ivory Manufacturing Co.*]. (2) **Negligence** — where the irregularity could have been discovered with a minimum of effort or on making proper inquiries, or where the circumstances surrounding the contract are **so suspicious as to invite inquiry** and the outsider makes none [*Underwood v. Bank of Liverpool*]. (3) **Acts void ab initio and forgery** — nothing can validate a forgery, and **a company can never be held bound for forgeries committed by its officers** [*Ruben v. Great Fingall Consolidated Co.*]; the doctrine applies only to irregularities that might otherwise affect a genuine transaction. (4) **No knowledge of the articles** — a person who has not read the articles cannot claim to have relied on them. (5) Where the question is as to the **very existence of an agency**. (6) Where a **pre-condition must be fulfilled before the company itself can exercise the power** — that is, the act is **ultra vires the company**, not merely ultra vires the directors or officers. (7) **Acts outside the scope of apparent authority** — where an officer of the company enters into a contract with a third party and the officer's act is **beyond the scope of his authority, the company is not bound**.

The straightforward application. The articles say the directors may borrow on bonds such sums as are authorised by resolution passed in general meeting. The directors borrow; the shareholders say no such resolution was passed and the company is not bound. The lender is an outsider, need not enquire whether the meeting was convened or the resolution passed, and **the company is bound to repay**. Internal want of authority is exactly the defect the doctrine cures.

The two-transaction question, and the line between them. Transaction one: a Managing Director produces a **forged Board resolution** and borrows; the lender is innocent. **Forgery is an exception** — the document is a nullity and **the company is not bound, however innocent the lender**. Transaction two: an **accountant with no authority of any kind under the articles** borrows, and the supplier does not check. The doctrine cannot help here either, but for a different reason: the outsider is asking it to **supply an authority that never existed**, not to presume compliance with a procedure. The two transactions fall on opposite sides of the line, so a single answer covering both will lose marks — take each in turn, and name the other exceptions briefly so the two answers are

seen to sit within a scheme.

Attack the word 'always'. The statement question is put as 'persons (not being members) dealing with the company are **always** protected by the doctrine of indoor management'. They are not. Give the doctrine, give the two reasons it exists — **what happens internally is not a matter of public knowledge**, and without the rule a company could escape its creditors by denying the authority of its officials — and then give the **exceptions**, which is what the word 'always' was put there to draw out.

Understanding explain it, and place it in context · 2 questions

- Name Turquand's case and the maxim. Both are printed in the answers and both are cheap marks.
- For a 'distinguish' or 'comment' question, state who each doctrine protects against whom; that sentence is the pivot of the answer.

TQ 9.3 · MTP 2024-Jul [3] (a) · 5M · Pg 53

LEVEL I
Understanding

Medium

TQ 9.2 · MTP 2021-Oct [4] (a) · 6M · Pg 53

LEVEL I
Understanding

Hard

Application use the section - apply it to the facts · 2 questions

- Decide first whether the defect is a matter of internal procedure or a want of authority altogether. Only the first is cured by the doctrine.
- Where you rely on an exception, name it and cite the case — forgery with Ruben, negligence with Underwood, knowledge with Howard.

TQ 9.1 · PYQ 2021-Jan [5] (Or) (a) · 5M · Pg 51

LEVEL II
Application

Hard

CSQ 9.1 · MTP 2020-May [4] (a) · 6M · Pg 54

LEVEL II
Application

Hard

Analysis break it down and take the parts separately · 1 question

- Where the facts contain two transactions, take them one at a time and say why each does or does not attract the doctrine. A combined answer will read as though you missed the distinction the question was built on.

CSQ 9.2 · PYQ 2026-Sep [3] (a) · 5M · Pg 55

LEVEL II
Analysis

Medium

Topic 10: Act to Override Memorandum, Articles etc. (Section 6)

L2P2-2A-C2-T10

Read first Read ICAI Study Material Chapter 2, the Act to override the memorandum, articles and

other instruments — section 6.

NOTES

The rule, in the section's own words. 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 **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 to the provisions of this Act, become or be void. In short, the Act has **overriding effect**.

The opening words carry the exception, and the examiner tests them. Section 6 begins '**Save as otherwise expressly provided**'. So where another section of the Act itself makes the articles decisive, the articles govern and there is no repugnancy. That is not an inroad on the override; it is the override obeying its own terms.

The application that has been set. Section 50 permits a company to accept **call money in advance only if it is authorised by its articles** to do so. A company whose articles say it **shall not accept or keep advance subscription or call money in advance** has not contradicted the Act — the Act made the articles the source of the power in the first place. So the article is **not repugnant and not void**; it **prevails**, and the company must amend its articles before it can accept calls in advance.

The test to run, and the order. Find the section of the Act that governs the matter. Ask whether that section **expressly leaves the point to the articles**. If it does, the articles govern. If it does not, and the article contradicts the section, the article is **void to the extent of the repugnancy** — to that extent only, not the whole article and not the whole document. The classic wrong answer is to strike down any article that differs from the Act without first asking whether the Act left room for it. Section 6 is also the answer to any argument that a company's articles can cut down a statutory entitlement, as they cannot for the modes of service under section 20.

Application use the section - apply it to the facts · 1 question

- Always state the governing section of the Act before you say whether the article is void. The comparison is between an article and a specific section, never between an article and the Act at large.

CSQ 10.1 · RTP 2023-Nov [12] · Pg 57

LEVEL II
Application

Medium

Topic 11: Effect of Memorandum and Articles (Section 10)

L2P2-2A-C2-T11

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 2, effect of memorandum and articles — section 10.

NOTES

The statutory contract. The memorandum and articles shall, when registered, bind the company and the members thereof to the same extent as if they respectively had been signed by the company and by each member, and as if they contained covenants on its and his part to observe all the provisions of the memorandum and of the articles. Registration turns two documents into a contract that nobody actually signed — that deeming is the whole of the section, and it is what you must say.

The money limb. All monies payable by any member to the company under the memorandum or articles shall be a debt due from him to the company. The Act does not leave the company to argue a contractual claim; it characterises the obligation as a **debt**.

Where the section is examined. Section 10 is not set on its own — it is set with **section 9**, in the question that asks for the effect of registration **on the company itself and on its members**. Section 9 supplies the company's side: body corporate from the **date of incorporation mentioned in the certificate, perpetual succession, power to acquire, hold and dispose of property, to contract, and to sue and be sued**. Section 10 supplies the members' side: the statutory contract and the debt. Write the two under separate headings.

The connection to keep in mind. Because the memorandum and articles bind in this way, and because outsiders are taken to have notice of them under the doctrine of constructive notice, an **alteration must be carried into every copy issued afterwards** under section 15, and the documents **cannot cut down what the Act itself provides**, by force of section 6. Section 10 is the reason the other two sections matter.

Topic 12: Alteration of Memorandum (Section 13)

L2P2-2A-C2-T12

Read first Read ICAI Study Material Chapter 2, alteration of memorandum and rectification of name — sections 13 and 16.

NOTES

Change of objects where public money is unutilised — section 13. A company which has raised money from the public through a prospectus and still has any unutilised amount out of the money so raised shall not change the objects for which it raised the money unless a **special resolution** is passed and: (i) the details of the resolution are **published in the newspapers — one in English and one in the vernacular language** in circulation at the place where the **registered office is situated**

— and are also placed on the website of the company, if any, indicating the justification for the change; and (ii) the dissenting shareholders are given an opportunity to exit by the promoters and shareholders having control, in accordance with SEBI regulations. All three requirements are cumulative.

Then the filing, and this is the step candidates drop. The company files a copy of the special resolution with the Registrar, who **certifies the registration within a period of thirty days**, and **the alteration is effective only after that certificate** — not on the passing of the resolution. So the answer to 'can the company put the balance of its public issue into an entirely new business' is yes, it can add the object and divert the money, but only on complying with all of the above.

Rectification of name — section 16, and there are two independent grounds. Where a company is registered by a name which, in the opinion of the Central Government, is identical with the name by which a company had been previously registered, the Central Government **may direct the company to change its name**, and the company **shall change it by ordinary resolution within three months**. Where the name is **identical with a registered trade mark** and the proprietor of that trade mark applies to the Central Government within three years of the incorporation, registration or change of name of the company, the same direction follows and the same **ordinary resolution within three months**. The company gives notice to the Registrar, along with the order of the Central Government, within fifteen days of the change. On default the company and every officer in default are punishable.

Three numbers decide every question in this topic. The proprietor's window is **three years**. The company's compliance period is **three months**. The notice to the Registrar is **fifteen days**. So a trade mark owner who complains **five years** after the company's registration is out of time and **the company cannot be compelled to change its name**; and a director who argues that the window was **two years** and has expired is wrong for the mirror-image reason. Fix the date of incorporation and the date of the complaint before you write anything else.

The other objection you will see, and why it fails. 'Our name is not identical with, and does not too nearly resemble, the name of any other company.' That is not an answer, because the section has **two grounds and the trade mark ground stands on its own**. Identity with a registered trade mark is enough. Note also that the Central Government's power under section 16 is **delegated to the Regional Director**, so a direction issued by the Regional Director is not bad for want of authority.

Voluntary change is always open — section 13. Even where the trade mark proprietor is out of time to compel a change, the company may at any time change its name by passing a special resolution and obtaining the approval of the Central Government. So the two-part trade mark question has a two-part answer: **compelled, no; voluntarily at the company's own discretion, yes.**

Application use the section - apply it to the facts · 3 questions

- Write the dates out as a line of working: date of trade mark registration, date of incorporation, date of complaint. The three-year comparison then answers itself.

CSQ 12.1 · RTP 2019-Nov [2] · Pg 58	LEVEL II Application	Medium
CSQ 12.2 · RTP 2023-May [12] · Pg 59	LEVEL II Application	Medium
CSQ 12.3 · PYQ 2025-Jan [3] (a) · 5M · Pg 60	LEVEL II Application	Medium

Topic 13: Alteration of Articles (Section 14)

L2P2-2A-C2-T13

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 2, alteration of articles — section 14.

NOTES

The rule: the articles may be altered by passing a special resolution. That is the default route, and every question in this chapter that touches the altering of articles starts from it.

Entrenchment is the limit on the rule. Where the articles contain a provision for entrenchment under **section 5**, the entrenched provision may be altered only on the more restrictive conditions or procedures the articles themselves impose — and the special resolution of section 14 is then not enough. So the proposition 'articles may be changed by a special resolution only' states the **default, not an inflexible rule**. A company that wants forfeiture of shares to be alterable only by a 90% majority is **not** contradicting section 14; it is using section 5. That is the objection the examiner plants and expects you to answer.

Section 8 is the other limit. A company registered under section 8 shall not alter its memorandum or articles except with the previous approval of the Central Government, whose power is delegated to the Registrar of Companies. A special resolution alone leaves the alteration bad, and intimation after the event is not approval before it. Before applying section 14 to a set of facts, check what kind of company you are dealing with.

And the alteration must be carried through. Once altered, every copy of the articles issued afterwards must show the alteration (section 15), and no altered article can stand against the Act, because by **section 6** any provision of the articles is **void to the extent that it is repugnant to the Act**.

Topic 14: Alteration of Memorandum or Articles to be Noted in Every Copy (Section 15)

L2P2-2A-C2-T14

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 2, alteration of memorandum or articles to be noted in every copy — section 15.

NOTES

The rule, and it is the whole of the section: every alteration made in the memorandum or articles of a company must be noted in every copy of the memorandum or articles issued after the alteration takes effect. What the company circulates must be the **altered** document, not the original.

Why the Act bothers. The memorandum and articles are the **public documents** an outsider is taken to have read under the doctrine of **constructive notice**, and by **section 10** they bind the company and every member as though signed by each of them. A copy still showing a superseded clause defeats both. Section 15 is the housekeeping rule that keeps the public documents honest.

Where to use it. No question has been printed on section 15 on its own. Treat it as the last line of an alteration answer: resolution, then any approval the Act requires, then filing with the Registrar, then **the alteration noted in every copy issued thereafter**. It is a compliance point worth a line, not a question in itself.

Topic 15: Registered Office Of Company (Section 12)

L2P2-2A-C2-T15

Read first Read ICAI Study Material Chapter 2, registered office of company — section 12, read with section 13 and Rule 25 of the Companies (Incorporation) Rules, 2014.

NOTES

The two thirty-day obligations at the start of a company's life. **Section 12(1):** a company shall, within thirty days of its incorporation and at all times thereafter, have a registered office capable of receiving and acknowledging all communications and notices as may be addressed to it. **Section 12(2):** the company shall furnish to the Registrar verification of its registered office in Form INC-22 within thirty days of its incorporation, in the manner prescribed by **Rule 25** of the Companies (Incorporation) Rules, 2014. So the address is **not required at the time of incorporation** — that is the one-mark point that opens the incorporation case scenario.

Section 12(3) — the four publicity obligations. (a) **Paint or affix** the company's name and the address of its registered office, and keep them so painted or affixed, **on the outside of every office or place in which its business is carried on**, in a **conspicuous position, in legible letters**, and where the characters used are not those of a language in general use in that locality, also in the characters of that language. (b) **Have its name engraved in legible characters on its seal, if any.** (c) Get its name, the address of its registered office and the Corporate Identity Number, along with telephone number, fax number if any, e-mail and website addresses if any, printed in all its business letters, billheads, letter papers and in all its notices and other official publications. (d) **Have its name printed on hundies, promissory notes, bills of exchange** and such other documents as may be prescribed.

Why the registered office matters — the 'importance' question has four heads. The registered office is the company's permanent address, its residence, and it **decides the domicile of the company**; the **State** in which it is situated is what the **registered office clause of the memorandum** records. (1) **Service of notice:** a document is served on the company **at its registered office** under **section 20(1)** — by post under certificate of posting, registered post, speed post, courier, hand delivery, or the electronic mode prescribed by **Rule 35** of the Companies (Incorporation) Rules, 2014. (2) **Annual general meeting:** under **section 96(2)** the AGM must be held either at the registered office or in the city, town or village in which it is situated; by the **proviso inserted by the Companies (Amendment) Act, 2017**, the AGM of an unlisted company may be held at any place in India if all the members consent in writing or by electronic mode in advance. (3) **Advertisements:** an advertisement inviting **public deposits** goes into **one English and one vernacular newspaper in the State** where the registered office is situated, and the notice of **closure of the register of members and debentureholders** into a newspaper circulating in the **district** where it is situated. (4) **Documents deposited there:** a **proxy** (Article 57 of Table F), a members' **requisition for a meeting under section 100(2)**, and a **requisition to circulate a resolution under section 111** are all deposited at the registered office.

Shifting within the same State — three tiers, and every question is one of them. (i) **To another place within the local limits of the same city, town or village** — a **Board resolution is enough**. The special resolution requirement bites only on a change **outside** those local limits, so a company that moves within the same city on a Board resolution alone is **tenable in law**. (ii) **From one town or city to another within the same State**, that is outside those local limits — a **special resolution under section 12(5)**. (iii) Where the move also carries the office from the jurisdiction of one Registrar to the jurisdiction of another Registrar within the same State — the change must **in addition be confirmed by the Regional Director** on an application made by the company.

Read the Registrar's jurisdiction, not the district. Thane to Dadar looks like a move between districts, but where **both fall within the jurisdiction of the same Registrar** — the Registrar of Mumbai — **no confirmation by the Regional Director is required** and there is **no violation of the Act**. Mumbai to Pune, by contrast, is one State but **two Registrars**, so the Regional Director's confirmation is needed and a proposal that omits it is **invalid**. Identify the Registrar for each address before you decide anything else.

Two distinctions the examiner keeps returning to. First, a shift **within the same State does not alter the memorandum**, because the registered office clause names only the State — so **section 13 does not apply**, and what governs is **section 12**. Say this expressly; it is a marked step, not an aside. Second, **registered office is not corporate office**. Section 12 governs the **registered office only**, and shifting a **corporate office** from one city to another under the authority of a **Board resolution** is valid. Where the facts leave it open whether the two are the same, **say so and answer both ways** — the printed answers do exactly that, and the alternative earns marks.

Change of registered office from one State to another — five steps, in order. (1) A resolution of the **Board of Directors** to that effect, and the Board convenes a general meeting at which the change is approved. (2) A **special resolution** passed by the members in general meeting [section 13(1)]. (3) **Approval of the Central Government** — the power is delegated to the Regional Director vide Notification No. SO 4090(E) dated 19-12-2016 — on an application in **Form INC-23** in the manner prescribed by **Rule 30** of the Companies (Incorporation) Rules, 2014; **the alteration has no effect until it is approved**. (4) **Disposal within sixty days**: before passing its order the authority may satisfy itself that the alteration **has the consent of the creditors, debentureholders and other persons concerned**, or that adequate provision has been made for the due discharge of their liabilities or adequate security provided [section 13(5)]. (5) **Registration with the Registrar**: a **certified copy of the order** approving the alteration is filed with the **Registrar of each of the States** concerned.

Remembering reproduce what you have learnt • 1 question

- The question lists several proposals and asks you to state the position on each. **Number your answer to match the question's numbering** — one conclusion per proposal, and never a single combined verdict.
- For each move, identify the tier first (within the same city; within the State but a different Registrar; from one State to another), because the tier decides the approval, and the approval is the mark.

CSQ 15.1 • PYQ 2021-Jul [5] (a) • 5M • Pg 65

LEVEL I
Remembering

Medium

Application use the section - apply it to the facts • 1 question

- For each proposed shift, state three things in order: which tier it falls in, what resolution is needed, and whether the Regional Director's confirmation is needed. Then give the verdict — valid or invalid.

TQ 15.1 • PYQ 2015-Nov [6] (a) • 8M • Pg 62

LEVEL II
Application

Hard

Topic 16: Commencement of Business etc. (Section 10A)

L2P2-2A-C2-T16

Read first Read ICAI Study Material Chapter 2, commencement of business — section 10A, read with sections 4 and 12.

NOTES

The rule: a company having a share capital shall not commence any business or exercise any borrowing powers unless a director files a declaration with the Registrar within one hundred and eighty days of the date of incorporation, in the prescribed form and verified in the prescribed manner, to the effect that every subscriber to the memorandum has paid the value of the shares agreed to be taken by him as on the date of making the declaration. Two prohibitions, one declaration, one deadline — state all four.

The penalty, and the figures are the marks. On default, the **company shall be liable to a penalty of fifty thousand rupees**, and every officer in default shall be liable to a penalty of one thousand rupees for each day during which the default continues, subject to a maximum of one lakh rupees. Give the daily rate and the cap; an answer that gives only the company's penalty leaves half the marks.

The third consequence. Where no declaration is filed with the Registrar within one hundred and eighty days of incorporation **and** the Registrar has reasonable cause to believe that the company is not carrying on any business or operations, he may initiate action under Chapter XVIII for the removal of the company's name from the register of companies. Note that the trigger is the **combination** of the missed filing and the Registrar's reasonable belief — neither alone.

The two neighbouring points the case scenario carries with it. Name reservation under **section 4** lasts twenty days from the date of approval, so a **SPICe+ (INC-32)** filed **thirty-nine days** after approval is filed on a **lapsed name**. And under **section 12(1) and 12(2)** the registered office address is not required at the date of incorporation — the company has **thirty days from incorporation** to have an office capable of receiving communications and to furnish verification to the Registrar.

Answer the parts separately. Section 10A is set as a multi-part incorporation scenario — validity of the name, whether the registered office address was needed at filing, and the consequences of not filing the declaration. **Each part has its own section and its own conclusion.** Running them together is the commonest way to lose marks on this topic.

Analysis break it down and take the parts separately · 1 question

- Number your answer to match the numbered parts of the question, and cite the section that governs each part before applying it.

CSQ 16.1 · PYQ 2026-Jan [3] (a) · 5M · Pg 67

LEVEL II
Analysis

Medium

Topic 17: Conversion of Companies Already Registered (Section 18)

L2P2-2A-C2-T17

Read first Read ICAI Study Material Chapter 2, conversion of companies already registered —

section 18, read with the definition of private company in section 2(68).

NOTES

What is actually examined here is the members ceiling. A public company can be converted into a private company only if it can live inside the definition. Under **section 2(68)**, a private company is a company having a **minimum paid-up share capital as may be prescribed** and which by its articles, except in the case of a one person company, limits the number of its members to two hundred. So the first question in any conversion problem is: **how many members will the company have?**

Counting the members — the two rules that change the number. Joint holders: where two or more persons hold one or more shares in a company jointly, they shall be treated as a single member. **Employees:** (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**. Note the condition attached to the ex-employees — they must have been members **while in employment** and have **continued** since.

Work the count on the page. Take the table as given: directors and their relatives 18, employees 26, ex-employees 15, members holding shares jointly $7 \times 2 = 14$, other members 137. **Exclude the 26 employees and the 15 ex-employees. Compress the 14 joint holders to 7.** What remains is $18 + 7 + 137 = 162$, which is **within the limit of 200**. Conclusion: **the company can be converted into a private company**, and no reduction in the existing number of members is required.

The classic wrong answer is to add up every head in the table — that gives 210 and produces the opposite conclusion. Show the two adjustments as separate lines of working, so the examiner can see exactly why your figure is lower than the arithmetic total printed in the question. The second half of the question ('need the number be reduced?') is answered by the same figure, but it must be answered **separately and in terms**.

Application use the section - apply it to the facts · 1 question

- Lay the count out as a table with the excluded categories struck out, then a total, then the comparison with 200, then the conclusion. Marks follow the working, not the answer.

CSQ 17.1 · PYQ 2022-May [1] (a) {C} · 6M · Pg 69

LEVEL II
Application

Hard

Topic 18: Subsidiary Company Not to hold Shares in its Holding Company (Section 19)

L2P2-2A-C2-T18

Read first Read ICAI Study Material Chapter 2, subsidiary company not to hold shares in its holding company — section 19, read with the definition of subsidiary in section 2(87).

NOTES

The rule: no company shall, either by itself or through its nominees, hold any shares in its holding company, and no holding company shall allot or transfer its shares to any of its subsidiary companies; and any such allotment or transfer of shares of a company to its subsidiary company shall be void. Both halves matter — the subsidiary must not acquire, and the holding company must not allot or transfer.

The three exceptions in the proviso, and they are exhaustive. Nothing in the sub-section applies to a case (a) where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or (b) **where the subsidiary company holds such shares as a trustee**; or (c) where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company. If the facts fall outside all three, the prohibition applies without qualification.

The second proviso — the voting cut-down, and the point most often missed. A subsidiary within the proviso shall have a right to vote at a meeting of the holding company only in respect of the shares held by it as a legal representative or as a trustee, that is, under clauses (a) and (b). So a subsidiary holding 7% of its holding company, of which 2% is held as legal representative of a deceased member, may vote on that 2% only. The shares held under exception (c) may lawfully be held, **but they carry no vote** at the holding company's meeting. **The chain question makes the same point twice over.** Where a company is a **deemed subsidiary** of the holding company through the holding company's control of two intermediate subsidiaries [Explanation (a) to section 2(87)], and it held its shares **before** it became a subsidiary, it **cannot vote** at the holding company's annual general meeting; whereas an intermediate company holding **10% of the same holding company as a trustee can vote**. **Ask in what capacity each block is held, and answer company by company.**

Every question here is two-stage: establish the relationship first, then apply section 19. Stage one is **section 2(87)** — who **controls the composition of the Board**, or who **exercises or controls more than one-half of the total voting power**, alone or together with subsidiaries, remembering the Explanation that control through another subsidiary counts. Where one company holds **6,00,000 out of 10,00,000 equity shares**, say so and name the holding company before you touch the shareholding running the other way. An answer that applies section 19 without first identifying the holding company loses the first half of the marks.

Exception (c) — spot it by comparing the two dates. Where the subsidiary acquired **10% of the other company in March 2017** and the other company acquired **55% of it in March 2018**, the subsidiary **was already a shareholder before it became a subsidiary**. The holding is therefore **valid** under proviso (c) — and so is a subsequent **bonus issue** made to it, because the bonus shares come in under the same proviso. Fix the two dates first; nothing else in the answer matters until you have.

Exception (b) — it is the capacity that decides, not the shareholding. Where a shareholder of the

holding company settles his shares on a **charitable trust** and appoints the **subsidiary as trustee**, so that the trust's assets are held in the subsidiary's name, the subsidiary does come to hold shares in its holding company — and that is **expressly permitted**, because it holds them **as a trustee**.

Contrast the plain investment case: a profitable subsidiary that simply wants to buy a tenth of its holding company's capital falls within **none** of the three exceptions and **cannot** do it.

What the questions actually ask. Three limbs recur, and you should answer each in terms. **Can the subsidiary invest further in the holding company?** No — the prohibition is on holding shares at all, so further acquisition is barred. **Can it vote?** Only on the shares it holds as legal representative or trustee. **Can the holding company allot or transfer shares to it?** No, and any such allotment or transfer is **void** unless the case is within the proviso.

Application use the section - apply it to the facts • 2 questions

- Identify the holding and the subsidiary under section 2(87) in your opening lines, with the arithmetic, before you apply section 19.
- Where percentages are split — 7% of which 2% as legal representative — carry the split through to the conclusion and state the voting entitlement as a figure.

CSQ 18.2 • PYQ 2020-Nov [2] (c) • 4M • Pg 72

LEVEL II
Application

Medium

CSQ 18.3 • MTP 2022-Sep [1] (b) {C} • 6M • Pg 73

LEVEL II
Application

Hard

Analysis break it down and take the parts separately • 3 questions

- Where the question gives dates of acquisition, build the answer around the chronology; exception (c) is decided entirely by which came first.

CSQ 18.1 • PYQ 2019-May [1] (a) {C} • 4M • Pg 70

LEVEL II
Analysis

Medium

CSQ 18.4 • PYQ 2023-Nov [1] (a) {C} • 5M • Pg 74

LEVEL II
Analysis

Medium

CSQ 18.5 • PYQ 2024-Sep [3] (a) • 5M • Pg 76

LEVEL II
Analysis

Medium

Topic 19: Service of Documents (Section 20)

L2P2-2A-C2-T19

Read first Read ICAI Study Material Chapter 2, service of documents — section 20.

NOTES

Service on the company — section 20(1). A document may be served on a company or an officer of it by sending it to the company or the officer at the registered office of the company by **registered post**, or by **speed post**, or by **courier service**, or **by leaving it at its registered office**, or **by means of such electronic or other mode as may be prescribed**. Where **securities are held with a depository**, the records of the beneficial ownership may be served by the depository on the company by electronic or other mode.

Service on the Registrar or a member — section 20(2). Save as provided in the Act or the rules for filing documents with the Registrar in electronic mode, a document may be served on the **Registrar or any member** by sending it by post, or registered post, or speed post, or courier, or by delivering it at his office or address, or by such electronic or other mode as may be prescribed.

The proviso, and it is where the question always is. A member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting. Once he has asked and paid, **service by any other mode is not service at all**. So a member who asked in writing for notices **by registered post at his residential address** and **deposited sufficient money**, and who was then sent the notice **by ordinary mail under certificate of posting**, is right to say the notice was **not properly served** — his contention is tenable and the notice fails.

And the address he named is the address he gets. The company is bound to serve him **by the mode and at the address he specified**, and the fact that he happened to be abroad for two months **makes no difference** and does not oblige the company to serve him outside India. Do not let a fact about the member's travel change the answer — it is put there to see whether you will.

The articles cannot cut the section down. Where the articles provide that documents may be served on the company **only by speed post**, and a person serves **by courier**, the service is **good** — courier is one of the modes section 20(1) allows, and by **section 6** the Act has effect notwithstanding anything to the contrary in the articles. The company's refusal to accept is **invalid**, and the sender who suffers loss **can claim damages**. **The classic wrong answer is to enforce the article.**

Understanding explain it, and place it in context · 1 question

- List the modes in full for both sub-sections and keep them apart — the modes for serving the company are not identical to the modes for serving a member.
- The proviso about a member's chosen mode and the fee determined in the annual general meeting is the marked sentence. Quote it.

TQ 19.1 · MTP 2021-Mar [3] (a) · 3M · Pg 77

LEVEL I
Understanding

Easy

Analysis break it down and take the parts separately · 2 questions

- Both questions turn on **whose choice governs** — the member's requisition, or the company's articles. Identify the party who exercised the choice before you reach for the section.

- Each question then adds a second limb ('will your answer be the same if...', 'can he claim damages'). Answer the second limb separately and expressly; leaving it implicit in the first loses the mark.

CSQ 19.1 · RTP 2020-Nov [1] · Pg 78

LEVEL II
Analysis

Medium

CSQ 19.2 · PYQ 2022-Nov [5] (Or) (a) · 5M · Pg 79

LEVEL II
Analysis

Medium

Topic 20: Authentication of Documents, Proceedings and Contracts (Section 21)

L2P2-2A-C2-T20

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 2, authentication of documents, proceedings and contracts — section 21.

NOTES

What the section is for. A company is an artificial person and cannot itself sign anything. Section 21 supplies the answer to the question that follows: who may authenticate a document or proceeding requiring authentication by the company, and who may sign a contract made by or on behalf of the company. The subject of the section is **authority to sign** — nothing else turns on it.

Where it sits in the chapter. Read section 21 alongside **section 12(3)**, which tells you what the company's **name, registered office address and Corporate Identity Number** must appear on, and **section 20**, which tells you how documents travel to and from the company. Together the three are the chapter's rules about the company's paperwork: what it must say, who may sign it, and how it is served.

How much to invest in it. The Scanner prints no question on section 21. Take the rule on who may sign from the Study Material and carry it as a supporting line — it is the kind of point that adds half a mark to a document or contract scenario, not a question in its own right.

Topic 21: Execution of Bills of Exchange, etc. (Section 22)

L2P2-2A-C2-T21

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 2, execution of bills of exchange and other instruments — section 22.

NOTES

What the section is for. It tells you when a bill of exchange, hundi or promissory note is deemed to have been made, accepted, drawn or endorsed on behalf of a company, and how a company may **execute a deed or empower a person to act on its behalf**. Like section 21, the subject is **authority** — the circumstances in which an instrument signed by an individual binds the company — and not the underlying liability on the instrument.

The link back to section 12(3). Section 12 requires the company to **have its name printed on hundies, promissory notes, bills of exchange** and such other documents as may be prescribed. Section 12 tells you the name must appear on the instrument; **section 22 tells you when the instrument binds the company**. The two are read together and are examined, if at all, through section 12.

How much to invest in it. No question has been printed on section 22. Take the rule from the Study Material, learn it in a line, and use it as a supporting point. Your time in this chapter belongs to the One Person Company, section 8, the two doctrines, section 12 and section 19.

PART 2A · CORPORATE LAWS · CHAPTER 3

Prospectus and Allotment of Securities

12 Topics · 31 Classified Questions · Importance: B

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**

Level I — Comprehension & Knowledge **32.6%** 48 of 146 marks

Level II — Analysis & Application **67.4%** 98 of 146 marks

This chapter sits on the paper's own profile — 33% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: Public Offer and Private Placement (Section 23)

L2P2-2A-C3-T01

Read first Read ICAI Study Material Chapter 3, Public Offer and Private Placement — section 23 read with section 42 and Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

NOTES

The rule in one line: private placement means any offer of securities or invitation to subscribe securities to a select group of persons by a company, other than by way of public offer, through issue of a private placement offer letter, and which satisfies the conditions the Act lays down. Section 23 gives the routes by which securities may be issued; section 23(2)(b) is the limb that lets a private company issue securities by private placement, by complying with section 42 read with Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

The number, and the two figures the examiner plays off against each other: under **section 42(2)** the offer is made only to a select group of persons **identified by the Board** (the "identified persons"), **whose number shall not exceed fifty or such higher number as may be prescribed**, in a financial year. Rule 14(2) prescribes the higher number: two hundred in the aggregate in a financial year. Write both — the section's fifty and the Rule's two hundred — because the answer that quotes only one of them reads as incomplete.

Who is left out of the count: any offer or invitation made to qualified institutional buyers, or to employees of the company under a scheme of employees' stock option under section 62(1)(b), is not counted towards the limit of two hundred persons. **The classic wrong answer is that the ceiling applies to ESOP employees.** It does not. Deduct both the QIBs and the ESOP employees before you compare the number offered with two hundred.

The limit is per kind of security, not per company: the Explanation to Rule 14(2) clarifies that the restriction is reckoned individually for each kind of security — equity share, preference share or debenture. So a company that has offered equity shares to two hundred persons may still offer

debentures to two hundred more in the same financial year. Where the question gives you a table of securities, run the two hundred count down each column separately.

More than one offer in a year is permitted: keeping the ceiling of two hundred persons in aggregate during a financial year, **an offer of private placement can be made more than once in a financial year**, subject to the maximum number of identified persons. **The classic wrong answer is that the offer may be made only once a year.** What section 42(5) bars is a **fresh** offer while an earlier one is still open: no fresh offer or invitation shall be made unless the allotments with respect to any earlier offer have been completed, or that offer has been withdrawn or abandoned by the company.

The mechanics that go with the offer: the private placement offer and application is issued in the prescribed form to identified persons **whose names and addresses are recorded by the company**, and **shall not carry any right of renunciation**. The identified person applies with the subscription money **by cheque or demand draft or other banking channel and not by cash**, and the company shall not utilise monies raised until allotment is made and the return of allotment is filed with the Registrar under section 42(8).

What breaking these rules costs — the figures the section itself supplies: **section 42(7)** bars the company from releasing any public advertisement, or using any media, marketing or distribution channels or agents, to inform the public at large about the issue. **Section 42(8)** requires a return of allotment to be filed with the Registrar within fifteen days from the date of the allotment, with a complete list of allottees, their names, addresses and the number of securities allotted. **Section 42(9):** default in filing that return makes the company, its promoters and directors liable to a penalty of one thousand rupees for each day the default continues, subject to a maximum of twenty-five lakh rupees. **Section 42(10):** where the company **makes an offer or accepts monies in contravention of the section**, they are liable to a penalty which may extend to the amount raised through the private placement or two crore rupees, whichever is lower, and the company must refund all monies with interest as specified in sub-section (6) within thirty days of the order imposing the penalty. Section 42(11) is the sharpest: any private placement issue not made in compliance with sub-section (2) shall be deemed to be a public offer, and the Companies Act, 2013, the Securities Contracts (Regulation) Act, 1956 and the SEBI Act, 1992 all then apply. Breach the ceiling on identified persons and the issue stops being a private placement altogether.

Understanding explain it, and place it in context · 1 question

- Give the definition of private placement in full — the select group, the exclusion of a public offer, and the private placement offer letter are three separate marks.
- Quote section 42(2) and Rule 14(2) together. The section's fifty without the Rule's two hundred is only half the rule.

TQ 1.1 · PYQ 2018-Nov [5] (b) · 5M · Pg 83

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 1 question

- Deduct the QIBs and the ESOP employees from the number offered first, then compare what is left against two hundred, then state the conclusion. An answer that compares the gross number loses the point of the question.

CSQ 1.1 · PYQ 2021-Jan [4] (a) · 4M · Pg 85

LEVEL II
Application

Medium

Topic 2: Regulation of Issue and Transfer of Securities etc. (Section 24)

L2P2-2A-C3-T02

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 3, Regulation of Issue and Transfer of Securities etc. — section 24.

NOTES

No question has been printed on this topic in the Scanner. It is a concept-base topic: it sits in the chapter between section 23, which gives the routes for issuing securities, and sections 25 to 33, which govern the prospectus itself. Read it in the Study Material for the scheme it sets up rather than for a question you expect to see.

What the section is about: section 24 governs the **regulation of the issue and transfer of securities** and matters connected with them. It is the section that allocates who administers what in this area, and it is the reason the prospectus answers in this chapter keep citing SEBI regulations alongside the Companies Act — see, for example, section 26(1), where the information and the reports on financial information to be set out in a prospectus are specified by the Securities and Exchange Board in consultation with the Central Government.

How it is likely to reach you in the exam: not as a question of its own, but as one line of context in a prospectus answer. If a question turns on why a SEBI regulation is being applied to a company issue, section 24 is the hook to name. Do not build a long answer on it; name it and move to the operative section.

Topic 3: Prospectus (Section 25 to 33)

L2P2-2A-C3-T03

Read first Read ICAI Study Material Chapter 3, Prospectus — sections 25 to 33, with section 2(70) and Rule 8 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

NOTES

Start from the definition, because the whole chapter hangs on it: under **section 2(70)** a prospectus means **any document described or issued as a prospectus**, and includes a red herring prospectus referred to in section 32 or a shelf prospectus referred to in section 31 or any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate. So a shelf prospectus and a red herring prospectus are each a prospectus within section 2(70) — say so expressly when you are asked what they are. Alongside it, section 29 requires every company making a public offer to issue its securities only in dematerialised form, complying with the Depositories Act, 1996; **section 29(1A)** extends this to prescribed classes of unlisted companies, whose securities **shall be held or transferred only in dematerialised form**, read with Rule 9A of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

Section 26 — what the prospectus must carry: every prospectus issued by or on behalf of a public company, with reference to its formation or subsequently, or by or on behalf of any person engaged or interested in the formation of a public company, **shall be dated and signed**, and shall set out such information and such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government; until SEBI so specifies, the SEBI regulations under the SEBI Act, 1992 apply. The prospectus must also make a declaration about compliance with the Act and state that nothing in it is contrary to the Companies Act, 2013, the Securities Contracts (Regulation) Act, 1956 and the SEBI Act, 1992 and the rules and regulations made under them. **Section 26(6):** it must state **on its face** that a copy has been delivered for filing with the Registrar, and that the documents required by the section are attached to the copy delivered or referred to in statements included in the prospectus. Explanation to sub-section (3): the date indicated in the prospectus is deemed to be the date of its publication.

Section 26(5) — the expert's statement, three disqualifications: a prospectus must **not include a statement purporting to be made by an expert** if (a) the expert is engaged in or interested in the formation, promotion or management of the company; (b) **he has not given his written consent to the issue of the prospectus**; or (c) he has withdrawn that consent before the delivery of a copy of the prospectus to the Registrar for filing. Where an expert's statement is included, the prospectus must also carry **a statement that none of these conditions exists**. Learn these three as a list; they come back in the mis-statement questions as the expert's defences.

Section 25 — deemed prospectus, and the two presumptions that decide the case: where a company allots or agrees to allot securities with a view to all or any of them being offered for sale to the public, the document by which that offer for sale is made is deemed to be a prospectus issued by the company. Under **section 25(2)**, unless the contrary is proved, it is deemed to be evidence that the allotment was made with that view if (a) the offer for sale to the public was made within six months after the allotment or agreement to allot, or (b) at the date the offer was made, the whole of the consideration to be received by the company had not been received by it. Under **section 25(4)**, where the person making the offer is a company or a firm, it is sufficient if the offer document is signed by two directors of the company, or by not less than one-half of the

partners in the firm. Work these three tests as three separate dates and facts — the questions are built to make one intermediary pass and another fail.

Section 28 — offer of sale by members, and what Rule 8 switches off: members may, **after consultation with the Board of Directors**, offer all or part of their holding to the public by following the prescribed procedure; **the offer document is treated as a prospectus issued by the company**, so the provisions on contents, liability for mis-statements and omissions apply to it. The selling members, whether individuals or bodies corporate or both, must jointly authorise the company in writing to take all necessary action on their behalf and must **reimburse the company all expenses incurred**. Under **Rule 8**, all the prospectus and allotment provisions apply to such an offer except: minimum subscription; minimum application value; the requirement of a Board statement on the utilisation of money received; and any other provision or information the offeror is unable to provide or collect, provided valid and detailed reasons are disclosed. The prospectus must **state who will bear the expenses of the offer, and the reasons for it**.

Section 27 — varying the objects, and the proviso that ends the argument: the terms of a contract referred to in the prospectus, or the objects for which the prospectus was issued, may be varied only with the authority of the company given in general meeting by special resolution passed by postal ballot. The **first proviso** requires the prescribed details of the notice to be published in newspapers, one in English and one in the vernacular language, circulating in the city where the registered office is situated, indicating the justification for the variation. The second proviso is an absolute bar: the company shall not use any amount raised through the prospectus for buying, trading or otherwise dealing in equity shares of any other listed company — so a special resolution does not save that use, however large the majority. Section 27(2): dissenting shareholders shall be given an exit offer by the promoters or controlling shareholders, at an exit price and in the manner and conditions specified by SEBI. The classic wrong answer treats a simple majority at an extraordinary general meeting as enough; it is not — the section requires a special resolution by postal ballot.

Sections 30 to 33 — the four short ones that are asked as one-liners: **Section 30:** where an advertisement of a prospectus is published, it must specify the contents of the memorandum as regards the objects; the liability of members and the amount of share capital; the names of the signatories to the memorandum; the number of shares subscribed for by the signatories; and the capital structure of the company. **Section 31 (shelf prospectus):** a prospectus in respect of which securities are issued for subscription in one or more issues over a certain period without the issue of a further prospectus; the classes of companies SEBI provides for may file it with the Registrar at the first offer, indicating a period not exceeding one year as its validity, commencing from the date of opening of the first offer, and no further prospectus is needed for offers within that period; under **section 31(2)** the company must file an information memorandum on all material facts relating to new charges created and changes in the financial position between the first or previous offer and the succeeding offer, with the Registrar, prior to the issue of a second or subsequent offer, and where applications with advance subscription money were already received before the change, the company must **intimate the change to those applicants and refund those who wish**

to withdraw. The information memorandum together with the shelf prospectus is deemed to be a prospectus. **Section 32 (red herring prospectus):** a prospectus which does not include complete particulars of the quantum or price of the securities, issued **prior to the issue of a prospectus** and filed with the Registrar at least three days before the opening of the subscription list and the offer; it **carries the same obligations as a prospectus**, any variation between the two must be **highlighted as variations in the prospectus**, and on closing of the offer the prospectus stating the total capital raised, whether by debt or share capital, and the closing price of the securities must be **filed with the Registrar and SEBI**. **Section 33 (abridged prospectus):** under section 2(1) it is a memorandum containing such salient features of a prospectus as may be specified by SEBI by regulations; no application form for the purchase of securities may be issued unless accompanied by an abridged prospectus, and the proviso excuses it only where the form was issued in connection with a bona fide invitation to a person to enter into an underwriting agreement, or **where the securities are not offered to the public**; default carries a **penalty of fifty thousand rupees for each default**.

Remembering reproduce what you have learnt · 3 questions

- These are list questions. **Name the section, then enumerate** — marks follow the number of items you name, so give the full list before you start explaining any of them.
- Where the question also asks for the penalty, treat it as a separate limb and state it in figures. A description of the offence without the penalty is incomplete.

TQ 3.2 · MTP 2019-Mar [4] (a) · 4M · Pg 89	LEVEL I Remembering	Medium
TQ 3.3 · RTP 2021-May [7] · Pg 90	LEVEL I Remembering	Medium
CSQ 3.1 · PYQ 2019-Nov [4] (a) · 4M · Pg 92	LEVEL I Remembering	Medium

Understanding explain it, and place it in context · 3 questions

- For "what is a shelf prospectus / red herring prospectus / abridged prospectus", give the statutory meaning first, then say it is a prospectus within section 2(70), then the procedure. The meaning alone is not a full answer.
- Where the question asks you to "comment on" three separate items, head each one with its section number and answer in three separate blocks.

TQ 3.6 · MTP 2025-Aug S2 [3] (a) (ii) · 2.5M · Pg 92	LEVEL I Understanding	Easy
TQ 3.1 · PYQ 2016-Nov [4] (a) (ii) · 4M · Pg 87	LEVEL I Understanding	Medium
CSQ 3.7 · PYQ 2026-May [3] (a) · 5M · Pg 101	LEVEL I Understanding	Medium

Application use the section - apply it to the facts · 4 questions

- In a variation-of-objects problem, deal with the resolution and the second proviso separately. Even where the special resolution is properly passed, the bar on using the money to deal in equity shares of another listed company defeats the proposal on its own.
- In a deemed prospectus problem, fix the date of allotment, the date of the offer document and whether the whole consideration had been received, then apply section 25(2) to each. Set out the section, then the facts, then the conclusion.

CSQ 3.2 · PYQ 2021-Jul [4] (a) (ii) · 3M · Pg 93	LEVEL II Application	Easy
CSQ 3.3 · PYQ 2022-May [3] (b) · 5M · Pg 94	LEVEL II Application	Medium
CSQ 3.5 · RTP 2025-Jan [11] · Pg 97	LEVEL II Application	Medium
CSQ 3.6 · PYQ 2025-Sep [2] (b) · 5M · Pg 98	LEVEL II Application	Medium

Analysis break it down and take the parts separately · 3 questions

- Where two intermediaries or two offer documents are given, take them one at a time and say why each does or does not satisfy the six-month test and the signing requirement in section 25(4). A single combined conclusion loses the marks for the one that passes.

TQ 3.4 · RTP 2025-May [11] · Pg 90	LEVEL II Analysis	Medium
CSQ 3.4 · PYQ 2025-Jan [1] (a) {C} · 5M · Pg 95	LEVEL II Analysis	Medium
TQ 3.5 · PYQ 2025-May [3] (a) · 5M · Pg 91	LEVEL II Analysis	Hard

Topic 4: Mis-statement in Prospectus (Section 34 and 35)

L2P2-2A-C3-T04

Read first Read ICAI Study Material Chapter 3, Mis-statement in Prospectus — sections 34 and 35, with section 26(5) and section 447.

NOTES

Section 34 — the criminal limb: where a prospectus **issued, circulated or distributed** includes any statement which is untrue or misleading in the form or context in which it is included, or where **any inclusion or omission of any matter is likely to mislead**, every person who authorises the issue of such prospectus shall be liable under section 447. Note the width of the trigger: the statement need not be false on its face — an **omission** that is likely to mislead is enough. **The**

defence under section 34: no criminal liability attaches if he proves **that the statement or omission was immaterial**, or that he had reasonable grounds to believe, and did up to the time of the issue of the prospectus believe, that the statement was true or that the inclusion or omission was necessary.

Section 35 — the civil limb, and the loss requirement: where a person has subscribed for securities of a company acting on any statement included in the prospectus which is misleading, and has sustained any loss or damage as a consequence, the company and every person, including an expert, shall be liable to pay compensation to him. **The compensation is for loss actually sustained.** Where the facts tell you the subscriber **did not suffer any loss** from the purchase, the answer is that he can claim for any loss he might have sustained but, having sustained none, **he has no remedy**. Students lose this mark by stopping at "the report was untrue, so he can claim".

Section 35(2) — the two defences of a director: he escapes civil liability only if he proves (a) that, having consented to become a director, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or (b) that the prospectus was issued without his knowledge or consent and that, on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent. The classic wrong answer is that a director escapes because the statements were prepared by the promoters and he relied on them. Reliance on the promoters is not one of the defences; the director remains liable.

Section 35(3) — fraud takes the cap off: where it is proved that a prospectus has been issued with intent to defraud the applicants for the securities, or any other person, or for any fraudulent purpose, every person referred to in section 35(1) shall be personally responsible, without any limitation of liability, for all or any of the losses or damages incurred by any person who subscribed to the securities on the faith of that prospectus. Section 35 also carries across the punishment for fraud under section 447.

When an expert is not liable — learn this as a four-item list, it is asked as a set: (1) under **section 26(5)**, having given his consent, he withdrew it in writing before the delivery of the copy of the prospectus for filing; (2) under **section 35(2)(b)**, the prospectus was issued without his knowledge or consent and, on becoming aware of it, he forthwith gave a reasonable public notice; (3) **a statement not made by him in the capacity of an expert**, though included in the prospectus as such; (4) under **section 35(2)(c)**, that the statement was a correct and fair representation of the statement, or a correct copy of or a correct and fair extract from the report or valuation, and that he had reasonable ground to believe, and did up to the time of the issue of the prospectus believe, that the person making it was competent to make it, that he had given the consent required by section 26(5), and that he had not withdrawn that consent before the filing of a copy of the prospectus with the Registrar or, to the defendant's knowledge, before allotment thereunder.

Literally true is not the same as not misleading: where every statement in the prospectus was literally true but the company did not disclose that dividends had been paid **out of capital profits rather than trading profits**, that non-disclosure is **a concealment of a material fact** and therefore a material misrepresentation — because a company is normally required to distribute dividend

only from trading or revenue profits and may pay out of capital profits only in exceptional circumstances. The allottee can avoid the contract of allotment. This is the recurring trap: the answer is not "the statements were true, so no liability".

The right of rescission, and who does not have it: a person who has subscribed for shares on the faith of a prospectus containing untrue and misleading statements of material facts may apply to the court to **rescind the contract**, under the relevant provisions of the Indian Contract Act, 1872. The right is not available to a subsequent purchaser who acquired the shares from the market — he did not buy on the faith of the prospectus. So in a problem where an original allottee sells part of his holding on, **the allottee can rescind and his transferee cannot**.

Application use the section - apply it to the facts • 6 questions

- State the section, apply it to the facts, then conclude. Where the facts say the subscriber suffered no loss, the conclusion must turn on that, not on whether the statement was untrue.
- Test each defence in the list against the facts given and say expressly why the one the director or expert is relying on does not fit.

CSQ 4.2 • PYQ 2021-Dec [3] (a) (i) • 3M • Pg 103	LEVEL II Application	Easy
CSQ 4.1 • MTP 2019-Oct [5] (a) • 5M • Pg 102	LEVEL II Application	Medium
CSQ 4.3 • PYQ 2022-Nov [5] (a) • 5M • Pg 104	LEVEL II Application	Medium
CSQ 4.4 • PYQ 2023-May [5] (a) • 5M • Pg 106	LEVEL II Application	Medium
CSQ 4.5 • PYQ 2025-May [2] (b) • 5M • Pg 107	LEVEL II Application	Medium
CSQ 4.6 • RTP 2026-Jan [15] • Pg 108	LEVEL II Application	Medium

Topic 5: Punishment for Fraudulently Inducing Persons to Invest Money (Section 36)

L2P2-2A-C3-T05

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 3, Punishment for Fraudulently Inducing Persons to Invest Money — section 36.

NOTES

No question has been printed on this topic in the Scanner. It is a concept-base topic, but it is not dead ground: it is the section the mis-statement answers reach for when they come to punishment, and it is worth a line in any section 34 or section 35 answer.

What the section does: it punishes **fraudulently inducing persons to invest money** — that is, inducing a person to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities, or to obtain credit, by a statement made knowing it to be false. **The punishment is the punishment for fraud under section 447;** the Scanner's answers on section 35 make that link expressly.

Where it fits with sections 34 and 35: section 34 punishes the person who **authorises the issue** of a prospectus containing an untrue or misleading statement, section 35 makes the company and every person including an expert **liable to compensate** the subscriber, and section 36 catches the fraudulent inducement itself, whether or not it comes through a prospectus. Name all three when a question asks for the consequences of a false prospectus and you will not be marked short.

Topic 6: Action by Affected Persons (Section 37)

L2P2-2A-C3-T06

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 3, Action by Affected Persons — section 37.

NOTES

No question has been printed on this topic in the Scanner. It is a concept-base topic. Read it in the Study Material and keep it short in revision.

What the section is for: section 37 provides for **action by affected persons** — the route by which persons affected by a misleading prospectus may proceed against those responsible. It is the procedural companion to sections 34, 35 and 36, which supply the criminal liability, the civil liability to compensate and the punishment for fraudulent inducement.

How to use it in the exam: where a mis-statement problem asks what the aggrieved subscribers may do, name section 37 alongside the compensation right under section 35 and the right to rescind the allotment. Do not attempt detail you cannot source; one accurate sentence naming the section is worth more than a paragraph of guesswork.

Topic 7: Punishment for Personation for Acquisition, etc., of Securities (Section 38)

L2P2-2A-C3-T07

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 3, Punishment for Personation for Acquisition, etc., of Securities — section 38.

NOTES

No question has been printed on this topic in the Scanner. It is a concept-base topic; learn it as a name and a subject, not as a long answer.

What the section is about: section 38 provides **punishment for personation for the acquisition of securities** — where a person applies for, or subscribes to, securities of a company in a fictitious name, or otherwise impersonates another in order to acquire securities or to have securities allotted to a fictitious name. It sits at the end of the prospectus and allotment sequence, guarding the integrity of the application process that sections 33 and 39 regulate.

How it is likely to reach you: as one limb of a longer question on the consequences of an irregular public issue, not on its own. Name the section, state what conduct it strikes at, and move on to the operative section the facts are really about.

Topic 8: Punishment for Fraud (Section 447)

L2P2-2A-C3-T08

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 3, Punishment for Fraud — section 447.

NOTES

No question has been printed on this topic in the Scanner as a topic in its own right — but section 447 is cited in almost every mis-statement answer in this chapter, so it is examined indirectly and often. Treat it as the punishment clause you attach to the substantive section, not as a standalone answer.

Where the chapter routes you into it: under **section 34**, where a prospectus includes an untrue or misleading statement or a misleading inclusion or omission, every person who authorises the issue of such prospectus shall be liable under section 447. Section 35 likewise carries across **the punishment for fraud under section 447** through section 36. So the chain to write is: untrue or misleading prospectus, then section 34, then section 447.

The civil consequence that runs alongside it: under **section 35(3)**, where it is proved that a prospectus was issued with intent to defraud the applicants or any other person, or for any fraudulent purpose, every person referred to in section 35(1) is **personally responsible, without any limitation of liability**, for the losses or damages incurred by any person who subscribed on the

faith of that prospectus. Fraud therefore does two things at once: it triggers section 447 and it removes the limit on civil liability.

On the punishment itself: state that the person is **liable under section 447** and stop there unless you can recall the imprisonment and fine bands accurately. A named section with no figures scores; a wrong figure invites the examiner to strike the line.

Topic 9: Allotment of Securities by Company (Section 39)

L2P2-2A-C3-T09

Read first Read ICAI Study Material Chapter 3, Allotment of Securities by Company — section 39, with section 40(1) and section 62(1)(c).

NOTES

The rule in one line: under **section 39(1)**, no allotment of any securities of a company offered to the public for subscription shall be made unless the amount stated in the prospectus as the minimum subscription has been subscribed, and the sums payable on application for that amount have been paid to and received by the company by cheque or other instrument. Two things must both be true — the minimum subscription must be subscribed, and the application money on it must actually have been received.

The percentage that is always in the sum: under **section 39(2)**, the amount payable on application on every security shall not be less than five per cent of the nominal amount of the security, or such other percentage or amount as SEBI may specify by regulations. Do the arithmetic on the face of your answer: on a share of nominal value ten rupees, five per cent is fifty paise, so application money of five rupees complies; on a share of nominal value one hundred rupees, application money of twenty rupees is twenty per cent and comfortably complies.

Section 39 is not the only gate — section 40(1) is the second: every company making a public offer shall, before making the offer, make an application to one or more recognised stock exchanges and obtain permission for the securities to be dealt with on such stock exchange or exchanges. The classic trap in this topic is a company that satisfies section 39 in full and then fails section 40 because its listing applications were rejected. Having applied is not enough; the permission must be obtained.

The consequence of failing the gate: the allotment is **deemed to be an irregular allotment**. The company must refund the application money to the applicants in the prescribed manner within the stipulated time, and **on delay it is also liable to pay interest**. For the breach of section 40, the company is punishable with a fine of not less than five lakh rupees which may extend to fifty lakh rupees, and every officer of the company who is in default with a fine of not less than fifty thousand rupees which may extend to three lakh rupees, or with both. Set out refund, interest and fine as three consequences; the questions in this topic ask for the consequences of violation in

terms.

Allotment for consideration other than cash: where a company allots shares as fully paid up in settlement of a debt it owes, that is an issue of further shares for consideration other than cash and is governed by **section 62(1)(c)**: such shares may be offered to any persons, for cash or for a consideration other than cash, provided **the issue is authorised by a special resolution**, the price is determined on the basis of a valuation report of a registered valuer, and the company complies with the applicable provisions of Chapter III and such other conditions as may be prescribed. An allotment made without the special resolution and the valuer's report is not valid, however genuine the debt.

Answering the "deciding factors" question: these problems hand you a prospectus with three disclosures — the minimum subscription figure, the application money per share, and the listing position — and ask you to examine each. Take them in that order, hold each against section 39(1), section 39(2) and section 40(1) in turn, and give a separate verdict on each before you conclude on the validity of the allotment.

Application use the section - apply it to the facts · 2 questions

- Show the five per cent calculation in figures. Writing "more than five per cent" without the arithmetic loses the application mark.
- Test each disclosure against its own section, give a verdict on each, and only then state whether the allotment stands. Then add refund, interest and fine as the consequences.

CSQ 9.1 · MTP 2023-Mar [3] (a) · 5M · Pg 110

LEVEL II
Application

Medium

CSQ 9.2 · PYQ 2026-Jan [2] (a) · 5M · Pg 111

LEVEL II
Application

Medium

Topic 10: Securities to be Dealt with in Stock Exchange (Section 40)

L2P2-2A-C3-T10

Read first Read ICAI Study Material Chapter 3, Securities to be Dealt with in Stock Exchange — section 40, with Rule 13 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

NOTES

The rule in one line: under **section 40(1)**, every company making a public offer shall, before making such offer, make an application to one or more recognised stock exchanges and obtain permission for the securities to be dealt with on such stock exchange or exchanges. Where the prospectus states that such an application has been made, the prospectus must also state the name or names of the stock exchanges on which the securities are proposed to be dealt with.

The distinction the examiner keeps returning to: applying is not obtaining. A company that

applied to three recognised stock exchanges and had all three applications rejected has not complied with section 40(1), and cannot validly proceed to allot. The allotment is **irregular**; the company must refund the application money in the prescribed manner and within the stipulated time, with interest on any delay, and under **section 40(5)** the company is punishable with a fine of not less than five lakh rupees which may extend to fifty lakh rupees, and every officer in default with a fine of not less than fifty thousand rupees which may extend to three lakh rupees, or with both.

Underwriting, in one sentence: underwriting is a contract between the company and the underwriters by which the underwriters guarantee to purchase, or to get investors to purchase, the whole or an agreed portion of the securities that are not applied for by the public; the company pays them a commission as a percentage of the value of the shares offered to the public. That commission is the underwriting commission, and the conditions for paying it are in **Rule 13 of the Companies (Prospectus and Allotment of Securities) Rules, 2014**.

The five conditions in Rule 13 — these are the marks: (1) the payment of the commission is authorised by the company's articles of association; (2) it may be paid out of the proceeds of the issue or out of the profit of the company, or both; (3) the rate shall not exceed, in the case of shares, five per cent of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in the case of debentures, two and a half per cent of the price at which the debentures are issued or as specified in the articles, whichever is less; (4) the prospectus shall disclose the name of the underwriters, the rate and amount of the commission payable to them, and the number of securities to be underwritten or subscribed by them absolutely or conditionally; (5) no commission shall be paid to any underwriter on securities which are not offered to the public for subscription; and (6) a copy of the contract for the payment of the commission is delivered to the Registrar at the time of delivery of the prospectus for registration. Six conditions, not five — the filing of the contract is the one most often left out.

Two things students get wrong on the rate: the five per cent and the two and a half per cent are **ceilings measured on the issue price, not on the nominal value**, and the test is **whichever is less** as between the statutory ceiling and the rate the articles authorise. If the articles allow three per cent on shares, three per cent is the limit — the statutory five per cent does not raise it.

The refund clock where listing permission fails — section 40(3)(b): the company must **repay the application money received within the time specified by SEBI**. Under Regulation 53(2) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, an issuer that fails to obtain listing or trading permission must refund, through verifiable means, the entire application money received within four days of receiving the intimation rejecting its listing application. If it is not repaid within those four days, the company and every director who is an officer in default are, from the expiry of the fourth day, jointly and severally liable to repay it with interest at fifteen per cent per annum. Keep the two interest rates in this chapter apart: fifteen per cent here, and twelve per cent on a delayed private placement refund under section 42(6).

Understanding explain it, and place it in context · 1 question

- Define underwriting before you set out the commission conditions; the definition carries a mark of its own.
- Number the Rule 13 conditions and give the two rates against the two kinds of security. A single blended rate is treated as wrong.

TQ 10.1 · PYQ 2018-May [3] (a) · 6M · Pg 112

LEVEL I
Understanding**Hard****Application** use the section - apply it to the facts · 1 question

- Where the facts give listing applications, state whether permission was obtained, not merely whether an application was made, and then run the consequences: irregular allotment, refund, interest, fine.

CSQ 10.1 · MTP 2023-Sep [1] (a) {C} · 6M · Pg 114

LEVEL II
Application**Hard****Topic 11: Global Depository Receipt (Section 41)**

L2P2-2A-C3-T11

Read first Read ICAI Study Material Chapter 3, Global Depository Receipt — section 41 with Rules 4 and 5 of the Companies (Issue of Global Depository Receipts) Rules, 2014.

NOTES

Where the detail comes from: the conditions and the manner in which a company may issue depository receipts in a foreign country are in **the Companies (Issue of Global Depository Receipts) Rules, 2014 — Rule 4** for the conditions and **Rule 5** for the manner and form. Answer the question in those two heads; an answer that mixes them reads as a list without a structure.

Rule 4 — the conditions, and the two approvals: the Board of Directors shall pass a resolution authorising the company to issue GDRs, and the company shall take prior approval of its shareholders by a special resolution passed at a general meeting. Note the concession that is regularly asked: a special resolution passed under section 62 for a further issue of shares is deemed to be a special resolution for this purpose, so a separate resolution is not needed where one is already in place.

Rule 4 — the two banks, and who holds what: the depository receipts shall be issued by an overseas Depository Bank appointed by the company, and **the underlying shares shall be kept in the custody of a Domestic Custodian Bank**. Keep the two apart in your answer — the overseas bank issues the receipts, the domestic bank holds the shares.

Rule 4 — compliance and oversight: the company shall ensure that all applicable provisions of the scheme and the rules, regulations or guidelines issued by the Reserve Bank of India are complied with before and after the issue; it shall appoint a Merchant Banker, or a practising Chartered

Accountant, or a practising Cost Accountant, or a practising Company Secretary, to oversee all the compliances relating to the issue; and the compliance report from the professional shall be placed at the Board meeting or at a Committee meeting held immediately after the closure of all formalities of the issue. Proviso: where the company is required to have independent directors, that committee of the Board shall have at least one independent director.

Rule 5 — the manner and form: the depository receipts may be issued by way of public offering or private placement or in any other manner prevalent in the concerned jurisdiction, and may be listed or traded on the listing or trading platform in that jurisdiction. They may be issued against the issue of new shares, or may be sponsored against shares held by the shareholders of the company, on such conditions as the Central Government or the Reserve Bank of India may prescribe or specify from time to time. The underlying shares shall be allotted in the name of the overseas Depository Bank, and against those shares the overseas Depository Bank issues the depository receipts.

Understanding explain it, and place it in context · 1 question

- Do not omit the deeming provision on the section 62 special resolution or the independent-director proviso; short answers on this topic lose their marks on exactly those two lines.

TQ 11.1 · PYQ 2015-May [6] (a) · 8M · Pg 116

LEVEL I
Understanding

Hard

Topic 12: Private Placement (Section 42)

L2P2-2A-C3-T12

Read first Read ICAI Study Material Chapter 3, Private Placement — section 42 with Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

NOTES

The definition to open with: under **Explanation I to section 42(3)**, private placement means any offer or invitation to subscribe or issue of securities to a select group of persons by a company, other than by way of public offer, through a private placement offer-cum-application, which satisfies the conditions specified in this section. A private company may take this route: **section 23(2)(b)** permits it to issue securities by private placement, complying with section 42 read with Rule 14.

The resolution, and the debenture concessions: Rule 14(1) requires prior approval of the shareholders by a special resolution for each of the private placement offers or invitations. Two provisos cut that down for non-convertible debentures: where the amount proposed to be raised does not exceed the limit specified in section 180(1)(c), a Board resolution under section 179(3)(c) is adequate; and where it exceeds that limit, it is sufficient if the company passes a previous special

resolution only once in a year for all the offers or invitations for such debentures during the year. The word to notice in the main rule is "**each**" — for anything other than debentures within those provisos, one resolution per offer.

The number of persons: section 42(2) caps the identified persons at **fifty or such higher number as may be prescribed**, in a financial year, and **Rule 14(2) prescribes two hundred in the aggregate in a financial year**. Offers to qualified institutional buyers, and to employees under an ESOP scheme under section 62(1)(b), are excluded from the count of two hundred, and the Explanation makes the restriction reckoned individually for each kind of security — equity share, preference share or debenture. **Rule 14(7)**: NBFCs registered with the Reserve Bank of India and Housing Finance Companies registered with the National Housing Bank need not comply with Rule 14(2) where they comply with the regulations of the RBI or the NHB on private placement offers. And note what breaching the ceiling costs: under section 42(11), any private placement issue not made in compliance with sub-section (2) shall be deemed to be a public offer, attracting the Companies Act, the Securities Contracts (Regulation) Act, 1956 and the SEBI Act, 1992.

Section 42(5) — when a fresh offer may be made: no fresh offer or invitation shall be made unless the allotments with respect to any offer or invitation made earlier have been completed, or that offer or invitation has been withdrawn or abandoned by the company. So a company that has an open private placement must close it before opening the next; and, subject to the ceiling of two hundred identified persons, it may make more than one offer in a financial year. Note also what does not count against you: a rights issue is not a private placement at all, so it neither uses up the private placement limit nor prevents a private placement.

Section 42(6) — the three periods, and the rate: the company shall allot its securities within sixty days from the date of receipt of the application money; if it cannot allot within that period, it shall repay the application money to the subscribers within fifteen days from the expiry of the sixty days; and if it fails to repay within that period, it shall repay the money with interest at twelve per cent per annum from the expiry of the sixtieth day. The classic wrong answer puts the interest at fifteen per cent, or runs it from the date of the demand — it is twelve per cent, and it runs from the expiry of the sixtieth day.

Where the money must sit, and what it may be used for: the monies received on application shall be kept in a separate bank account in a scheduled bank and shall not be utilised for any purpose other than (a) adjustment against allotment of securities, or (b) repayment of monies where the company is unable to allot securities. So the application money **cannot be used to pay a declared dividend**, nor for any other purpose of the company. Alongside that, the subscription money must come by cheque, demand draft or other banking channel and not in cash, and the company shall not utilise the monies until allotment is made and the return of allotment is filed with the Registrar — that return must be filed within fifteen days from the date of the allotment [section 42(8)], and the money may be used once it has been filed. The offer-cum-application **carries no right of renunciation**.

How these problems are built: they give you a date of receipt of application money and a date of allotment, a number of persons with some QIBs among them, and a use to which the money was

put. Run three checks in that order — **count the persons after excluding the QIBs and ESOP employees; count sixty days from receipt of the application money to the allotment; ask what the money was used for in the meantime.** Each check is a separate finding, and the question usually asks you to say expressly which of the members' objections are valid and which are not.

Understanding explain it, and place it in context · 1 question

- Quote Explanation I to section 42(3) in full for the meaning of private placement, then move to the conditions. The definition is a mark on its own.
- Give the sixty days, the fifteen days and the twelve per cent as three separate limbs, and say the interest runs from the expiry of the sixtieth day.

TQ 12.1 · MTP 2022-Mar [3] (a) · 5M · Pg 118

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 3 questions

- Count the days on the facts and show the count. Writing "the allotment was late" without fixing the sixtieth day loses the application mark.
- Where the members claim a wrong rate of interest, hold that their objection on non-allotment is valid but their claim as to the rate is not. Both halves are marked.

CSQ 12.1 · PYQ 2023-Nov [5] (a) · 5M · Pg 119

LEVEL II
Application

Medium

CSQ 12.3 · PYQ 2024-Sep [2] (a) · 5M · Pg 122

LEVEL II
Application

Medium

CSQ 12.4 · PYQ 2026-Sep [1] (b) {C} · 5M · Pg 123

LEVEL II
Application

Medium

Analysis break it down and take the parts separately · 1 question

- A question that asks three numbered queries wants three separately headed answers; do not fold the resolution, the timeline and the utilisation of funds into one paragraph.
- Where the facts mention an earlier rights issue, say expressly that a rights issue is not a private placement before you apply the section 42 limits.

CSQ 12.2 · PYQ 2024-May [2] (a) · 5M · Pg 120

LEVEL II
Analysis

Medium

PART 2A · CORPORATE LAWS · CHAPTER 4

Share Capital and Debentures

11 Topics · 45 Classified Questions · Importance: A

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**

Level I — Comprehension & Knowledge **23.9%** 49 of 205 marks

Level II — Analysis & Application **76.1%** 156 of 205 marks

This chapter sits on the paper's own profile — 24% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: Share Capital - Types

L2P2-2A-C4-T01

Read first Read ICAI Study Material Chapter 4, Share Capital - Types — with Rule 4 of the Companies (Share Capital and Debentures) Rules, 2014 on equity shares with differential rights.

NOTES

The two kinds, in the words the Scanner uses: equity shares carry voting rights and represent ownership in the company; preference shares have priority in receiving dividends but usually have limited voting rights. Equity itself can be split further, because a company may issue equity shares with differential rights as to dividend, voting or otherwise — the shares commonly called DVR shares.

The gateway: yes, DVR shares can be issued, but only on conditions. Rule 4 of the Companies (Share Capital and Debentures) Rules, 2014 provides that no company limited by shares shall issue equity shares with differential rights as to dividend, voting or otherwise unless the conditions in the Rule are complied with. Open your answer with that negative formulation — it is how the Rule is framed and it sets up the list.

The two approvals: the articles of association must authorise the issue of shares with differential rights, and the issue must be authorised by an ordinary resolution passed at a general meeting of the shareholders. Proviso: where the equity shares of the company are listed on a recognised stock exchange, the issue shall be approved by the shareholders through postal ballot. Note that the resolution here is an **ordinary** one — students who write "special resolution" out of habit lose the mark.

The ceiling, and the reason for it: the voting power in respect of shares with differential rights shall not exceed seventy four per cent of the total voting power, including the voting power in respect of equity shares with differential rights issued at any point of time. The purpose is to prevent excessive concentration of control: capping DVR voting power at seventy four per cent

leaves at least twenty six per cent of the total voting power with the ordinary equity shareholders. To test it, compute the total votes in the company first, take seventy four per cent of that total, and compare the DVR block against it.

The clean-record conditions — this is the part of the Rule that is actually asked: the company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares; it has no subsisting default in the payment of a declared dividend to its shareholders, or in the repayment of its matured deposits, or in the redemption of its preference shares or debentures that have become due for redemption, or in the payment of interest on such deposits or debentures; and it has not defaulted in payment of dividend on preference shares, or in repayment of any term loan from a public financial institution or State level financial institution or Scheduled Bank that has become repayable, or interest payable thereon, or in dues with respect to statutory payments relating to its employees to any authority, or in crediting the amount to the Investor Education and Protection Fund. And the last of them: the company has not been penalised by a Court or Tribunal during the last three years for any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts (Regulation) Act, 1956, the Foreign Exchange Management Act, 1999, or any other special Act under which such companies are regulated by sectoral regulators.

The way back in after a default: a company may issue equity shares with differential rights upon the expiry of five years from the end of the financial year in which such default was made good. So a default does not bar the company for ever — it bars it until the default is made good and five years have run from the end of that financial year. Quote this proviso; it is the line that turns a list into an answer.

Remembering reproduce what you have learnt · 1 question

- This topic is examined as a straight six-mark recall. Learn Rule 4 as a numbered list and reproduce it under the heading "Conditions for the issue of equity shares with differential rights".

TQ 1.1 · PYQ 2018-May [6] (a) · 6M · Pg 127

LEVEL I
Remembering

Hard

Topic 2: Certificate of Shares (Section 46)

L2P2-2A-C4-T02

Read first Read ICAI Study Material Chapter 4, Certificate of Shares — section 46.

NOTES

The rule in one line: under **section 46(1)**, a share certificate issued under the common seal, if any, of the company, or signed by two directors, or by a director and the Company Secretary wherever

the company has appointed a Company Secretary, specifying the shares held by any person, **shall be prima facie evidence of the title of that person to such shares**. Get the signing formula exactly right — it is a mark on its own.

What "prima facie evidence" buys the holder: in the normal course the person named in the certificate is, **for all practical purposes, the legal owner of the shares**, and **the company cannot deny his title**. That is the starting point of every answer on this section. It is only the starting point, because prima facie evidence can be displaced.

And what displaces it — the forged transfer: a forged transfer is a nullity. It gives the transferee **no title at all**, however innocent he is and however regular the certificate the company issued to him looks. And because **the title of the buyer is only as good as that of the seller**, a further transfer by that transferee gives the next buyer no title either. The forgery poisons the whole chain.

The company's obligation to the true owner: where the company acts on a forged transfer and removes the name of the real owner from the Register of Members, the company is bound to restore his name as the holder of the shares and to pay him any dividends he ought to have received — **Barton v. North Staffordshire Railway Co.** Cite the case; it is what the Scanner's answer cites.

Where that leaves the innocent purchasers — the trap in these problems: neither the person who took under the forged transfer nor the person who bought from him has any rights against the company, even though both are bona fide purchasers for value without notice. Their remedy is against the forger: the person who committed the forgery is criminally liable and may also be liable to compensate them for the loss suffered. The classic wrong answer is to protect the innocent buyer against the company because the company issued him a certificate — the certificate is only prima facie evidence, and a nullity behind it cannot be cured.

Remembering reproduce what you have learnt · 1 question

- The question asks for the rights of three named people. **Take them one at a time, in the order the facts name them**, and give each a sentence of its own — a combined answer cannot show the different position of each.
- State the rule on a forged transfer first; every one of the three positions follows from it.

CSQ 2.1 · MTP 2020-May [5] (a) · 5M · Pg 128

LEVEL 1
Remembering

Medium

Topic 3: Voting Rights (Section 47)

L2P2-2A-C4-T03

Read first Read ICAI Study Material Chapter 4, Voting Rights — section 47, together with section 105 and Rule 19 of the Companies (Management and Administration) Rules, 2014 on proxies.

NOTES

Where the votes sit: equity shares carry voting rights and represent ownership in the company, while preference shares carry priority in dividend but usually only limited voting rights. That division is the substance of section 47, and it is the reason a variation of preference rights is dealt with separately under section 48.

The way this topic has actually been examined is through the proxy: where members cannot attend a general meeting in person, the Act does not let their rights lapse — it lets them **delegate their voting power by appointing a proxy**. The provisions are section 105 of the Companies Act, 2013 and Rule 19 of the Companies (Management and Administration) Rules, 2014. Answer the question through those, and say expressly that the mechanism preserves the member's participation rather than replacing it.

Who may appoint, and who may be appointed: every member entitled to vote at a meeting can appoint a proxy to attend and vote on his behalf at a general meeting, and the proxy may be any person — he need not be a shareholder of the company. That second point is regularly asked and regularly got wrong.

The form and the deadline — the two figures in this topic: the appointment of proxy shall be in Form No. MGT-11 [Rule 19(3)], and the proxy form must be submitted forty eight hours before the meeting. The instrument appointing a proxy shall be in writing and signed by the appointer or by his attorney duly authorised in writing; where the appointer is a body corporate, the instrument shall be under its seal or be signed by an officer or an attorney duly authorised by the body corporate.

The compliance limb on the company: every notice calling a meeting of a company which has a share capital, or the articles of which provide for voting by proxy at the meeting, must include a statement that a member is entitled to appoint a proxy. Add this to your answer even when the question asks only what the member can do — it is the company's side of the same rule and it carries a mark.

Understanding explain it, and place it in context · 1 question

- Name section 105 and Rule 19 together, then give the form number and the forty eight hours. A proxy answer without MGT-11 and the deadline reads as incomplete.
- Say expressly that a proxy need not be a member; the examiner puts that point in to see whether you know it.

CSQ 3.1 · MTP 2025-Mar S2 [6] (a) · 5M · Pg 129

LEVEL I
Understanding

Medium

Topic 4: Variations of Shareholders' Rights (Section 48)

L2P2-2A-C4-T04

Read first Read ICAI Study Material Chapter 4, Variations of Shareholders' Rights — section 48.

NOTES

The rule in one line: under **section 48**, where the share capital of a company is divided into different classes, **the rights attached to the shares of any class may be varied** — but only on the conditions the section lays down. Every problem on this topic is decided by running those conditions in order, so set them out as a numbered list before you touch the facts.

Condition one, the power to vary: the variation can be made only where the power to vary is contained in the memorandum or articles of the company, or in the terms of issue of those shares. Where the articles are silent, the terms of issue of the shares in question must at least not prohibit the variation. An article that permits variation "in accordance with the provisions of the Companies Act, 2013" satisfies this limb.

Condition two, the consent — two alternative routes: the company must obtain either the consent in writing of the holders of not less than three-fourths of the issued shares of that class, or the sanction of a special resolution passed at a separate meeting of the holders of that class. Proviso: where the variation by one class of shareholders affects the rights of any other class, the consent of three-fourths of that other class must also be obtained. Do not stop at the class that is being varied; ask whether a second class is hit, and say so.

Condition three, the dissenters' right to go to the Tribunal — and the base on which the ten per cent is measured: where the holders of not less than ten per cent of the issued shares of a class did not consent to the variation, or did not vote in favour of the special resolution for it, they may apply to the Tribunal to have the variation cancelled; and where such an application is made, the variation shall not have effect unless and until it is confirmed by the Tribunal. The ten per cent is ten per cent of the issued shares of that class — not ten per cent of the dissenting shareholders. That is the calculation the examiner is testing.

How the arithmetic runs in the printed problems: on a class of 50,000 shares where the holders of 40,000 consented, the consent is **eighty per cent, which is above three-fourths, so the variation may proceed**, provided it does not affect any other class. On the same class, **ten per cent of 50,000 is 5,000**, so dissenting holders of 4,500 shares are **below the threshold and cannot apply to the Tribunal**. Show both fractions on the page; the marks are in the working, not the verdict.

What the consent does not cure: meeting the numbers is not the end of the enquiry. **A variation that affects another class needs that class's consent as well**, and the explanatory statement must make full disclosure of any interest of the promoters — a failure of disclosure goes to **the validity of the resolution itself**, not merely to whether the outcome was fair. So a class meeting that clears three-fourths can still produce an invalid variation.

Applying it to preference rights: a company cannot on its own reduce the rate of dividend on issued preference shares, or postpone a cumulative dividend entitlement, merely because its articles allow variation and its profits have fallen. It must satisfy the power to vary, then the three-

fourths consent or the class special resolution, then the other-class consent where relevant — and the ten per cent dissenters may still take it to the Tribunal, in which case **the variation does not take effect unless the Tribunal confirms it.**

Understanding explain it, and place it in context • 1 question

- Give the three conditions as three numbered limbs and quote "three-fourths" and "ten per cent" in words. An answer that paraphrases the fractions loses marks.

TQ 4.1 • MTP 2025-Mar S2 [3] (a) • 5M • Pg 131

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts • 3 questions

- Compute the consent percentage and the ten per cent threshold on the face of your answer, using the issued shares of the class as the base. Then answer the two questions separately: can the company vary, and can the dissenters apply.

CSQ 4.1 • PYQ 2024-May [1] (a) {C} • 5M • Pg 132

LEVEL II
Application

Medium

CSQ 4.2 • MTP 2025-Mar S2 [4] (a) • 5M • Pg 134

LEVEL II
Application

Medium

CSQ 4.3 • PYQ 2026-Sep [2] (a) • 5M • Pg 135

LEVEL II
Application

Medium

Topic 5: Call on Share (Section 49 to 51)

L2P2-2A-C4-T05

Read first Read ICAI Study Material Chapter 4, Call on Share — sections 49 to 51, with section 6 on the overriding effect of the Act.

NOTES

Section 49 — calls must be uniform: calls shall be made on a uniform basis on all shares falling under the same class. It follows that a call cannot be made on some of the members only, unless they constitute a separate class of shareholders. So where the directors single out one defaulting member and call up the whole of the balance due on his shares, **that action is invalid and not permissible** — the remedy for non-payment of a call lies elsewhere, not in making a special call against him. The section also recognises that a shareholder on whom a regular call has been served may choose to pay only a part of the sum due.

Section 50 — calls in advance, and the article that controls it: a company may, if so authorised by its articles, accept from any member the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up. The authority of the

articles is the condition precedent — without it the company cannot accept the money. **Interest can be paid on such an advance if the articles permit**, and where the rate of interest is permitted by the articles, that rate may be varied by the shareholders in general meeting.

Section 51 — dividend on paid-up amount: a company may, if so authorised by its articles, pay dividends in proportion to the amount paid-up on each share. So where the equity shares are not equally paid-up, **the Board may decide to pay dividends on a pro-rata basis**. Read with section 50, this is what answers the member who has paid in advance: he is entitled to interest on the money advanced, and to dividend in proportion to the amount paid-up on each share, if the articles so authorise — the entitlement is conditional on the articles in both limbs.

The classic trap in this topic: the member who pays in advance is not thereby treated as holding a more fully paid share for dividend purposes as of right. Both his interest and his dividend depend on **authorisation in the articles**. Write "if so authorised by its articles" into the sentence; an unqualified "yes, he is entitled" is treated as wrong.

Where the articles are more restrictive than the Act — section 6: the provisions of the Act have effect notwithstanding anything to the contrary in the memorandum or articles, in any agreement, or in any resolution, and any such provision is void to the extent that it is repugnant to the Act. But section 6 opens with the words "Save as otherwise expressly provided in this Act" — which means that where another section itself makes the articles the source of the power, the articles govern.

Section 50 is exactly such a section: it permits acceptance of calls in advance **only if the articles so authorise**. So an article saying the company shall not accept or retain calls in advance **prevails and is not void**; it is not repugnant to the Act, because the Act made the matter one for the articles.

Application use the section - apply it to the facts · 2 questions

- Attach the words "if so authorised by its articles" to every conclusion under sections 50 and 51. The conditionality is the answer.
- Where the directors have called on one member alone, name section 49, state the uniformity rule, and conclude that the call is invalid.

CSQ 5.1 · PYQ 2024-Sep [1] (a) {C} · 5M · Pg 137

LEVEL II
Application

Medium

CSQ 5.2 · MTP 2025-Dec S2 [2] (b) · 5M · Pg 138

LEVEL II
Application

Medium

Topic 6: Issue of Shares at a Premium or Discount (Section 52 & 53)

L2P2-2A-C4-T06

Read first Read ICAI Study Material Chapter 4, Issue of Shares at a Premium or Discount — sections 52 and 53.

NOTES

The two meanings first: where a company issues shares at a price higher than their face value the shares are issued at a premium, and the differential amount is the premium; where it issues them at a price lower than their face value the shares are issued at a discount, and the differential amount is the discount. One sentence each; then move to the sections.

Section 52(1) — the account, and what it is treated as: where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a "securities premium account", and the provisions of the Act relating to reduction of share capital apply to that account, except as provided in the section, as if the securities premium account were the paid-up share capital of the company. That last clause is the reason the permitted uses are a closed list.

Section 52(2) — the five permitted applications, and they are exhaustive: the securities premium account may be applied (a) towards the issue of unissued shares of the company to the members as fully paid bonus shares; (b) in writing off the preliminary expenses of the company; (c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; (d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or (e) for the purchase of its own shares or other securities under section 68. Reproduce all five even when the facts raise only two — the list is the answer.

What falls outside the list — this is where the marks are: advertisement expenses cannot be written off against the securities premium account, because they are not preliminary expenses of the company; and the account cannot be used to distribute a dividend, including an interim dividend, particularly where profits are inadequate. By contrast, a bonus issue of fully paid shares and the premium payable on redemption of preference shares are both squarely within the list. Where a question lists four proposed uses, take them one by one and match each against clauses (a) to (e).

Section 53 — the prohibition, and its two exceptions: a company is prohibited from issuing shares at a discount. The exceptions are **the issue of sweat equity shares under section 54**, and an issue of shares at a discount to its creditors where the company's debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme, in accordance with any guidelines, directions or regulations specified by the Reserve Bank of India. Nothing else saves a discounted issue.

The recurring fact pattern: a public issue is undersubscribed or the market is weak, and the underwriter advises offering the shares at a discount of a rupee or two to ensure full subscription. **That issue is invalid — commercial necessity is not an exception to section 53** — and the answer changes only if the shares are issued to employees or directors as sweat equity under section 54, in which case the discount is permitted.

Remembering reproduce what you have learnt · 1 question

- Two limbs: the **reasons** for issue at a premium or discount, and the **purposes for which the securities premium account may be used**. Split the answer under two headings so the examiner can find both.
- The permitted uses are a list. Give them all before you comment on any.

TQ 6.2 · PYQ 2021-Jan [3] (a) · 5M · Pg 140

LEVEL I
Remembering**Medium****Application** use the section - apply it to the facts · 3 questions

- Where the shares were issued at a discount, conclude that the issue violates section 53, then answer the "what if it were sweat equity" limb separately and expressly.

CSQ 6.1 · PYQ 2020-Nov [5] (a) (i) · 3M · Pg 141

LEVEL II
Application**Easy**

TQ 6.1 · RTP 2019-May [4] · Pg 139

LEVEL II
Application**Medium**

CSQ 6.2 · PYQ 2026-Jan [1] (b) {C} · 5M · Pg 142

LEVEL II
Application**Medium****Topic 7: Issue of Sweat Equity Shares (Section 54)**

L2P2-2A-C4-T07

Read first Read ICAI Study Material Chapter 4, Issue of Sweat Equity Shares — section 54 with Rule 8 of the Companies (Share Capital and Debentures) Rules, 2014.

NOTES

What they are, and why they are an exception: sweat equity shares are shares issued by a company to its employees or directors at a discount or for consideration other than cash, as a reward for their contribution to the company's growth — **providing intellectual property, technical expertise or other valuable services**. They are the standing exception to section 53, which otherwise prohibits an issue at a discount. The holders of sweat equity shares rank pari passu with the other equity shareholders, and the rights, limitations, restrictions and provisions applicable to equity shares apply to them. They go **to the directors and permanent employees of the company**, and the consideration the Rules recognise is **technical know-how, intellectual property rights or value additions** — so an issue to a Chief Technology Officer for specialised know-how and proprietary software developed for the company is a valid purpose, and the fact that the consideration was not part of his normal employment contract is what makes it sweat equity rather than salary.

Section 54(1) — the four conditions: (a) the shares must be of a class of shares already issued by the company; (b) the issue is authorised by a special resolution passed by the company; (c) the resolution specifies the number of shares, the current market price, the consideration if any, and

the class or classes of directors or employees to whom the shares are to be issued; and (d) where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by SEBI, and where they are not so listed, in accordance with Rule 8 of the Companies (Share Capital and Debentures) Rules, 2014.

The two limits under Rule 8(4), and the order in which to apply them: the annual limit is the higher of fifteen per cent of the existing paid-up equity share capital, or shares of the issue value of five crore rupees; the overall limit is that the sweat equity shares issued at any time, cumulatively including all previous issues, shall not exceed twenty five per cent of the paid-up equity capital of the company. Test the annual limit first, then the overall limit, and remember that the overall limit binds even where the annual limit would allow more. On paid-up equity of forty crore rupees where eight crore of sweat equity has already been issued: the annual limit is the higher of six crore and five crore, so six crore; but the overall ceiling is twenty five per cent of forty crore, that is ten crore, of which eight crore is used, **leaving headroom of only two crore** — so a proposed issue of seven crore fails. The way out, where the company still wants to issue more, is to increase its paid-up equity share capital, which expands both limits — say so, because the question asks for advice, not just a verdict.

The start-up concession — proviso to Rule 8(4): a start-up company, as defined in the notification of the Ministry of Commerce and Industry, may issue sweat equity shares not exceeding fifty per cent of its paid-up share capital up to ten years from the date of its incorporation or registration. So a start-up proposing an issue of thirty per cent of paid-up capital is within its limit. Say which limit you are applying — the ordinary limits or the start-up proviso — before you do the arithmetic.

Rule 8(5) — the lock-in, and the figure students get wrong: sweat equity shares issued to directors or employees shall be locked in and non-transferable for a period of three years from the date of allotment, and **the fact that the share certificates are under lock-in shall be stated on them. The classic wrong answer accepts a five-year lock-in proposed by the company.** Three years is the statutory period; a company that proposes five is to be told its lock-in is limited to a maximum of three years from allotment.

Rule 8(3) and Rule 8(6) — the two that decide the newer problems: the special resolution authorising the issue is valid for making the allotment within a period of not more than twelve months from the date of passing, so a resolution passed in one January cannot support an allotment made more than twelve months later. And the price of sweat equity shares must be determined by a registered valuer, who certifies the fair value with proper justification. Where the facts give you a resolution date and an allotment date, put the twelve months against them before anything else.

The condition that does not exist: there is no requirement that any minimum period must have elapsed since the company was incorporated or commenced business before it may issue sweat equity shares. A company only a few months old may issue them, provided it satisfies section 54 and Rule 8. When a question plants the assertion that five years must have passed, say plainly that

it makes no difference how old the company is.

Understanding explain it, and place it in context · 1 question

- Open with the definition and the pari passu point, then section 54(1), then Rule 8. That order matches the way the answers are marked.
- Quote the annual limit as "higher of fifteen per cent or five crore rupees" and the overall limit as "twenty five per cent at any time". Mixing the two is the commonest error in this topic.

CSQ 7.1 · RTP 2021-Nov [5] · Pg 143

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 4 questions

- Show both calculations in figures — the annual limit and the remaining headroom under the twenty five per cent ceiling — and conclude against whichever binds.
- Where a lock-in longer than three years is proposed, do not simply say the proposal is invalid; say the lock-in is restricted to a maximum of three years from the date of allotment.

CSQ 7.3 · MTP 2024-Nov [1] (a) {C} · 5M · Pg 146

LEVEL II
Application

Medium

CSQ 7.4 · RTP 2025-Jan [12] · Pg 147

LEVEL II
Application

Medium

CSQ 7.5 · MTP 2025-Mar S2 [2] (b) · 5M · Pg 148

LEVEL II
Application

Medium

CSQ 7.2 · PYQ 2023-May [1] (a) {C} · 6M · Pg 144

LEVEL II
Application

Hard

Analysis break it down and take the parts separately · 1 question

- These questions are set as two or three numbered issues — size of issue, lock-in, validity of the resolution. Answer each under its own heading with its own rule and its own conclusion.
- Check first whether the company is a start-up; the whole of the size calculation changes if it is.

CSQ 7.6 · PYQ 2026-May [2] (a) · 5M · Pg 150

LEVEL II
Analysis

Medium

Topic 8: Issue and Redemption of Preference Shares (Section 55)

L2P2-2A-C4-T08

Read first Read ICAI Study Material Chapter 4, Issue and Redemption of Preference Shares — section 55.

NOTES

Section 55(2) — the two sources, and only two: preference shares may be redeemed out of the profits of the company which would otherwise be available for dividend, or out of the proceeds of a fresh issue of shares made for the purpose of the redemption. So a company sitting on retained earnings and free reserves may redeem out of those, or it may issue fresh equity to fund the redemption. Identify the source the company proposes before you go any further, because everything that follows depends on it.

The Capital Redemption Reserve, and when it is required: where the shares are redeemed out of profits, a sum equal to the nominal value of the shares redeemed shall be transferred to a reserve called the Capital Redemption Reserve. The amount is measured by **the nominal value of the shares redeemed**, not by the amount actually paid out. So on 5,00,000 preference shares of one hundred rupees each redeemed out of retained earnings and free reserves, **five crore rupees must be transferred to the Capital Redemption Reserve**.

And when it is not: if the company funds the redemption by a fresh issue of shares, no Capital Redemption Reserve is required, because the capital removed is replaced by new capital coming in. Once created, the Capital Redemption Reserve is treated with the same sanctity as paid-up share capital. That is why the choice of source is the whole of the advice in these questions — set out both options and the reserve consequence of each.

Section 55(3) — the rescue where the company cannot redeem or cannot pay: where a company is not in a position to redeem any preference shares, or to pay the dividend, if any, on such shares in accordance with the terms of issue (such shares being called unredeemed preference shares), it may 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 two approvals under section 55(3), and the figure that decides the problem: the further issue may be made 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 the company in that behalf. Both are required. **Three-fourths in value means seventy five per cent**, so a consent of seventy per cent in value is not enough and the Tribunal will not approve the petition. That is the trap: the figure in the facts is set just short of the threshold.

What can be rolled into the fresh issue: the further redeemable preference shares are issued for **the amount due, including the dividend thereon** — so **unpaid dividend can be included**, provided the three-fourths consent and the Tribunal's approval are in place. Answer the two limbs separately: first whether the petition succeeds on the consent figure, then whether the unpaid dividend may be included if the consent were properly obtained.

Application use the section - apply it to the facts · 2 questions

- Convert "three-fourths in value" into a percentage on the page and compare it with the consent actually obtained. The comparison is the marked step.

- Where the company is asked to be advised on options, set out each option with its consequence — redeem from profits and create the reserve, or issue fresh shares and create none.

CSQ 8.1 · PYQ 2022-May [1] (b) (ii) {C} · 3M · Pg 152

LEVEL II
Application

Easy

CSQ 8.2 · MTP 2025-Mar S2 [1] (a) · 5M · Pg 153

LEVEL II
Application

Medium

Topic 9: Transfer and Transmission of Securities and the Allied Provisions (Sections 56 to 59)

L2P2-2A-C4-T09

Read first Read ICAI Study Material Chapter 4, Transfer and Transmission of Securities and the Allied Provisions — sections 56 to 59, particularly section 58.

NOTES

The company's deadline: under **section 58(4)**, where a public company **without sufficient cause refuses to register the transfer of securities**, it is required to do so within a period of thirty days from the date on which the instrument of transfer, or the intimation of transmission as the case may be, was delivered to the company. Thirty days from delivery is the fixed point from which everything else in this topic is counted.

The transferee's two windows — and which one applies depends on whether the company said anything: where the company has refused, the transferee may appeal to the Tribunal within sixty days of the refusal; where no intimation has been received from the company at all, he may appeal within ninety days of the delivery of the instrument of transfer. **The classic error is to apply the sixty days to a silent company.** Silence puts you on the ninety-day track, measured from delivery, not from any refusal.

What the Tribunal can do — section 58(5): on hearing the parties it may **dismiss the appeal**, or by order (a) direct that the transfer or transmission shall be registered by the company, and the company shall comply with such order within ten days of the receipt of the order; or (b) direct rectification of the register, and also direct the company to pay damages, if any, sustained by any party aggrieved. Three outcomes; give all three, because the question asks what remedies the transferee has, not what he is likely to get.

How to write the answer: these problems are set in two parts — the time frame within which the company must reply, and the transferee's remedy. **Answer them under two headings.** Fix the date of delivery of the instrument first, then the thirty days, then decide which of the sixty or ninety days applies on the facts, then set out the section 58(5) orders. The ten days for compliance with the Tribunal's order is a separate figure from all of these and is regularly asked for.

Application use the section - apply it to the facts · 1 question

- Say which of the sixty-day and ninety-day limits applies and why, by reference to whether the company sent any intimation. That sentence is the point of the question.
- Set out all three of the Tribunal's possible orders, including damages, before you conclude.

CSQ 9.1 · PYQ 2018-May [5] (a) (i) · 4M · Pg 154

LEVEL II
Application

Medium

Topic 10: Alteration of Share Capital (Section 61 to 70)

L2P2-2A-C4-T10

Read first Read ICAI Study Material Chapter 4, Alteration of Share Capital — sections 61 to 70, with sections 13, 64 and 66.

NOTES

Section 61 — the five ways the capital clause may be altered: a limited company having a share capital may, if authorised by its articles, alter its memorandum in its general meeting to **(a) increase its authorised share capital by such amount as it thinks expedient;** (b) consolidate and divide all or any of its share capital into shares of a larger amount — but no consolidation and division which results in changes in the voting percentage of shareholders shall take effect unless it is approved by the Tribunal on an application made in the prescribed manner; (c) convert all or any of its paid-up shares into stock, and reconvert that stock into fully paid shares of any denomination; (d) sub-divide the whole or any part of its shares into shares of a smaller amount than fixed by the memorandum, so that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share remains the same as in the share from which it is derived; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled. Under **section 64**, the company must then file a notice in the prescribed form, Form SH-7, with the Registrar within thirty days of the alteration, along with the altered memorandum; and under **section 13**, save as provided in section 61, the memorandum is altered **by special resolution**.

The distinction the examiner keeps returning to — section 61(1)(e) against section 66: section 61(2) provides that the cancellation of shares under clause (e) shall not be deemed to be a reduction of share capital, so cancelling issued but unsubscribed shares needs no confirmation from the Tribunal — the resolution in general meeting and the amendment of the memorandum are enough. By contrast, under section 66 a company limited by shares may, by special resolution and subject to confirmation by the National Company Law Tribunal, reduce its share capital in any manner, including by extinguishing or reducing the liability on any of its shares in respect of share capital not paid-up. So relieving shareholders of an uncalled two rupees a share, and treating partly paid shares as fully paid, is a reduction under section 66 and does need the Tribunal, while

cancelling unissued capital under section 61 does not. Getting these two the wrong way round is the standard error in this topic. **The section 66 procedure, in the order the answers set it out: pass a special resolution; apply to the Tribunal for confirmation;** the Tribunal gives notice of the application to the Central Government, the Registrar, SEBI in the case of a listed company, and the creditors, and considers the representations received within the prescribed period; the Tribunal may confirm the reduction if satisfied that the debt or claim of every creditor entitled to object has been discharged, determined or secured, or that his consent has been obtained; **the company publishes the Tribunal's order in the manner the Tribunal directs;** it delivers to the Registrar, within thirty days of receipt of the copy of the order, a certified copy of the order and the approved minute showing the reduced share capital; and the Registrar registers the order and minute and issues a certificate of reduction of share capital.

Section 62(1)(a) — the rights issue: where a company having a share capital proposes to increase its subscribed capital by a further issue, the shares must first be offered to persons who at the date of the offer are holders of equity shares, in proportion as nearly as circumstances admit to the paid-up share capital on those shares, by sending a letter of offer, subject to three conditions: the offer shall be made by notice specifying the number of shares offered and limiting a time not less than fifteen days, or such lesser number of days as may be prescribed, and not exceeding thirty days from the date of the offer, within which the offer if not accepted shall be deemed to have been declined; unless the articles otherwise provide, the offer shall be deemed to include a right in the offeree to renounce the shares offered to him, or any of them, in favour of any other person, and the notice shall contain a statement of that right; and after the expiry of the time specified, or on earlier intimation that the offeree declines, the Board may dispose of the shares in such manner as is not disadvantageous to the shareholders and the company. **The renouncee need not be a shareholder of the company** — where the facts say nothing about the articles, assume the right of renunciation exists and the renunciation is valid whether or not the renouncee already holds shares.

Section 63 — bonus shares, the sources and the bar: 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; provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets. **Section 63(2)** adds the conditions: **authorised by its articles; authorised in the general meeting on the recommendation of the Board;** no default in payment of interest or principal in respect of fixed deposits or debt securities issued by it; no default in payment of statutory dues of the employees, such as contribution to provident fund, gratuity and bonus; the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up; and compliance with Rule 14 of the Companies (Share Capital and Debentures) Rules, 2014, under which a company that has once announced its Board's decision recommending a bonus issue shall not subsequently withdraw it. Two further lines carry marks: **bonus shares shall not be issued in lieu of dividend,** and **bonus shares can be issued only on fully paid shares,** so a company that has not called up the balance cannot proceed until it does. **The arithmetic:** compute the number of bonus shares from the ratio, multiply by the face value to get the amount to be capitalised, then add up only the **permitted** reserves — free

reserves plus securities premium plus capital redemption reserve — and compare. On free reserves of five lakh, securities premium of three lakh and capital redemption reserve of four lakh, the pool is twelve lakh: a one-for-three bonus on three lakh shares of ten rupees needs ten lakh and is valid, while a one-for-two bonus needs fifteen lakh and is not. **Keep the revaluation reserve out of the pool** — putting it in is the trap the figures are designed to catch.

Section 67 — financial assistance for the purchase of the company's own shares: 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. Two exceptions matter. **Section 67(3)(b):** money provided in accordance with a scheme approved by the company through a special resolution for the purchase of, or subscription for, fully paid-up shares in the company or its holding company, where such shares are held by trustees for the benefit of employees or by the employees themselves — and under **Rule 16(1) of the Companies (Share Capital and Debentures) Rules, 2014**, the aggregate value of the shares to be purchased or subscribed shall not exceed five per cent of the aggregate of the paid-up share capital and free reserves of the company. **Section 67(3)(c):** loans 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 six months, to enable 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. **All three limbs of that exception must be satisfied together** — the borrower must not be a director or KMP; the amount must not exceed six months' salary; and the shares must be fully paid-up shares of the employer company or its holding company. Failure of any one destroys the exemption. **Two definitions decide these problems:** under section 2(51) key managerial personnel includes the Chief Financial Officer, so a loan to the CFO is outside the section 67(3)(c) exception however modest the amount. Under section 2(71) a company which is a subsidiary of a company that is not a private company is deemed to be a public company, even where it continues as a private company in its articles — so a wholly owned subsidiary of a listed public company is caught by section 67(2). And section 67 does not apply to a private company in whose share capital no other body corporate has invested money — but read that exemption narrowly: where the other company reduces its holding to a minority, so that the borrower is no longer a subsidiary and no longer a deemed public company, it still does not qualify for the private company exemption, because a body corporate does hold shares in it, and section 67(3) continues to apply. The answer on the facts does not change. Note too what section 67(3)(c) expressly permits: the loan may be for fully paid-up shares in the company or in its holding company, so a contention that employees may be financed to buy the employer's shares but not the holding company's is **not valid**.

Section 68 — buy-back, the sources and the four conditions: a company may buy back its own shares or other specified securities out of its free reserves, the securities premium account, or the proceeds of the issue of any shares or other specified securities; provided that buy-back of any kind of shares or other specified securities shall not be made out of the proceeds of an earlier issue of the same kind of shares or the same kind of other specified securities. Under **section 68(2)** the

buy-back requires that **(a) it is authorised by the articles**; (b) a special resolution has been passed at a general meeting — except where the buy-back is ten per cent or less of the total paid-up equity capital and free reserves and has been authorised by the Board by a resolution passed at its meeting; (c) it is twenty five per cent or less of the aggregate of paid-up capital and free reserves, and for a buy-back of equity shares in any financial year that twenty five per cent is construed with respect to the total paid-up equity capital in that financial year; and (d) the ratio of the aggregate debts, secured and unsecured, owed by the company after the buy-back is not more than twice the paid-up capital and its free reserves, the Central Government being able to prescribe a higher ratio for a class of companies. Section 68(4): the buy-back must be completed within twelve months from the date of the special resolution or the Board resolution, as the case may be. Work the conditions in order — articles, resolution, twenty five per cent, debt-equity, source — and give a verdict on each.

The two cooling-off periods, which the examiner deliberately swaps round: 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 [proviso to section 68(2)]; and where a company completes a buy-back, it shall not make a further issue of the same kind of shares, including allotment of further shares under section 62(1)(a), or other specified securities, within a period of six months, except by way of a bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option scheme, sweat equity, or conversion of preference shares or debentures into equity shares [section 68(8)]. A statement that puts six months on the gap between offers and one year on the further issue is not valid — it is the wrong way round. Alongside this, **section 70** bars a company from purchasing its own shares **through any subsidiary company including its own subsidiary companies, through any investment company or group of investment companies**, during the continuance of a default in repayment of deposits or interest, redemption of debentures or preference shares, payment of dividend, or repayment of a term loan or interest to any financial institution or bank — though the buy-back is not prohibited once the default is remedied and three years have elapsed after it ceased to subsist, and where the company has not complied with section 92 (annual return), section 123 (declaration of dividend), section 127 (distribution of declared dividends) or section 129 (financial statement).

Remembering reproduce what you have learnt · 1 question

- The scenario sets out lettered proposals. **Answer A, B, C in the question's own lettering**, and say for each whether it is reduction of capital, alteration of capital, or neither — the classification decides the procedure.
- State the procedure for the head you have chosen. Naming the section without the steps does not earn the procedure marks.

Understanding explain it, and place it in context · 3 questions

- Set out section 61's five modes as a numbered list with the Tribunal caveat on consolidation, and always finish with the section 64 filing in Form SH-7 within thirty days.
- For buy-back theory questions, give the three sources and then the section 70 prohibitions as two separate lists — the question is usually framed as "which funds" and "in what circumstances is it prohibited".

TQ 10.1 · PYQ 2019-May [3] (a) · 5M · Pg 155	LEVEL I Understanding	Medium
CSQ 10.7 · RTP 2020-Nov [4] · Pg 167	LEVEL I Understanding	Medium
CSQ 10.14 · PYQ 2024-May [3] (a) · 5M · Pg 176	LEVEL I Understanding	Medium

Application use the section - apply it to the facts · 13 questions

- Do the percentage arithmetic on the page: ten per cent of paid-up equity capital plus free reserves to decide Board resolution against special resolution, and twenty five per cent for the ceiling.
- In a bonus problem, compute the amount required and the pool of permitted reserves separately, then compare. Exclude the revaluation reserve expressly and say why.

CSQ 10.2 · PYQ 2018-Nov [1] (b) {C} · 2M · Pg 160	LEVEL II Application	Easy
CSQ 10.8 · PYQ 2021-Jan [5] (a) (i) · 3M · Pg 168	LEVEL II Application	Easy
CSQ 10.9 · PYQ 2021-Jan [5] (a) (ii) · 2M · Pg 169	LEVEL II Application	Easy
CSQ 10.10 · PYQ 2021-Dec [1] (a) (ii) {C} · 3M · Pg 170	LEVEL II Application	Easy
CSQ 10.3 · PYQ 2019-Nov [5] (a) · 5M · Pg 161	LEVEL II Application	Medium
CSQ 10.11 · PYQ 2022-May [3] (a) · 5M · Pg 172	LEVEL II Application	Medium
CSQ 10.13 · PYQ 2023-May [5] (Or) (a) · 5M · Pg 175	LEVEL II Application	Medium
CSQ 10.15 · PYQ 2025-Jan [2] (a) · 5M · Pg 177	LEVEL II Application	Medium
CSQ 10.17 · PYQ 2025-Sep [3] (b) · 5M · Pg 181	LEVEL II Application	Medium
TQ 10.2 · MTP 2019-Oct [4] (a) · 4M · Pg 157	LEVEL II Application	Hard
TQ 10.3 · PYQ 2021-Jul [4] (a) (i) · 3M · Pg 158	LEVEL II Application	Hard

CSQ 10.5 · MTP 2020-Oct [1] (a) {C} · 6M · Pg 164	LEVEL II Application	Hard
CSQ 10.12 · PYQ 2022-Nov [4] (a) · 6M · Pg 174	LEVEL II Application	Hard

Analysis break it down and take the parts separately · 3 questions

- A buy-back problem usually breaches more than one condition. Go through the articles, the resolution, the percentage, the timing since the last offer and the source of funds one at a time, and say for each whether it is in order — the marks are distributed across them.
- In a section 67 problem, check the status of the lender company under section 2(71) first, then the status of the borrower under section 2(51), then the amount, then whether the shares are fully paid. Any one failure is fatal, but list them all.

CSQ 10.1 · PYQ 2018-May [5] (a) (2) · 3M · Pg 158	LEVEL II Analysis	Easy
CSQ 10.4 · PYQ 2019-Nov [5] (Or) (a) · 5M · Pg 162	LEVEL II Analysis	Medium
CSQ 10.16 · PYQ 2025-Sep [1] (b) {C} · 5M · Pg 179	LEVEL II Analysis	Medium

Topic 11: Debenture (Section 71)

L2P2-2A-C4-T11

Read first Read ICAI Study Material Chapter 4, Debenture — section 71 with Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014.

NOTES

Section 71(1) — convertibility needs the members: a company may issue debentures with an option to convert such debentures into shares, either wholly or partly, at the time of redemption, and the issue of debentures with such an option shall be approved by a special resolution passed at a general meeting. So a convertible feature is not a Board matter; it goes to the members.

The borrowing limit that sits behind every debenture issue — section 180(1)(c): before the issue, the Board must obtain the approval of the shareholders by a special resolution if the borrowings by issuing debentures, together with the amount already borrowed, exceed the aggregate of the company's paid-up share capital, free reserves and securities premium account. Temporary loans obtained from the company's bankers in the ordinary course of business are not included in the borrowings — so a short-term cash credit facility on hypothecation of stock and receivables, repayable on demand, stays out of the computation. To compute the headroom, add paid-up share capital, free reserves and securities premium, then deduct what is already borrowed, excluding those temporary bank loans. **Watch what goes into the aggregate:** in the printed computation the pool was paid-up capital, securities premium, general reserve and the balance in

the profit and loss account, while **a capital reserve representing profit on the sale of fixed assets was left out**, and the existing borrowings counted were the non-convertible debentures plus the term loan for plant and machinery, the short-term cash credit on hypothecation of stock and receivables being excluded as a temporary bank loan. Within the headroom so computed no special resolution is needed; only an issue that takes the borrowing past it requires one. But where the debentures carry an option to convert, the special resolution under section 71(1) is required irrespective of the amount raised.

Section 71(5) — when a debenture trustee must be appointed: no company shall issue a prospectus or make an offer or invitation to the public or to its members exceeding five hundred for the subscription of its debentures, unless the company has, before such issue or offer, appointed one or more debenture trustees, on the conditions prescribed by **Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014**. Note the trigger: a public offer, or an offer to members exceeding five hundred.

Rule 18(2) — consent, and the three disqualifications: before the appointment, a written consent shall be obtained from the proposed debenture trustee, and a statement to that effect shall appear in the letter of offer issued for inviting subscription. No person shall be appointed as a debenture trustee if he beneficially holds shares in the company; or is beneficially entitled to moneys which are to be paid by the company otherwise than as remuneration payable to the debenture trustee; or has furnished any guarantee in respect of the principal debts secured by the debentures or the interest thereon. **The amount is immaterial** — a shareholder holding ten thousand rupees of shares is disqualified, and so is a creditor owed nine hundred and ninety nine rupees. Do not let a small figure tempt you into finding the person eligible.

Rule 18(1)(a) — the tenure of secured debentures, and the infrastructure exception: secured debentures are generally required to be redeemed within ten years from the date of issue; but a company engaged in infrastructure projects may issue secured debentures for a period exceeding ten years, but not exceeding thirty years. So a sixteen-year tenure is valid for a company exclusively engaged in highways, ports and metro corridors, and invalid for an ordinary manufacturing company.

Rule 18(1)(d) — what may be charged as security: security may be created in favour of the debenture trustee by way of charge or mortgage on any specific movable property of the company, or of its holding company, subsidiary or associate company, or otherwise, and on any specific immovable property wherever situated, or any interest in such property. Because the Rule says "wherever situated", immovable property located outside India is valid security and the location does not invalidate the arrangement. That is the point the newer case scenarios turn on.

Rule 18(7) — the Debenture Redemption Reserve exemption: a listed company, other than the specified All India Financial Institutions and Banking Companies, is not required to create a Debenture Redemption Reserve in respect of debentures issued through private placement. Where a company defends its failure to create a reserve on three grounds at once — that it is listed, that the placement was private and confined to qualified institutional buyers, and that it is an infrastructure company — **deal with each ground separately** and identify which one actually

supplies the exemption. It is the combination of listed status and issue by private placement that gives it — the classification as an infrastructure company earns the longer tenure under Rule 18(1) (a), not the exemption from the reserve.

Application use the section - apply it to the facts · 1 question

- Answer each named candidate for trusteeship separately and say which disqualification catches him, adding expressly that the amount involved is immaterial.
- For a borrowing limit computation, show the aggregate of paid-up capital, free reserves and securities premium, then the existing borrowings, and state expressly which items you have excluded as temporary bank loans.

CSQ 11.2 · PYQ 2022-Nov [1] (a) {C} · 6M · Pg 185

LEVEL II
Application

Hard

Analysis break it down and take the parts separately · 2 questions

- Where a scenario raises tenure, security and the redemption reserve together, take them as three separate issues with three separate rules and three separate conclusions. A single combined verdict loses most of the marks.

CSQ 11.1 · PYQ 2021-Dec [4] (b) · 4M · Pg 184

LEVEL II
Analysis

Medium

CSQ 11.3 · PYQ 2026-May [2] (Or) (a) · 5M · Pg 188

LEVEL II
Analysis

Medium

PART 2A · CORPORATE LAWS · CHAPTER 5

Acceptance of Deposits by Companies

5 Topics · 34 Classified Questions · Importance: B

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**

Level I — Comprehension & Knowledge **22.2%** 32 of 144 marks

Level II — Analysis & Application **77.8%** 112 of 144 marks

This chapter sits on the paper's own profile — 22% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: Certain Important Terms Explained

L2P2-2A-C5-T01

Read first Read ICAI Study Material Chapter 5, Acceptance of Deposits by Companies — section 2(31) and Rule 2(1)(c) and Rule 2(1)(e) of the Companies (Acceptance of Deposits) Rules, 2014.

NOTES

Start every answer in this chapter with the definition. Under **section 2(31)** of the Companies Act, 2013, 'deposit' includes any receipt of money by way of deposit or loan or in any other form by a company, but does not include such categories of amount as may be prescribed under Rule 2(1)(c) of the Companies (Acceptance of Deposits) Rules, 2014 in consultation with the Reserve Bank of India. So the structure of every answer is the same: the receipt is a deposit unless you can put it inside a numbered sub-clause of Rule 2(1)(c). The same rules define an '**eligible company**' in **Rule 2(1)(e)**; that definition and the limits attached to it are dealt with under section 76. **Name the sub-clause.** The Scanner's answers always cite it — (iii), (vii), (viii), (ixa), (x), (xii), (xiii), (xvii) — and the marks follow the citation.

Business receipts — Rule 2(1)(c)(xii). Amounts received **in the course of, or for the purposes of, the business of the company** are not deposits: (a) advance for supply of goods or provision of services, to be appropriated within 365 days from the date of acceptance — and where the advance is the subject matter of any legal proceedings before any court of law, the 365-day limit does not apply; (b) advance towards consideration for **immovable property** under an agreement or arrangement, to be adjusted against that property in accordance with the terms of the agreement; (c) **security deposit for the performance of a contract** for supply of goods or provision of services; (d) advance under **long term projects for supply of capital goods**, except those covered by item (b); (e) advance for **future services under a warranty or maintenance contract** as per written agreement, where the service period does not exceed the period prevalent as per common business practice **or five years, whichever is less**; (f) advance allowed by any **sectoral regulator** or in accordance with directions of the Central or State Government; (g) advance for

subscription towards publication, print or electronic, to be adjusted against receipt of the publications. **The proviso, and the deeming that follows it.** If an amount under **items (a), (b) or (d)** becomes refundable, with or without interest, because the company does not have the necessary permission or approval to deal in those goods, properties or services, the amount **shall be deemed to be a deposit**. And the timing is fixed: the amount is deemed to be a deposit on the expiry of fifteen days from the date it became due for refund. So the exclusion is not lost on the day the permission problem appears — it is lost fifteen days after the refund falls due.

Director and relative — Rule 2(1)(c)(viii), the most examined exclusion. Money received from a person who at the time of receipt was a director of the company, or a relative of a director of a private company, is not a deposit — but only on **two conditions**: the giver must furnish to the company, **at the time of giving the money**, a written declaration that the amount is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others, and the company must **disclose the details in the Board's report**. Both limbs are compulsory. In the pack, a private company that took ₹50 lakh from a director but **took no written declaration** was held **not compliant**, even though it did disclose the receipt in the Board's report; and if the director had in fact given borrowed money, the amount **would be a deposit**. Note the asymmetry the examiner uses: a **relative** of a director qualifies only in a **private** company.

Employee security deposit — Rule 2(1)(c)(x). An amount received from an employee, **not exceeding his annual salary**, under a contract of employment, **in the nature of a non-interest bearing security deposit**, is not a deposit. The classic wrong answer is to stop at 'employee security deposit, so not a deposit'. The pack runs this trap three times over: ₹2,00,000 from an employee on a salary of ₹1,50,000, and ₹5,30,000 from an employee on a salary of ₹5,00,000 — in each case the sum **exceeds** the annual salary, so **the whole amount is a deposit**. Compare the two figures explicitly in your answer; that comparison is the mark.

Two easy exclusions worth naming precisely. Rule 2(1)(c)(iii) — any amount received as a **loan or facility from any banking company** is not a deposit, so a term loan from a bank can never be a deposit however it is described. **Rule 2(1)(c)(ixa)** — money raised by issue of non-convertible debentures not constituting a charge on the assets of the company and listed on a recognised stock exchange as per applicable SEBI regulations is not a deposit. Both limbs of (ixa) must hold — no charge and listed — and the pack tests the failing limb as well as the passing one. ₹1 crore and ₹5,00,000 of listed, uncharged NCDs are **not** deposits; but ₹125 crore of NCDs that were listed on a recognised stock exchange in accordance with SEBI regulations and on which the company created a charge on its assets in favour of the debenture holders **will be considered a deposit**, precisely because the charge was created. Listing alone does not save the issue.

Share application money — Rule 2(1)(c)(vii) and its Explanation. Money held pending allotment is not a deposit **so long as it is appropriated only against the amount due on allotment**. It becomes a deposit only if the securities **cannot be allotted within sixty days** of receipt **and** the money is **not refunded within fifteen days from the completion of those sixty days** — so the outer limit is **75 days**. The second limb of the Explanation is where candidates lose marks: any adjustment of the amount for any other purpose shall not be treated as refund, so a book adjustment against dues

payable by the applicant is **not** a repayment. In the pack the Company Secretary who declared the whole sum a deposit **on the sixtieth day** was wrong — the fifteen further days had not run.

Promoters' unsecured loan — Rule 2(1)(c)(xiii). An unsecured loan brought in by promoters **in pursuance of a stipulation of a lending financial institution or bank** is not a deposit if **three conditions** hold: the loan is brought in **pursuance of the stipulation imposed by the lending institution on the promoters**; the loan is provided **by the promoters themselves or by their relatives or by both**; and — the limb that is always tested — the exemption is available only till the loans of the financial institution or bank are repaid, and not thereafter. So the moment the institutional loan is repaid, the promoters' money **becomes a deposit**. Money brought in by a promoter's father counts, because relatives are within the sub-clause.

Remembering reproduce what you have learnt · 1 question

- The question caps the answer ('write any three'). **Give exactly what is asked** and give the strongest three — extra items earn nothing and cost time.
- Each exclusion has a condition attached. State the condition with the item; the bare heading is not the exclusion.

TQ 1.1 · MTP 2023-Mar [5] (b) · 4M · Pg 194

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 2 questions

- Quote section 2(31) in full — the inclusive words and the words of exclusion both carry marks — then move to the rule.
- When asked to 'enumerate' amounts that are not deposits, give the sub-clause and the condition attached to it. A bare list without the 365 days, the annual salary cap or the 'whichever is less' earns half.

CSQ 1.11 · MTP 2024-Nov [2] (a) · 5M · Pg 206

LEVEL I
Understanding

Medium

CSQ 1.1 · PYQ 2019-Nov [4] (b) · 6M · Pg 196

LEVEL I
Understanding

Hard

Application use the section - apply it to the facts · 9 questions

- Set out the sub-clause of Rule 2(1)(c) first, then apply it to the figure given, then conclude 'is / is not a deposit'. An answer that only says 'not a deposit' loses the application marks.
- Where a fact is missing — whether the declaration was furnished, whether the company is registered with the regulator — state the assumption expressly before you conclude, as the Scanner's answers do.

CSQ 1.4 · PYQ 2021-Jan [4] (b) (i) · 3M · Pg 200

LEVEL II
Application

Easy

CSQ 1.13 · MTP 2025-Aug S2 [3] (b) (i) · 2.5M · Pg 207

LEVEL II

Easy

	Application	
CSQ 1.2 • MTP 2020-May [4] (b) • 4M • Pg 197	LEVEL II Application	Medium
CSQ 1.3 • PYQ 2021-Jan [2] (a) • 4M • Pg 198	LEVEL II Application	Medium
CSQ 1.5 • PYQ 2021-Jul [4] (b) • 4M • Pg 201	LEVEL II Application	Medium
CSQ 1.7 • RTP 2022-May [3] • Pg 203	LEVEL II Application	Medium
CSQ 1.8 • MTP 2022-Sep [4] (b) • 4M • Pg 203	LEVEL II Application	Medium
CSQ 1.9 • PYQ 2023-May [4] (b) • 5M • Pg 204	LEVEL II Application	Medium
CSQ 1.12 • RTP 2025-May [13] • Pg 206	LEVEL II Application	Medium

Analysis break it down and take the parts separately • 3 questions

- These questions almost always give three or four receipts at once. Number them, take one at a time, and name a different sub-clause for each; do not run them together.
- Where the sub-clause carries a threshold, do the comparison in figures on the page — salary against deposit, days held against 75 days — and let the comparison state the conclusion.

CSQ 1.6 • MTP 2021-Oct [4] (b) • 4M • Pg 202	LEVEL II Analysis	Medium
CSQ 1.10 • RTP 2024-May [15] (ii) • Pg 205	LEVEL II Analysis	Medium
CSQ 1.14 • PYQ 2026-Sep [2] (b) • 5M • Pg 208	LEVEL II Analysis	Hard

Topic 2: Prohibitive Provisions and Exempted Companies [Section 73(1)]

L2P2-2A-C5-T02

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 5, Acceptance of Deposits by Companies — section 73(1) and its proviso, read with sections 73(2) and 76.

NOTES

The rule in one line: under **section 73(1)**, no company can accept or renew deposits from the public unless it follows the manner provided under Chapter V of the Act for such acceptance or renewal. Chapter V is the whole of the deposit machinery; the prohibition is on going to the **public**

outside it.

The two doors out of the prohibition. A company that is not an eligible company may accept deposits **from its members** under **section 73(2)**. A company that is an **eligible company** may accept deposits from **persons other than its members** under **section 76**. As the pack puts it, every company other than an eligible company can accept deposits from its members only.

The exempted companies — the proviso to section 73(1). The prohibition on acceptance or renewal of deposits from the public shall not apply, inter alia, to a housing finance company registered with the National Housing Bank established under the National Housing Bank Act, 1987. An exempted company is outside section 73(1) altogether: it can accept and renew deposits from the public from time to time without following the prescribed manner.

How to write the exemption answer. State the prohibition in section 73(1) first, then place the company inside the proviso, then conclude that the prohibition does not apply to it. Where the question does not say in terms that the company is registered with the National Housing Bank, **say that you assume registration** and then apply the proviso — that is exactly how the Scanner's answer is framed, and the assumption is not a weakness in the answer.

Topic 3: Provisions Regarding Acceptance of Deposits from Members [Section 73(2), 73(3), 73(4), 73(5)]

L2P2-2A-C5-T03

Read first Read ICAI Study Material Chapter 5, Acceptance of Deposits by Companies — sections 73(2) to 73(5), with Rules 3 and 13 of the Companies (Acceptance of Deposits) Rules, 2014.

NOTES

The rule in one line: under **section 73(2)**, a company may accept deposits **from its members** **subject to the passing of a resolution in general meeting** and subject to the rules prescribed in consultation with the Reserve Bank of India, on such terms and conditions, including the provision of security, as may be agreed between the company and its members — and subject to the conditions in clauses (a) to (e). Those five clauses are the answer to every 'state the procedure' question on this topic.

The five conditions, with their numbers. (a) issue a **circular to members** containing a statement showing the financial position of the company, the credit rating obtained, the total number of depositors and the amount due towards deposits in respect of previous deposits; (b) file a copy of the circular with the Registrar within 30 days before the date of issue of the circular; (c) deposit, on or before the 30th day of April each year, not less than twenty per cent of the amount of deposits maturing during the following financial year, kept in a **scheduled bank** in a separate account called the **deposit repayment reserve account**; (d) certify that the company **has not committed any default in repayment of deposits or payment of interest**, and where a default had occurred, that

the company made good the default and a period of five years has lapsed since the date of making good; **(e) provide security, if any**, including creation of a charge on the property or assets of the company. **The proviso:** where the company does not secure the deposits or secures them only partially, the deposits shall be termed 'unsecured deposits' and shall be so quoted in every circular, form, advertisement or document relating to them.

The Deposit Repayment Reserve Account is ring-fenced. Rule 13 says the amount deposited in the DRRA **shall not be used by a company for any purpose other than repayment of deposits**. So a company in a cash crunch **cannot** dip into it to pay off pressing short-term creditors, however commercially sensible that looks. The prohibition is absolute; there is no 'temporary borrowing' exception in the rule.

The quantitative limit — Rule 3(3). Deposits accepted from members, **together with other deposits outstanding as on the date of acceptance**, shall not exceed 35% of the aggregate of the paid-up share capital, free reserves and securities premium account. **The private company relaxation:** a private company may accept from its members monies **not exceeding 100% of that aggregate**, and shall **file the details of monies so accepted with the Registrar in Form DPT-3**. So a private company whose aggregate is ₹35 lakh may take the full ₹35 lakh, where a public company could take only 35% of it.

Tenure — Rule 3(1). A company cannot accept or renew deposits, whether secured or unsecured, which are repayable on demand or within a period of less than six months, and the **maximum period cannot exceed thirty-six months**. **The exception, for meeting short-term requirements of funds:** deposits repayable earlier than six months are permitted if they do not exceed ten per cent of the aggregate of paid-up share capital, free reserves and securities premium account, **and they are repayable only on or after the expiry of three months** from the date of acceptance or renewal. Both conditions, not one.

Convertible notes issued by a start-up — Rule 2(1)(c)(xvii). Where a **start-up company** receives **₹25 lakh or more in a single tranche** by way of a **convertible note** from any person, it is **not** a deposit, provided the note is convertible into equity shares or repayable within a period not exceeding ten years from the date of issue. **The trap is the threshold read the wrong way:** ₹20 lakh in a single tranche is **below** ₹25 lakh, so it **is** a deposit; ₹50 lakh repayable in six years is above the threshold and within ten years, so it is **not**.

Exemptions available to private companies. Points (a) to (d) of section 73(2) do not apply to a **private company** that falls within any one of three classes: **(A)** one which accepts from its members monies not exceeding 100% of the aggregate of its paid-up share capital, free reserves and securities premium account; **or (B)** one which is a **start-up, for five years from the date of its incorporation**; **or (C)** one which fulfils **all** of the following — **(a)** it is **not an associate or a subsidiary company of any other company**; **(b)** its borrowings from banks or financial institutions or any body corporate are less than twice its paid-up share capital or fifty crore rupees, whichever is lower; and **(c)** it has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under this section. **The proviso that candidates drop:** a company within (A), (B) or (C) **shall still file the details of monies accepted with the Registrar** in the manner specified. So

the relaxation goes to the circular, the filing of the circular, the reserve deposit and the no-default certificate — **it does not exempt the company from filing.**

Understanding explain it, and place it in context · 1 question

- For 'state the procedure', give the five clauses (a) to (e) in order with their figures — 30 days before issue, 20% by 30 April, five years since making good the default. The figures are the marks; the narrative is not.
- Say what happens when security is not provided: the deposits must be labelled 'unsecured deposits' in every circular, form, advertisement and document.
- Where the question adds 'what exemptions are available to private companies', treat it as a second answer: the three classes (A), (B) and (C), and then the proviso that the details of monies accepted must still be filed with the Registrar.

TQ 3.1 · PYQ 2018-Nov [2] (b) · 6M · Pg 209

LEVEL I
Understanding

Hard

Application use the section - apply it to the facts · 2 questions

- Compute the aggregate of paid-up share capital, free reserves and securities premium first, on its own line, then apply the percentage to it. Show the figure before you conclude.
- Check the type of company before the limit: 35% for a company generally, 100% from members for a private company. Applying the wrong percentage costs the whole answer.

CSQ 3.1 · MTP 2021-Mar [2] (a) · 4M · Pg 211

LEVEL II
Application

Medium

TQ 3.2 · MTP 2025-Aug S2 [3] (b) (ii) · 2.5M · Pg 211

LEVEL II
Application

Hard

Analysis break it down and take the parts separately · 1 question

- Where the question gives a tenure of under six months, run both limbs of the exception separately — the 10% ceiling and the three-month floor — and say that the company must also justify a genuine short-term requirement of funds.

CSQ 3.2 · PYQ 2025-Sep [6] (a) · 5M · Pg 212

LEVEL II
Analysis

Medium

Topic 4: Provisions Regarding Acceptance of Deposits from Public by Eligible Companies (Section 76)

L2P2-2A-C5-T04

Read first Read ICAI Study Material Chapter 5, Acceptance of Deposits by Companies — section 76 with Rules 2(1)(e), 3, 6, 7 and 15 of the Companies (Acceptance of Deposits) Rules, 2014.

NOTES

Who is an 'eligible company' — Rule 2(1)(e) read with section 76(1). A public company having a **net worth of not less than ₹100 crore or a turnover of not less than ₹500 crore**, which has obtained the prior consent of the company in general meeting by means of a special resolution and has filed that resolution with the Registrar before making any invitation to the public. **The two financial limits are alternatives, not cumulative** — this is the single most repeated trap in the pack. Net worth ₹110 crore with turnover ₹450 crore: eligible. Net worth ₹310 crore with turnover ₹300 crore: eligible. Net worth ₹80 crore with turnover ₹30 crore: **not** eligible, because neither limb is met. **The resolution relaxation:** an eligible company accepting deposits **within the limits specified under section 180(1)(c)** may accept them **by means of an ordinary resolution**.

Tenure, and the date arithmetic the examiner sets. Under **Rule 3(1)** deposits cannot be **repayable on demand or in less than six months**, and the **maximum period cannot exceed thirty-six months**. The pack twice gives a company accepting deposits on one date and repaying them roughly five years later — 1 November 2022 repayable 30 September 2027, and 1 February 2024 repayable 30 September 2028 — and in both the tenure is **not valid**, because it exceeds 36 months. **Work out the gap between the two dates before you say anything else.** The short-term exception applies here too: repayment earlier than six months is allowed if the deposits do not exceed 10% of the aggregate of paid-up share capital, free reserves and securities premium account and are **repayable only on or after three months** from acceptance. **Do the 10% in figures.** On an aggregate of ₹310 crore a company promising repayment in four months may take **only ₹31 crore**, however urgent its need; on an aggregate of ₹60 crore (paid-up ₹20 crore, share premium ₹10 crore, free reserves ₹30 crore) a deposit of **₹5 crore repayable in five months is within both limbs** — inside 10%, and repayable after three months.

The three ceilings under Rule 3, and how they are applied together. For an eligible company: from **members**, the deposit together with outstanding member deposits shall not exceed 10% of the aggregate of paid-up share capital, free reserves and securities premium account; from **persons other than members**, together with the outstanding public deposits, not more than **25% of that same aggregate**. Under **Rule 3(5)** a **Government company** is not eligible to accept or renew deposits under section 76 if the total exceeds **35% of that aggregate** — so a statement that the limit for a Government company is 25% is **wrong**. **The method:** compute the aggregate, apply the percentage to get the ceiling, deduct deposits already outstanding in that category, and what remains is the maximum further deposit. On a base of ₹30 crore that gives ₹3 crore from members and ₹7.5 crore from the public.

Credit rating — first proviso to section 76(1) with Rule 3(8). An eligible company raising public deposits must obtain a rating **from a recognised credit rating agency**, covering its **net worth, liquidity and ability to pay its deposits on the due date**; the rating must be **informed to the public at the time of the invitation** and must be **obtained every year during the tenure of the deposits**. Under **Rule 3(8)** a copy of the rating, obtained **at least once a year**, must be sent to the Registrar along with the Return of Deposits in Form DPT-3. The rating **shall not be below the minimum**

investment grade rating for fixed deposits and must come from an agency approved for non-banking financial companies under the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

Secured deposits and the charge — second proviso to section 76(1) with Rule 6. A company accepting secured deposits from the public must create a charge on its assets within thirty days of acceptance, of an amount **not less than the amount of deposits accepted**, in favour of the deposit holders. Rule 6 adds four limbs: **no charge shall be created on intangible assets**; the total value of the security shall not be less than the amount of deposits accepted and the interest payable thereon; the market value of the assets subject to charge shall be assessed by a registered valuer; and the security shall be created in favour of a trustee for depositors on specific movable and immovable property. **The worked trap:** ₹100 crore of deposits at 12% for 3 years needs security of **₹136 crore** (principal plus 36% interest); trademark of ₹20 crore and goodwill of ₹25 crore are **intangible and must be excluded**, leaving only ₹100 crore of eligible security — a shortfall of ₹36 crore.

Who cannot be a trustee for depositors — Rule 7. No person, including a company in the business of providing trusteeship services, shall be appointed trustee if the proposed trustee **(a)** is a director, key managerial personnel or any other officer or employee of the company or of its holding, subsidiary or associate company, or a depositor in the company; **(b)** is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company; **(c)** has any **material pecuniary relationship with the company**; **(d)** has entered into any guarantee arrangement in respect of principal debts secured by the deposits or interest thereon; or **(e)** is **related to any person specified in clause (a)**.

Premature repayment — Rule 15. An eligible company may repay a deposit before maturity at the depositor's request **provided at least six months have elapsed from the date of deposit**. Two steps follow: find the rate applicable for the actual period for which the deposit remained with the company, then **deduct 1% as the penalty for premature repayment**. **The Explanation on rounding:** a remaining part of a year **less than six months is ignored; six months or more is treated as one complete year** — so 2 years 8 months counts as **3 years**, taking the 3-year rate of 9%, reduced to **8%**. **The two cases where the 1% reduction does not apply:** repayment made only to **bring the total deposits within the limits prescribed under Rule 3**; and repayment to provide war risk or similar benefits to members of the Army, Navy or Air Force or their families during a National Emergency declared under Article 352 of the Constitution.

Remembering reproduce what you have learnt · 2 questions

- Both questions are lists — who cannot be a trustee, and what conditions and procedure apply. **Enumerate first, explain second.**
- Where the facts give a net worth and a turnover, open by testing eligibility against both limbs before you set out the procedure.

TQ 4.1 · MTP 2021-Oct [5] (b) · 5M · Pg 214	LEVEL I Remembering	Medium
CSQ 4.1 · RTP 2019-May [5] · Pg 215	LEVEL I Remembering	Medium

Understanding explain it, and place it in context · 1 question

- For a 'credit rating' or 'trustee' question, the answer is the list — give every clause, because each clause is a mark, and name the rule number at the top.

TQ 4.2 · PYQ 2022-May [5] (b) (ii) · 2M · Pg 214	LEVEL I Understanding	Easy
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Application use the section - apply it to the facts · 7 questions

- Test eligibility first and say expressly that net worth and turnover are alternatives; then, and only then, move to the limits and the tenure.
- Where facts are silent on the special resolution or its filing, say that you assume they were complied with and carry on — do not treat silence as failure.

CSQ 4.6 · PYQ 2024-May [2] (b) (ii) · 2M · Pg 222	LEVEL II Application	Easy
CSQ 4.3 · PYQ 2022-Nov [4] (b) · 4M · Pg 218	LEVEL II Application	Medium
CSQ 4.4 · RTP 2023-May [15] (b) · Pg 220	LEVEL II Application	Medium
CSQ 4.7 · RTP 2024-May [15] (i) · Pg 223	LEVEL II Application	Medium
CSQ 4.10 · MTP 2025-Jul S1 [5] (b) · 5M · Pg 228	LEVEL II Application	Medium
CSQ 4.11 · PYQ 2026-Jan [2] (b) · 5M · Pg 229	LEVEL II Application	Medium
CSQ 4.12 · PYQ 2026-May [6] (a) · 5M · Pg 231	LEVEL II Application	Hard

Analysis break it down and take the parts separately · 4 questions

- These questions come in parts: eligibility, then tenure, then amount. Answer each part under its own heading with its own conclusion; a single running paragraph loses the marks for the parts you did reach.
- For a limits question, build the small table the Scanner builds — maximum limit, existing deposits, proposed deposits, still permissible — and read the conclusion off it for each category separately.

CSQ 4.2 · PYQ 2021-Dec [5] (b) · 5M · Pg 216	LEVEL II Analysis	Medium
CSQ 4.5 · PYQ 2023-Nov [4] (c) · 4M · Pg 220	LEVEL II Analysis	Medium

CSQ 4.8 · PYQ 2024-Sep [2] (b) · 5M · Pg 224

LEVEL II
Analysis

Medium

CSQ 4.9 · PYQ 2025-May [2] (a) · 5M · Pg 226

LEVEL II
Analysis

Medium

Topic 5: Repayment of Deposits Accepted Before Commencement of The Companies Act, 2013 (Section 74)

L2P2-2A-C5-T05

Read first Read ICAI Study Material Chapter 5, Acceptance of Deposits by Companies — section 74, read with Notification No. GSR 464(E) dated 5 June 2015 exempting certain private companies from clauses (a) to (e) of section 73(2).

NOTES

What the exemption does. Notification No. GSR 464(E) dated 5 June 2015 relaxes, for a qualifying private company, the requirements in **clauses (a) to (e) of sub-section (2) of section 73** — issuing the circular, filing that circular with the Registrar, depositing the specified sum in the Deposit Repayment Reserve Account, and certifying that no default has been committed. A private company that qualifies may therefore accept deposits from its members **without setting aside any amount in a Deposit Repayment Reserve Account**. **On the wording:** the Scanner states the relaxation as clauses (a) to (e) in this answer and as points (a) to (d) in its answer on section 73(2); the **four requirements actually named are the same in both**, so name the four requirements rather than relying on the lettering.

The three gateways — any one is enough. (A) the company accepts deposits from its members not exceeding one hundred per cent of the aggregate of its paid-up share capital, free reserves and securities premium account; **or (B) the company is a start-up, for up to five years from the date of its incorporation; or (C) the company satisfies all three of the following:** it is **not an associate or a subsidiary of any other company**; its borrowings from banks, financial institutions or any body corporate are less than twice its paid-up share capital or ₹50 crore, whichever is lower; and it has not defaulted in repaying any outstanding borrowings at the time it accepts deposits under the section.

Gateway (C) is an arithmetic question, and it is where answers go wrong. The comparator is **twice the paid-up share capital or ₹50 crore, whichever is lower** — take the lower of the two, not the higher. And **borrowings** means the total of all of them. In the pack, a private company with paid-up capital of ₹8 crore had a term loan of ₹12 crore and a working capital cash credit of ₹5 crore: **borrowings ₹17 crore against a comparator of ₹16 crore** (twice ₹8 crore, being lower than ₹50 crore). The borrowings are **not** less than the comparator, so gateway (C) **fails**.

Failing (C) does not end the matter — check (A). Where the company cannot get through (C), it may still accept deposits from its members up to 100% of the aggregate of paid-up share capital, free reserves and securities premium account. On the pack's figures — paid-up ₹8 crore, securities

premium ₹2 crore and general reserves ₹5 crore — the cap is **₹15 crore**. The Board was offered **Proposal 1, deposits of ₹20,00,00,000 repayable with interest at 7% per annum**, and **Proposal 2, deposits of ₹14,00,00,000 repayable with interest at 8% per annum**; the advice is to take **Proposal 2**, because ₹20 crore breaches the ₹15 crore cap and ₹14 crore does not. **The rate of interest is a distraction** — the cheaper proposal is the unlawful one, and the answer turns on the cap alone.

Application use the section - apply it to the facts · 1 question

- Take the gateways in order — (A), then (B), then (C) — and say which one the company relies on. They are alternatives; satisfying any one is enough.
- Set out the arithmetic for the borrowing test on its own line: total borrowings on one side, the lower of twice paid-up capital and ₹50 crore on the other.

CSQ 5.1 · PYQ 2025-Jan [2] (b) · 5M · Pg 233

LEVEL II
Application

Medium

PART 2A · CORPORATE LAWS · CHAPTER 6

Registration of Charges

12 Topics · 27 Classified Questions · Importance: C

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **theory-heavy**

Level I — Comprehension & Knowledge **42.0%** 50 of 119 marks

Level II — Analysis & Application **58.0%** 69 of 119 marks

This chapter leans further on Comprehension and Knowledge than the paper does — 42% of its marks against 28% across Paper 2. Reading carries more of the preparation here than it does elsewhere in the paper; do not prepare it by working scenarios alone.

Topic 1: Introduction

L2P2-2A-C6-T01

Read first Read ICAI Study Material Chapter 6, Registration of Charges — the introduction, covering the meaning of a charge and the distinction between a fixed and a floating charge.

NOTES

Fixed charge. A fixed charge is a charge on **specific assets of the borrowing company**. Those assets are **of a permanent nature** — land and building, machinery, office premises — and they are **identified at the time of creation of the charge**. A fixed charge is usually created **by way of mortgage or by deposit of title deeds**. Once created, the charge remains fixed: the company may use the assets but may not sell them during the period of the charge, and they can be sold **only with the permission or consent of the charge-holder**.

Floating charge. A floating charge is created on assets or a class of assets which are of a fluctuating or changing nature — raw material, stock-in-trade, debtors. It is a charge upon **assets both present and future**. The assets keep changing because the company is **permitted to use them in the ordinary course of business**, for trading or for producing finished goods for sale. **The consequence for third parties: buyers of assets covered by a floating charge get them free of the charge**. A floating charge hovers over ever-changing assets and **remains dormant until it crystallises**.

Crystallisation — learn the events as a list. A floating charge becomes **fixed or crystallised**: (i) when the creditor enforces the security on breach of the terms and conditions of the floating charge, such as non-payment of interest or default in repayment of instalments as per the agreement; (ii) when the company **ceases to continue its business**; and (iii) when the borrowing company **goes into liquidation**. On crystallisation the security — the raw material, stock-in-trade and so on — **becomes fixed and is available for realisation** so that the borrowed money is repaid.

How the distinction is applied to facts. Where the company **mortgages its factory building and machinery**, those are permanent, identifiable assets that do not change frequently, so the charge

is **fixed** and the company cannot sell them without the lender's approval; on default the lender **can take possession** of them. Where the company **pledges stock-in-trade, raw materials and accounts receivable**, those are changing in nature, so the charge is **floating** and the company may use, sell and replenish them in the normal course of business. If the loan is repaid, the floating charge ceases automatically. If it is not, the floating charge crystallises — the lender converts it into a fixed charge, the company **loses control over the assets**, and the lender may **seize and sell them** to recover the loan.

Remembering reproduce what you have learnt · 1 question

- Two questions in one line: **what a floating charge is**, and **when it crystallises**. Answer both; the crystallisation half is the one candidates leave out.
- Define by contrast with a fixed charge — the definition is easier to state, and easier to mark, when the contrast is explicit.

TQ 1.1 · MTP 2024-Mar [6] (a) · 5M · Pg 239

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 1 question

- Answer the two halves separately: what the charge is, then when it crystallises. The crystallisation events are a numbered list and each one carries a mark.
- Say what crystallisation does, not only when it happens — the security becomes fixed and available for realisation.

TQ 1.2 · PYQ 2025-May [3] (Or) (b) · 5M · Pg 240

LEVEL I
Understanding

Medium

Analysis break it down and take the parts separately · 1 question

- The scenario gives two companies with different security. **Classify each separately** — say which is fixed and which is floating and why the nature of the asset decides it.
- The final limb asks what happens on default. Answer it for each company in turn: crystallisation applies to only one of them.

CSQ 1.1 · MTP 2025-Mar S2 [5] (b) · 5M · Pg 241

LEVEL II
Analysis

Medium

Topic 2: Duty to Register Charges, Etc. (Section 77)

L2P2-2A-C6-T02

Read first Read ICAI Study Material Chapter 6, Registration of Charges — sections 2(16), 77 and 79, with Rules 3 and 4 of the Companies (Registration of Charges) Rules, 2014.

NOTES

The rule in one line. Section 2(16) defines a charge as an interest or lien created on the property or assets of a company or any of its undertakings or both as security, and includes a mortgage. Under section 77(1) it is the **duty of every company creating a charge — within or outside India, on its property or assets or any of its undertakings, whether tangible or otherwise, and situated in or outside India** — to register the particulars of the charge, signed by the company and the charge-holder, together with the instrument creating it, with the **Registrar within thirty days of creation**, in **Form CHG-1** under Rule 3 of the Companies (Registration of Charges) Rules, 2014. **Recite those four limbs**; two of the pack's case scenarios are won on them alone.

Extension for a charge created on or after 2 November 2018. Under **clause (b) of the first proviso to section 77(1)**, the Registrar may, on an application by the company, allow registration **within sixty days of creation** on payment of **additional fees** — that is, another 30 days after the original 30. Under **clause (b) of the second proviso**, if it is not registered within those 60 days, the Registrar may, on an application, allow registration within a **further period of sixty days, i.e. up to 120 days from creation**, on payment of **ad valorem fees**; both the additional and the ad valorem fees are **prescribed under Rule 12 of the Companies (Registration of Charges) Rules, 2014**. Under **Rule 4** the application must be supported by a declaration signed by the company secretary or a director that the belated filing shall not adversely affect the rights of any other intervening creditors, and the company must satisfy the Registrar that it had **sufficient cause** for not filing within the original thirty days. **The hard stop:** if the charge is not registered even within this further period, **it cannot be registered at all**, because the Central Government's power of rectification under section 87 is not available in respect of delay in registration of the creation of a charge.

Extension for a charge created before 2 November 2018. Under **clause (a) of the first proviso**, the Registrar may allow registration **within three hundred days of creation**. Under **clause (a) of the second proviso**, if it was not registered within those 300 days, it shall be made within six months from 2 November 2018 on payment of **prescribed additional fees**, and different fees may be prescribed for different classes of companies. **Fix the date of creation before you choose a proviso** — the whole answer turns on which side of 2 November 2018 the charge falls.

The date arithmetic, worked the way the examiner works it. Charge created 2 February 2021, not registered by 15 March 2021: the 30 days expired on 4 March, but the **60-day window is still open**, so file at once under clause (b) of the first proviso with additional fees. Realising the omission only on 27 May 2021: the 60 days expired on **3 April 2021**, so the company must use the second proviso and register **within a further sixty days from 3 April**, paying **ad valorem fees**. Same method on the other scenario: a charge created 12 March 2019 is still inside 60 days on 2 May 2019 (which run to 11 May), but a charge created 12 February 2019 is not, because its 60 days ended on 13 April, so only the **second proviso** is available, up to **12 June 2019**. **Write the three dates out — creation, day 30, day 60 — before you advise.**

What is and is not caught. A charge on assets of a **foreign establishment** must be registered — section 77 covers charges created **outside India** on property situated **outside India**, so the plea

that there is no duty for foreign assets **fails**. **Patents registered abroad** must also be registered, because the section covers property **whether tangible or otherwise**; the plea that the asset is both foreign and intangible fails on both limbs. By contrast, where a company obtains an **ad hoc overdraft on the personal guarantee of a director, no charge arises**, because a charge is always created on the property or assets of the **company** and a director's personal guarantee is neither.

When is the charge created — the trigger point. The duty to register **does not arise merely because a credit facility has been approved**; it arises when the company's assets or property are actually offered and accepted as security. Where the bank sanctioned the mortgage-backed credit facility, completed the documentation and accepted the property papers submitted for creating the mortgage, the charge is treated as created **then**, and **not when the company later issued a cheque or first utilised the facility**. **And the duty is the company's**. The plea that the lender should have filed because the registration is for the lender's benefit is no answer — section 78 gives the charge-holder a fallback right, it does not shift the company's duty.

What travels with section 77 — section 79 — and what follows a default. Under **section 79** the provisions of section 77 apply, so far as may be, to **(a) a company acquiring any property subject to a charge** and (b) any modification in the terms or conditions or the extent or operation of any charge registered under that section. On default, **section 86** makes the company liable to a penalty of five lakh rupees and every officer in default liable to a penalty of fifty thousand rupees; and a person who wilfully furnishes false or incorrect information or knowingly suppresses material information required to be registered under section 77 **is liable for action under section 447**.

Remembering reproduce what you have learnt · 1 question

- Three distinct asks — the **time limit**, **where the register is kept**, and **who may inspect**. Number them and answer each; they carry roughly equal marks.
- On the time limit, give the ordinary period and the extended period, and say what the extension costs.

TQ 2.1 · PYQ 2018-Nov [6] · 6M · Pg 242

LEVEL I
Remembering

Hard

Understanding explain it, and place it in context · 4 questions

- Open with section 2(16) and then section 77(1) in its four limbs — within or outside India, property or assets or undertakings, tangible or otherwise, situated in or outside India. Those limbs answer most of the case scenarios by themselves.
- When asked about time limits, give the original period and both provisos, and say which fee applies to which window: additional fees for the first extension, ad valorem fees for the second.

CSQ 2.1 · MTP 2019-Oct [4] (b) (i) · 3M · Pg 246

LEVEL I
Understanding

Easy

TQ 2.2 · MTP 2020-May [5] (b) · 5M · Pg 245

LEVEL I
Understanding

Medium

CSQ 2.2 · PYQ 2020-Nov [5] (b) · 4M · Pg 248	LEVEL I Understanding	Medium
CSQ 2.5 · PYQ 2023-May [5] (b) · 5M · Pg 251	LEVEL I Understanding	Medium

Application use the section - apply it to the facts · 5 questions

- Set out the section, then the dates, then the conclusion. Write day 30 and day 60 from the date of creation explicitly; an answer that names the right proviso without the dates loses the application marks.
- Name the form and the supporting declaration — CHG-1, and the declaration by the company secretary or a director that intervening creditors are not prejudiced. The procedure carries its own marks.

CSQ 2.3 · PYQ 2021-Jan [4] (b) (ii) · 3M · Pg 249	LEVEL II Application	Easy
TQ 2.3 · RTP 2021-Nov [4] · 5M · Pg 246	LEVEL II Application	Medium
CSQ 2.4 · RTP 2022-May [7] · 5M · Pg 250	LEVEL II Application	Medium
CSQ 2.6 · PYQ 2024-Sep [3] (b) · 5M · Pg 253	LEVEL II Application	Medium
CSQ 2.7 · PYQ 2025-May [3] (b) · 5M · Pg 255	LEVEL II Application	Medium

Topic 3: Deemed Notice of Charge (Section 80)

L2P2-2A-C6-T03

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 80.

NOTES

The rule in one line: under **section 80**, where any charge on any property or assets of a company or any of its undertakings **is registered under section 77**, any person acquiring such property, assets, undertakings or part thereof, or any share or interest therein, shall be deemed to have notice of the charge from the date of such registration. Registration is constructive notice to the world.

The date the deeming runs from is the date of registration — not the date the charge was created, and not the date the acquirer searched or was told. So the practical duty falls on the outsider: every person proposing to deal with a company should verify whether the asset carries a charge by going through the record of charges maintained at the office of the Registrar of Companies before entering into the transaction.

How it plays out on the facts. A buyer who agreed to purchase commercial property and discovered at registration that the title was not free **is deemed to have had knowledge of the**

registered charge, so the company's contention that he ought to have known **is correct**. The same reasoning covers a lender: where a company had a term loan secured on an office building and the charge was **registered within twenty days of creation**, anyone later proposing to lend against that same building **is deemed to have notice of the charge from the date of registration**.

The classic wrong answer is to argue actual ignorance. Section 80 does not ask what the acquirer knew. Once you find registration under section 77, the deeming operates automatically and the acquirer takes subject to the charge.

Application use the section - apply it to the facts · 1 question

- Establish that the charge was registered under section 77 first; the deeming has no work to do until you have. Then fix the date of registration and the date of acquisition and let the comparison decide.

CSQ 3.1 · MTP 2019-Oct [4] (b) (ii) · 3M · Pg 256

LEVEL II
Application

Easy

Topic 4: Consequences of Non Registration of Charge (Section 77 (3) and (4))

L2P2-2A-C6-T04

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 77(3) and (4).

NOTES

The rule in one line: under **section 77(3)**, a charge created by a company shall not be taken into account by the liquidator appointed under the Companies Act, 2013 or the Insolvency and Bankruptcy Code, 2016, or by any other creditor, unless the charge is duly registered and a certificate of registration has been issued by the Registrar. Registration is what makes the security count against anyone other than the company itself.

The consequence, stated the way the answers state it: an unregistered charge is void against the liquidator and against the other creditors of the company. In a winding up the **charge-holder is treated as an unsecured creditor**, because neither the liquidator nor the other creditors are legally required to recognise an unregistered security interest. Note what this does **not** do — it does not wipe out the debt; it strips the charge-holder of his priority and leaves him ranking with the unsecured creditors.

Non-registration also destroys priority against third parties. Even where the charge is **subsequently registered within the permitted extended period**, that later registration cannot adversely affect any right or interest already acquired in the property before the actual date of registration of the charge. So a belated filing rescues the charge going forward, but everything

acquired in the gap survives ahead of it.

Read this topic together with section 80. Registration produces deemed notice and priority; non-registration produces neither. That pairing is what a case scenario on delayed filing is really testing — say both sides of it.

Topic 5: Application For Registration of Charge by Charge-Holder (Section 78)

L2P2-2A-C6-T05

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 78.

NOTES

The rule in one line: section 78 empowers the holder of the charge to get the charge registered where the company creating the charge fails to do so. The company is **primarily responsible** for registering the charge; if it fails to register **within the period of thirty days prescribed by section 77(1)**, the **person in whose favour the charge is created** may apply to the Registrar for registration of the charge, along with the instrument of charge, within the prescribed time, form and manner. So a bank whose borrower refuses to file is not helpless — it can file itself.

When the Registrar will refuse the charge-holder's application. The Registrar shall not allow registration by the charge-holder if the company itself registers the charge, or if the company **shows sufficient cause why such charge should not be registered**. Those are the only two grounds in the answer; give both.

The trap: section 78 is a fallback, not a transfer of duty. The company's plea that registration is effected in the lender's favour and for the lender's benefit, so the lender should have filed, does not work — the duty under section 77 stays with the company, and section 86 penalties follow the company's default whatever the charge-holder did or did not do.

Application use the section - apply it to the facts · 1 question

- Say who is primarily liable before you say what the charge-holder may do. An answer that begins with the bank's right and never mentions the company's duty misses the point of the question.

CSQ 5.1 · PYQ 2022-May [2] (a) (i) · 4M · Pg 257

LEVEL II
Application

Medium

Topic 6: Acquisition of Property Subject to Charge and Modification of Charge (Section 79)

L2P2-2A-C6-T06

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 79, read with

section 77.

NOTES

The rule in one line: under **section 79** the provisions of section 77 relating to registration of charges apply, so far as may be, to (a) a company acquiring any property subject to a charge within the meaning of that section, and (b) any modification in the terms or conditions or the extent or operation of any charge registered under that section. Both acquisition and modification are treated as if they were a fresh charge.

Acquisition of charged property — section 79(a). Where a property on which a charge is already registered is sold with the permission of the holder of the charge, it is the duty of the acquiring company to get the charge registered in accordance with section 77, within the period the Act allows from the date of acquisition. **The seller's earlier registration does not discharge that duty.** The acquiring company must ensure that the previous charge is effectively discharged and that the new charge is registered in its own name, reflecting it as the current owner and debtor.

Modification — what counts. Modification of a charge means any change in its terms or conditions, or in its extent or operation — including a change in the amount secured, the rate of interest, the property covered or the charge-holder. So an **enhancement of the sanctioned limit is a modification**, and the provisions that apply to the registration of a charge **apply to its modification in the same way**.

The classic wrong answer: 'the charge was already created and registered, so there is nothing further for the acquiring company to do'. That confuses the charge with the registration. The charge continues; what has to be done again is the filing, and by a different company. Where the question also raises an enhanced limit, conclude on both limbs — the directors are wrong on the acquisition, and the modification must be registered as well.

Application use the section - apply it to the facts · 2 questions

- Deal with the acquiring company's duty and the modification as two separate conclusions, even where the facts run them together.
- Say what the acquiring company must actually do: get the existing charge discharged and register the charge in its own name under section 77.

CSQ 6.1 · RTP 2025-Jan [13] · Pg 258

LEVEL II
Application

Medium

CSQ 6.2 · PYQ 2026-Sep [3] (b) · 5M · Pg 259

LEVEL II
Application

Medium

Topic 7: Register of Charges (Section 81 and 85)

L2P2-2A-C6-T07

Read first Read ICAI Study Material Chapter 6, Registration of Charges — sections 81 and 85, with Rule 10 of the Companies (Registration of Charges) Rules, 2014.

NOTES

Where the register is kept, and what goes in it — section 85(1). Every company shall keep a Register of Charges in the prescribed form and manner at its registered office. The Register shall include all charges and floating charges affecting any property or assets of the company or any of its undertakings, indicating in each case the prescribed particulars. By the **proviso to section 85(1)**, a copy of the instrument creating the charge shall also be kept at the registered office along with the Register of Charges. Note that **floating charges are named expressly** — the register is not confined to fixed charges.

Who may inspect — the limb candidates miss. The register of charges and the instrument of charges shall be open for inspection during business hours: **(a) by any member or creditor, without payment of any fees; or (b) by any other person, on payment of such fees as may be prescribed** — in each case subject to such reasonable restrictions as the company may, by its articles, impose. **Three things carry the marks:** the hours, the free access for members and creditors, the paid access for everyone else — and the fact that the **instrument** is open to inspection as well as the register.

What goes into the company's Register of Charges. Under **Rule 10(1)** a company must enter in its Register of Charges the particulars of all charges registered with the Registrar on any of its property, assets or undertakings, including the details of **any property acquired subject to a charge** and the particulars of **any modification or satisfaction of a charge**. Under **Rule 10(2)** the entries must be made **forthwith after the creation, modification or satisfaction** of the charge, as the case may be.

Who may authenticate an entry — Rule 10(3), and the trap built on it. Entries in the Register of Charges must be authenticated by a director or the secretary of the company, or by any other person authorised by the Board for that purpose. So where the company secretary was on leave and an **accounts officer made the entry without Board authorisation**, the entry is **not legally valid** — he is none of the three. Convenience and urgency are not answers; the rule names the persons exhaustively.

What follows a defective entry — and what does not. Under **section 86(1)**, a company in default in complying with the provisions relating to charges is liable to a **penalty of five lakh rupees**, and every officer of the company who is in default is liable to a penalty of fifty thousand rupees. But the Scanner's alternative answer draws the line carefully. Under **section 77(2) read with Rule 6**, where a charge is registered the Registrar **issues a certificate of registration of the charge**, and that **certificate is conclusive proof that the charge is registered and valid**. So where the charge had already been registered, the internal irregularity — the missing Board authorisation — does

not affect the rights of the secured creditor who relied on the registration. The rival creditor's challenge succeeds only to the extent of the procedural non-compliance; it cannot invalidate the charge or alter its statutory priority. **The classic wrong answer is to let the bad entry unseat the charge.**

How a copy of the instrument filed with the Registrar is verified. A copy of every instrument evidencing **creation or modification** of a charge that has to be filed with the Registrar is verified as follows. **Where the deed relates solely to property situated outside India:** by a certificate issued either under the seal, if any, of the company, or under the hand of any director or company secretary of the company, or an authorised officer of the charge holder, or under the hand of some person other than the company who is interested in the mortgage or charge. **Where the deed relates to property situated in India, whether wholly or partly:** by a certificate issued under the hand of any director or company secretary of the company, or an authorised officer of the charge holder. **The difference is the point of the question** — the seal and the outside interested person are available only for the wholly-foreign deed.

Understanding explain it, and place it in context · 1 question

- For the verification question, set out the two cases side by side and give the full list of signatories for each; the marks are in the difference between the lists.
- For 'where is the register kept and who may inspect it', answer in three parts: the registered office, the copy of the instrument kept with it, and the two classes of inspector — members and creditors free, anyone else on payment of the prescribed fees.

TQ 7.1 · MTP 2021-Mar [3] (b) · 3M · Pg 260

LEVEL I
Understanding

Easy

Application use the section - apply it to the facts · 1 question

- Name the sub-rule you are applying — 10(1) for what is entered, 10(2) for when, 10(3) for who authenticates — then apply it and finish with the section 86 penalty figures.

CSQ 7.1 · PYQ 2026-Jan [3] (b) · 5M · Pg 261

LEVEL II
Application

Medium

Topic 8: Company to Report Satisfaction of Charge (Section 82)

L2P2-2A-C6-T08

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 82, with Rule 8 of the Companies (Registration of Charges) Rules, 2014.

NOTES

The rule in one line: section 82 requires a company to give intimation of payment or satisfaction in full of any charge earlier registered to the **Registrar in the prescribed form — Form CHG-4 —** within thirty days from the date of such payment or satisfaction.

The extension. Under the **proviso to section 82(1)**, the Registrar may, **on an application by the company or the charge holder**, allow the intimation of payment or satisfaction to be made within a period of three hundred days of such payment or satisfaction, on payment of prescribed additional fees. So the window is 30 days as of right and 30 to 300 days on application with additional fees.

What the Registrar then does — section 82(2). On receipt of the intimation the Registrar causes a notice to be sent to the holder of the charge, calling on him to show cause within such time, not exceeding fourteen days, as may be specified in the notice, why payment or satisfaction in full should not be recorded. **If no cause is shown**, the Registrar orders that a memorandum of satisfaction be entered in the register of charges kept under section 81, and informs the company that he has done so. If the charge holder does show cause, the Registrar records that in the register of charges and informs the company. No such notice is necessary where the intimation is in Form CHG-4 signed by the charge holder.

The certificate — Rule 8(2). Where the Registrar **enters a memorandum of satisfaction of charge in full**, he shall issue a certificate of registration of satisfaction of charge in Form No. CHG-5. That certificate is what clears the company's records for the next lender.

Whose duty it is, and the price of missing it. The duty to file is the **company's**, from the date of repayment. Under **section 86(1)**, default carries a **penalty of ₹5,00,000 on the company and ₹50,000 on every officer in default**. Where the loan was repaid and the charged assets were even sold off, the company remains liable for having failed to file.

The two recurring scenarios, and what the answer is not. Where the **bank will not respond** to a request for a confirmation letter, the answer is **not** to wait for the bank: intimate the Registrar, who will himself put the charge holder to notice under section 82(2) with a show-cause period **not exceeding 14 days**. Where a **stale registered charge is blocking a new loan** discovered on due diligence, the answer is to file Form CHG-4 within the extended 30-to-300 day window on payment of the prescribed additional fees and obtain the CHG-5 certificate. **And where a no-dues certificate has already been issued by the lender**, the Scanner takes it a step further: **the Registrar will not send any notice to the bank at all**, and will **proceed to register the satisfaction after the prescribed fees are paid**. Say that expressly — it is the difference between a full answer and a generic recital of section 82.

Remembering reproduce what you have learnt · 1 question

- The facts are built so that the ordinary route fails — the bank does not respond. **State the ordinary intimation first, then the route that survives the bank's silence.**
- Finish with the outer period the Registrar may allow. That figure is the last mark in the question.

CSQ 8.1 · PYQ 2022-Nov [5] (b) · 5M · Pg 263

LEVEL I
Remembering

Medium

Application use the section - apply it to the facts · 1 question

- Where the lender is uncooperative, say what the company can do on its own and what the Registrar does next. An answer that treats the bank's silence as a bar is wrong.
- Finish a satisfaction question with the practical output: the memorandum of satisfaction entered in the register and the certificate in Form CHG-5.

CSQ 8.3 · PYQ 2026-May [2] (b) (i) · 3M · Pg 266

LEVEL II
Application

Easy

Analysis break it down and take the parts separately · 1 question

- Where the question asks who is responsible and what the punishment is, answer the two separately: the duty under section 82(1) on the company, then the penalty figures under section 86(1) for the company and for every officer in default.

CSQ 8.2 · PYQ 2025-May [6] (a) · 5M · Pg 264

LEVEL II
Analysis

Medium

Topic 9: Power of Registrar to Make Entries of Satisfaction and Release in Absence of Intimation from Company (Section 83)

L2P2-2A-C6-T09

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 83, with section 82(4) and Rule 8(2) of the Companies (Registration of Charges) Rules, 2014.

NOTES

The rule in one line: section 83 gives the Registrar power to make entries of satisfaction and release of charges even where no intimation has been received from the company. On **evidence being given to his satisfaction** with respect to any registered charge that (a) the debt for which the charge was given has been paid or satisfied in whole or in part, or (b) part of the property or undertaking charged has been released from the charge or has ceased to form part of the company's property or undertaking, the Registrar may enter in the register of charges a memorandum of satisfaction in whole or in part, or of the release, **despite the fact that no intimation has been received by him from the company.**

The follow-up duty: the Registrar **shall inform the affected parties within thirty days of making the entry** in the register of charges kept under **section 81(1)**. And under **Rule 8(2)**, where he enters a memorandum of satisfaction of charge in full, he shall issue a certificate of registration of satisfaction of charge in Form No. CHG-5.

Sections 82 and 83 sit side by side, they do not compete. Section 82(4) makes this explicit: the requirement that the company file an intimation does not restrict the Registrar's power under section 83. So the Registrar may act **independently whenever sufficient evidence is available** — the company's default does not disable him. In the pack, where a company repaid its loan, sold off the hypothecated livestock and never filed the satisfaction, the Registrar **could still enter the satisfaction and release** because both limbs of section 83 were made out: the **debt had been discharged** and the **charged property had been released**.

Who can set section 83 in motion. An outsider with an interest may. Where a purchaser of mortgaged property **settled the dues in full** and the sub-registrar noted the settlement, but **neither the company nor the bank filed the satisfaction of charge**, the purchaser **can approach the Registrar**, show evidence to his satisfaction that the charge has been settled, and **request him to enter a memorandum of satisfaction** noting the release. Recognise this as the relief available to a stranger to the company — it is why the topic is examined by case scenario.

Understanding explain it, and place it in context • 2 questions

- Give the two grounds of evidence under section 83 as separate limbs, then the 30-day duty to inform the affected parties and the CHG-5 certificate.

TQ 9.1 • MTP 2019-Mar [5] (b) • 5M • Pg 267

LEVEL I
Understanding

Medium

CSQ 9.1 • MTP 2020-Oct [2] (b) • 4M • Pg 268

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts • 1 question

- State that the company's failure to intimate is no obstacle, and cite section 82(4) for it — that sentence is what turns a 'maybe' into a clean conclusion.
- Identify who is asking for the relief and on what evidence. The applicant's remedy is to satisfy the Registrar, not to compel the company or the bank.

CSQ 9.2 • PYQ 2026-May [2] (b) (ii) • 2M • Pg 269

LEVEL II
Application

Easy

Topic 10: Intimation of Appointment of Receiver or Manager (Section 84)

L2P2-2A-C6-T10

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 84, and note from the Study Material the exact number of days allowed for each intimation.

NOTES

The rule in one line: a person appointed as receiver or manager of the property of a company under an instrument must give **notice of the appointment to the company and to the Registrar, together with the instrument**, within the period the Act allows from the date of the appointment. **Take the number of days from the Study Material and quote it** — the printed answer in the Scanner does not state it, and a period you cannot source is worse than none.

The second limb, which candidates forget: on ceasing to act, the person must give notice to the company and to the Registrar within the same period from the date on which he ceases to hold the appointment. Both events are notifiable; an answer that deals only with the appointment is half an answer.

The obligation is on the person appointed, not on the bank that appointed him. Where a bank enforced its security, appointed a receiver, informed the company more than a month later and filed with the Registrar later still, the question is not whether the **bank** complied but whether the **receiver** did. Say so expressly and then hold each intimation up against the permitted period.

Default carries the penalty the Act prescribes, on the person in default. Where the receiver ceased to act and **no notice of cessation was filed**, that is a separate default from any lateness in the appointment intimation. Conclude on the two limbs separately and be precise about who was required to do what.

Analysis break it down and take the parts separately · 1 question

- The scenario gives a chain of dates — appointment, intimation, filing, cessation. **Lay the dates out and test each event against its own period** before you answer any of the numbered questions.
- The cessation limb is a separate default from the appointment limb. Say so; one answer covering both loses a mark.

CSQ 10.1 · PYQ 2026-Sep [6] (b) · 5M · Pg 270

LEVEL II
Analysis

Medium

Topic 11: Punishment for Contravention (Section 86)

L2P2-2A-C6-T11

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 86, read with section 447.

NOTES

The rule in one line: under **section 86**, if any company is **in default in complying with any of the provisions of this Chapter**, the **company shall be liable to a penalty of five lakh rupees** and every

officer of the company who is in default shall be liable to a penalty of fifty thousand rupees. Learn both figures; they are quoted in three separate answers in the pack.

The fraud limb. If any person wilfully furnishes any false or incorrect information, or knowingly suppresses any material information, which is required to be registered under section 77, he **shall be liable for action under section 447** — punishment for fraud. Note the difference: the penalty limb catches **default**, the section 447 limb catches **wilful falsehood or knowing suppression**.

The words 'any of the provisions of this Chapter' are wide. The same penalty is applied in the pack to **failure to register a charge under section 77**, to **failure to intimate satisfaction of a charge under section 82**, and to an entry in the Register of Charges that is not authenticated as Rule 10(3) requires. So whenever you have found a default anywhere in this chapter, section 86 is available.

Where the penalty goes in an answer. It is the last paragraph, not the first. State the default, name the provision breached, then apply section 86 with both figures — company and every officer in default. An answer that opens with the penalty and never identifies the provision breached has nothing to attach it to.

Topic 12: Rectification by Central Government in Register of Charges (Section 87)

L2P2-2A-C6-T12

Read first Read ICAI Study Material Chapter 6, Registration of Charges — section 87, with Rule 12 of the Companies (Registration of Charges) Rules, 2014.

NOTES

The rule in one line: section 87 read with **Rule 12** empowers the **Central Government to order rectification of the Register of Charges** in two cases of default: **(i)** where there was an omission in giving intimation to the Registrar with respect to payment or satisfaction of a charge within the specified time; and **(ii)** where there was an omission or mis-statement of any particulars in any filing previously made to the Registrar — whether that filing related to any charge, any modification of a charge, or any memorandum of satisfaction or other entry made under section 82 or section 83.

What the Central Government must be satisfied of before it acts. Before directing that the time for giving the intimation of payment or satisfaction shall be extended, or that the **omission or mis-statement shall be rectified**, the Central Government must be satisfied that the default was accidental, or due to inadvertence, or because of some other sufficient cause, **or that it did not prejudice the position of creditors or shareholders**. These are alternatives — establishing any one of them is enough.

The procedure. The application is made in **Form No. CHG-8**, and it may be filed **by the company or by any interested person** — so the **charge-holder bank can proceed under section 87 itself** where the company will not. The order of rectification is made by the Central Government on such terms

and conditions as it deems just and expedient.

The worked case, and the boundary of section 87. A charge in favour of a bank was duly registered; the bank later **enhanced the facility by ₹20 crore** and, **due to inadvertence, this modification of the original charge was not registered.** The advice is to immediately file an application for rectification of the Register of Charges in Form No. CHG-8 to the Central Government under section 87, 'inadvertence' being expressly one of the grounds. **But do not over-read the section.** It reaches the **omission to intimate satisfaction** and the **omission or mis-statement of particulars in a filing already made** — the Central Government's power of rectification is not available in respect of delay in registration of the creation of a charge. Once the windows under the provisos to section 77(1) have closed on a creation, **the charge cannot be registered at all**, and section 87 will not rescue it.

Application use the section - apply it to the facts · 1 question

- Advise a course of action, not just the law: file Form CHG-8 with the Central Government under section 87, and say who may file it and on what ground the facts fall.
- Where the facts say the omission was inadvertent, quote the word 'inadvertence' from the section — it is the ground you are relying on.

TQ 12.1 · MTP 2020-Oct [5] (b) · 5M · Pg 272

LEVEL II
Application

Hard

PART 2A · CORPORATE LAWS · CHAPTER 7

Management and Administration

13 Topics · 71 Classified Questions · Importance: B

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**

Level I — Comprehension & Knowledge **22.3%** 67 of 301 marks

Level II — Analysis & Application **77.7%** 234 of 301 marks

This chapter sits on the paper's own profile — 22% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: Registers (Section 88 to 91 and 95)

L2P2-2A-C7-T01

Read first Read ICAI Study Material Chapter 7, Registers — sections 88 to 91 and 95, with Rule 7 of the Companies (Management and Administration) Rules, 2014 and the Companies (Significant Beneficial Owners) Rules, 2018.

NOTES

Foreign register — section 88(4). A company may keep **in any country outside India** a part of the register of members, called a **foreign register**, containing the names and particulars of the members, debenture-holders, other security holders or beneficial owners residing outside India. It is a part of the register, not a separate register.

The filing that follows it. Rule 7 of the Companies (Management and Administration) Rules, 2014 requires the company to file with the Registrar, **within 30 days from the date of the opening of any foreign register**, a **notice of the situation of the office** where such register is kept, along with the fee. The 30 days run from the date the foreign register is opened, not from the date of the first entry in it — that is the whole of the arithmetic in this question.

Significant beneficial owner — section 90(1). Every individual, whether acting alone or together, or through one or more persons or trusts (including a trust), and **whether resident in India or outside India**, who holds **beneficial interests of not less than twenty-five per cent** or such other prescribed percentage in the shares of a company, or who has the right to exercise or actually exercises significant influence or control over the company as defined under section 2(27), is a **significant beneficial owner**. He must make a **declaration to the company** specifying the nature of his interest and the other prescribed particulars, in the prescribed manner and within the prescribed period from the date of acquisition of the beneficial interest or rights, or of any change in them.

The operative threshold is in the Rules, not the section. Under Rule 2(1)(h) of the Companies

(Significant Beneficial Owners) Rules, 2018, an SBO is an individual who, acting alone or together or through one or more persons or trusts, satisfies **any one or more** of these: (a) holds, indirectly or together with any direct holdings, not less than ten per cent of the shares of the reporting company; (b) holds, indirectly or together with any direct holdings, **not less than ten per cent of the voting rights** in the shares; (c) has the right to receive or participate in **not less than ten per cent of the total distributable dividend** or any other distribution in a financial year, through indirect holdings alone or together with any direct holdings; or (d) has the right to exercise, or actually exercises, significant influence or control in any manner other than through direct holdings alone. The conditions are alternative — satisfying one is enough.

How the ten per cent is worked out. Add the direct holding and the beneficial (indirect) interest, then compare with ten per cent of the relevant share capital. In the printed answer a member held shares of `6,50,000 in her own name and a beneficial interest of `3,00,000; **total `9,50,000** against a threshold of **`12,00,000, being 10% of 1,20,000 equity shares of `100 each**. Being below the threshold, she was **not** required to file the declaration. Note that the threshold was worked out on the **equity** share capital and the preference capital was left out of the computation.

Where the SBO Rules do not apply — Rule 8. The SBO Rules **shall not apply to the extent the shares of the reporting company are held by:** (a) the **Investor Education and Protection Fund Authority** constituted under section 125(5); (b) the **holding reporting company**, provided the details of such holding reporting company are **disclosed in Form No. BEN-2**; (c) the **Central Government, any State Government or any local authority**; (d) a reporting company, body corporate or entity wholly or partly controlled by the Central Government and/or State Government(s); (e) investment vehicles such as mutual funds, Alternative Investment Funds (AIFs), Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) registered with and regulated by SEBI; and (f) **investment vehicles regulated by the Reserve Bank of India, IRDAI or PFRDA**. Note the words '**to the extent**' — the exemption attaches to the shares so held, not to the whole company.

The classic wrong answer is to apply the twenty-five per cent in section 90(1) as the working test and stop there. Section 90(1) is the enabling provision; the percentage that decides the case is the **ten per cent** in Rule 2(1)(h), and it is tested on **direct plus indirect** holdings together, not on the indirect holding alone.

Application use the section - apply it to the facts · 2 questions

- For a foreign register question, fix the date of opening, add 30 days, and state the filing (notice of situation of the office, with fee) — nothing else is being asked.
- For an SBO question, compute three figures in this order: the direct holding, the indirect holding, and ten per cent of the share capital. Show the arithmetic; the conclusion follows from it.

CSQ 1.2 · PYQ 2025-Sep [5] (a) · 5M · Pg 280

LEVEL II
Application

Medium

Topic 2: Annual Return (Section 92 and 94)

L2P2-2A-C7-T02

Read first Read ICAI Study Material Chapter 7, Annual Return and place of keeping registers — sections 92 and 94, with Rules 11 and 12 of the relevant Rules.

NOTES

Contents of the annual return — section 92. The return must contain, as they stood on the close of the financial year: **(a)** registered office, principal business activities, particulars of holding, subsidiary and associate companies; **(b)** shares, debentures and other securities and shareholding pattern; **(c)** members and debenture-holders along with changes since the close of the previous financial year; **(d)** promoters, directors and key managerial personnel along with changes since the close of the previous financial year; **(e)** meetings of members or a class thereof, of the Board and of its committees, with attendance details; **(f)** remuneration of directors and key managerial personnel; **(g)** penalty or punishment imposed on the company, its directors or officers, details of compounding of offences and appeals against such penalty or punishment; **(h)** matters relating to certification of compliances and prescribed disclosures; **(i)** prescribed details of shares held by or on behalf of Foreign Institutional Investors; and **(j)** such other matters as may be prescribed. The form is **MGT-7**.

Time limit — section 92(4), and the trap in it. A copy of the annual return must be filed with the Registrar **within sixty days from the date on which the AGM is held**; and where no AGM is held in any year, within sixty days from the date on which the AGM should have been held, **together with a statement specifying the reasons for not holding the AGM**, with the fees or additional fees prescribed under Rule 12 of the Companies (Registration Offices and Fees) Rules, 2014. **The classic wrong answer** — argued twice in the printed answers, once where the AGM lapsed for want of quorum and once where floods prevented it — is that no AGM means no sixty days. It is wrong: the sixty days run from the date the AGM **ought** to have been held, and the reasons statement is the price of not holding it.

Penalty — section 92(5). On failure to file within the period specified, **the company and every officer in default** are liable to a penalty of **ten thousand rupees**, and in case of **continuing failure**, a further penalty of **one hundred rupees for each day** after the first during which the failure continues, subject to a maximum of two lakh rupees for the company and fifty thousand rupees for an officer in default.

Place of keeping the registers — section 94(1). The registers kept under section 88 and the copies of the annual return filed under section 92 **shall be kept at the registered office**. **Proviso:** they may also be kept at any other place in India in which more than one-tenth of the total number of members entered in the register of members reside, **if approved by a special resolution passed at**

a general meeting. Both limbs must be satisfied — the printed answers refuse the shift where members merely want it, and allow it where **15% of total members** reside at the proposed place, on a special resolution.

Inspection — section 94(2). Except when closed under the Act, the registers and their indices and copies of all returns are open for inspection by any member, debenture-holder, other security holder or beneficial owner, during business hours, without payment of any fees, and **by any other person on payment of such fees as may be prescribed.** A holding of 500 shares worth ₹5,000 is enough — the section sets no minimum holding.

The director who is not a shareholder. A director is not in the list in section 94(2), so a director cannot inspect the register under this section. But **a director who also holds shares can**, because directors who hold shares are entitled to the rights of a member — **Oriental Metal Pressing Works Pvt. Ltd. v. B.K. Thakur.** Answer this in two steps: capacity first, then the right.

Abridged return for OPC and small company. The Central Government may prescribe an **abridged form of annual return** for a One Person Company, a small company and such other class of companies as may be prescribed; under **Rule 11(1)** an OPC and a small company file the annual return **from the financial year 2020-21 onwards in Form MGT-7A.** In their case the return shall be signed by the company secretary, or where there is no company secretary, by the director of the company.

Remembering reproduce what you have learnt · 1 question

- The ten contents of section 92 are a straight list question — write them lettered (a) to (j), not as a paragraph.

TQ 2.2 · MTP 2024-Jul [6] (Or) (a) (i) (ii) · 5M · Pg 283

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 1 question

- Give both limbs of the sixty-day rule together; a candidate who states only the 'AGM held' limb has answered half the section.

TQ 2.1 · PYQ 2018-May [2] (b) · 6M · Pg 282

LEVEL I
Understanding

Hard

Application use the section - apply it to the facts · 3 questions

- Where the AGM did not take place, say so expressly, then run the second limb and add the reasons statement, then the penalty under section 92(5) with the figures.
- For a shift of registers, test the one-tenth residence condition and the special resolution separately, and say which one the facts satisfy.

CSQ 2.3 · PYQ 2018-Nov [5] (c) · 3M · Pg 286	LEVEL II Application	Easy
CSQ 2.4 · MTP 2019-Mar [4] (b) (ii) · 3M · Pg 287	LEVEL II Application	Easy
CSQ 2.1 · PYQ 2018-May [4] (a) · 4M · Pg 284	LEVEL II Application	Medium

Analysis break it down and take the parts separately · 3 questions

- Each of these scenarios asks two or three separate questions. **Answer them in the question's own numbering**, and give a conclusion for each rather than one verdict at the end.
- Where the ask is about keeping registers elsewhere, work through the conditions in order — the resolution, the proportion of members, and the filing — and say which of them the facts satisfy.
- Where a director who is not a member wants to inspect, deal with the capacity in which the right is claimed. The answer turns on that, not on the register.

CSQ 2.2 · PYQ 2018-May [5] (b) · 5M · Pg 285	LEVEL II Analysis	Medium
CSQ 2.5 · PYQ 2023-Nov [4] (d) · 5M · Pg 287	LEVEL II Analysis	Medium
CSQ 2.6 · MTP 2025-Dec S2 [4] (b) · 5M · Pg 290	LEVEL II Analysis	Medium

Topic 3: Pre-Requisites of a Meeting (Section 101 to 104)

L2P2-2A-C7-T03

Read first Read ICAI Study Material Chapter 7, Pre-requisites of a meeting — sections 101 to 104, with Rules 18 and 20 of the Companies (Management and Administration) Rules, 2014.

NOTES

Length of notice — section 101(1). A general meeting may be called by giving **not less than clear twenty-one days' notice**, in writing or through electronic mode. **Clear** means the day on which the notice is served and the day of the meeting are **both excluded**. Where the notice goes by post, Rule 35(6) of the Companies (Incorporation) Rules, 2014 deems service to be effected **at the expiration of forty-eight hours after the letter is posted** — so you must add **48 hours** to the twenty-one clear days. Both worked answers in the pack (posted 16 October for a 7 November meeting; posted 16 August for a 7 September meeting) come out **two days short**. And note that **the Companies Act, 2013 does not provide for condonation of delay** in giving notice of a general meeting: if the notice is short, the answer is never that the delay may be excused, but that the meeting is not validly called unless shorter-notice consent was obtained.

Shorter notice — the proviso, and the distinction the examiner keeps returning to. For an **annual general meeting**, shorter notice is possible if consent in writing or by electronic mode is given by

not less than ninety-five per cent of the members entitled to vote at the meeting — a count of **members**, so a large shareholder has no extra weight. For a **general meeting other than an AGM**, consent must come from a majority in number of the members entitled to vote who together represent not less than 95% of the paid-up share capital carrying voting rights, or, where the company has no share capital, from **members representing not less than 95% of the total voting power**. A member entitled to vote only on certain resolutions is counted only in relation to those resolutions. Consent from 90% of members does not save an AGM at short notice.

Contents of the notice — sections 101(2) and 102. A valid notice states the **day, date, time and place** of the meeting and contains a **statement of the business to be transacted**, and is issued on the authority of the Board under the name of an authorised official. Where **special business** is to be transacted, an **Explanatory Statement** must be **annexed** to the notice, setting out the nature of concern or interest of every director, manager, key managerial personnel and their relatives, and **all relevant information and facts** enabling members to understand the meaning, scope and implications of the item and to take a decision. A notice proposing to increase authorised capital **without the amount of the increase**, or to fix an auditor's remuneration **without the amount**, is **not a valid notice**. **Who must get the notice — section 101(3):** every member of the company, the legal representative of any deceased member and the assignee of an insolvent member; the auditor or auditors; and every director of the company.

Quorum — section 103(1). Unless the articles provide for a **larger number**: **public company — five members personally present** if members on the date of the meeting are **not more than one thousand**; **fifteen** if more than one thousand but up to five thousand; **thirty** if the number **exceeds five thousand**. **Private company — two members personally present**. Where the articles fix a larger number the higher figure governs — articles requiring 7 in a company of 870 members make the quorum **seven, not five**.

Who counts towards quorum. Only members **entitled to vote on the resolutions on the agenda** count — so preference shareholders were excluded where the business was the appointment of a managing director and their rights were not directly affected. **Only members present in person count; proxies are excluded**, whether or not the proxy is himself a member. A person authorised by resolution of a body corporate under section 113 **is deemed a member present in person and is counted**; and where **one person represents two companies, each company is counted separately** — that single point turned 14 heads into a quorum of 15 in one printed answer. A person appointed by the **President of India or a Governor** under section 112 is likewise deemed a member personally present.

Adjournment for want of quorum — section 103(2). If the quorum is not present **within half an hour** from the time appointed, (a) the meeting **stands adjourned to the same day in the next week, at the same time and place**, or to such other date, time and place as the **Board** may determine; (b) a meeting **called by requisitionists under section 100 stands cancelled**. **Proviso:** on such adjournment or change of day, time or place, the company must give **not less than three days' notice** to the members, either individually or by an advertisement in the newspapers, **one in English and one in the vernacular language**, in circulation at the place where the registered office

is situated. At the adjourned meeting, if the quorum is again not present within half an hour, the members present shall be the quorum — two members were enough on those facts. **But the trap:** that relief applies **only where the original meeting was adjourned for want of quorum**. Where the chairman adjourned a properly constituted meeting for some other reason — unruly behaviour of members, in two printed answers — the **full quorum is still required at the adjourned meeting**, and three members present do not make it; the meeting stands further adjourned. And a chairman **cannot** adjourn for the absence of one particular member: he may adjourn where it is impossible to conduct the meeting, but the absence of an important member is **not a valid and proper reason**.

Nidhi company modification. Section 136(1) applies to a Nidhi subject to the modification that for members who do **not** individually or jointly hold shares of more than one thousand rupees in face value or more than one per cent of the total paid-up share capital, whichever is less, it is sufficient compliance if an **intimation is sent by public notice in a newspaper** circulated in the district of the registered office, stating the date, time and venue of the AGM, that the financial statement with enclosures can be inspected at the registered office, with the statement and enclosures affixed on the company's notice board, and that a member may vote in person or through proxy.

Remembering reproduce what you have learnt · 1 question

- A straight enumeration. **Name every class entitled to notice**, including the ones candidates forget — the auditor and the directors — before adding any qualification.
- State the section as you begin. A list without its section reads as a guess.

TQ 3.2 · MTP 2024-Jul [6] (a) · 5M · Pg 291

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 3 questions

- Give the quorum in the three-row table form the answers use — number of members against members personally present — then add the private company figure of two.

TQ 3.1 · MTP 2024-Mar [2] (a) · 5M · Pg 291

LEVEL I
Understanding

Medium

CSQ 3.1 · PYQ 2018-Nov [4] (a) · 4M · Pg 294

LEVEL I
Understanding

Medium

CSQ 3.8 · MTP 2026-Apr [5] (a) · 5M · Pg 302

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 10 questions

- On a notice-period question, lay out three dates in a line: date of posting, add 48 hours, date of meeting; count the clear days between them and state the shortfall in days.
- On a quorum question, take the persons present one by one and say for each whether he counts and why; the marks are in the individual rulings, not the total.

- Always ask why the meeting was adjourned before applying the 'members present shall be the quorum' rule — want of quorum, or something else.

CSQ 3.14 • PYQ 2026-May [3] (b) (i) • 2M • Pg 311	LEVEL II Application	Easy
CSQ 3.3 • PYQ 2019-Nov [2] (a) • 4M • Pg 297	LEVEL II Application	Medium
CSQ 3.4 • PYQ 2020-Nov [2] (b) • 4M • Pg 298	LEVEL II Application	Medium
CSQ 3.5 • MTP 2021-Oct [2] (a) • 4M • Pg 299	LEVEL II Application	Medium
CSQ 3.6 • PYQ 2021-Dec [5] (Or) (b) • 5M • Pg 300	LEVEL II Application	Medium
CSQ 3.9 • RTP 2023-May [14] • Pg 303	LEVEL II Application	Medium
CSQ 3.11 • PYQ 2024-May [6] (a) • 5M • Pg 305	LEVEL II Application	Medium
CSQ 3.12 • MTP 2025-Mar S2 [2] (a) • 5M • Pg 307	LEVEL II Application	Medium
CSQ 3.13 • PYQ 2025-Sep [2] (a) • 5M • Pg 308	LEVEL II Application	Medium
CSQ 3.2 • PYQ 2019-May [4] (b) • 6M • Pg 296	LEVEL II Application	Hard

Analysis break it down and take the parts separately • 3 questions

- Where the facts give both an AGM and a non-AGM shorter-notice issue, keep the 95% of members test and the 95% of paid-up capital test apart; mixing them is the standard error.

TQ 3.3 • RTP 2025-Sep [12] • Pg 292	LEVEL II Analysis	Medium
CSQ 3.10 • PYQ 2024-May [3] (b) • 5M • Pg 304	LEVEL II Analysis	Medium
CSQ 3.7 • MTP 2022-Sep [2] (a) • 6M • Pg 301	LEVEL II Analysis	Hard

Topic 4: Proxies (Section 105)

L2P2-2A-C7-T04

Read first Read ICAI Study Material Chapter 7, Proxies — section 105.

NOTES

What a proxy is. A proxy is an instrument in writing executed by a shareholder authorising another

person to attend a meeting and to vote thereat on his behalf and in his absence. Under **section 105(1)**, any member entitled to attend and vote at a meeting **is entitled to appoint another person as a proxy** to attend and vote at the meeting on his behalf. It is a **statutory right** — the articles cannot take it away.

The forty-eight hour rule — section 105(4). A proxy received 48 hours before the meeting is valid even if the articles provide for a longer period. Any provision in the articles requiring the instrument of proxy to be lodged **more than 48 hours** before a meeting **has effect as if 48 hours had been specified** in it. So an article demanding 60 hours is read down to 48, and a proxy lodged **54 hours** before the meeting must be admitted — the proxy holder can compel the company to admit it.

Two proxies from one member. Deposit time decides between them. In the printed answer a member gave separate proxies to two persons for a meeting on 15 April at 3.00 p.m.: the one deposited on **12 April** was **valid**, the one deposited on **14 April** was **only 24 hours before the meeting** and was **not** admitted. Fix the exact hour of the meeting and count back 48 hours before ruling on any deposited form.

Proxies and quorum. A proxy attends and votes, but **a proxy is not counted for quorum** under section 103 — only members present in person are. Keep the two questions apart: whether the proxy is admitted, and whether he swells the quorum.

Application use the section - apply it to the facts · 2 questions

- Take each proxy form separately, state the hour of deposit against the hour of the meeting, and rule on each — a single combined conclusion loses the per-proxy marks.

CSQ 4.1 · PYQ 2021-Jan [1] (b) (ii) {C} · 3M · Pg 312

LEVEL II
Application

Easy

CSQ 4.2 · PYQ 2023-May [2] (a) · 4M · Pg 313

LEVEL II
Application

Medium

Topic 5: Voting (Section 106 to 109)

L2P2-2A-C7-T05

Read first Read ICAI Study Material Chapter 7, Voting — sections 106 to 110, with Rules 20, 21 and 22 of the Companies (Management and Administration) Rules, 2014.

NOTES

Restriction on voting rights — section 106(1). The articles may provide that no member shall exercise any voting right in respect of shares registered in his name **on which any calls or other sums presently payable by him have not been paid**, or in regard to which the **company has exercised any right of lien**. Read it as an enabling provision: if the articles do not so provide, the

chairman has no right to refuse the vote. Denying a partly-paid shareholder his vote where the articles are silent is invalid.

Joint holders. Joint shareholders **must concur in voting unless the articles provide to the contrary**; where they differ, voting is in the order of seniority, determined by the order in which their names appear in the register of members (Regulation 52 of Table F). The joint holders may **instruct the company as to the order in which their names are to appear**. Under **Rule 21**, the scrutinizers give the polling paper to the first named holder, or in his absence to the joint holder attending the meeting, as appearing in chronological order in the folio. So on conflicting views between two joint holders, the answer is: whichever name stands first in the register carries the vote.

When e-voting is compulsory — Rule 20. Every company which has listed its equity shares on a recognised stock exchange and **every company having not less than one thousand members** must provide members the facility to vote by electronic means on resolutions to be considered at a general meeting. **These conditions are alternative, not cumulative** — a listed company with fewer than 1,000 members is still bound, and a contention to the contrary is wrong. **The window:** the facility for **remote e-voting shall remain open for not less than three days** and shall close at 5.00 p.m. on the date preceding the date of the general meeting. Worked on the pack's own facts: for an AGM on **7.9.2020**, remote e-voting **opens 4.9.2020 and closes at 5.00 p.m. on 6.9.2020**.

Voting again at the meeting — the distinction to get right. Under **Rule 20(4)(iii)(C)** the notice must state that members who **have cast their vote by remote e-voting** may attend the meeting **but shall not be entitled to cast their vote again** — such a member cannot change his vote and is not permitted to appoint a proxy. But under **Rule 20(4)(iii)(B) and (4)(xi)**, the facility to vote by **ballot or polling paper or electronic voting system at the meeting** must be made available, and the Chairman must, after discussion closes, allow voting for all those members present at the meeting who have not exercised their voting rights through remote e-voting. So a member who **opted** for e-voting but **could not actually cast** his vote is entitled to vote physically, and the chairman cannot refuse him.

Demand for a poll — section 109. Before or on the declaration of the result of the voting on any resolution on a show of hands, a poll may be ordered by the Chairman **on his own motion**, and **shall be ordered on a demand** made: **(1)** in a company having a share capital, by **members present in person or by proxy, where allowed, having not less than one-tenth of the total voting power** or holding shares on which an **aggregate sum of not less than five lakh rupees**, or such higher prescribed amount, has been paid up; **(2)** in any other company, by members present in person or by proxy, where allowed, having **not less than one-tenth of the total voting power**. The classic wrong answer is that only members present in person may demand a poll — the section says in person **or by proxy**, so a chairman who rejects the demand on that ground is wrong.

Postal ballot procedure — Rule 22 read with section 110. **(1)** Send a notice to all shareholders with a **draft resolution explaining the reasons**, requesting assent **within thirty days from the date of posting of the letter**. **(2)** Send it by registered post or speed post, through electronic means such as a registered e-mail address, or by courier. **(3)** Publish an advertisement **at least once in a**

vernacular newspaper in the principal vernacular language of the district of the registered office and having circulation there, and **at least once in an English newspaper** of wide circulation in that district, about having despatched the ballot papers. **(4)** Place the notice **on the company's website** forthwith after it is sent, to remain there **till the last date for receipt of the postal ballots**. **(5)** The Board appoints **one scrutinizer, not in the employment of the company**, who in the Board's opinion can conduct the process fairly and transparently. **(6)** The scrutinizer must be **willing to be appointed and available** for ascertaining the requisite majority. **(7)** Ballots received back are kept in the **safe custody of the scrutinizer**, and after receipt of assent or dissent in writing no person shall deface or destroy the ballot paper or declare the identity of the shareholder. **(8)** The scrutinizer shall submit his report as soon as possible after the last date of receipt of postal ballots, but not later than seven days thereof. **(9)** He shall **maintain a register, manually or electronically**, recording assent and dissent received, with the **name, address, folio number or client ID** of the shareholder, **number of shares held, nominal value**, whether the shares carry **differential voting rights**, and details of ballots received **defaced or mutilated** and of ballot forms which are **invalid**. **(10)** The postal ballot and all other papers, **including voting by electronic means**, remain in the safe custody of the scrutinizer till the chairman considers, approves and signs the minutes; thereafter the scrutinizer **returns them to the company, which shall preserve them safely**. **(11)** Assent or dissent received after thirty days from the date of issue of the notice shall be treated as if no reply had been received from the member. **(12)** The results shall be declared by placing them, along with the scrutinizer's report, on the website of the company. **(13)** Rule 20 on voting by electronic means applies **mutatis mutandis**, as far as applicable, to voting by electronic means under this rule.

Business that may be transacted only by postal ballot — section 110(1)(a) with Rule 22(16). Under **section 110(1)(a)** a company must transact by postal ballot such items as the Central Government notifies to be transacted only in that way; under **section 110(1)(b)** a company **may** transact by postal ballot any item other than ordinary business and any business in respect of which directors or auditors have a right to be heard at a meeting. The notified items are: **(a)** alteration of the **objects clause** of the memorandum (and, for a company in existence immediately before the commencement of the Act, alteration of the main objects); **(b)** alteration of the articles in relation to insertion or removal of the provisions required under section 2(68) to constitute a private company; **(c)** **change of registered office outside the local limits** of the city, town or village under section 12(5); **(d)** change in objects for which money was raised from the public through a prospectus where any amount remains unutilised, under section 13(8); **(e)** issue of **shares with differential rights** as to voting or dividend or otherwise under section 43(a)(ii); **(f)** **variation in the rights attached to a class of shares or debentures** or other securities under section 48; **(g)** **buy-back of shares** under section 68(1); **(h)** **election of a director under section 151**; **(i)** **sale of the whole or substantially the whole of an undertaking** under section 180(1)(a); **(j)** **giving loans, guarantees or security in excess of the limit** in section 186(3). **Two provisos you must state with the list:** any of these items may instead be transacted at a general meeting by a company which is required to provide e-voting under section 108, in the manner provided in that section; and One Person Companies and other companies having members up to two hundred are not required to

transact any business through postal ballot. **Applied:** the election of a director under section 151 — the small shareholders' director — is item (h), so advice that such an appointment can be made **only** by voting through postal ballot is **valid**; and section 2(65) defines 'postal ballot' as voting by post or through any electronic mode, so the postal ballot route is not confined to paper.

Understanding explain it, and place it in context • 3 questions

- State the two Rule 20 triggers and add the words 'alternative and not cumulative'; that phrase is itself worth a mark.

TQ 5.3 • PYQ 2025-Jan [3] (b) (ii) • 2M • Pg 318	LEVEL I Understanding	Easy
TQ 5.2 • PYQ 2021-Dec [2] (a) • 4M • Pg 317	LEVEL I Understanding	Medium
TQ 5.1 • PYQ 2016-Nov [6] (a) • 8M • Pg 314	LEVEL I Understanding	Hard

Application use the section - apply it to the facts • 6 questions

- On an e-voting timing question, give the two dates expressly — the opening date and the closing date with the 5.00 p.m. cut-off — not just the rule.
- On a refusal-of-vote question, always check first whether the articles carry the section 106(1) restriction; if they are silent, the refusal fails without more.
- Where the facts name a specific item of business, say whether it is one of the notified postal ballot items and then check the two provisos — the e-voting company, and the OPC or company with up to two hundred members.

CSQ 5.3 • PYQ 2024-May [2] (b) (i) • 3M • Pg 320	LEVEL II Application	Easy
CSQ 5.6 • PYQ 2026-May [3] (b) (2) • 1M • Pg 324	LEVEL II Application	Easy
CSQ 5.1 • PYQ 2018-Nov [4] (b) • 4M • Pg 319	LEVEL II Application	Medium
CSQ 5.2 • RTP 2022-Nov [4] • Pg 319	LEVEL II Application	Medium
CSQ 5.4 • MTP 2024-Nov [6] (a) • 5M • Pg 321	LEVEL II Application	Medium
CSQ 5.5 • PYQ 2025-Sep [3] (a) • 5M • Pg 322	LEVEL II Application	Medium

Topic 6: Circulation of Members' Resolution (Section 111)

L2P2-2A-C7-T06

Read first Read ICAI Study Material Chapter 7, Circulation of members' resolution — section 111, read with section 100(2).

NOTES

The right — section 111. Members of a company have a **statutory right to propose resolutions** for consideration at general meetings, and to have notice of such resolutions circulated.

How many members are needed — section 111(1). The number required to make a requisition for moving a resolution is the same as the number required to requisition a general meeting under section 100(2): in a company having a share capital, members holding not less than one-tenth of the paid-up share capital that carries the right of voting. On a paid-up capital of `1 crore that means shares worth `10 lakh carrying voting rights.

The other requirements, and they are all examinable. (a) **Two or more copies** of the requisition must contain the **signatures of all the requisitionists**; (b) the requisition must be **deposited at the registered office** of the company; (c) where the requisition requires **notice of a resolution**, it must be deposited not less than six weeks before the meeting; (d) in the case of **any other resolution**, **not less than two weeks before the meeting**; (e) a sum reasonably sufficient to meet the expenses to be incurred by the company in giving effect to the proposal must be deposited along with the requisition.

The two deadlines are the marks. **Six weeks** where notice of a resolution is required, **two weeks** for any other requisition — quote both, and say which one applies on the facts.

Remembering reproduce what you have learnt · 1 question

- Two limbs: the **minimum shareholding** needed to requisition, and the **other requirements**. Give the threshold in both its forms (capital and voting power) — the question gives a paid-up capital figure so that you can apply one of them.
- The 'other requirements' limb is a list — the deposit, the timing and the form. Enumerate it.

CSQ 6.1 · RTP 2024-May [12] · Pg 325

LEVEL I
Remembering

Medium

Topic 7: Representation of the President & Governors in Meetings of Companies to which they are Member (Section 112)

L2P2-2A-C7-T07

Read first Read ICAI Study Material Chapter 7, Representation of the President and Governors at meetings — section 112; and, as the printed questions on this topic go, motions and resolutions and

special notice under section 115 with Rule 23 of the Companies (Management and Administration) Rules, 2014.

NOTES

Section 112 — representation of the President or a Governor. Where the President of India or the Governor of a State is a member of a company, he may appoint such person as he thinks fit to act as his representative at any meeting of the company. The person so appointed is **deemed to be a member of such company** and is therefore **counted as a member personally present** for quorum and is **entitled to vote** at the meeting. In the pack's quorum problems, the Governor's representative was counted; the proxies present were not.

Motion and resolution — the distinction. Most matters come before a meeting **by way of a motion**, recommending that the meeting express approval or disapproval, take certain action, or order something to be done. A motion is a proposal; a resolution is the formal adoption of a motion that has been duly made and seconded. **Not every motion is followed by a resolution** — a motion for the adjournment of the meeting, for instance, results in no resolution. A motion, whether for closure of discussion or for adjournment, can be passed by way of an ordinary resolution unless a specific provision in the articles requires otherwise.

Special notice — section 115. Where any provision of the Act or of the articles requires **special notice** for passing a resolution, notice of the **intention to move such resolution** must be given to the company by such number of members holding not less than one per cent of the total voting power, or holding shares on which such aggregate sum not exceeding five lakh rupees, as may be prescribed, has been paid up. The company must then **give its members notice of the resolution** in the prescribed manner.

The two time limits in Rule 23 — this is where the answer is won. **From the members to the company:** the notice shall be sent not earlier than three months but at least fourteen days before the date of the meeting at which the resolution is to be moved, exclusive of the day on which the notice is given and the day of the meeting. **From the company to its members: immediately after receipt** of the notice, the company shall give its members notice of the resolution **at least seven days before the meeting, exclusive of the day of dispatch and the day of the meeting**, in the manner in which it gives notice of any general meeting.

Failure by the company to circulate. Even where the special notice itself is valid, failure to inform the members at least seven clear days before the meeting violates Rule 23. The consequences may include **invalidation of the resolution** and **regulatory penalties under the Companies Act, 2013**. Note the point the answer makes expressly: section 115 itself does not prescribe a specific penalty for non-circulation — the exposure is **procedural invalidity and litigation risk**.

Where notice in the prescribed manner is not practicable — Rule 23. The company shall publish the notice in an English newspaper and in a vernacular newspaper, both having wide circulation in the State where the registered office is situated, and shall also **post it on the company's website, if**

any. Under **Rule 23(5)** such publication must be at least seven days before the meeting, excluding the day of publication and the day of the meeting. The pack's **alternate answer** turns on this: where the facts do not say that the company published the notice in the two newspapers or posted it on the website, **the notice may be deemed to be invalid**. If a question is silent on the company's circulation, say which route was open to it and that on the given facts neither is shown to have been followed.

How the section is applied to facts. Run it in two tests, in this order. **First, the holding:** members holding **1.2% of total voting power** exceed the **1%** requirement, so this condition is met. **Second, the timing:** special notice received on **1 August** for an AGM on **25 August** is at least fourteen days before the meeting, so this condition is met. Conclude that **the special notice is valid** — and keep the company's later failure to circulate as a **separate** default, not as something that invalidates the members' notice.

Application use the section - apply it to the facts · 2 questions

- For a special notice problem, test the shareholding and the timing as two separate numbered findings, then conclude. Do not merge the members' compliance with the company's non-compliance.

TQ 7.2 · PYQ 2026-Jan [6] (a) (Or) (ii) · 2M · Pg 327

LEVEL II
Application

Easy

CSQ 7.1 · PYQ 2026-Jan [6] (a) (Or) (i) · 3M · Pg 328

LEVEL II
Application

Easy

Analysis break it down and take the parts separately · 1 question

- Where the company failed to circulate, say what follows and what does not: the resolution is at risk of invalidity, but section 115 prescribes no penalty of its own for non-circulation.

TQ 7.1 · PYQ 2026-Jan [6] (a) (ii) · 2M · Pg 327

LEVEL II
Analysis

Medium

Topic 8: Representation of Corporations in Meetings of Companies and Creditors (Section 113)

L2P2-2A-C7-T08

Read first Read ICAI Study Material Chapter 7, Representation of corporations at meetings of companies and creditors — section 113, read with sections 103 and 112.

NOTES

The rule — section 113. Where a company is a member of another company, it may authorise a person by resolution to act as its representative at a meeting of the latter company; such a person

is **deemed to be a member present in person** and is **counted for the purpose of quorum**. A body corporate cannot attend in the flesh, so the Act gives it a representative who stands in the shoes of a member, not of a proxy.

Two companies, one representative. Where two or more companies which are members of another company appoint a single person as their representative, each such company is counted separately for quorum at a meeting of that other company. One body in the room can therefore be two heads on the count — the point that decided a printed answer where 14 persons made up a quorum of 15.

Read it with section 112. A person appointed by the **President of India or the Governor of a State** under section 112 is likewise **deemed to be a member** and counted as **personally present**. So in a public company with 30 members, where two members are bodies corporate and one is the President of India, the quorum is **five members personally present**, and the representatives of the bodies corporate and of the President **count towards it and are entitled to vote** at the meeting.

Do not confuse the representative with a proxy. For quorum, only members present in person count and **proxies are excluded**, whether or not they are themselves members; a section 113 representative is **not** a proxy and is counted. That contrast is the whole point of the topic.

Application use the section - apply it to the facts · 1 question

- Fix the quorum figure from section 103 first, then decide person by person who counts, giving the section for each; the conclusion on quorum comes last.

TQ 8.1 · PYQ 2019-May [5] (b) (i) · 3M · Pg 330

LEVEL II
Application

Easy

Topic 9: Resolutions (Sections 114 to 117)

L2P2-2A-C7-T09

Read first Read ICAI Study Material Chapter 7, Resolutions — sections 114 to 117.

NOTES

Ordinary resolution — section 114(1). A resolution is an ordinary resolution if the **notice required under the Act has been duly given** and the votes cast in favour of the resolution — whether on a show of hands, or electronically, or on a poll — including the casting vote of the Chairman, if any, by members who, being entitled so to do, vote in person or, where proxies are allowed, by proxy or by postal ballot, exceed the votes, if any, cast against the resolution by members so entitled and voting. Put simply: **votes for must exceed votes against**.

Special resolution — section 114(2). Three conditions, all of them: (a) the intention to propose the resolution as a special resolution has been duly specified in the notice calling the general meeting

or in other intimation given to the members; **(b) the notice required under this Act has been duly given;** and **(c) the votes cast in favour**, whether on a show of hands, electronically or on a poll, by members entitled and voting in person, by proxy or by postal ballot, are **not less than three times the number of the votes, if any, cast against** by members so entitled and voting.

What you count and what you ignore. Votes cast in favour are compared only with votes cast against. **Abstentions and invalid votes are not to be taken into account**, and neither are members who have **walked out** of the meeting. Get this right before you do any arithmetic — most of the marks in these questions sit in the exclusion, not in the multiplication.

The arithmetic, from the printed answers. (i) 40 members present, **20 for, 5 against**, 5 invalid, 10 abstained: 20 is more than three times 5, so the chairman's declaration is **in order**. (ii) 30 present, **15 for, 6 against**, 5 invalid, 4 abstained: 15 is **not** at least three times 6, so the declaration is **not in order**. (iii) 70 present, 10 walked out, 60 remaining, **15 against, so 45 in favour**: three times 15 is 45, and the requirement is '**not less than three times — equal is enough**', so the declaration is **valid**. That third case is the trap; a candidate who reads the test as 'more than three times' gets it wrong.

Moving several resolutions together. Resolutions are generally moved separately to avoid confusion, but there is nothing illegal if the Chairman desires that two or more resolutions be moved together, **unless any member requires that each resolution be put to vote separately**, or **unless a poll is demanded in respect of any** of them. **The exception:** in the case of appointment of directors, two or more directors may not be appointed by a single resolution. So where an agenda of nine items included the appointment of two persons as directors and the chairman moved all nine together, the resolutions **were not valid**.

Cross-reference. Section 122(3) lets a One Person Company transact by ordinary or special resolution **without holding a meeting** — see the One Person Company topic.

Understanding explain it, and place it in context • 1 question

- This is a distinguish question, so **answer it in a table or in matched pairs** — the same point of comparison on both sides of each row.
- Cover majority, the matters reserved to each, and the filing consequence. A list of features that does not pair up will not read as a distinction.

TQ 9.1 • PYQ 2019-May [5] (Or) (a) • 5M • Pg 331

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts • 5 questions

- Set out a small table of the figures — present, walked out, invalid, abstained, for, against — strike out what does not count, then apply the three-times test and state the conclusion.
- Say the words 'not less than three times' in your answer; 'equal to three times' satisfies the section, and the examiner sets facts precisely on that line.

CSQ 9.4 · PYQ 2026-Jan [6] (a) (i) · 3M · Pg 335	LEVEL II Application	Easy
CSQ 9.5 · PYQ 2026-May [3] (b) (iii) · 2M · Pg 336	LEVEL II Application	Easy
CSQ 9.1 · PYQ 2018-May [4] (b) · 4M · Pg 332	LEVEL II Application	Medium
CSQ 9.2 · MTP 2019-Oct [2] (b) · 4M · Pg 333	LEVEL II Application	Medium
CSQ 9.3 · MTP 2025-Dec S2 [5] (a) · 5M · Pg 334	LEVEL II Application	Medium

Topic 10: Minutes (Sections 118)

L2P2-2A-C7-T10

Read first Read ICAI Study Material Chapter 7, Minutes — section 118, with Rule 25 of the Companies (Management and Administration) Rules, 2014.

NOTES

The obligation — section 118. Every company shall **prepare, sign and keep minutes** of the proceedings of every general meeting, including a meeting called by the requisitionists, of all proceedings of a meeting of any class of shareholders or creditors, of the **Board of Directors or a committee of the Board**, and of **resolutions passed by postal ballot**, within thirty days of the conclusion of every such meeting. **Minutes kept shall be evidence of the proceedings recorded in the meeting.**

Signing — Rule 25. Each page of every such book shall be **initialled or signed**, and the last page of the record of proceedings of each meeting or each report shall be dated and signed — in the case of minutes of a general meeting, by the chairman of the same meeting within the said period of thirty days.

The exception you will be examined on. In the event of the death or inability of that chairman within that period, the minutes are to be dated and signed **by a director duly authorised by the Board for the purpose**. So where the chairman left the country without signing and was unavailable, the minutes could be signed by **any director authorised by the Board** — not by the company secretary, and not by any director acting on his own.

Postal ballot entries — section 118 with Rule 25. For every resolution passed by postal ballot, the minutes book of **general meetings** must carry a brief report on the postal ballot conducted, including the resolution proposed, **the result of the voting thereon, the summary of the scrutinizer's report, and the date of such entry**, and the entry must be made within thirty days from the date of passing of the resolution. Note that the entry goes into the general meetings minutes book even though no meeting was held.

Two separate thirty-day periods. Thirty days from the **conclusion of the meeting** for preparing and signing minutes of a meeting; thirty days from the **date of passing of the resolution** for entering a postal ballot resolution. Quote whichever the facts call for and say which event starts the clock.

Remembering reproduce what you have learnt · 1 question

- The facts remove the chairman, so the answer is the **fallback**, not the ordinary rule. State the ordinary rule in one line, then give the fallback and who may exercise it.
- Give the period within which the minutes must be signed. The question asks how, and the how includes the when.

CSQ 10.1 · PYQ 2021-Jan [5] (b) · 5M · Pg 337

LEVEL I
Remembering

Medium

Application use the section - apply it to the facts · 1 question

- On a signing question, name the person entitled to sign, the thirty-day period, and then the substitute route through a Board-authorized director, in that order.
- On a postal ballot question, list the four items to be entered and the thirty-day limit as separate points; the marks are allotted item by item.

CSQ 10.2 · MTP 2025-Jul S1 [2] (a) · 5M · Pg 338

LEVEL II
Application

Medium

Topic 11: Inspection of Minutes-Books of General Meetings (Section 119)

L2P2-2A-C7-T11

Read first Read ICAI Study Material Chapter 7, Inspection of minutes-books of general meetings — section 119.

NOTES

Inspection — section 119(1)(b). The books containing the minutes of the proceedings of **any general meeting** of a company shall be **open for inspection, during business hours, by any member, without charge**, subject to such reasonable restrictions as the company may impose by its articles or in general meeting. Free inspection is the rule; the restrictions must be reasonable and must come from the articles or a general meeting.

Copies — section 119(2). Any member shall be entitled to be furnished, within seven working days after he has made a request in that behalf to the company, with a copy of any minutes of any general meeting, on payment of such sum as may be specified in the articles of the company, but not exceeding ten rupees for each page or part of any page. So inspection is free, but a copy is paid

for — do not run the two together.

Only a member, and only in person. The right under section 119 belongs to a **member**. A person other than a member cannot inspect the minutes even though duly authorised on the member's behalf — a member who signs a power of authority in favour of his friend **cannot pass on his right of inspection**. That is the point the examiner is testing when the facts introduce a friend or an agent.

Answering the standard two-part question. Part one: yes, inspection during business hours **without charge**, and a copy **within seven working days** on payment of the prescribed sum capped at **ten rupees per page or part of a page**. Part two: no, the friend cannot inspect, however the authority is drawn.

Application use the section - apply it to the facts · 1 question

- Where the facts add a third party, answer the member's own right first and only then rule on the third party; the refusal needs the reasoning that the right is personal to a member.

TQ 11.1 · PYQ 2022-May [5] (b) (i) · 3M · Pg 339

LEVEL II
Application

Easy

Analysis break it down and take the parts separately · 1 question

- Two separate rights are claimed — **inspection** and **copies** — and they are not governed identically. Answer them separately, and deal with the cost of each.
- The second limb is about whether the right may be exercised through an agent. Address the nature of the right before you answer it.

CSQ 11.1 · PYQ 2021-Jul [5] (Or) (b) · 5M · Pg 339

LEVEL II
Analysis

Medium

Topic 12: General Meetings (Section 96 to 100 and 121)

L2P2-2A-C7-T12

Read first Read ICAI Study Material Chapter 7, General meetings — sections 96 to 100 and 121, with Rule 17 of the Companies (Management and Administration) Rules, 2014.

NOTES

The AGM obligation and the timing — section 96. Every company other than a One Person Company shall hold in each year a general meeting as its **annual general meeting**, in addition to any other meetings. The first AGM must be held within nine months from the closing of the first financial year; if it is so held, **no AGM need be held in the year of incorporation**. Subsequent (second onwards) AGMs must be held within six months from the closing of the financial year, and

the **maximum interval between two AGMs is fifteen months**. Worked example from the pack: incorporated 1.4.2017, first financial year 1.4.2017 to 31.3.2018, so the first AGM was due **on or before 31.12.2018**. **Extension:** the Registrar may, for any special reason, extend the time within which any AGM, other than the first AGM, shall be held, by a period not exceeding three months — **the Registrar has no power to extend the time for the first AGM**, for any reason. **Default — section 99:** the company and every officer in default are **punishable with fine which may extend to one lakh rupees**, and in the case of continuing default a **further fine which may extend to five thousand rupees for every day** during which the default continues.

Time and place of the AGM — section 96(2). Every AGM shall be **called during business hours, that is, between 9 a.m. and 6 p.m., on any day that is not a National Holiday**, and shall be held either at the registered office or at some other place within the city, town or village in which the registered office is situate. **Proviso:** the AGM of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by ALL the members in advance.

Explanation: 'National Holiday' means a day declared as a National Holiday by the Central Government — a holiday declared by a State Government is not one, so an AGM on Raksha Bandhan declared a holiday by a State Government is perfectly valid. **Two applications worth memorising:** consent of **38 out of 40** members is **not** the consent of all, so an out-of-state venue failed, whereas consent of **all** members received in advance by e-mail made a Goa AGM for a Kolkata company **valid**; and the section requires the meeting to be **called** during business hours, so a meeting that **commenced at 3.00 p.m. and concluded at 8.00 p.m.** is valid. A listed company gets no benefit from the proviso and must stay within the city of its registered office.

Section 8 companies. The time, date and place of each AGM must be decided beforehand by the Board, having regard to the directions given by the company in general meeting (second proviso to section 96(2), and Notification G.S.R. 466(E) dated 5 June 2015) — so the Board is obliged to **consider** members' directions on the venue, though the pack's alternate answer notes that a mere **suggestion** is not a **direction** and is not binding. Under the same notification a section 8 company may hold a general meeting on **fourteen days' notice** instead of twenty-one, so a **fifteen days' notice is valid**. But a section 8 company with **1,000 or more members must provide e-voting** under section 108 with Rule 20 — a decision to allow only physical voting is not valid.

EGM — section 100 and where it may be held. The Board may, whenever it deems fit, call an extraordinary general meeting. Proviso: an EGM of a company, other than of the wholly owned subsidiary of a company incorporated outside India, shall be held at a place within India. So a company incorporated in India cannot hold its EGM abroad, and a foreign subsidiary in which the Indian parent holds only **80%** is **not a wholly owned subsidiary** and cannot hold its EGM abroad either. The exemption is narrow — read every word of it.

EGM on requisition — section 100(2) to (6). In a company having a share capital, the Board shall call an EGM on the requisition of such number of members who hold, on the date of receipt of the requisition, at least one-tenth of the paid-up share capital carrying the right of voting. The requisition must **set out the matters** for consideration, be **signed by the requisitionists** and be **sent to the registered office**. The Board must, within twenty-one days from receipt of a valid

requisition, proceed to call a meeting on a day not later than forty-five days from receipt. Failing that, the requisitionists may themselves call and hold the meeting within three months from the date of the requisition [section 100(4)], **in the same manner in which a meeting is called and held by the Board** [section 100(5)], and **any reasonable expenses they incur shall be reimbursed by the company** [section 100(6)]. **Count the capital, not the heads:** a single shareholder holding one-tenth of the paid-up capital can requisition on his own (50,000 of 5,00,000 shares); two members holding 1,500 shares each out of 10,000 shares of `10 — `30,000 of `1,00,000 — **satisfy the one-tenth**; and joint holders of 5,000 out of 40,000 shares hold **12.5%** and **validly requisition**, so a refusal on the ground that joint holders cannot requisition is **not valid**.

Three points on the requisitionists' notice. (a) Under **Rule 17(4)**, the notice issued by requisitionists must be signed by all the requisitionists, or by one requisitionist duly authorised in writing by the others, or sent as an **electronic request attaching a scanned copy of the duly signed requisition** — so where shares are jointly held, **the joint holder must also sign**, and a Board may refuse a requisition that he has not signed. (b) Under **Rule 17(5)**, **no explanatory statement under section 102 need be annexed** to the notice of an EGM convened by requisitionists; they **may** disclose the reasons for the resolutions they propose to move — so a Board cannot refuse on the ground that no explanatory statement was given. (c) Under **section 103(2)(b)**, if quorum is not present within half an hour at a meeting **called by requisitionists**, the meeting **stands cancelled, not adjourned** — a Board that adjourns it has acted improperly. (d) Under **Rule 17(6)**, the notice of the meeting shall be given to those members whose names appear in the Register of Members within three days from the date on which the requisitionists deposit a valid requisition with the company — so a person who **became a member after the date of the requisition** has no complaint that the notice did not reach him.

Report on the AGM — section 121. Every listed public company shall prepare a report on each annual general meeting, including a confirmation that the meeting was convened, held and conducted as per the provisions of the Act and the rules. A copy is to be filed with the Registrar **in Form MGT-15 within thirty days of the conclusion of the AGM** with the prescribed fee. On failure to file within that period, **the company and the defaulting officers are liable to the prescribed penalties**. The obligation attaches to **listed public companies only**.

Understanding explain it, and place it in context · 2 questions

- When asked about the Registrar's power to extend, state the power and then the exclusion of the first AGM in the same breath; the exclusion is the answer.

TQ 12.3 · RTP 2019-Nov [4] · Pg 342

LEVEL I
Understanding

Medium

TQ 12.5 · MTP 2024-Mar [6] (Or) (a) · 5M · Pg 344

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 10 questions

- For a venue question, identify listed or unlisted first, then apply section 96(2) and its proviso; 'all the members' means all, and short of that the proviso does not apply.
- For a requisition question, convert the requisitionists' holding into a percentage of paid-up voting capital and compare with one-tenth before saying anything else.
- Where the Board refuses to call an EGM, take each ground of refusal separately and rule on each with its Rule — the marks are split across the grounds.

CSQ 12.1 · RTP 2019-Nov [7] · Pg 345	LEVEL II Application	Medium
CSQ 12.2 · MTP 2021-Mar [5] (b) · 5M · Pg 346	LEVEL II Application	Medium
CSQ 12.3 · RTP 2021-May [6] · Pg 346	LEVEL II Application	Medium
CSQ 12.5 · PYQ 2022-May [4] (b) · 4M · Pg 348	LEVEL II Application	Medium
CSQ 12.6 · PYQ 2022-Nov [2] (a) · 4M · Pg 349	LEVEL II Application	Medium
CSQ 12.7 · PYQ 2023-Nov [3] (d) · 4M · Pg 350	LEVEL II Application	Medium
CSQ 12.8 · MTP 2024-Jul [3] (b) · 5M · Pg 351	LEVEL II Application	Medium
CSQ 12.11 · RTP 2025-Jan [15] · Pg 355	LEVEL II Application	Medium
CSQ 12.13 · MTP 2025-Jul S1 [3] (b) · 5M · Pg 357	LEVEL II Application	Medium
TQ 12.1 · MTP 2019-Mar [4] (b) (i) · 3M · Pg 341	LEVEL II Application	Hard

Analysis break it down and take the parts separately · 6 questions

- Where an Indian parent and a foreign subsidiary are both proposing EGMs abroad, test each company separately against the proviso to section 100 and say why the 80% subsidiary fails the 'wholly owned' test.

CSQ 12.4 · PYQ 2021-Jul [2] (a) · 4M · Pg 347	LEVEL II Analysis	Medium
CSQ 12.9 · PYQ 2024-Sep [6] (a) · 5M · Pg 352	LEVEL II Analysis	Medium
CSQ 12.10 · PYQ 2024-Sep [6] (Or) (a) · 5M · Pg 353	LEVEL II Analysis	Medium
CSQ 12.12 · PYQ 2025-Jan [6] (a) · 5M · Pg 355	LEVEL II Analysis	Medium

TQ 12.2 · RTP 2019-May [8] · Pg 341

LEVEL II
Analysis

Hard

TQ 12.4 · PYQ 2021-Dec [2] (b) · 6M · Pg 343

LEVEL II
Analysis

Hard

Topic 13: Applicability of This Chapter to One Person Company (Section 122)

L2P2-2A-C7-T13

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 7, Applicability of this Chapter to a One Person Company — section 122, read with sections 96(1), 92 and 118.

NOTES

No AGM for a One Person Company. Section 96(1) requires every company other than a One Person Company to hold an annual general meeting in each year. An OPC is therefore **outside the AGM requirement altogether** — the answer to 'must this OPC hold an AGM' is no, followed by what it must do instead.

What replaces the general meeting — section 122(3). In the case of a One Person Company, any business which is required to be transacted at an annual general meeting or other general meeting by means of an ordinary or special resolution shall be deemed to have been duly transacted if the resolution is **communicated by the member to the company and entered in the minutes-book required to be maintained under section 118, and signed and dated by the member.** Such date shall be deemed to be the date of the meeting for all purposes under this Act.

What replaces the Board meeting — section 122(4). Where there is only one director on the Board of a One Person Company, any business required to be transacted at a Board meeting **shall be deemed to have been duly transacted** if the resolution by such director is entered in the minutes-book maintained under section 118 and **signed and dated by such director**; that date shall be deemed to be the date of the Board meeting for all purposes under this Act.

The mechanism is the minutes-book. Both sub-sections work the same way: communicate or record the resolution, enter it in the section 118 minutes-book, sign and date it, and the date of signature becomes the deemed date of the meeting. If you leave out the entry in the minutes-book, you have not stated the section.

Annual filing still applies. An OPC is relieved of the meeting, not of the return. It files its annual return in the **abridged Form MGT-7A** (from the financial year 2020-21 onwards), and that return is to be signed by the company secretary, or where there is no company secretary, by the director of the company.

PART 2A • CORPORATE LAWS • CHAPTER 8

Declaration and Payment of Dividend

7 Topics • 33 Classified Questions • Importance: C

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **scenario-driven**

Level I — Comprehension & Knowledge

6.2%

9 of 145 marks

Level II — Analysis & Application

93.8%

136 of 145 marks

This chapter is examined more through application than the paper as a whole — only 6% of its marks are Comprehension and Knowledge against 28% across Paper 2. Knowing the section is not enough here; the marks are in taking it to the facts.

Topic 1: Meaning of Dividend

L2P2-2A-C8-T01

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 8, Meaning of Dividend — sections 2(35) and 2(43) read with section 123.

NOTES

Section 2(35) defines dividend as any distribution of profits by a company to its shareholders, whether in cash or in kind, out of free reserves available for the purpose. Two limbs carry the marks: it is a **distribution of profits**, and it may be **in cash or in kind**. Quote the definition before you do anything else with it.

There is no absolute right to a dividend. A shareholder has no inherent or guaranteed right to receive one. The decision to declare lies with the **Board of Directors**, subject to shareholder approval and the provisions of the Act. If the Board believes distribution is not in the best interest of the company — it wants to reinvest for expansion, say — it may decline to declare **even where the company is in profit**. Shareholders may approve the dividend the Board recommends at the AGM, but **they cannot demand a higher dividend** and cannot compel a declaration. Dividend is a **discretionary benefit, not an absolute right**; that sentence is the conclusion whenever a shareholder in the facts claims dividend as of right.

The permitted sources are closed. A company can declare dividend only out of (a) **current year's profits after providing for depreciation**; (b) **previous years' profits transferred to reserves**; or (c) **money provided by the Government** where the dividend is guaranteed by it. Before declaring, the company must set aside a percentage of profits in reserves where that is required.

Free reserves — section 2(43): reserves which, **as per the latest audited balance sheet**, are **available for distribution as dividend**. The proviso takes two things out: any amount representing

unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise; and any change in the carrying amount of an asset or of a liability recognised in equity, including surplus in the profit and loss account on measurement of the asset or liability at fair value. A revaluation surplus on a property that has gone up in value is the standard trap — it is **not** a free reserve and cannot fund a dividend.

Declaration turns profit into an obligation. Once declared, the money is no longer the company's to deploy: dividend that remains unpaid for **30 days** must be moved to a separate **Unpaid Dividend Account**. That is why the sections that follow — 124 on the Unpaid Dividend Account, 125 on the IEPF, 127 on punishment — are all drafted as duties with hard time limits.

Topic 2: Types of Dividends

L2P2-2A-C8-T02

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 8, Types of Dividends — interim and final dividend under sections 123(2) and 123(3), read with Clauses 80 and 81 of Table F, Schedule I.

NOTES

The division is by who declares it and when. A **final dividend** is declared by **the company in general meeting** on the recommendation of the Board. An **interim dividend** is declared by **the Board itself** under **section 123(3)**, during any financial year, or at any time from the closure of the financial year till the holding of the annual general meeting.

Final dividend — the Board's figure is a ceiling. The company in general meeting may declare dividends, but **no dividend shall exceed the amount recommended by the Board** [Clause 80 of Table F, Schedule I]. Members may accept or reduce; **they cannot increase** it. The classic wrong answer is that the general meeting can raise the rate because the members own the company — it cannot, and the company secretary who says so is right.

Interim dividend — the Board's own power. Subject to section 123, the Board may from time to time pay to the members such interim dividends as appear to it to be justified by the profits of the company [Clause 81 of Table F]. Section 123(3) fixes the pool: **surplus in the profit and loss account**, or profits of the financial year for which the interim dividend is sought to be declared, or profits generated in the financial year till the quarter preceding the date of declaration.

Dividend includes interim dividend — so every rule about dividend applies to it. Section 123(2) therefore requires depreciation **for the whole of the year and not proportionately for any fraction of the year** before an interim dividend is declared. Provision for depreciation is a **condition precedent** to declaration or payment of any dividend. A company that provided full-year depreciation and declared correctly on first-half profits has not contravened the Act merely

because later quarters turned the year into an overall loss.

Preference and equity behave differently. On preference shares dividend is always paid at a fixed rate. On equity it is whatever is lawfully declared, and where the shares of a class are **not equally paid up**, the Board may — **only if the articles so authorise**, under **section 51** — pay dividend **in proportion to the amount paid up on each share**. If the articles are silent, dividend must be paid **equally on all shares of the same class**.

An interim dividend already paid sets no floor for the final dividend. Members who argue that because 10% was paid as interim the final must be at least 20%, or that past rates of 15%, 20% and 25% oblige the Board to match them, are wrong on both counts. The final dividend is what the Board recommends, and it cannot be enhanced by the meeting.

Cumulative preference shares — the dividend does not lapse. A cumulative preference share is one in respect of which **dividend gets accumulated**, and any arrears of such dividend arising due to insufficiency of profits during the current year is payable from the profits earned in the later years. Until and unless dividend on cumulative preference shares is paid in full, including arrears, no dividend is payable on equity shares. So where a company earns no profit in a year, it does not escape the preference dividend: it **carries the dividend for that year forward as arrears**, payable out of the profits of the following financial year or years. Do not answer that the preference shareholders simply lose the year.

Topic 3: Provisions Regarding Declaration and Payment of Dividend

L2P2-2A-C8-T03

Read first Read ICAI Study Material Chapter 8, Provisions regarding Declaration and Payment of Dividend — section 123 read with Rule 3 of the Companies (Declaration and Payment of Dividend) Rules, 2014, and sections 8(1), 51 and 2(43).

NOTES

The sources rule — section 123(1)(a). No dividend shall be declared or paid by a company for any financial year except (a) out of the profits of the company for that year arrived at after providing for depreciation in accordance with Schedule II, or (b) out of the profits of the company for any previous financial year or years arrived at after providing for depreciation and remaining undistributed, or **(c) out of both**. It is further provided that no dividend shall be declared or paid by a company from its reserves other than free reserves. Read the facts for adequacy first: where current year profits after depreciation comfortably cover the proposed payout, **the proviso about declaring out of reserves is not attracted at all**, and the company may pay out of current profits, out of accumulated retained earnings and free reserves, or out of both. Running Rule 3 on a company that had adequate profits is a wasted answer.

Transfer to reserves is discretionary; set-off of past losses is not. A company may, before the

declaration of any dividend, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves. The amount is left entirely to the Board — there is **no prescribed minimum, and the company may transfer nothing at all** and still declare. Against that, the **third proviso to section 123(1)** is mandatory: no dividend shall be declared unless carried-over previous losses and depreciation are set off against the profits of the current year.

Inadequate or absent profits — second proviso to section 123(1) with Rule 3. Where in any year there is absence of profits or no adequate profits, the company may declare dividend out of **the accumulated profits of previous years transferred by it to the free reserves**, but only on four conditions. **Condition 1:** the rate of dividend declared shall not exceed the average of the rates at which dividend was declared in the three years immediately preceding that year — but this does not apply to a company which has not declared any dividend in each of the three preceding financial years. **Condition 2:** the total amount drawn from such accumulated profits shall not exceed 10% of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement. **Condition 3:** the amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared, and only then may equity dividend be declared. **Condition 4:** the balance of reserves after such withdrawal shall not fall below 15% of its paid-up share capital as appearing in the latest audited financial statement.

Work the Rule 3 sum in that order and show every step. First identify the amount to be drawn from accumulated profits — proposed dividend less current year profits. Then Condition 1, saying expressly if it is disappplied because no dividend was declared in each of the three preceding years. Then the **10% of (paid-up capital + free reserves)** cap — general reserve counts as a free reserve. Then deduct the current year's loss from the amount drawn. Then test the **15% of paid-up capital** floor on what is left in reserves. The permitted dividend is the **lowest figure the conditions allow:** capital 100 lakh, general reserve 150 lakh, loss 20 lakh gives 10% of 250 = 25 lakh, less 20 lakh loss = **5 lakh**, with reserves left at 145 lakh against a 15 lakh floor. Where the company **has made a profit in the year of declaration**, Condition 3 is simply **met — there is no loss to set off:** on a dividend of 50 lakh against current profits of 16 lakh, the amount drawn is **34 lakh**, 10% of (680 + 170) = **85 lakh** is not breached, reserves fall from 170 to **136 lakh** against a floor of 15% of 680 = **102 lakh**, and all four conditions being met the dividend is **valid**.

Interim dividend where the company is in loss — section 123(3) proviso. Where the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration, the 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. So a loss does **not** bar an interim dividend; it caps the rate. Take the **immediately preceding three years only**, however many years of rates the question prints: rates of 20%, 15%, 15%, 15% and 30% for 2019 to 2023 give an average of $(15 + 15 + 30)/3 = 20\%$, so a 30% interim dividend is invalid. Rates of 12%, 15% and 18% average 15%, so a 15% interim dividend is exactly at the permissible limit and valid; rates of 7%, 11% and 12% average 10%, so a 12% interim dividend is not tenable and the maximum is 10%.

Who gets paid, and who fixes the rate. Section 123(5) — dividend is payable only to the

registered shareholder of the share, or to his order, or to his banker. Entitlement is tested at the **date of declaration**, not the last day of the financial year: a transferee registered on 18 June takes the dividend declared at the AGM on 24 October, and the transferor who held on 31 March takes nothing. On rate, the general meeting cannot exceed the Board's recommendation [Clause 80, Table F].

The bars and the pro rata rule. Section 123(6) — a company which fails to comply with **section 73** (prohibition of acceptance of deposits from the public) or **section 74** (repayment of deposits accepted before the commencement of the Act) shall not, so long as such failure continues, declare any dividend on its equity shares; a company in default on public deposits therefore cannot declare 20% or any other rate. **Section 8(1)** — a company licensed under section 8 is **prohibited from paying any dividend to its members**, its profits being applicable only in promoting its objects. **Section 51** — where shares are not equally paid up, the company may, **if so authorised by its articles**, pay dividend **in proportion to the amount paid up on each share**: 1,000 shares of ₹10 fully paid earn ₹1,000 at 10%, while 1,000 shares with ₹5 paid earn ₹500.

Remembering reproduce what you have learnt · 1 question

- The facts give a loss year and a set of reserve balances. **State the rule for declaring dividend out of reserves first**, then apply its conditions to the figures one at a time.
- Say expressly which reserves count and which do not. The debenture redemption reserve in these facts is there to be excluded.

CSQ 3.7 · PYQ 2020-Nov [4] (b) · 4M · Pg 369

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 1 question

- Set out section 123(1)(a) in its three clauses and then the free reserves bar; examiners award separately for each limb.
- When asked only to define 'free reserves', give section 2(43) and both exclusions in its proviso — unrealised or notional gains and revaluation, and fair value changes recognised in equity.

CSQ 3.13 · MTP 2024-Nov [2] (b) · 5M · Pg 378

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 14 questions

- Decide first whether profits were adequate. If they were, say the Rule 3 proviso is not attracted and stop; if they were not, take Rule 3's four conditions in order and label them Condition 1 to Condition 4.
- Show the arithmetic as a working, not as a sentence: paid-up capital plus free reserves, 10% of it, less the current year's loss, then the 15% floor check. Then state the permitted amount and the rate it represents.

- For interim dividend, average only the three immediately preceding years, write out the division, and compare it with the rate the Board proposed before you conclude.

CSQ 3.2 · PYQ 2018-May [2] (a) (ii) · 2M · Pg 363	LEVEL II Application	Easy
CSQ 3.3 · PYQ 2018-Nov [1] (c) (i) {C} · 3M · Pg 364	LEVEL II Application	Easy
CSQ 3.1 · PYQ 2018-May [2] (a) (i) · 4M · Pg 362	LEVEL II Application	Medium
CSQ 3.5 · PYQ 2019-Nov [3] (b) · 5M · Pg 366	LEVEL II Application	Medium
CSQ 3.6 · PYQ 2020-Nov [3] (c) · 4M · Pg 367	LEVEL II Application	Medium
CSQ 3.8 · RTP 2022-May [8] · Pg 370	LEVEL II Application	Medium
CSQ 3.11 · PYQ 2024-May [4] (a) · 5M · Pg 375	LEVEL II Application	Medium
CSQ 3.12 · PYQ 2024-Sep [4] (a) · 5M · Pg 377	LEVEL II Application	Medium
CSQ 3.14 · MTP 2025-Mar S2 [1] (b) · 5M · Pg 378	LEVEL II Application	Medium
CSQ 3.15 · MTP 2025-Jul S1 [1] (b) · 5M · Pg 380	LEVEL II Application	Medium
CSQ 3.16 · MTP 2025-Mar S2 [5] (a) · 5M · Pg 381	LEVEL II Application	Medium
CSQ 3.17 · PYQ 2026-Jan [1] (a) {C} · 5M · Pg 383	LEVEL II Application	Medium
CSQ 3.9 · PYQ 2022-Nov [2] (b) · 6M · Pg 371	LEVEL II Application	Hard
CSQ 3.10 · PYQ 2023-May [1] (b) {C} · 6M · Pg 373	LEVEL II Application	Hard

Analysis break it down and take the parts separately · 1 question

- Where the question has several parts on one set of facts — interim rate, final rate, section 8 status, penal consequences — answer them as separate numbered heads, each with its own provision and conclusion.
- Where two shareholders or two dates compete for the same dividend, fix the date of declaration first and then ask who was on the register on that date.

CSQ 3.4 · PYQ 2019-May [3] (b) · 5M · Pg 365	LEVEL II Analysis	Medium
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Topic 4: Unpaid Dividend Account (UDA)

L2P2-2A-C8-T04

Read first Read ICAI Study Material Chapter 8, Unpaid Dividend Account — section 124, read with section 125 and the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016.

NOTES

The rule in one line — section 124(1). Where a dividend has been declared but has not been paid or claimed within thirty days from the date of the declaration to any shareholder entitled to it, the company shall, **within seven days from the date of expiry of the said period of thirty days**, transfer the total unpaid or unclaimed amount to a special account opened in **any scheduled bank** called the **Unpaid Dividend Account**. Thirty days to pay, seven more to transfer.

Count the days the way section 9 of the General Clauses Act, 1897 counts them: the word 'from' **excludes the first day** in the series and 'to' **includes the last**. A dividend declared at an AGM on 27 September 2018 must therefore be paid **between 28 September 2018 and 27 October 2018, both days inclusive**, and anything unpaid goes to the Unpaid Dividend Account in the seven days after that, that is **between 28 October 2018 and 3 November 2018, both days inclusive**. Show the exclusion of the AGM date expressly and give both windows as ranges — each is a marked step.

Late transfer costs interest. Where the company transfers to the Unpaid Dividend Account after the seven-day window — a declaration on 30 September 2017 required transfer by 6 November 2017 and the company transferred on 10 November — the company is **liable to pay interest at 12% per annum for the delayed period**. If that interest is paid, the requirement can be treated as complied with.

The statement on the website is a separate duty, and it is where companies are caught. Within **ninety days of making any transfer** to the Unpaid Dividend Account, the company shall prepare a statement containing the names, their last known addresses and the unpaid dividend to be paid to each person, and place it on the website of the company, if any, and also on any other website approved by the Central Government. A company that transfers the money but never publishes the statement is **in default under section 124** even though it holds the money safely — that, not the refusal to pay, is the ground on which the shareholders' allegation succeeds.

Seven years, and then it leaves the company. Any amount in the Unpaid Dividend Account remaining unpaid or unclaimed for **seven years from the date of transfer** must be transferred, **together with the accrued interest**, to the **Investor Education and Protection Fund** established under **section 125**, with the prescribed details filed with the IEPF Authority. Under **section 124(6)**, all shares in respect of which dividend has remained unpaid or unclaimed for seven consecutive years or more must also be transferred to the IEPF along with a statement. **The exception:** if the holder has **claimed or received the dividend even for one year** during those seven consecutive years, the **shares cannot be transferred**. Test the years one by one before you conclude that the

shares had to go.

The remedy is against the Fund, not the company. A person claiming to be entitled to money transferred to the Unpaid Dividend Account may **apply to the company** for payment. Once the money and shares have gone to the IEPF, the claimant must apply to the **IEPF Authority** under section 125(3) read with Rule 7 of the IEPF Authority (Accounting, Audit, Transfer and Refund) Rules, 2016, online in **Form IEPF-5** with the prescribed documents, to reclaim **both the dividend and the shares**. So the company that refuses to pay a ten-year-old dividend directly is **right** to refuse; the answer that orders the company to pay loses the marks.

Penalty for contravention of section 124: the company is liable to a penalty of **one lakh rupees** and, in case of continuing failure, a further penalty of **five hundred rupees for each day** after the first during which the failure continues, **subject to a maximum of ten lakh rupees**; every officer of the company who is in default is liable to a penalty of **twenty-five thousand rupees** and, for continuing failure, **one hundred rupees per day** after the first, **subject to a maximum of two lakh rupees**.

Application use the section - apply it to the facts · 3 questions

- Where the question gives a date of declaration, compute both windows on the page using section 9 of the General Clauses Act, and state the two closing dates.
- Where the shareholder has waited seven years or more, conclude that the company was bound to transfer, that its refusal is justified, and then set out the Form IEPF-5 route — the remedy carries its own marks.

CSQ 4.2 · RTP 2019-May [6] · Pg 386

LEVEL II
Application

Medium

CSQ 4.3 · PYQ 2021-Jan [3] (b) · 5M · Pg 387

LEVEL II
Application

Medium

CSQ 4.4 · PYQ 2025-Jan [6] (b) · 5M · Pg 388

LEVEL II
Application

Medium

Analysis break it down and take the parts separately · 1 question

- This asks for **dates**, and the dates come from two statutes together — the Companies Act for the periods and the General Clauses Act for how the period is counted.
- Show the counting: state the trigger date, say whether the first day is excluded, and give the closing date. An answer that gives only the number of days does not answer the question.

CSQ 4.1 · PYQ 2018-Nov [1] (e) {C} · 4M · Pg 385

LEVEL II
Analysis

Medium

Topic 5: Investor Education and Protection Fund (IEPF)

L2P2-2A-C8-T05

Read first Read ICAI Study Material Chapter 8, Investor Education and Protection Fund — section 125 read with sections 124(5) and 124(6).

NOTES

What it is. The **Investor Education and Protection Fund** is a fund established by the Central Government under section 125 of the Companies Act, 2013. Its purpose is to collect and utilise **unclaimed or unpaid amounts related to investments** — dividends, matured deposits and debentures — and to **promote investor awareness and protection**. It is maintained and administered by the Central Government.

Amounts credited to the Fund include: **unpaid dividends that remain unclaimed for seven years**; matured deposits and debentures unclaimed for seven years; **proceeds from fractional shares** arising on mergers or bonus issues; application money received for securities that were never allotted and remained unclaimed; **interest accrued on unclaimed deposits and debentures**; and **donations, grants and income from investments of the Fund**. Learn the list — 'what amounts are credited' is asked as a straight recall part.

How the money gets there. Under **section 124(5)**, any amount lying in the Unpaid Dividend Account unclaimed for **seven years from the date of transfer** goes to the IEPF **with the interest accrued**. Under **section 124(6)**, the **shares** on which dividend has remained unpaid or unclaimed for **seven consecutive years or more** go with it, along with a statement in the prescribed form.

How the Fund is utilised. It safeguards investor interests by holding unclaimed dividends, matured deposits and debentures; it **allows investors to reclaim their money after proper verification**; it funds investor education, awareness programmes and legal reimbursements for class action suits; and it **prevents companies from misusing unclaimed funds** by keeping them accessible to the rightful owners.

Reclaiming — the procedure the examiner wants step by step. The claimant visits the **IEPF portal** and downloads **Form IEPF-5**; fills in the required details and submits it; the **company verifies the claim and forwards it to the IEPF Authority**; on successful verification the **Authority processes the refund** and the claimant receives the unclaimed dividend, and where shares were transferred, the shares back. The statutory hook is section 125(3) read with Rule 7 of the IEPF Authority (Accounting, Audit, Transfer and Refund) Rules, 2016.

The recurring conclusion. A shareholder who complains that the company had no authority to transfer his shares is wrong once the seven consecutive years are made out — the transfer is **legally mandatory, not discretionary**. Say that the company's action is valid, then give him the IEPF-5 remedy. Money is never forfeited; it only changes hands.

Application use the section - apply it to the facts · 1 question

- Answer in the three parts the question is usually split into: what the Fund is and what is credited, how it is used, and what the shareholder must now do.
- State plainly that the company was bound to transfer and is not at fault, then give the Form IEPF-5 procedure as the remedy.

CSQ 5.2 · PYQ 2026-May [5] (a) · 5M · Pg 391

LEVEL II
Application

Medium

Analysis break it down and take the parts separately · 1 question

- Three numbered asks — **define and list what is credited, how the fund is used, and what the shareholder must do to reclaim.** Answer all three under separate headings.
- The reclaim limb is procedural. Name the form and the authority; a general statement that the shareholder may apply is not enough.

CSQ 5.1 · MTP 2025-Mar S2 [6] (b) · 5M · Pg 390

LEVEL II
Analysis

Medium

Topic 6: Right of dividend, rights shares and bonus shares to be held in abeyance pending registration of transfer of shares

L2P2-2A-C8-T06

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 8, the right of dividend, rights shares and bonus shares to be held in abeyance pending registration of transfer of shares — read alongside section 123(5).

NOTES

Start from who the company is bound to pay. Under **section 123(5)**, dividend is payable only to the registered shareholder of the share, or to his order, or to his banker. Entitlement follows the **register of members**, and the date that settles it is the **date of declaration** — not the last day of the financial year and not the date of the transfer deed.

Applied to a transfer that has gone through. Where the holder on 31 March transfers his shares and the transferee's name is **registered on 18 June**, and the dividend is declared at the annual general meeting on **24 October**, the **transferee** takes the dividend, because he had become the registered shareholder **before the declaration**. Fix the date of registration, fix the date of declaration, and let the comparison decide.

Where the transfer is lodged but not yet registered the entitlement to dividend, and to any rights shares or bonus shares arising in the meantime, is **held in abeyance** until the transfer is registered

— which is the whole subject of this topic. **The Scanner prints no question and no answer on this limb**, so take the detail, including the section number and the requirement to keep the amount in a separate account, from the Study Material text itself. Do not reconstruct it from memory in the exam, and do not attribute it to section 123(5), which deals only with the registered holder.

Topic 7: Punishment for Failure to Distribute Dividends within 30 Days

L2P2-2A-C8-T07

Read first Read ICAI Study Material Chapter 8, Punishment for failure to distribute dividends within thirty days — section 127 with its proviso, read with section 124.

NOTES

The rule in one line — section 127. Where a dividend has been declared by a company but has not been paid, or the warrant in respect thereof has not been posted, within thirty days from the date of declaration to any shareholder entitled to the payment, then every director of the company shall, if he is knowingly a party to the default, be punishable with imprisonment which may extend to two years and with fine which shall not be less than one thousand rupees for every day during which such default continues; and the company shall be liable to pay simple interest at the rate of eighteen percent per annum during the period for which such default continues. Two limbs, two different tests: the director's liability needs **knowledge**, the company's interest liability does not.

Eighteen percent, not whatever the shareholder claims. A shareholder who sues for interest at 20% per annum **will not succeed** — the rate fixed by section 127 is **18% p.a.** and that is the whole of his entitlement on this head. Compute it day-wise over the default period: a dividend of ₹800 declared on 25 August and paid on 23 October, where it was due by 24 September, gives interest of $₹800 \times 18\% \times 29/365$, that is about ₹11.

Posting is the act, not receipt. Where the dividend is paid by warrant, the warrant must be **posted to the registered address within the thirty days**. Once it has been posted in time, **it is immaterial whether the shareholder receives it within thirty days or not**. A warrant posted on 22 January on a dividend declared on 31 December is in time, and the shareholder who received it on 5 February because of postal delay has **no action**. This one recurs almost every attempt.

The proviso — where no offence is deemed to have been committed. Three limbs come up in the printed answers. First, where the dividend **could not be paid by reason of operation of law** — a court order restraining payment pending a succession dispute is the standard example, and neither the company nor its directors are liable. Second, where the shareholder had given directions to the company regarding the payment of the dividend and those directions could not be complied with and the same was communicated to him — note the sting: where the bank returned the remittance because of a surname mismatch and the company **did not inform** the shareholder, the protection is lost and **the penal provisions of section 127 apply**. Third, clause (d), where the dividend has been lawfully adjusted by the company against any sum due to it from the

shareholder.

Working the adjustment clause. Where calls are in arrears or any other sum is due from a member, the dividend may be lawfully set off against it. 5,000 shares of ₹100 with a final call of ₹10 unpaid means ₹50,000 due; a 10% dividend on those shares is also ₹50,000; the whole dividend is adjusted and the shareholder **receives nothing**, with no offence committed. Where the dividend is ₹1.20 lakh and the call money due is ₹1 lakh, adjust ₹1 lakh and pay the balance of ₹20,000 in cash, by cheque or in any electronic mode. Always finish with the net figure — that is what is marked.

Nidhi companies get a relaxation. In terms of **Notification No. GSR 465(E) dated 05-06-2015**, section 127 applies to Nidhis with this modification: where the **dividend payable to a member is ₹100 or less**, it is **sufficient compliance** if the declaration of dividend is announced in the local language in one local newspaper of wide circulation and the announcement is also **displayed on the notice board of the Nidhi for at least three months**. Count the three months out: a declaration on 04.09.2022 means the notice board display must run **till 04.12.2022**. If those compliances were made, **no punishment can be imposed**; if not, the Nidhi is liable. Spot the word 'Nidhi' in the name of the company in the facts; the examiner puts it there deliberately. The same case-scenario carries a limb on **cumulative preference shares** — that dividend **accumulates as arrears and is payable out of later years' profits**, and until it is paid in full **no dividend is payable on equity shares**.

Section 124 runs alongside section 127 — answer both. Where directors divert the declared dividend into short-term investments and the members are paid only after **45 days**, two things follow. The company must transfer the unpaid amount to the Unpaid Dividend Account within seven days of the expiry of the thirty days under section 124. And the Board has **violated section 127**, so every director knowingly a party is liable to imprisonment up to two years and a minimum fine of ₹1,000 per day of default, and the company owes simple interest at 18% p.a. An answer that gives only one of the two sections gives away half the marks.

Application use the section - apply it to the facts · 8 questions

- Fix the date of declaration, add thirty days, and identify the exact date the default began before you say anything about consequences.
- Where a sum is due from the member, do the set-off arithmetic and state what he actually receives; where an exception in the proviso applies, name the limb and conclude that no offence is deemed to have been committed.
- Where the facts give more than one company or shareholder, take them one at a time — one may be inside an exception while the other is not.

CSQ 7.1 · PYQ 2018-Nov [1] (c) (ii) {C} · 3M · Pg 393

LEVEL II
Application

Easy

CSQ 7.4 · PYQ 2021-Jul [1] (b) (ii) {C} · 3M · Pg 396

LEVEL II
Application

Easy

CSQ 7.5 · MTP 2021-Oct [1] (b) {C} · 3M · Pg 397	LEVEL II Application	Easy
CSQ 7.6 · PYQ 2021-Dec [1] (b) (iii) {C} · 2M · Pg 397	LEVEL II Application	Easy
CSQ 7.7 · PYQ 2022-May [2] (a) (ii) · 2M · Pg 399	LEVEL II Application	Easy
CSQ 7.3 · MTP 2019-Oct [3] (b) · 5M · Pg 395	LEVEL II Application	Medium
CSQ 7.9 · MTP 2024-Nov [4] (a) · 5M · Pg 402	LEVEL II Application	Medium
CSQ 7.10 · MTP 2026-Apr S2 [1] (b) · 5M · Pg 402	LEVEL II Application	Medium

Analysis break it down and take the parts separately · 2 questions

- These scenarios give several shareholders whose positions differ. **Take each one separately** and ask whether the failure to pay falls inside the proviso, because the answer changes from person to person.
- Where a payment was returned by the bank and the company said nothing, deal with the company's own omission — that is what takes the case out of the proviso.
- Where the shares are cumulative preference shares and there were no profits, say what happens to the dividend rather than whether it was paid late.

CSQ 7.8 · RTP 2023-Nov [13] · Pg 399	LEVEL II Analysis	Medium
CSQ 7.2 · MTP 2019-Oct [1] (b) {C} · 6M · Pg 394	LEVEL II Analysis	Hard

PART 2A · CORPORATE LAWS · CHAPTER 9

Accounts of Companies

11 Topics · 63 Classified Questions · Importance: A

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **scenario-driven**

Level I — Comprehension & Knowledge **19.4%** 52 of 268 marks

Level II — Analysis & Application **80.6%** 216 of 268 marks

This chapter is examined more through application than the paper as a whole — only 19% of its marks are Comprehension and Knowledge against 28% across Paper 2. Knowing the section is not enough here; the marks are in taking it to the facts.

Topic 1: Books of Accounts etc, to be Kept by Company (Section 128)

L2P2-2A-C9-T01

Read first Read ICAI Study Material Chapter 9, Books of Account etc. to be kept by company — section 128 with sections 2(13) and 2(40), and Rules 2A, 3 and 4 of the Companies (Accounts) Rules, 2014.

NOTES

Section 128(1) — the core obligation. Every company shall prepare books of account and other relevant books and papers and financial statement for every financial year, which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, and explain the transactions effected both at the registered office and at the branches; and such books shall be kept on accrual basis and according to the double entry system of accounting. **No exception is given to any class of company**, so a company maintaining its books on the **single entry system is not permitted** to do so — the answer is the same whether it is a trading company, a private company or one in its first year.

Where the books are kept, and the seven-day filing. The books are to be kept at the **registered office**. The proviso allows all or any of them to be kept **at such other place in India as the Board of Directors may decide**; but where such a decision is taken, the company shall within seven days thereof file with the Registrar a notice in writing giving the full address of that other place — under **Rule 2A of the Companies (Accounts) Rules, 2014, in Form AOC-5**. The classic wrong answer stops at the Board's decision. The decision alone is not compliance; **the filing is**, and a company that decided but did not file in time is in default.

Books in electronic mode — Rule 3. Books kept in electronic mode shall remain accessible in India at all times so as to be usable for subsequent reference, so a company cannot keep its books of account in electronic mode accessible only outside India. The **proviso to Rule 3(1)** adds the audit trail requirement: **for the financial year commencing on or after 1 April 2023**, every company which uses accounting software for maintaining its books shall use only such software as has a

feature of recording an audit trail of each and every transaction, creating an edit log of each change made with the date of the change, and ensuring that the audit trail cannot be disabled. Software that permits entries to be altered without an edit log, or that lets the trail be switched off for some modules, does not comply.

Storage and back-up. Rule 3(5) requires a proper system for **storage, retrieval, display or printout** of the electronic records as the **Audit Committee, if any, or the Board** may deem appropriate, and such records **shall not be disposed of or rendered unusable unless permitted by law**. Its proviso requires that the back-up of the books of account and other books and papers maintained in electronic mode, including at a place outside India, shall be kept in servers physically located in India on a daily basis. Note both words — **daily**, and **in India**.

Branch offices — deemed compliance. Where a company has a branch office **in or outside India**, it is deemed to have complied with section 128(1) if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarised returns are sent periodically by the branch to the company at its registered office or other place. Under **Rule 4(1)**, the summarised returns of books kept and maintained **outside India** shall be sent to the registered office **at quarterly intervals**, and shall be kept at the registered office **open to the directors for inspection**. So an overseas branch sending quarterly returns is compliant and an objection that it should send them monthly is **invalid**.

Inspection by directors — section 128(3), and the power of attorney trap. The books and other books and papers maintained within India shall be open for inspection at the registered office or such other place in India by any director during business hours; and where financial information is maintained outside the country, copies **shall be maintained and produced for inspection by any director** subject to the conditions in Rule 4. But the financial information shall be sought for by the director himself and not by or through his power of attorney holder or agent or representative. So a director living in another city cannot authorise a friend, even a practising chartered accountant, to inspect on her behalf — she has the right, and it is personal to her.

Who is answerable, and for how long. Under **section 128(6)** the persons responsible to take all reasonable steps to secure compliance are the **Managing Director**, the **Whole-Time Director in charge of finance**, the **Chief Financial Officer**, and any other person of a company charged by the Board with the duty of complying with section 128. On preservation, the books and vouchers must be kept in good order for the period the Act requires; where the **Central Government has issued a direction under the proviso to section 128(5)** for keeping books **for a period longer than eight years**, they must be kept for that longer period. Retaining records for only five years falls short.

Remembering reproduce what you have learnt · 3 questions

- Learn section 2(13) — books of account — as its four items, and section 128(6) as its four persons. Both are asked as bare recall.

	Remembering	
TQ 1.4 · MTP 2024-Jul [2] (b) · 5M · Pg 409	LEVEL I Remembering	Medium
CSQ 1.5 · RTP 2024-Sep [15] · Pg 413	LEVEL I Remembering	Medium

Understanding explain it, and place it in context · 1 question

- When asked whether books may be kept in electronic mode, give the accessibility rule, the audit trail proviso and the daily back-up requirement as three separate points.

TQ 1.2 · MTP 2020-Oct [2] (a) (ii) · 3M · Pg 407	LEVEL I Understanding	Easy
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Application use the section - apply it to the facts · 5 questions

- Take each alleged default in the facts as a separate head, state the provision, and conclude on that head before moving to the next. These questions are marked limb by limb.
- Where a Board decision is involved, ask whether the consequential filing with the Registrar was made — that is usually where the company fails.

TQ 1.1 · PYQ 2018-Nov [4] (c) · 4M · Pg 407	LEVEL II Application	Medium
CSQ 1.2 · MTP 2021-Mar [3] (c) · 4M · Pg 410	LEVEL II Application	Medium
CSQ 1.4 · PYQ 2024-Sep [5] (a) · 5M · Pg 412	LEVEL II Application	Medium
CSQ 1.7 · MTP 2025-Aug S2 [6] (a) · 5M · Pg 416	LEVEL II Application	Medium
CSQ 1.1 · PYQ 2019-Nov [2] (b) · 6M · Pg 409	LEVEL II Application	Hard

Analysis break it down and take the parts separately · 3 questions

- Where two objections are raised on the same facts, one may be good and the other bad; say so expressly rather than upholding or rejecting both together.

CSQ 1.8 · PYQ 2026-Sep [4] (a) (i) · 2M · Pg 416	LEVEL II Analysis	Easy
CSQ 1.3 · PYQ 2024-May [1] (b) {C} · 5M · Pg 411	LEVEL II Analysis	Medium
CSQ 1.6 · PYQ 2025-May [4] (a) · 5M · Pg 414	LEVEL II Analysis	Medium

Topic 2: Financial Statements (Section 129)

L2P2-2A-C9-T02

Read first Read ICAI Study Material Chapter 9, Financial Statements — section 129 read with section 2(40) and Rules 5 and 6 of the Companies (Accounts) Rules, 2014.

NOTES

What a financial statement is — section 2(40). It includes: **the balance sheet**; the profit and loss account, or in the case of a company carrying on activity not for profit, an income and expenditure account; **the cash flow statement**; **the statement of changes in equity, if applicable**; and any explanatory note annexed to or forming part of the financial statement. Quote all five items; each is separately marked.

Who may leave out the cash flow statement. By the **proviso to section 2(40)**, the financial statement of a **One Person Company**, a **small company**, a **dormant company** and a private company which is a start-up company may not include the cash flow statement. Learn the four; the fourth is the one candidates forget.

Consolidated financial statements — section 129(3). Where a company has **one or more subsidiaries or associate companies**, it shall, **in addition to its own financial statements**, prepare a consolidated financial statement of the company and of all the subsidiaries, associate companies and joint ventures, in the **same form and manner as that of its own** and in accordance with the applicable accounting standards; and the CFS shall also be **laid before the annual general meeting along with its own financial statement**. The company shall also attach a separate statement containing the salient features of the financial statement of its subsidiaries and associate companies in Form AOC-1 under Rule 5, and the Central Government may prescribe the manner of consolidation under Rule 6. Because consolidation is the **holding company's** job, the subsidiaries themselves simply prepare their own financial statements in the ordinary way.

Exemption from preparing consolidated financial statements. A company need not prepare CFS if **all three** conditions are met: (a) it is a **wholly owned subsidiary**, or a partially owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and the proof of delivery of that intimation being available with the company, do not object to it not presenting CFS; (b) its securities are not listed and are not in the process of being listed on any stock exchange, whether in or outside India; and (c) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which comply with the applicable accounting standards. A 90% owned unlisted subsidiary therefore qualifies only if it **writes to the remaining 10% and keeps proof of delivery** — that step is the marks. If the company's securities were listed, or in the process of listing, limb (b) fails and the exemption is lost, whatever the holding company files.

Non-compliance with accounting standards must be disclosed, not buried. Where the financial statements do not comply with the accounting standards, the company must disclose **the deviation, the reasons for it and the financial effect** arising from it. Silent non-compliance is a

breach in its own right, separate from the failure to follow the standard.

Understanding explain it, and place it in context · 1 question

- Set out the general obligation to consolidate before the exemption; an answer that opens with the exemption reads as though consolidation were optional.

CSQ 2.1 · RTP 2025-May [14] · Pg 418

LEVEL I
Understanding

Medium

Topic 3: Periodical Financial Results (Section 129 A)

L2P2-2A-C9-T03

Read first Read ICAI Study Material Chapter 9, Periodical Financial Results — section 129A.

NOTES

The rule in one line — section 129A. The Central Government may require such class or classes of unlisted companies as may be prescribed to do three things: to prepare the financial results of the company on such periodical basis and in such form as may be prescribed; to obtain the approval of the Board of Directors and complete audit or limited review of such periodical financial results in such manner as may be prescribed; and to file a copy with the Registrar within a period of thirty days of completion of the relevant period, with such fees as may be prescribed.

The section is aimed at unlisted companies — so being unlisted is no defence. Where the Central Government requires periodical financial results and an audit or limited review of them, a Board that objects **on the ground that the company is unlisted and therefore need not prepare them is not correct.** Section 129A applies precisely to the prescribed classes of **unlisted** companies, and such a company is bound to comply.

Two details worth the marks. The requirement is for **audit or limited review** — not necessarily a full audit, so do not write 'audit' alone. And the filing period runs **from the completion of the relevant period**, not from Board approval: **thirty days**.

Application use the section - apply it to the facts · 2 questions

- State the section, then say in terms that the Board's objection is not correct and why, then conclude that the company is bound to comply with the Central Government's requirement.

CSQ 3.1 · PYQ 2021-Dec [4] (a) (i) · 3M · Pg 420

LEVEL II
Application

Easy

CSQ 3.2 · PYQ 2022-May [2] (b) · 4M · Pg 421

LEVEL II
Application

Medium

Analysis break it down and take the parts separately · 1 question

- The Board's objection is the thing to test. **State the rule on who may be directed to prepare periodical results**, then say whether being unlisted answers the direction.
- Finish with what the company must actually do — preparation and limited review are two obligations, not one.

CSQ 3.3 · MTP 2024-Jul [5] (b) · 5M · Pg 421

LEVEL II
Analysis

Medium

Topic 4: Re Opening of Accounts on Court's or Tribunal's Orders (Section 130)

L2P2-2A-C9-T04

Read first Read ICAI Study Material Chapter 9, Re-opening of accounts on court's or Tribunal's orders — section 130, read with the proviso to section 128(5).

NOTES

The rule in one line — section 130(1). A company shall not re-open its books of account and shall not recast its financial statements unless two things come together. First, an **application** is made by the **Central Government, the Income-tax authorities, the Securities and Exchange Board, any other statutory regulatory body or authority, or any person concerned**. Second, an order is made by a court of competent jurisdiction or the Tribunal to the effect that **the relevant earlier accounts were prepared in a fraudulent manner**, or that the affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of the financial statements. Both the applicant and the ground must be within the section.

The eight-year window. No order shall be made under section 130(1) in respect of re-opening of books of account relating to a period earlier than eight financial years immediately preceding the current financial year. The one exception: where the **Central Government has issued a direction under the proviso to section 128(5)** for keeping books of account **for a period longer than eight years**, the books may be ordered to be re-opened **within such longer period**.

How these questions are actually decided. The applicant is almost never the problem — the Income-tax authorities, SEBI and other competent authorities are named in the section, so **the application itself is valid**. The whole question is the **eight-year window**, so write the range out. Current financial year 2019-20: an order for **2008-09** is outside the eight preceding years, so the recommendation for re-opening is **invalid** even though the application was competently made. Current financial year 2021-22: the eight financial years immediately preceding are **2013-14 to 2020-21**, so **2015-16 falls inside** and the application is **valid**. Count on the page and show the range; a conclusion without the range reads as a guess.

Keep section 130 and section 131 apart. Section 130 is compulsory re-opening and recasting, on the order of a court or the Tribunal, at the instance of an outside authority, on grounds of fraud or mismanagement. Section 131 is voluntary revision by the directors themselves, with the approval

of the Tribunal, because the statements or the Board's report do not comply with section 129 or section 134. Questions frequently ask for both in the same breath; label each answer with its own section.

Application use the section - apply it to the facts · 2 questions

- Identify the current financial year from the facts, count back eight financial years, write the range, and only then say whether the year in question falls inside it.
- Separate the validity of the application from the validity of the period sought. An application can be competent and the relief still barred by time.

CSQ 4.1 · PYQ 2019-May [2] (b) (i) · 3M · Pg 422

LEVEL II
Application

Easy

CSQ 4.2 · PYQ 2023-May [2] (b) (i) · 3M · Pg 423

LEVEL II
Application

Easy

Analysis break it down and take the parts separately · 1 question

- Three numbered limbs, each on a different section. **Answer them in order and keep the two routes apart** — reopening on an order, and voluntary revision by the Board.
- Say who may apply, to whom, and who must be heard. The list of persons to be given notice is where the marks are.
- The last limb asks for a number of preceding years. Give it as a figure.

CSQ 4.3 · PYQ 2024-May [6] (Or) (a) · 5M · Pg 424

LEVEL II
Analysis

Medium

Topic 5: Voluntary Revision of Financial Statements or Board's Report (Section 131)

L2P2-2A-C9-T05

Read first Read ICAI Study Material Chapter 9, Voluntary revision of financial statements or Board's report — section 131 read with Rule 77 of the National Company Law Tribunal Rules, 2016.

NOTES

The rule in one line — section 131. If it appears to the directors of a company that the financial statement of the company does not comply with the provisions of section 129, or that **the report of the Board does not comply with the provisions of section 134**, they may prepare a **revised financial statement or a revised Board's report** in respect of **any of the three preceding financial years**. So the ground is non-compliance with section 129 or section 134 — an omitted contingent liability that destroys the true and fair view is a good ground.

The Tribunal's approval is not optional. The revision **cannot be made merely by passing a Board**

resolution. The company must apply to the National Company Law Tribunal in Form NCLT-1 within fourteen days of the date on which the Board decides to seek the revision, and the revision may be made **only after obtaining the approval of the Tribunal**. A certified copy of the Tribunal's order must be filed with the Registrar within thirty days of the date of receipt of the certified copy. And **such revision is allowed only once in a financial year**.

Counting the three years. The revised statements may relate only to **any of the three immediately preceding financial years**. Financial statements for **2021-22** can be revised in **2024-25**, because that year is within the three preceding financial years. A Board that proposes to revise **four** earlier years, **and to do it without approaching the Tribunal, fails on both counts** — say so as two separate failures, because they are separately marked.

Particulars of the application — Rule 77(3) of the NCLT Rules, 2016. The application seeking voluntary revision must contain: (a) the financial year or accounting period for which the financial statements or the Board's report are proposed to be revised; (b) the names and contact details of the managing director, the chief financial officer, the directors, the company secretary and any other officer responsible for preparing and maintaining the books of account and the financial statements; (c) details of the auditor, including the name and contact information of the present or former auditor who audited the financial statements concerned; **(d) a copy of the Board resolution approving the proposal to seek revision**; and (e) the reasons or grounds for seeking revision of the financial statements or the Board's report. **Rule 77(2)** adds one more: where the majority of the directors, or the auditor, has changed immediately before the Board decided to apply under section 131, the company must **specifically disclose that fact in the application** filed before the Tribunal.

The allied point examiners attach to this topic. Where the financial statements do not comply with the accounting standards, the company must **disclose the deviation, the reasons for it and the financial effect; non-disclosure is a breach in its own right**, and is often the very defect that makes revision necessary. Deal with the disclosure failure and the revision procedure as two heads.

Remembering reproduce what you have learnt · 1 question

- State the grounds on which a revision is permitted before you touch the facts. The facts here are built to fit one ground; naming it is the mark.
- Give the approval required and the period within which revision may be made.

CSQ 5.2 · PYQ 2026-May [1] (b) {C} · 5M · Pg 428

LEVEL I
Remembering

Medium

Application use the section - apply it to the facts · 2 questions

- Work out from the current financial year which years are within reach, then say whether the year the company wants to revise is inside or outside.

- Where the directors propose to act on their own motion, state plainly that prior approval of the Tribunal is mandatory before you discuss anything else.

CSQ 5.1 · PYQ 2024-Sep [1] (b) (i) {C} · 3M · Pg 428

LEVEL II
Application

Easy

CSQ 5.3 · PYQ 2026-Sep [4] (a) (ii) · 3M · Pg 431

LEVEL II
Application

Easy

Analysis break it down and take the parts separately · 1 question

- The scenario runs across two financial years and more than one defect. **Sort the facts by year first**, then ask for each whether revision is available.
- Say expressly how many times a revision may be made in respect of a financial year. That limit is usually the point of the question.

TQ 5.1 · RTP 2025-Sep [14] · Pg 426

LEVEL II
Analysis

Hard

Topic 6: Constitution of National Financial Reporting Authority (Section 132)

L2P2-2A-C9-T06

Read first Read ICAI Study Material Chapter 9, Constitution of the National Financial Reporting Authority — section 132 read with the National Financial Reporting Authority Rules, 2018.

NOTES

Constitution. The Central Government may, by notification, constitute a National Financial Reporting Authority to provide for matters relating to **accounting standards and auditing standards** under the Act. Under **section 132(1A)** the Authority **shall discharge its functions through such divisions as may be prescribed**. Its office is at **New Delhi**. Its books of account and other books and papers are maintained in the manner the Central Government prescribes **in consultation with the Comptroller and Auditor General**, its accounts are **audited by the CAG**, and the audited accounts with the audit report are forwarded annually to the Central Government, which **lays the annual report and the audit report before Parliament**.

Functions and duties — section 132(2) with Rules 4 and 6 to 9 of the NFRA Rules, 2018. The Authority is to safeguard the public interest and the interests of investors, creditors and other stakeholders associated with companies or bodies corporate by **establishing high-quality standards of accounting and auditing** and by **exercising effective oversight** over accounting functions performed by companies and auditing functions performed by auditors. In particular it shall: maintain records and particulars of auditors appointed in the companies and bodies corporate governed by it; recommend accounting standards and auditing standards to the Central Government for approval; **monitor and enforce compliance with those standards**; oversee the quality of service of the professions associated with ensuring compliance and suggest measures for

improvement; **promote awareness relating to compliance**; co-operate with national and international organisations of independent audit regulators; and perform such other incidental functions as may be necessary. Where a question asks for 'any three functions', give three of these in full sentences, not as headings.

Powers of investigation. NFRA may **investigate, either suo motu or on a reference made by the Central Government**, into matters of professional or other misconduct committed by any member or firm of chartered accountants registered under the Chartered Accountants Act, 1949. For the purposes of such investigation the Authority has **the same powers as a civil court**.

Consequences where misconduct is established — section 132(4)(c). The Authority may impose a penalty: in the case of individuals, not less than one lakh rupees, which may extend to five times the fees received; in the case of firms, not less than five lakh rupees, which may extend to ten times the fees received. It may also pass an order debarring the member or the firm from being appointed as an auditor or internal auditor, or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or prohibiting the member or firm from performing any valuation as provided under section 247 — in either case for a minimum period of six months, or such higher period not exceeding ten years, as the Authority may determine. Set out both the penalty range and the debarment range — an answer that gives only the fine is incomplete.

Appeal. Any person aggrieved by an order of the Authority may **appeal to the National Company Law Appellate Tribunal**. Finish the answer with the remedy; it is a marked line.

Understanding explain it, and place it in context · 1 question

- Structure any NFRA answer as constitution, functions and duties, powers, penal consequences, appeal. That order fits almost every question set on the section.

TQ 6.1 · PYQ 2020-Nov [3] (a) (i) · 3M · Pg 432

LEVEL I
Understanding

Easy

Application use the section - apply it to the facts · 1 question

- Where an audit firm is under investigation on the facts, first say which function of NFRA is engaged, then set out its investigative power, then the specific penalties it may impose on the firm as distinct from the individual partners.

CSQ 6.1 · PYQ 2025-Sep [5] (Or) (a) · 5M · Pg 433

LEVEL II
Application

Medium

Topic 7: Financial Statement, Board's Report Etc. (Section 134)

L2P2-2A-C9-T07

Read first Read ICAI Study Material Chapter 9, Financial statement and Board's report — section

134 read with Rule 8(5) of the Companies (Accounts) Rules, 2014.

NOTES

What the financial statement must be accompanied by. Under **section 134(2)**, the **auditors' report**; and under **section 134(3)**, the **Board's report**, which must include the web address, if any, where the annual return referred to in section 92(3) has been placed, the **number of meetings of the Board**, and the Directors' Responsibility Statement.

Signing of the financial statements — section 134(1). The financial statement, including the consolidated financial statement if any, **shall be approved by the Board of Directors before it is signed**, and shall then be signed on behalf of the Board by **the chairperson of the company where he is authorised by the Board**, or by two directors out of which one shall be the managing director, if any, and by the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed; **in the case of a One Person Company, by one director only** — all for **submission to the auditor for his report thereon**.

How that section is applied — learn the standard fault. Where two ordinary directors sign and the company has a managing director, the authentication is **not valid**: the managing director must be one of the two signing directors. Where the company has a **whole-time company secretary**, or a CEO or CFO, **each of them must also sign**. Where the Board as a policy **has not authorised the chairperson**, his signature does not help and he is **not eligible** to sign. And **approval by the Board comes first** — where the accounts manager merely collects signatures and there is **no approval in a Board meeting**, the signing is invalid however many correct people signed. For a One Person Company with one director, **authentication by that one director is in order**.

Signing of the Board's report — section 134(6). The Board's report and any annexures to it under section 134(3) shall be signed by **the chairperson of the company if he is authorised by the Board**; and where he is not so authorised, by at least two directors, one of whom shall be a managing director, or by the director where there is one director. Note that the Board's report rule and the financial statements rule are **not identical** — the CEO, CFO and secretary do not come into section 134(6).

Directors' Responsibility Statement — section 134(5), six limbs. It shall state that: in the preparation of the annual accounts, the applicable accounting standards had been followed, with proper explanation relating to material departures; the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs at the end of the financial year and of the profit and loss for that period; the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the Act for safeguarding the assets and for preventing and detecting fraud and other irregularities; **the directors had prepared the annual accounts on a going concern basis**; in the case of a listed company, the directors had laid down internal financial controls to be followed and that such controls are adequate and were operating effectively; and the directors had devised proper systems to ensure compliance with the

provisions of all applicable laws and that such systems were adequate and operating effectively. Where the question asks for 'any three' or 'any four', give complete limbs, not fragments — the internal financial controls limb is **only for listed companies**.

Rule 8(5) disclosures in the Board's report (applicable from May 2027). The Board's report shall include a statement that the company has complied with the provisions relating to the constitution of the Internal Complaints Committee under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, together with **the number of complaints of sexual harassment received in the year, the number of complaints disposed of during the year, and the number of cases pending for more than ninety days**; and a statement with respect to compliance with the provisions relating to the Maternity Benefit Act, 1961. A bare one-line statement of compliance is **not adequate** — the statistics and the maternity benefit statement must both appear. Rule 8 does not apply to a One Person Company or a small company; Rule 8A applies to them instead.

Fraud reporting is printed under this topic — section 143(12) with Rule 13 of the Companies (Audit and Auditors) Rules, 2014. Where an auditor has reason to believe that an offence of fraud **involving or expected to involve an amount of one crore rupees or more** has been or is being committed against the company by its officers or employees, he must report to the **Central Government**. The procedure: report to the Board or the Audit Committee immediately but not later than two days from the date of gaining knowledge of the fraud, seeking their **reply or observations within forty-five days**; on receipt, forward the report with their reply and his own comments to the **Central Government within fifteen days** of receiving it; where **no reply is received within forty-five days**, forward the report to the Central Government with a note giving details of the report earlier sent. The report is filed **electronically in Form ADT-4. Below the threshold the route is different — and it is the Board's report**. By the **proviso to section 143(12) read with Rule 13(1)**, where the fraud involves an amount **less than the prescribed limit**, the auditor reports to the **Audit Committee constituted under section 177, or to the Board, within two days of his knowledge of the fraud**. Where such frauds have been reported to the Audit Committee or the Board but **not to the Central Government**, the company must disclose in the **Board's report: the nature of the fraud with a brief description; the approximate amount involved; the parties involved, where no remedial action has been taken; and the remedial actions taken**. Under **Rule 13(4)** all such frauds reported during the financial year must be so disclosed. So a request that a **one crore or more** fraud be put in the Directors' report instead of reported to the Central Government is **no answer to the statutory duty** — the Board's report route belongs to the smaller fraud, not the larger one.

Remembering reproduce what you have learnt · 1 question

- Learn the Directors' Responsibility Statement as six limbs and section 134(1) as its list of signatories. Both are asked as straight recall.

Remembering

Understanding explain it, and place it in context · 2 questions

- Keep section 134(1) and section 134(6) apart in your answer; a question on 'who shall sign the Board's report' is not answered by the financial statements rule.

TQ 7.2 · MTP 2023-Mar [2] (b) (i) · 3M · Pg 437

LEVEL I
Understanding**Easy**

TQ 7.1 · PYQ 2018-May [4] (c) · 4M · Pg 436

LEVEL I
Understanding**Medium****Application** use the section - apply it to the facts · 6 questions

- List the office-holders the facts give you — directors, managing director, chairperson, CEO, CFO, company secretary — then state who was required to sign and who actually signed, and conclude on the gap.
- Always check whether the Board authorised the chairperson and whether the Board approved the statements before signature; those two facts are planted deliberately.
- Answer the One Person Company rider separately in one line — it carries its own mark.

CSQ 7.3 · PYQ 2021-Jan [2] (b) (i) · 3M · Pg 440

LEVEL II
Application**Easy**

CSQ 7.4 · MTP 2025-Jul S1 [5] (a) (i) · 2.5M · Pg 441

LEVEL II
Application**Easy**

CSQ 7.6 · MTP 2025-Dec S2 [1] (b) (ii) · 2.5M · Pg 444

LEVEL II
Application**Easy**

CSQ 7.5 · PYQ 2025-Sep [4] (a) · 5M · Pg 442

LEVEL II
Application**Medium**

CSQ 7.7 · PYQ 2026-Jan [4] (a) · 5M · Pg 445

LEVEL II
Application**Medium**

CSQ 7.8 · MQ · 4M · Pg 446

LEVEL II
Application**Medium****Analysis** break it down and take the parts separately · 2 questions

- These scenarios test **who must sign**. List the signatories the section requires, then check the facts against that list name by name.
- Each question adds a variant — a company with no chairperson authorised, or a One Person Company. Answer the variant separately and say what changes.

CSQ 7.1 · RTP 2019-Nov [8] · 6M · Pg 438

LEVEL II
Analysis**Hard**

CSQ 7.2 · MTP 2020-May [2] (a) · 6M · Pg 439

LEVEL II
Analysis**Hard**

Topic 8: Corporate Social Responsibility (Section 135)

L2P2-2A-C9-T08

Read first Read ICAI Study Material Chapter 9, Corporate Social Responsibility — section 135 with section 2(57) and section 198, and the Companies (CSR Policy) Rules, 2014.

NOTES

Applicability — section 135(1). Every company having **net worth of five hundred crore rupees or more, or turnover of one thousand crore rupees or more, or a net profit of five crore rupees or more, during the immediately preceding financial year**, shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one shall be an independent director. Provided that where a company is not required to appoint an independent director under section 149(4), it shall have two or more directors in its CSR Committee. The three criteria are **alternative — satisfying any one attracts section 135**. Under **Rule 3(1) of the Companies (CSR Policy) Rules, 2014**, this reaches every company, including a holding or subsidiary company, and a foreign company within section 2(42) having a branch office or project office in India, that meets the criteria. A company meeting **none** of the three is outside CSR altogether.

Net worth is the criterion that has to be computed — section 2(57). It means the aggregate value of the paid-up share capital and all reserves created out of the profits, the securities premium account and the debit or credit balance of the profit and loss account, after deducting the aggregate value of accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation. Worked: paid-up capital 200 + free reserves out of profits 200 + securities premium 70 + credit balance of profit and loss 60 – miscellaneous expenditure not written off 20 = **₹510 crore**, with the revaluation reserve of ₹25 crore **ignored** — over the limit, so CSR applies. And the other way: net profit 3 + securities premium 300 – accumulated loss 50 = **₹253 crore**, below ₹500 crore, with turnover ₹100 crore and net profit ₹3 crore also below their limits, so **no CSR Committee is required**. Show the addition and the deduction as a table.

How much must be spent — section 135(5). The Board shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, or, where the company has not completed three financial years since its incorporation, during such immediately preceding financial years. Average net profit is computed in accordance with **section 198**. Worked: profits of ₹5 crore and ₹7 crore over the only two completed years give an average of ₹6 crore, and 2% of that is **₹12,00,000**. Note that the printed answers take the **net profit before tax** figure both for the section 135(1) test and for the average.

When no Committee is needed — section 135(9). Where the amount required to be spent under section 135(5) **does not exceed fifty lakh rupees**, the requirement of constituting a CSR Committee

shall not apply, and the functions of the CSR Committee shall be discharged by the Board of Directors itself. So a company can be inside CSR and still be right to say it needs no Committee — work out the 2% figure before you answer that limb. Worked, on the foreign branch facts: a 20% net profit margin on turnover of ₹85 crore gives a net profit of ₹17 crore in the preceding year, so **section 135 applies on the net profit limb** even though turnover is under ₹1,000 crore; the spend is 2% of 20% of $(75 + 65 + 85)/3$, that is 2% of ₹15 crore = ₹30 lakh; being **not more than ₹50 lakh**, **no CSR Committee is required and the Board discharges its functions.**

Duties of the Committee, and what actually counts as CSR. Under **section 135(3)** the Committee shall formulate and recommend to the Board a CSR Policy indicating the activities to be undertaken in the areas or subjects specified in Schedule VII, recommend the amount of expenditure to be incurred on those activities, and **monitor the CSR Policy from time to time.** Composition errors are marked hard: a Committee with **no independent director** does not comply, and including an officer who is **not a director**, such as the Chief Compliance Officer, is **not permitted.** On activities, **contribution to the PM CARES Fund** and **promotion of child and women education** qualify, while **CSR spending on the company's own employees and their families** and **contribution to a political party** do not.

Impact assessment — Rule 8(3) of the Companies (CSR Policy) Rules, 2014. It is a process that evaluates the **social, economic and environmental effects** of a CSR project and measures the **social, economic and environmental return on investment.** It is **not required of every company:** only a company with an average CSR obligation of ten crore rupees or more in the three immediately preceding financial years must undertake it, and then only for CSR projects with outlays of one crore rupees or more which have been completed not less than one year before the impact study. It must be conducted **by an independent agency.**

Zero coupon zero principal instruments (applicable from May 2027). Under **item (xiii) of Schedule VII**, subscription to zero coupon zero principal instruments on a Social Stock Exchange is an **eligible CSR activity.** Under **Rule 4A(1)** a company may carry out CSR through a ZCZP instrument provided the expenditure on it does not exceed 10% of the total CSR expenditure for that financial year — so ₹90 lakh out of a ₹6 crore obligation is 15% and must be cut to ₹60 lakh. Under **Rule 4A(2)** a company subscribing to a ZCZP instrument is **exempt from impact assessment of any project funded by that instrument.** The issuing Not-for-Profit Organisation must undertake a project of not more than three succeeding financial years from the issue and, on termination of listing, transfer the unspent amount to a fund in Schedule VII and report compliance to SEBI.

Understanding explain it, and place it in context · 2 questions

- Give the definition of net worth in full before you compute it; the exclusions carry as many marks as the inclusions.

TQ 8.2 • MQ • 4M • Pg 448

LEVEL I
Understanding**Medium****Application** use the section - apply it to the facts • 5 questions

- Set the net worth computation out as a table of inclusions and deductions, and say expressly that revaluation reserves are excluded, even when the facts supply one.
- Test all three criteria against the facts and conclude on each, then say that satisfying any one is enough.
- Where the question asks about the Committee, compute the 2% obligation first — if it is ₹50 lakh or less, the Board discharges the functions and no Committee is needed.

CSQ 8.2 • PYQ 2021-Jul [1] (b) (i) {C} • 3M • Pg 451

LEVEL II
Application**Easy**

CSQ 8.3 • PYQ 2022-May [1] (b) (i) {C} • 3M • Pg 452

LEVEL II
Application**Easy**

CSQ 8.7 • PYQ 2025-Sep [1] (a) {C} • 5M • Pg 459

LEVEL II
Application**Medium**

CSQ 8.8 • MQ • 5M • Pg 461

LEVEL II
Application**Medium**

CSQ 8.4 • PYQ 2023-May [3] (a) • 6M • Pg 452

LEVEL II
Application**Hard****Analysis** break it down and take the parts separately • 3 questions

- Where a list of proposed activities is given, take them one at a time and say for each whether it falls within Schedule VII and why.

CSQ 8.6 • PYQ 2025-Jan [5] (a) • 5M • Pg 458

LEVEL II
Analysis**Medium**

CSQ 8.1 • PYQ 2018-May [1] (b) • 6M • Pg 449

LEVEL II
Analysis**Hard**

CSQ 8.5 • PYQ 2023-Nov [1] (b) {C} • 6M • Pg 455

LEVEL II
Analysis**Hard**

Topic 9: Right of Members to Audited Financial Statement (Section 136)

L2P2-2A-C9-T09

CONCEPT BASE — no exam question asked yet • essential for full preparation**Read first** Read ICAI Study Material Chapter 9, Right of members to copies of audited financial statement — section 136, read with section 137.**NOTES**

What section 136 does, and how the pack treats it. Section 136 governs the right of members to be sent, and to be given, a copy of the audited financial statement, including the consolidated financial statement, together with the documents required to be annexed to it. The printed answers in the Scanner deal with **section 136(1) and section 137(1) together**, because the same documents are both circulated to members and filed with the Registrar.

The one limb the pack does cover — foreign subsidiaries whose accounts are not audited. Where a company has a subsidiary incorporated outside India which is not required to get its financial statement audited under the law of the country of its incorporation, and does not get it audited, the Indian holding company may **place or file such unaudited accounts** to comply with **sections 136(1) and 137(1)**, along with a **declaration to that effect**, and where the statement is in a language other than English, a **translated copy in English**. This was clarified by **General Circular No. 11/2015 dated 21 July 2015**. The format should follow the requirements of the Companies Act, 2013 as far as possible, and where it cannot, a **statement giving the reasons for the deviation** should be placed or filed with the accounts.

Where the pack runs out — read this from the Study Material. The Scanner prints no question and no answer on section 136 itself. The periods for sending the statements before the meeting, the abridged financial statement permitted to listed companies, the placing of the statements on the company's website, the position of subsidiaries' accounts on the website, and the relaxations available to section 8 companies and Nidhis are **not supported by any printed answer**. Take those time limits and conditions from the Study Material text and do not reconstruct them from memory in the exam — a wrong number here costs more than an omission.

Topic 10: Copy of Financial Statement to be Filed with Registrar (Section 137)

L2P2-2A-C9-T10

Read first Read ICAI Study Material Chapter 9, Copy of financial statement to be filed with the Registrar — section 137 read with section 403, and Rule 3 of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015.

NOTES

The rule in one line — section 137(1). A copy of the financial statement, **including the consolidated financial statement if any**, along with all the documents required to be or attached to it, **duly adopted at the annual general meeting**, shall be filed with the Registrar within thirty days of the date of the annual general meeting, with such fees or additional fees as may be prescribed within the time specified under **section 403**.

The two provisos, and the trap they set. First proviso: where the financial statements are **not adopted** at the annual general meeting or at the adjourned annual general meeting, the unadopted financial statements along with the required documents shall be filed with the Registrar within thirty days of the date of the annual general meeting, and **the Registrar shall take**

them in his records as **provisional** until the adopted statements are filed. **Second proviso:** financial statements adopted at the adjourned annual general meeting shall be filed within thirty days of the date of that adjourned meeting. So an adjournment creates **two filings, not one**.

The recurring fact pattern — write both halves of the conclusion. A government company adjourns its AGM because the **Comptroller and Auditor General's comments** are awaited, adopts the accounts at the adjourned meeting and files within thirty days of it. The answer is split: the company **has complied** as regards the **adopted** statements, because they were filed within thirty days of the adjourned meeting; but it **has not complied** as regards the **unadopted** statements, which it should have filed within thirty days of the original annual general meeting for the Registrar to hold as provisional. The pending CAG comments explain the adjournment but are **not a ground for not filing**. An answer that only says 'complied' or only says 'did not comply' loses half the marks.

Where no annual general meeting is held — section 137(2). The financial statements with the documents required to be attached, **duly signed**, along with the statement of facts and reasons for not holding the annual general meeting, shall be filed with the Registrar within thirty days of the last date before which the annual general meeting should have been held, with such fees or additional fees as may be prescribed.

Foreign subsidiaries — fourth proviso to section 137(1). A company shall attach to the financial statements filed with the Registrar the accounts of its subsidiaries which have been incorporated outside India and which have not established their place of business in India. Where such a foreign subsidiary is not required to get its financial statement audited under the law of the country of its incorporation and does not get it audited, the requirement is met if the Indian holding company **files that unaudited financial statement along with a declaration to that effect**, and, where it is in a language other than English, **a translated copy in English**. For consolidation the parent must also align the subsidiary's statements with its own accounting policies, and where the format cannot follow the Act, **give the reasons for the deviation**.

XBRL filing — Rule 3 of the XBRL Rules, 2015. The following must file in **e-form AOC-4 XBRL**: all companies listed with any stock exchange in India and their Indian subsidiaries; **all companies having paid-up capital of five crore rupees or above; all companies having turnover of one hundred crore rupees or above**; and all companies required to prepare their financial statements in accordance with the Companies (Indian Accounting Standards) Rules, 2015. **Exempt:** non-banking financial companies, housing finance companies and companies engaged in the business of banking and insurance — so a housing finance company with ₹11 crore capital and ₹145 crore turnover files in the ordinary form. Once a company has filed under these rules it must continue to file in XBRL in succeeding years even if it no longer falls within the class. An unlisted company with **₹6 crore paid-up capital** is caught by the capital limb even though its turnover of ₹90 crore is below the turnover limb, and filing in the normal AOC-4 is **non-compliance**.

A different financial year for an overseas group. Where an application is made by a company or body corporate which is a **holding, subsidiary or associate company of a company incorporated outside India** and which is required to follow a different financial year for consolidation of its

accounts outside India, the Central Government may, on such application made in the prescribed form and manner, allow any period as its financial year, whether or not that period is a year. The route is an application to the Central Government, not a Board decision.

Understanding explain it, and place it in context • 1 question

- State the main rule under section 137(1) before either proviso, so that the adjournment position reads as the exception it is.

TQ 10.1 • MTP 2023-Mar [2] (b) (ii) • 3M • Pg 462

LEVEL I
Understanding

Easy

Application use the section - apply it to the facts • 6 questions

- Where the meeting was adjourned, fix three dates: the original AGM, the adjourned AGM, and the date of filing. Then test the filing against each proviso separately and give a two-part conclusion.
- For XBRL, run all four limbs against the figures and check the exemption list before concluding; one limb crossed is enough.

TQ 10.2 • MTP 2025-Dec S2 [6] (a) (i) • 2.5M • Pg 463

LEVEL II
Application

Easy

CSQ 10.1 • PYQ 2018-Nov [3] (b) (i) • 3M • Pg 463

LEVEL II
Application

Easy

CSQ 10.2 • PYQ 2019-May [1] (c) {C} • 4M • Pg 465

LEVEL II
Application

Medium

CSQ 10.4 • PYQ 2022-Nov [3] (b) • 5M • Pg 468

LEVEL II
Application

Medium

CSQ 10.7 • PYQ 2026-Sep [6] (a) • 5M • Pg 472

LEVEL II
Application

Medium

CSQ 10.3 • RTP 2022-Nov [5] • 6M • Pg 466

LEVEL II
Application

Hard

Analysis break it down and take the parts separately • 2 questions

- The dates matter more than the rule. **Fix the date of the AGM, the date of the adjourned AGM, and the date of adoption**, then run the filing period from the right one.
- Where the ask is about XBRL, state the classes required to file in that form and then test the company against each class in turn.

CSQ 10.5 • MTP 2025-Aug S2 [5] (a) • 5M • Pg 469

LEVEL II
Analysis

Medium

CSQ 10.6 • PYQ 2026-Jan [6] (b) • 5M • Pg 471

LEVEL II
Analysis

Medium

Topic 11: Internal Audit (Section 138)

L2P2-2A-C9-T11

Read first Read ICAI Study Material Chapter 9, Internal audit — section 138 read with Rule 13 of the Companies (Accounts) Rules, 2014.

NOTES

Who must appoint an internal auditor — section 138 with Rule 13. Every listed company. Every **unlisted public company** having paid-up share capital of fifty crore rupees or more during the preceding financial year, or **turnover of two hundred crore rupees or more during the preceding financial year**, or outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees at any point of time during the preceding financial year, or outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year. **Every private company** having **turnover of two hundred crore rupees or more during the preceding financial year**, or outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees at any point of time during the preceding financial year. **Any one limb is enough.**

The private company list is shorter — do not copy the public company list across. A private company is tested only on **turnover** and **borrowings**: there is **no paid-up capital limb and no deposits limb**. So a private company with ₹45 crore paid-up capital and turnover of ₹250 crore is caught **on turnover**, and one with turnover of ₹150 crore whose borrowings from a public financial institution touched ₹110 crore is caught **on borrowings**.

A listed company is caught whatever its size. The capital and turnover thresholds are for **unlisted public companies**. A company secretary who advises a listed company with ₹25 crore paid-up capital and ₹100 crore turnover that it is below the threshold is **wrong** — a listed company must appoint an internal auditor **irrespective of its paid-up share capital or turnover**. This is a standing trap and it recurs.

'At any point of time' is the phrase that decides most of these questions. For loans, **borrowings and deposits** the test is the position **at any point of time during the preceding financial year**, not the closing balance. A company whose bank loan stood at **₹105 crore** during the year and **₹90 crore** at the year end after repayment is **caught**; so is one whose loan touched **₹100.59 crore** on 30 September even though it was ₹75.10 crore on 31 March. **Amounts repaid during the year still count towards the test.** Look through the facts for the highest figure in the year, not the balance sheet figure.

Who may be appointed — section 138(1). The internal auditor may be a chartered accountant, or a cost accountant, or such other professional as may be decided by the Board to conduct the internal audit of the functions and activities of the company; and the appointee may be **an individual, a partnership firm or a body corporate**. By the Explanation to Rule 13(1), the internal auditor may or may not be an employee of the company, and the chartered accountant **need not**

be in practice.

So the answers permit a wide field. A chief financial officer who is already key managerial personnel may be given the additional duties of internal auditor. So may the company secretary. So may a professional who is neither a chartered accountant nor an employee, because the Board may decide on such other professional. So may an **ex-employee who is a qualified chartered accountant**, though the Board should weigh his independence. A contention that **only a firm of chartered accountants or a company secretary** can be appointed, and not an individual chartered accountant not in practice, is **wrong on both limbs**.

Say which financial year you are answering for. The thresholds are tested against the **preceding financial year**, so figures for the year ended 31 March 2025 decide whether the appointment is compulsory for **2025-26**, and figures for 2019-20 decide the position for 2020-21. State the year in the conclusion — the printed answers always do.

Remembering reproduce what you have learnt · 1 question

- Four thresholds for unlisted public companies, two for private companies, and 'every listed company' with no threshold at all. Learn them as three separate lists.

CSQ 11.1 · PYQ 2017-May [1] (a) {C} · 4M · Pg 473

LEVEL I
Remembering

Medium

Application use the section - apply it to the facts · 4 questions

- Put each figure in the facts beside its own threshold and say met or not met, then conclude that one limb is enough.
- Watch for a peak figure buried in the facts — a loan of ₹105 crore in March against ₹90 crore at the year end is put there on purpose.
- Answer the eligibility limb separately: state that the Board may decide on any professional, that the auditor may or may not be an employee, and then name the person in the facts and say whether he can be appointed.

CSQ 11.2 · PYQ 2021-Jan [2] (b) (ii) · 3M · Pg 475

LEVEL II
Application

Easy

CSQ 11.7 · MTP 2026-Mar S1 [4] (b) · 5M · Pg 481

LEVEL II
Application

Medium

CSQ 11.8 · PYQ 2026-Sep [6] (Or) (a) · 5M · Pg 481

LEVEL II
Application

Medium

CSQ 11.4 · RTP 2021-Nov [3] · 6M · Pg 477

LEVEL II
Application

Hard

Analysis break it down and take the parts separately · 3 questions

- Every one of these gives capital, turnover and loan figures. **Test each threshold separately and say whether it is crossed** — one crossed threshold is enough, so do not stop at the first that fails.

- Loans are tested on the outstanding amount **at any point during the financial year**, not the closing balance. The facts always give an earlier, higher figure for exactly this reason.
- Where a second limb asks who may be appointed or who may delegate, answer it separately after the applicability conclusion.

CSQ 11.3 · PYQ 2021-Jul [2] (b) (i) · 3M · Pg 476	LEVEL II Analysis	Easy
CSQ 11.6 · PYQ 2025-Sep [6] (b) · 5M · Pg 479	LEVEL II Analysis	Medium
CSQ 11.5 · PYQ 2023-Nov [2] (b) · 6M · Pg 477	LEVEL II Analysis	Hard

PART 2A · CORPORATE LAWS · CHAPTER 10

Audit and Auditors

11 Topics · 53 Classified Questions · Importance: A

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**Level I — Comprehension & Knowledge **24.3%** 53 of 218 marksLevel II — Analysis & Application **75.7%** 166 of 218 marks

This chapter sits on the paper's own profile — 24% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: Appointment of Auditors (Section 139)

L2P2-2A-C10-T01

Read first Read ICAI Study Material Chapter 10, Appointment of auditors — section 139 with sections 2(45) and 177, and Rules 3, 4 and 6 of the Companies (Audit and Auditors) Rules, 2014.

NOTES

First auditor — two routes, section 139(6) and section 139(7). Company other than a Government company [s.139(6)]: the Board of Directors shall appoint the first auditor within 30 days of the date of registration of the company; if the Board fails, **it shall inform the members**, who shall appoint the first auditor within 90 days at an extraordinary general meeting. Government company, or any other company owned or controlled, directly or indirectly, 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 [s.139(7)]: the Comptroller and Auditor General of India appoints within 60 days from the date of registration; if the CAG does not, **the Board appoints within the next 30 days**; if the Board also fails, it shall inform the members, **who shall appoint within 60 days at an EGM**. In both routes the first auditor **holds office until the conclusion of the first AGM**. Learn them as **30 / 90 for a non-Government company and 60 / 30 / 60 for a Government company**. Two traps recur. **The Managing Director cannot appoint the first auditor himself** — an appointment by the MD alone violates section 139(6), which vests the power in the Board. And **the members are not the first port of call** in either route; they come in only on a failure above them.

Subsequent auditors — section 139(1) for a non-Government company, section 139(5) for a Government company. Under **section 139(1)** the company at the first AGM appoints an individual or a firm as auditor to hold office from the conclusion of that meeting till the conclusion of its sixth AGM, and thereafter till the conclusion of every sixth meeting — the appointment is **by ordinary resolution**, and **no provision of the Act requires a special resolution** for it. Before the appointment the written consent of the auditor and a certificate from him or the firm must be

obtained, and the company must inform the auditor of his appointment and file a notice of it with the Registrar within 15 days of the meeting (Form ADT-1). Under **section 139(5)**, for a Government company the CAG appoints the auditor within 180 days from the commencement of the financial year, and that auditor **holds office till the conclusion of the AGM**. A term that is **not the full five years is bad**: an appointment from the conclusion of the first AGM only up to the conclusion of the fifth AGM, that is four years, **is not valid**. **What that certificate must say — Rule 4**: that he or the firm is eligible for appointment and is not disqualified under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made thereunder; that **the proposed appointment is as per the term provided under the Act**; that **it is within the limits laid down by or under the authority of the Act**; and that the list of proceedings against the auditor, the audit firm or any partner of the firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct. Where the appointment fills a casual vacancy the Scanner's answer adds **written consent to act and communication with the resigning auditor** to the list.

Is it a Government company at all? Decide this before anything else. Section 2(45) is the test, and the Scanner's fact patterns are built to fail it. A nationalised bank holding 18% of the subscribed capital does not make the company a Government company. Bank of Baroda 12% plus a general insurance company 10% plus a public financial institution 8%, adding to 30%, does not either. **One-fourth of the subscribed capital held by a State Government does not**. But where more than half the paid-up capital is held by companies which are themselves subsidiaries of the Central and State Governments, the company is a Government company and the CAG appoints. **Add the separate holdings together before you answer** — the holdings are set out one by one precisely so that a careless student treats each as too small and stops there.

Rotation — section 139(2) with Rule 6. Listed companies and such other class or classes of companies as may be prescribed (except one person companies and small companies) shall not appoint or re-appoint an individual as auditor for more than one term of five consecutive years, or an audit firm as auditor for more than two terms of five consecutive years. **Cooling off is five years** from completion of the term, for the individual and for the firm alike. The period for which the individual or firm held office before the commencement of the Act is counted towards the **five consecutive years (individual) or ten consecutive years (firm)** — so a firm in office for seven years as on 1.4.2018 **can continue for three more years only**. Worked through: a firm appointed at the AGM of 30.09.2017 runs to the AGM of **2022**, may be re-appointed for one more term to **2027**.

The common partner bar — the second proviso to section 139(2) and Rule 6(3). As on the date of appointment, no audit firm having a common partner or partners to the other audit firm whose tenure has expired in a company immediately preceding the financial year shall be appointed as auditor of the same company for a period of five years. Rule 6(3) adds the individual limb: if a partner who is in charge of an audit firm and also certifies the financial statements of the company retires from that firm and joins another firm of chartered accountants, that other firm is also ineligible for five years. So where the outgoing firm's partner-in-charge moves to the incoming firm, **the incoming firm's appointment is invalid**; and where two firms merely share a partner, **both are shut out until the five-year cooling period ends** — a firm whose two terms ran 2017 to

2027 and its sister firm can be appointed only **after 2032**.

Casual vacancy — section 139(8), read with section 139(11). A casual vacancy is a vacancy arising for any reason other than the expiry of the term, and death, resignation or surrender of the certificate of practice all create one. **Non-Government company: the Board may fill it within 30 days;** but where the vacancy is caused by the resignation of the auditor, the appointment must also be approved by the company at a general meeting convened within three months of the recommendation of the Board. **Government company:** the CAG shall fill it within 30 days, and if the CAG does not, the Board shall fill it within the next 30 days. In every case the auditor appointed in a casual vacancy holds office only until the conclusion of the next AGM — the classic wrong answer is that he runs to the sixth AGM. Under **section 139(11)**, where the company is required to have an Audit Committee under section 177, every appointment, including the filling of a casual vacancy, is made after taking into account the recommendations of that committee. On a resignation the outgoing auditor also files **Form ADT-3 with the company and the Registrar within 30 days**, and the company files **Form ADT-1 within fifteen days** of the meeting.

Who recommends, and what happens when the Board disagrees — Rule 3(1). Where the company must constitute an Audit Committee under section 177, the Audit Committee recommends the name to the Board; where no Audit Committee is required, the Board recommends to the members. Before recommending, the competent authority considers whether the proposed auditor's qualifications and experience are commensurate with the size, nature and requirements of the company, whether any disciplinary order or proceeding for professional misconduct is pending or has been passed against him by the ICAI, any competent authority or any court, and may **call for further information**. If the Board disagrees with the Audit Committee, **it refers the recommendation back to the committee citing its reasons**; if the committee does not change its recommendation, the Board records the reasons for its disagreement and sends its own recommendation to the members, and **the members at the AGM decide**. The Board can neither impose its choice nor simply reject the committee's — **it must go to the members with both**.

Remembering reproduce what you have learnt · 2 questions

- Learn the four appointment routes as four separate chains — first auditor non-Government, first auditor Government, subsequent non-Government, subsequent Government — with their own days. Mixing the 30/90 chain with the 60/30/60 chain costs the whole answer.

TQ 1.3 · MTP 2021-Mar [2] (b) (i) · 3M · Pg 488

LEVEL I
Remembering

Easy

CSQ 1.2 · PYQ 2018-May [3] (b) (ii) · 3M · Pg 489

LEVEL I
Remembering

Easy

Understanding explain it, and place it in context · 7 questions

- Quote the sub-section number, not just 'section 139'. The examiner is testing whether you can tell 139(1) from 139(5), 139(6) from 139(7), and 139(8) from both.

TQ 1.2 · MTP 2019-Mar [2] (b) (ii) · 3M · Pg 487	LEVEL I Understanding	Easy
CSQ 1.1 · PYQ 2018-May [3] (b) (i) · 3M · Pg 488	LEVEL I Understanding	Easy
TQ 1.1 · RTP 2018-May [10] (i) · Pg 487	LEVEL I Understanding	Medium
CSQ 1.7 · MTP 2021-Oct [3] (b) · 5M · Pg 494	LEVEL I Understanding	Medium
CSQ 1.11 · MTP 2024-Nov [5] (b) · 5M · Pg 498	LEVEL I Understanding	Medium
CSQ 1.12 · PYQ 2025-Jan [1] (b) {C} · 5M · Pg 499	LEVEL I Understanding	Medium
CSQ 1.15 · MTP 2025-Dec S2 [3] (b) · 5M · Pg 502	LEVEL I Understanding	Medium

Application use the section - apply it to the facts · 9 questions

- Always answer in two stages: first classify the company (Government or not, listed or not), then apply the route that follows. Almost every case scenario in this topic turns on the classification, not on the appointment rule.
- Where the facts give several shareholdings, add them up in the answer and show the total. The marks are in the arithmetic and the conclusion drawn from it.
- On rotation and common-partner questions, fix the dates: when the term started, when it expired, and what five years from that expiry gives you. State the year the company may appoint again.

CSQ 1.4 · MTP 2019-Oct [2] (a) (ii) · 3M · Pg 491	LEVEL II Application	Easy
CSQ 1.5 · MTP 2020-Oct [2] (a) (i) · 3M · Pg 492	LEVEL II Application	Easy
CSQ 1.8 · PYQ 2021-Dec [1] (b) (ii) {C} · 2M · Pg 495	LEVEL II Application	Easy
CSQ 1.10 · PYQ 2024-Sep [1] (b) (ii) {C} · 2M · Pg 497	LEVEL II Application	Easy
CSQ 1.3 · PYQ 2018-Nov [2] (a) (i) · 4M · Pg 490	LEVEL II Application	Medium
CSQ 1.13 · RTP 2025-May [16] · Pg 500	LEVEL II Application	Medium
CSQ 1.16 · MTP 2026-Mar S1 [1] (b) · 5M · Pg 503	LEVEL II Application	Medium
CSQ 1.17 · PYQ 2026-May [4] (a) (2 + 3 = 5 Marks) · 5M · Pg 504	LEVEL II Application	Medium
CSQ 1.18 · PYQ 2026-Sep [1] (a) {C} · 5M · Pg 506	LEVEL II Application	Medium

Analysis break it down and take the parts separately · 3 questions

- Where a question puts several appointments to you as (1), (2), (3), take them one at a time, give each its own section and its own conclusion, and do not let a finding on one carry over to the next.

CSQ 1.9 · PYQ 2021-Dec [3] (b) · 5M · Pg 495	LEVEL II Analysis	Medium
CSQ 1.14 · PYQ 2025-May [1] (b) {C} · 5M · Pg 501	LEVEL II Analysis	Medium
CSQ 1.6 · PYQ 2020-Nov [1] (b) · 6M · Pg 492	LEVEL II Analysis	Hard

Topic 2: Removal, Resignation of Auditors and Giving of Special Notice (Section 140)

L2P2-2A-C10-T02

Read first Read ICAI Study Material Chapter 10, Removal and resignation of auditor and giving of special notice — section 140 with section 115, Rule 7 and Rule 8 of the Companies (Audit and Auditors) Rules, 2014, and Rule 23 of the Companies (Management and Administration) Rules, 2014.

NOTES

Removal before expiry of term — section 140(1). An auditor may be removed before the expiry of his term **only by a special resolution of the company, after obtaining previous approval** of the prescribed authority, **and in the manner prescribed under Rule 7. The order matters more than anything else in this topic:** the approval comes **first** and the special resolution comes **after**. A company that passes the special resolution and then applies for approval has removed the auditor **invalidly**, however genuine its reasons. Note that the Scanner's answer names **the Regional Director** as the approving authority in stating the rule and refers to **the Central Government** when applying it; whichever name you use, **the mark is for the word 'previous'**.

Rule 7 — the mechanics and the two windows. The application is made in Form ADT-2, with the fee under the Companies (Registration Offices and Fees) Rules, 2014. It **shall be made within thirty days of the resolution passed by the Board**. The company shall hold the general meeting within sixty days of receipt of the approval, for passing the special resolution. And before any action is taken under section 140(1) the auditor shall be given a reasonable opportunity of being heard — the natural justice limb is a separate mark, so state it.

Resignation — section 140(2) and (3) with Rule 8. An auditor who has resigned **shall file a statement in Form ADT-3, with the company and with the Registrar, within 30 days of the resignation, giving the reasons and other facts as may be relevant**. Do not confuse this with the removal machinery: resignation needs no approval and no special resolution, but it does create a casual vacancy under section 139(8), and if it was a resignation the fresh appointment must also be approved at a general meeting.

Special notice for appointing someone other than the retiring auditor — section 140(4). Special notice is required for a resolution at an annual general meeting appointing as auditor a person other than a retiring auditor, or providing expressly that a retiring auditor shall not be re-appointed. Who may give it comes from **section 115 with Rule 23**: members holding not less than 1% of the total voting power, or holding shares on which an aggregate sum of not more than five lakh rupees has been paid up. Read the pack carefully here: the answers state the section 115 words as '**not exceeding five lakh rupees**' and the Rule 23(1) words as '**not less than ₹5,00,000**', and then apply the rule as a **₹5,00,000 floor**. **Members holding less than 1% of the total voting power do not comply**; three members holding ₹1,50,000 plus ₹1,00,000 plus ₹2,50,000, that is exactly ₹5,00,000, do; and 60 members holding ₹7 lakh in the aggregate, or 50 members holding ₹6 lakh out of a ₹1 crore capital, do — the second of those also crosses 1% of the voting power, and the answer says both limbs are then satisfied.

The timing of the special notice, and the company's own notice out. The notice shall be sent by the members to the company not earlier than three months but at least fourteen days before the date of the meeting at which the resolution is to be moved, exclusive of the day on which the notice is given and the day of the meeting. Applied: for an AGM on **28.09.2024** the last date for the members' special notice is **13 September 2024**; a notice given on **2 July 2022** for an AGM on **21 August 2022** is **in time**. The company in turn shall give its members notice of the resolution at least seven days before the meeting, exclusive of the day of despatch and the day of the meeting, in the same manner as notice of any general meeting.

The retiring auditor's representation — the second half of section 140(4). Where the retiring auditor makes a representation in writing to the company, not exceeding a reasonable length, and requests its notification to members, the company shall, **unless the representation is received by it too late for it to do so**, state the fact of the representation having been made in any notice of the resolution given to members and send a copy of the representation to every member to whom notice of the meeting is sent, whether before or after the receipt of the representation. If the copy is not sent because it was received too late or because of the company's default, the auditor may, **without prejudice to his right to be heard orally, require that the representation be read out at the meeting**, and **a copy shall be filed with the Registrar**. So a representation received **three days before the meeting** need not be circulated — but the company is **not off the hook**: it must still let the auditor be heard, read the representation out if he so requires, and file it with the Registrar.

Where the Board and the Audit Committee fall out. The removal and special notice questions are frequently paired with the appointment machinery. In every listed public company an Audit Committee must be constituted under section 177. Where it exists, **the committee recommends the name to the Board; if the Board disagrees it refers the recommendation back with reasons**; if the committee stands its ground, the Board records its reasons for disagreement and sends its own recommendation to the members in the AGM, and the members decide. **Section 139(11) makes the position identical for a casual vacancy** — the Board's power under section 139(8) is still exercised after taking the committee's recommendation into account. **Where no Audit Committee is required, the Board itself recommends** to the members after considering the proposed

auditor's qualifications and experience.

Understanding explain it, and place it in context • 1 question

- State section 140(4) and section 115 together. An answer that gives the special notice threshold without saying which provision it comes from loses half the marks.

CSQ 2.5 • PYQ 2024-May [5] (a) • 5M • Pg 514

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts • 3 questions

- On a removal scenario, put the sequence of events on a line — Board resolution, application, approval, general meeting — and test the order. Almost every invalid removal in this chapter is invalid because the approval came last.
- On a special notice scenario, test three things in order: are the members eligible (1% of voting power or the ₹5,00,000 paid-up figure), is the notice in the three months to fourteen days window, and was the representation received in time. Answer each separately.

CSQ 2.1 • PYQ 2018-Nov [3] (b) (ii) • 3M • Pg 508

LEVEL II
Application

Easy

CSQ 2.6 • PYQ 2025-Jan [3] (b) (i) • 3M • Pg 515

LEVEL II
Application

Easy

CSQ 2.2 • PYQ 2021-Jul [3] (b) • 5M • Pg 509

LEVEL II
Application

Medium

Analysis break it down and take the parts separately • 3 questions

- Where the pack's own answers split — as they do on whether members holding 2% can compel the company to issue the special notice — say that both views turn on whether Rule 23 gives the members a right or only the capacity to request, and give a reasoned conclusion. A bare assertion earns less than a stated reason.

CSQ 2.3 • RTP 2022-May [2] • Pg 510

LEVEL II
Analysis

Medium

CSQ 2.4 • PYQ 2023-May [3] (b) • 4M • Pg 512

LEVEL II
Analysis

Medium

CSQ 2.7 • PYQ 2025-Jan [6] (Or) (a) • 5M • Pg 517

LEVEL II
Analysis

Medium

Topic 3: Eligibility, Qualifications and Disqualifications of Auditors (Section 141)

L2P2-2A-C10-T03

Read first Read ICAI Study Material Chapter 10, Eligibility, qualifications and disqualifications of

auditors — section 141 with Rule 10 of the Companies (Audit and Auditors) Rules, 2014.

NOTES

Who may be appointed. Only a chartered accountant in practice can be appointed as auditor of a company. Where **a firm is appointed**, it is the authorised partners who are themselves chartered accountants who may act and sign on behalf of the firm — so where one partner leads the audit team and another partner, a CA, signs the report for the firm, **the signature is good**. On the corporate side: a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008 is not qualified for appointment (section 141(3) with Rule 10). **An LLP of practising chartered accountants can therefore be appointed**, and the standing trap is to disqualify it because it is a body corporate.

Securities and interest — section 141(3)(d)(i) with Rule 10. A person who, or whose relative or partner, is holding any security of or interest in the company, or its subsidiary, or its holding or associate company, or a subsidiary of such holding company, shall not be appointed as auditor. For the auditor himself the bar is absolute — any holding, of any size, disqualifies. Holding shares of nominal value ₹50,000 disqualifies; holding a security of ₹1,000 disqualifies. The proviso relaxes the bar only for a relative, who may hold securities or interest of face value not exceeding ₹1,00,000. **The limit is on face value, not market value** — this is the single most repeated trap in the chapter. ₹95,000 face value against ₹1,20,000 market value is within the limit; ₹70,000 face value against ₹1,10,000 market value is within it; ₹85,000 face value against ₹75,000 market value is within it; ₹1,00,000 face value is within it; ₹1,50,000 face value against ₹95,000 market value is not. Where the relative crosses the limit after appointment, the auditor must take corrective action to bring the holding within the ₹1,00,000 limit within 60 days of the acquisition, or vacate his office.

Indebtedness and guarantee — section 141(3)(d)(ii) and (iii). A person is disqualified if he or his relative or partner is indebted to the company, or its subsidiary, or its holding or associate company, or a subsidiary of such holding company, in excess of ₹5 lakh. So indebtedness of ₹6 lakh or ₹7 lakh disqualifies, and ₹2 lakh does not. The amounts are aggregated across the auditor, his partners and his relatives, and across the group companies: a partner owing ₹4 lakh to a subsidiary plus a relative owing ₹2 lakh to an associate is ₹6 lakh in total and the auditor is disqualified. Under **clause (iii)**, a person is disqualified if he or his relative or partner has given a guarantee or provided any security in connection with the indebtedness of any third person to the same set of companies in excess of ₹1 lakh — note the **different and much lower figure**: a wife's guarantee for a third person's loan of ₹1,50,000 disqualifies the firm.

Relatives in office — section 141(3)(f). A person is disqualified whose relative is a director or is in the employment of the company as a director or key managerial personnel. Run the test on the **post**, not on the closeness of the relationship. A spouse who is the store keeper of the company is not a director or KMP, so the auditor is not disqualified. **A sister who is the CFO is a KMP, so the auditor is disqualified**. The clause does not catch every relative who works for the company —

only a director or a KMP.

Officers, employees and their partners — section 141(3)(c), and the vacation rule in section 141(4). **A person who is an officer or employee of the company is disqualified**, and so is any person who is a partner of, or in the employment of, an officer or employee of the company. **Section 141(4) is where the marks are:** an auditor who, after his appointment, becomes subject to any of the disqualifications in section 141(3) shall be deemed to have vacated his office. So an auditor validly appointed in September who in January joins as a partner of a consultancy firm in which the company's finance executive is also a partner **attracts clause (3)(c) and is deemed to have vacated office** — he does not merely become removable, and he does not continue to the end of the year.

Business relationship — section 141(3) with Rule 10, and its two exceptions. A person or firm which, whether directly or indirectly, has a business relationship with the company, or its subsidiary, or its holding or associate company, or a subsidiary of such holding company or associate company, is not eligible for appointment. Business relationship means any transaction entered into for a commercial purpose, **except** commercial transactions in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949, and commercial transactions which are in the ordinary course of business of the company at arm's length price — such as sale of products or services to the auditor as a customer, in the ordinary course of business, by companies engaged in telecommunications, airlines, hospitals, hotels and such other similar businesses. So a hotel company that supplies services to its prospective auditor **at the same price as it charges other customers** has an **arm's length** transaction and **can appoint him**.

Understanding explain it, and place it in context · 1 question

- Give the full list of connected companies each time — the company, its subsidiary, its holding or associate company, and a subsidiary of such holding company. The list itself carries marks and the scenarios are built on the outer edges of it.

CSQ 3.13 · RTP 2024-Sep [13] · Pg 530

LEVEL I
Understanding**Medium****Application** use the section - apply it to the facts · 9 questions

- Name the clause before you decide: 141(3)(c), (3)(d)(i), (3)(d)(ii), (3)(d)(iii) or (3)(f). An answer that says 'disqualified under section 141' without the clause loses the provision mark.
- When the facts give both a face value and a market value, say expressly that the proviso works on face value, then compare. State the market value only to dismiss it.
- Where the disqualification arises after appointment, do not stop at 'he is disqualified'. Add section 141(4) and the words 'deemed to have vacated his office'.

CSQ 3.1 · PYQ 2018-Nov [2] (a) (ii) · 2M · Pg 519

LEVEL II
Application**Easy**

CSQ 3.5 • PYQ 2021-Jan [1] (b) (i) {C} • 3M • Pg 523	LEVEL II Application	Easy
CSQ 3.6 • PYQ 2021-Dec [1] (b) (i) {C} • 2M • Pg 524	LEVEL II Application	Easy
CSQ 3.7 • MTP 2022-Mar [1] (b) (i) {C} • 3M • Pg 524	LEVEL II Application	Easy
CSQ 3.8 • MTP 2022-Mar [1] (b) (ii) {C} • 3M • Pg 525	LEVEL II Application	Easy
CSQ 3.14 • MTP 2025-Jul S1 [5] (a) (ii) • 2.5M • Pg 531	LEVEL II Application	Easy
CSQ 3.2 • RTP 2018-Nov [8] • Pg 520	LEVEL II Application	Medium
CSQ 3.3 • MTP 2019-Mar [3] (b) • 5M • Pg 521	LEVEL II Application	Medium
CSQ 3.4 • PYQ 2019-Nov [1] (b) {C} • 6M • Pg 522	LEVEL II Application	Hard

Analysis break it down and take the parts separately • 4 questions

- Where several persons or several debts are given, total them and say so. The aggregation of a partner's debt with a relative's debt across a subsidiary and an associate is the point the question is testing.

CSQ 3.9 • MTP 2022-Sep [3] (b) • 5M • Pg 526	LEVEL II Analysis	Medium
CSQ 3.12 • MTP 2024-Jul [4] (a) • 5M • Pg 529	LEVEL II Analysis	Medium
CSQ 3.10 • PYQ 2022-Nov [1] (b) {C} • 6M • Pg 526	LEVEL II Analysis	Hard
CSQ 3.11 • PYQ 2023-Nov [5] (b) • 6M • Pg 528	LEVEL II Analysis	Hard

Topic 4: Remuneration of Auditors (Section 142)

L2P2-2A-C10-T04

Read first Read ICAI Study Material Chapter 10, Remuneration of auditors — section 142.

NOTES

The rule in one line — section 142(1). The remuneration of the auditors of a company shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine. The power sits with the members, not with the Board and not with the management. The one exception is the first auditor, whose remuneration may be fixed by the Board, because the Board appointed him.

What the remuneration includes and excludes — section 142(2). The remuneration shall, in

addition to the fee payable to the auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him, but does not include any remuneration paid to him for any other service rendered by him at the request of the company. Both halves are examinable: the **out-of-pocket expenses and facilities are in, the fee for other services is out.**

Applying it — the two scenarios the Scanner keeps setting. Where the engagement letter simply says the fee is 'to be mutually decided' and no fee is finalised, **that clause cannot displace section 142:** the remuneration must still be fixed by, or in the manner determined by, the general meeting. Where the **Board tells the auditor that it alone will fix the fee**, and the auditor is **not the first auditor, the Board's contention is not valid** for the same reason. The correct advice in both cases is one sentence of section 142(1) applied to the facts.

Delegation is permitted; what is delegated is the fixing, not the power. The shareholders, by a resolution in general meeting, may delegate the authority to fix the auditor's remuneration to the Managing Director or any other person, because section 142(1) itself contemplates remuneration being fixed 'in such manner as the general meeting may determine'. So a company that resolves in general meeting to leave the figure to its Managing Director **has complied** — the vice is the Board fixing the fee **without** that authority, not delegation as such.

Two points that ride along with this topic. There is no requirement under the Companies Act, 2013 for the shareholders to ratify the appointment of auditors at every AGM — an auditor appointed for a term of five consecutive years continues without annual ratification. And **where the constitution of the audit firm changes**, for example from a proprietorship to a partnership, the company shall treat it as the appointment of a new auditor and file Form ADT-1 accordingly, after the conclusion of the forthcoming AGM for the year in question.

Application use the section - apply it to the facts · 3 questions

- Identify first whether the auditor is the first auditor. If he is, the Board may fix the fee and the answer is short; if he is not, the general meeting must.
- Deal with the inclusion and exclusion limbs even when the question does not ask — expenses and facilities in, fees for other services out. They are easy marks in a five-mark question that otherwise has one rule in it.

CSQ 4.1 · PYQ 2022-May [5] (a) · 5M · Pg 532	LEVEL II Application	Medium
CSQ 4.2 · RTP 2023-Nov [14] · Pg 533	LEVEL II Application	Medium
CSQ 4.3 · RTP 2025-Jan [16] · Pg 533	LEVEL II Application	Medium

Analysis break it down and take the parts separately · 1 question

- The scenario asks two or more lettered questions. **Answer them in the question's lettering**, each with its own conclusion.
- Separate the two issues the facts blur: **who fixes the remuneration**, and **what happens on a change in the firm's constitution**. They are governed differently.

CSQ 4.4 · MTP 2025-Jul S1 [4] (a) · 5M · Pg 534

LEVEL II
Analysis

Medium

Topic 5: Powers and Duties of Auditors and Auditing Standards (Section 143)

L2P2-2A-C10-T05

Read first Read ICAI Study Material Chapter 10, Powers and duties of auditors and auditing standards — section 143, in particular section 143(12) with Rule 13 of the Companies (Audit and Auditors) Rules, 2014.

NOTES

Reporting of fraud to the Central Government — section 143(12) with Rule 13. Where the auditor has reason to believe that an offence of fraud involving individually an amount of ₹1 crore or above is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government. Two elements gate the duty and both must be stated: **the belief must be of a fraud against the company by its officers or employees**, and the amount **individually** must be **₹1 crore or above**. A fraud of **₹2.40 crore** is squarely within it.

The manner and the three time limits. First, report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days. Second, on receipt of the reply or observations, forward his report, the reply or observations and his own comments to the Central Government within 15 days of receipt. Third, if no reply or observations are received within the stipulated 45 days, forward the report to the Central Government along with a note containing the details of the report earlier forwarded to the Board or the Audit Committee. Learn them as **2 days — 45 days — 15 days**, and note that the 15 days runs from **receipt of the reply**, not from the fraud.

The manner of filing has changed, and that is what is being tested. The report shall be filed electronically in Form ADT-4 — Rule 13(2)(d) as substituted with effect from 14-07-2025. The erstwhile clauses (e) and (f) — despatch in a sealed cover by Registered Post or Speed Post with an e-mail confirmation, and the report on the auditor's letter-head with seal and membership number — stand omitted by the Companies (Audit and Auditors) Amendment Rules, 2025, G.S.R. 359(E). An auditor who follows the old drill has the **timelines right and the mode wrong**; the answer is that she **need simply file the report electronically in Form ADT-4**.

How the scenario is marked. The examiner splits the answer. Say first that the threshold is crossed and reporting to the Central Government is warranted; **then take the timelines and hold them in order; then take the mode of despatch and hold it out of date, naming the amendment.** An answer that condemns the whole procedure, or that approves the whole procedure, misses the split the question was built around.

Application use the section - apply it to the facts • 1 question

- Test the amount first, then each of the three time limits in turn, then the mode of filing. Give a separate conclusion on each limb rather than one verdict on the whole procedure.
- Where the facts recite letter-head, seal, sealed cover and Registered Post, that is the amendment being tested. Name Rule 13(2)(d) as substituted and say the correct mode is electronic filing in Form ADT-4.

CSQ 5.1 • MQ • 5M • Pg 535

LEVEL II
Application

Medium

Topic 6: Auditors not to Render Certain Services (Section 144)

L2P2-2A-C10-T06

Read first Read ICAI Study Material Chapter 10, Auditor not to render certain services — section 144, with section 147.

NOTES

The rule in one line — section 144. An auditor appointed under the Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be. Approval is the gate for permitted services; but **certain services are barred outright**, and no approval can cure them.

The prohibited list, and the reach of the prohibition. The barred services are accounting and book keeping services; internal audit; design and implementation of any financial information system; actuarial services; investment advisory services; investment banking services; rendering of outsourced financial services; management services; and any other kind of services as may be prescribed. The bar applies **whether the services are rendered directly or indirectly**, and not only to the company but also to its holding company and its subsidiary company. Write the list out in full when asked for it — **the question is often set as 'list any seven'**, and each item is a mark.

The one the examiner keeps choosing. Design and implementation of a financial information system is the service put to the auditor in scenario after scenario, dressed up as help with a weak internal control mechanism and offered at an attractive fee. **The motive and the fee are irrelevant.** The advice is that **the proposal shall not be accepted**, because the service is expressly excluded by section 144.

The consequence of accepting — section 147. An auditor who takes up a prohibited service attracts the penal provisions of section 147. Where the audit is being conducted by a firm, **section 147(5)** provides that if it is proved that a partner or partners of the audit firm have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the civil or criminal liability shall be of the partner or partners concerned and of the firm jointly and severally, and they **shall also be liable under section 447**. Proviso: in the case of criminal liability of an audit firm, in respect of liability other than fine, only the concerned partner or partners who acted fraudulently or abetted or colluded shall be liable.

Application use the section - apply it to the facts · 3 questions

- Answer in three moves: the service is on the section 144 list, therefore it cannot be accepted whatever the Board approves; then state the section 147 consequence; then advise the auditor to decline.

CSQ 6.1 · PYQ 2019-May [2] (b) (ii) · 3M · Pg 538

LEVEL II
Application

Easy

CSQ 6.2 · PYQ 2023-May [2] (b) (ii) · 3M · Pg 538

LEVEL II
Application

Easy

TQ 6.1 · MTP 2025-Mar S1 [5] (b) · 5M · Pg 537

LEVEL II
Application

Medium

Topic 7: Auditors to Sign Audit Reports (Section 145)

L2P2-2A-C10-T07

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 10, Auditor to sign audit reports etc. — section 145.

NOTES

The rule in one line — section 145. The person appointed as auditor of the company shall sign the auditor's report, or sign or certify any other document of the company. The signing is personal to the person appointed; it is not a formality the company's officers can arrange for him.

Where a firm is appointed. In the case of a firm, including an LLP, only the partners who are chartered accountants are authorised to act and sign on behalf of the firm. So where a firm is the statutory auditor, a partner who is a chartered accountant may sign the audit report on behalf of the firm even though a different partner led the audit team — the signature is valid. A partner who is not a chartered accountant may not sign.

Qualifications and adverse remarks must be read out. The qualifications, observations or comments on financial transactions or matters which have any adverse effect on the functioning of the company, mentioned in the auditor's report, shall be read before the company in general

meeting and shall be open to inspection by any member of the company. Two consequences follow and both are marks: **the adverse matter cannot be buried in the report, and any member may inspect it.**

Note on the Scanner. No question is printed under this topic heading in the pack. The provision is nevertheless examined — it is the substance of the printed answer sitting under the next topic — so learn section 145 as three limbs: **who signs, who may sign for a firm, and what must be read out at the general meeting.**

Topic 8: Auditors to Attend General Meetings (Section 146)

L2P2-2A-C10-T08

Read first Read ICAI Study Material Chapter 10, Auditor to attend general meeting — section 146, read with section 145.

NOTES

What the printed answer under this topic actually gives you. The Scanner's question here asks who signs the audit report in the case of a proprietorship concern or a firm of auditors, and how the qualifications in the audit report are dealt with by the auditor at the annual general meeting — and the answer is given **under section 145**. Take the two limbs from there: the person appointed as auditor shall sign the auditor's report or sign or certify any other document of the company, and in the case of a firm including an LLP only the partners who are chartered accountants are authorised to act and sign on behalf of the firm.

The general meeting limb. The qualifications, observations or comments on financial transactions or matters which have any adverse effect on the functioning of the company, mentioned in the auditor's report, shall be read before the company in general meeting and shall be open to inspection by any member of the company. This is the point of contact between the audit report and the members: **the meeting is where the adverse matter surfaces**, and the member's **right of inspection** runs alongside.

Note on the Scanner. The pack prints only this one question under section 146, and its answer is framed on section 145. Nothing else on the auditor's right to attend, or on notice of general meetings to the auditor, appears in the printed answers, so **work the rest of section 146 from the Study Material** and do not attribute figures or entitlements to it that you cannot source.

Understanding explain it, and place it in context • 1 question

- The question is usually put in two parts, signing and the general meeting. Answer it in two parts, with a line break, so both halves are visible to the marker.

Topic 9: Punishment for Contravention (Section 147)

L2P2-2A-C10-T09

Read first Read ICAI Study Material Chapter 10, Punishment for contravention — section 147, with section 447.

NOTES

Liability where the audit is conducted by a firm — section 147(5). Where, in the case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in the Companies Act, 2013 or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally, and they shall also be liable under section 447.

The proviso — and it is the whole of the difficulty. In the case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable. So the split runs on the **kind of liability: for the fine, the guilty partner and the firm are jointly and severally liable; for criminal liability other than fine, only the guilty partner is liable** and the firm is not. The classic wrong answer makes the firm liable for everything, or the partner liable for everything.

How to apply it. Take the facts in the order the section takes them. Is it an audit by a firm? Is it proved that a partner acted fraudulently, or abetted or colluded in a fraud? If so, **name the partner and the firm as jointly and severally liable for the fine**, and then **carve out the criminal liability other than fine for the partner alone**. Two sentences, two conclusions.

Section 147 also backs section 144. An auditor who renders a service prohibited by section 144 attracts the penal provisions of section 147 — so where a scenario ends with the auditor accepting a barred assignment, section 147 is the consequence you state.

Application use the section - apply it to the facts · 1 question

- Name the persons. Say 'A, the partner concerned, and the firm ABC & Co. are jointly and severally liable for the fine; for criminal liability other than fine, only A is liable'. Generic statements about firms and partners do not earn the application marks.

CSQ 9.1 · PYQ 2022-May [5] (Or) (a) · 5M · Pg 540

LEVEL II
Application

Medium

Topic 10: Central Government to Specify Audit of Items of Cost in Respect of Certain Companies (Section 148)

L2P2-2A-C10-T10

Read first Read ICAI Study Material Chapter 10, Central Government to specify audit of items of cost in respect of certain companies — section 148.

NOTES

What section 148 is for. The section is the power of the Central Government to specify audit of items of cost in respect of certain companies — a cost audit distinct from, and in addition to, the financial audit under section 143. It sits at the end of Chapter X.

Note on the Scanner, and how to use this topic. The pack prints one question under this heading, and it is not on section 148 at all — it asks for the **functions and duties of the National Financial Reporting Authority**, and its answer is set out under the NFRA topic that follows. **No printed answer in the pack states the substance of section 148:** not the classes of company covered, not the qualification of the cost auditor, not the time limits, not the penalties. **Work section 148 from the ICAI Study Material**, and do not carry into your answer any threshold, form number or period that you have not read there — a cost audit figure quoted from memory is the fastest way to lose a five-mark answer.

What you can safely say if section 148 surfaces in a mixed question. Keep to what the chapter's own printed answers support: the audit provisions of Chapter X and the rules made under it apply to the audit of a company, **the auditor's remuneration is governed by section 142**, and **contravention of the audit provisions is punishable under section 147**. Anything specific to cost records and cost audit must come from the Study Material.

Understanding explain it, and place it in context · 1 question

- If a question mixes cost audit with the sections you do know, answer the parts you can source fully and state the section 148 limb briefly and accurately rather than at length and wrongly.

TQ 10.1 · PYQ 2025-May [5] (a) · 5M · Pg 541

LEVEL I
Understanding

Medium

Topic 11: NFRA and Auditor

L2P2-2A-C10-T11

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 10, National Financial Reporting Authority — section 132 with Rules 4 and 6 to 9 of the National Financial Reporting Authority Rules, 2018.

NOTES

The constitution and the object. Section 132(1A) provides that the NFRA shall carry out its functions through such divisions as may be prescribed. Its primary objective is to protect the public interest and the interests of investors, creditors and others associated with companies or bodies corporate, and it does this by establishing high quality standards of accounting and auditing and by effectively overseeing the accounting functions performed by companies and the auditing functions performed by auditors. Open a question on NFRA with the object — it frames every function that follows.

The source of the functions. Section 132(2), read with Rules 4 and 6 to 9 of the National Financial Reporting Authority Rules, 2018, sets out the functions and duties. Cite the section and the Rules together; the answer is marked as a statutory list, not as a description.

The functions — learn them as a list of seven. Without prejudice to the generality of the above, the Authority shall in particular: (a) maintain details of particulars of auditors appointed in the companies and bodies corporate governed by the NFRA; (b) recommend accounting standards and auditing standards for approval by the Central Government; (c) monitor and enforce compliance with those accounting standards and auditing standards; (d) oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service; (e) promote awareness in relation to compliance with accounting standards and auditing standards; (f) co-operate with national and international organisations of independent audit regulators in establishing and overseeing adherence to accounting standards and auditing standards; and (g) perform such other functions and duties as may be necessary or incidental to the above.

The distinctions worth holding on to. NFRA **recommends** the standards; **the Central Government approves** them. NFRA then **monitors and enforces compliance** with what has been approved. And its remit runs to **the quality of service of the professions**, not only to the standards themselves — that is the limb that gets left out. Note also that the register it keeps is of auditors appointed in the companies and bodies corporate governed by the NFRA, not of all auditors.

Note on the Scanner. No question is printed under this topic heading, but the pack's printed answer on the **functions and duties of the NFRA** sits under the preceding topic and is the source of everything above. Nothing in the pack sets out NFRA's powers of investigation, its punishments, or the classes of company under its jurisdiction, so **take those from the Study Material** rather than from memory.

PART 2A · CORPORATE LAWS · CHAPTER 11

Companies Incorporated Outside India

17 Topics · 18 Classified Questions · Importance: C

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**

Level I — Comprehension & Knowledge **34.6%** 28 of 81 marks

Level II — Analysis & Application **65.4%** 53 of 81 marks

This chapter sits on the paper's own profile — 35% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: Application of Act to Foreign Companies (Section 379)

L2P2-2A-C11-T01

Read first Read ICAI Study Material Chapter 11, Application of the Act to foreign companies — section 379 with section 2(42) and Rule 2(1)(c) of the Companies (Registration of Foreign Companies) Rules, 2014.

NOTES

The definition — section 2(42), and it is a two-limb test. 'Foreign company' means any company or body corporate incorporated outside India which (a) has a place of business in India, whether by itself or through an agent, physically or through electronic mode; and (b) conducts any business activity in India in any other manner. Quote both limbs every time. **Incorporation outside India is only the entry condition** — a company incorporated abroad is not a foreign company under the Act unless it has a place of business in India **and** conducts business activity here.

Electronic mode — the limb the whole topic turns on. Under the Rules, 'electronic mode' means carrying out electronically based transactions, whether the main server is installed in India or not, including but not limited to: business to business and business to consumer transactions, data interchange and other digital supply transactions; offering to accept deposits or inviting or accepting deposits or subscriptions in securities, in India or from citizens of India; financial settlements, web-based marketing, advisory and transactional services, database services and products, supply chain management; online services such as telemarketing, telecommuting, telemedicine, education and information research; and all related data communication services whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise. **The location of the server is irrelevant** — say so expressly, because the facts always place the server abroad to tempt you the other way.

How the printed answers actually decide the fact patterns. A New York company with no established place of business in India but doing online business through data interchange in India is a foreign company — the electronic mode limb supplies the place of business. A Singapore

company doing online telemarketing in India with its main server outside India is a foreign company. A Singapore company that developed a patient database for a Mumbai hospital, server in Singapore, is a foreign company. Against those: a UAE company with no place of business in India that merely employs agents in India is not, because it lacks a place of business; **a Cape Town company that merely holds Board meetings in Leh is not**, because holding meetings is not conducting business activity in India; and a German company 49% held by an Indian company, with nothing to show it does business in India, is not — shareholding alone does not make a company a foreign company.

An IFSC carve-out. Electronic based offering of securities, subscription thereof or listing of securities in the International Financial Services Centres set up under section 18 of the Special Economic Zones Act, 2005 shall not be construed as electronic mode for the purposes of section 2(42) — inserted by the **Companies (Specification of Definitions Details) Third Amendment Rules, 2021**. It is an explanation to the definition, so it is worth a line where the facts touch an IFSC.

Section 379(2) — the deeming provision, and its threshold. Where not less than fifty per cent of the paid-up share capital, whether equity or preference or partly equity and partly preference, of a foreign company incorporated outside India is held by one or more citizens of India, or by one or more companies or bodies corporate incorporated in India, or by one or more citizens of India and one or more companies or bodies corporate incorporated in India, whether singly or in the aggregate, such company shall comply with the provisions of Chapter XXII and such other provisions as may be prescribed with regard to the business carried on by it in India, as if it were a company incorporated in India. The threshold is 'not less than fifty per cent', so exactly 50% is caught and 49% is not. **The holdings are aggregated:** 10% by an Indian citizen plus 20% by another Indian citizen plus 20% by an Indian company is **50%** and the company is deemed Indian for its Indian business; a single Indian company holding **50%** is caught; **49% held by an Indian company is not**, and the company remains simply a foreign company.

Which provisions apply to which company — keep the two circles apart. Sections 380 to 386 and sections 392 and 393 apply to all foreign companies — that is, to every company answering section 2(42). **Section 379(2) does something more:** where the Indian shareholding crosses the threshold, the company must comply with Chapter XXII and such other provisions as may be prescribed, as if it were a company incorporated in India, but only **with regard to the business carried on by it in India**. The classic wrong answer treats section 379(2) as converting the company into an Indian company for all purposes. **It does not** — the deeming is confined to its Indian business.

A branch office or a liaison office is a place of business. Branch offices of a company incorporated outside India are considered as a place of business for conducting business activity in India, being a reflection of the parent company's office, **so the company must follow the provisions of Chapter XXII** and such other provisions as may be specified elsewhere in the Act. **A liaison office is likewise a place of business in India.** So a Korean company with a branch at Chennai, a Singapore company with a branch at Kolkata or at Mumbai, and a German company with a liaison office in India are all

foreign companies before you even reach the shareholding question.

Understanding explain it, and place it in context · 3 questions

- Say expressly that the definition is cumulative — place of business and business activity — and that electronic mode counts as a place of business whether or not the server is in India.

CSQ 1.2 · PYQ 2024-Sep [6] (b) · 5M · Pg 548	LEVEL I Understanding	Medium
CSQ 1.3 · RTP 2024-Sep [12] · Pg 550	LEVEL I Understanding	Medium
CSQ 1.1 · PYQ 2018-Nov [5] (a) · 6M · Pg 547	LEVEL I Understanding	Hard

Application use the section - apply it to the facts · 2 questions

- Take the two limbs of section 2(42) one at a time against the facts, conclude on foreign-company status, and only then move to section 379(2). Jumping straight to the shareholding loses the definition marks.
- Where the facts give several Indian holdings separately, add them and show the total before comparing it with fifty per cent. The separation is deliberate.
- Where the question gives a table of four or five companies, answer each in its own short paragraph with its own conclusion, and give the reason that decides it — no place of business, no business activity, or shareholding below the threshold.

CSQ 1.5 · PYQ 2025-May [6] (b) · 5M · Pg 552	LEVEL II Application	Medium
CSQ 1.6 · PYQ 2026-Sep [5] (a) · 5M · Pg 553	LEVEL II Application	Medium

Analysis break it down and take the parts separately · 1 question

- When you conclude that section 379(2) applies, add the limiting words 'with regard to the business carried on by it in India'. That qualification is the difference between a correct answer and an overstated one.

CSQ 1.4 · PYQ 2025-Jan [4] (a) · 5M · Pg 551	LEVEL II Analysis	Medium
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Topic 2: Documents, Etc., to be Delivered to Registrar by Foreign Companies (Section 380)

L2P2-2A-C11-T02

Read first Read ICAI Study Material Chapter 11, Documents etc. to be delivered to the Registrar by foreign companies — section 380 with the Companies (Registration of Foreign Companies) Rules, 2014.

NOTES

What the section requires. Section 380 obliges a foreign company that establishes a place of business in India to **deliver the prescribed documents to the Registrar for registration**, within the period the Act allows from the establishment of its place of business in India. The pack's printed answers do not spell out that period or the list of documents, so **take both from the Study Material** and do not quote a number you cannot source.

Alterations — section 380(3), and this is what is actually examined. Where any alteration is made or occurs in the documents delivered to the Registrar under section 380, the foreign company shall, within 30 days of such alteration, deliver to the Registrar for registration a return containing the particulars of the alteration in the prescribed form, along with the prescribed fees under the Companies (Registration of Foreign Companies) Rules, 2014. **The trigger is any alteration in what was already filed**, and the obligation is continuing — a company that filed everything correctly years ago is **not** finished with section 380.

Applied. A Tokyo-registered company that has operated in India since 2009 and filed all its documents in time **shifts its principal office in Tokyo**. That is an alteration in the particulars already delivered, so the company must deliver to the Registrar the new address of the principal office within 30 days of the change. Note what the fact pattern is doing: **the change is abroad, not in India**, and the answer is still yes. The obligation attaches to the filed particulars, wherever the changed fact is located.

The penalty limb, if the question asks for consequences. Section 392 supplies the penalty for non-filing of documents with the Registrar as required by section 380 and for contravention of any other provision of Chapter XXII — set it out from the section 392 topic rather than inventing a figure here.

Understanding explain it, and place it in context · 1 question

- Answer section 380 questions by naming the sub-section. Section 380(3) is the alteration return; do not answer an alteration question with the general filing obligation.

TQ 2.1 · RTP 2024-May [16] · Pg 554

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 1 question

- Fix the date of the alteration, add thirty days, and state the deadline. Then say what has to be delivered — a return containing the particulars of the alteration, in the prescribed form and with fees.

CSQ 2.1 · PYQ 2026-Jan [5] (a) · 5M · Pg 555

LEVEL II
Application

Medium

Topic 3: Accounts of Foreign Companies (Section 381)

L2P2-2A-C11-T03

Read first Read ICAI Study Material Chapter 11, Accounts of foreign companies — section 381 with the Companies (Registration of Foreign Companies) Rules, 2014, and section 393.

NOTES

The obligation — section 381(1). Every foreign company shall, in every calendar year, (a) make out a balance sheet and profit and loss account in such form, containing such particulars and including or having attached or annexed thereto such documents as may be prescribed, and (b) deliver a copy of those documents to the Registrar. Under the Rules, every foreign company shall prepare a financial statement of its Indian business operations in accordance with Schedule III or as near thereto as possible for each financial year, with the documents required to be annexed in accordance with Chapter IX (Accounts of Companies) and copies of the latest consolidated financial statements of the parent foreign company as submitted by it to the prescribed authority in the country of its incorporation under the applicable laws there.

The three statements that must be attached. Along with the financial statements the foreign company must attach (a) a statement of related party transactions; (b) a statement of repatriation of profits; and (c) a statement of transfer of funds, including dividends, if any, containing such further particulars as the Rules prescribe. **Nil is not an excuse.** A company that omits them saying there were no transactions of that nature is **wrong — even where no such transactions exist, Nil statements are to be submitted.**

The list of places of business, and the language rule. Every foreign company shall send to the Registrar, along with the documents required to be delivered to him, a copy of a list in the prescribed form of all places of business established by it in India as at the date with reference to which the balance sheet is made — filed in **Form FC-3** with the prescribed fee. And under **section 381(2)**, if any of the specified documents are not in the English language, a certified translation in English shall be annexed.

The time limit, and the only extension available. The documents shall be delivered to the Registrar within six months from the close of the financial year of the foreign company to which they relate. Proviso: the Registrar may, for any special reason and on an application made in writing by the foreign company, extend that period by a period not exceeding three months. Applied: a financial year ending **31 March 2025** gives a due date of **30 September 2025**, and an approved extension takes it to **31 December 2025** at the outside. A company that files **after ten months** is **beyond even the maximum extended period.**

Audit of the Indian accounts. Under the Rules, every foreign company shall get its accounts pertaining to its Indian business operations, prepared in accordance with section 381(1) and the Rules, audited by a practising Chartered Accountant in India, or by a firm or limited liability partnership of practising chartered accountants. Further, the provisions of Chapter X — Audit and Auditors — and the rules made thereunder shall apply, as far as applicable, mutatis mutandis to

the foreign company.

Central Government relief — section 381(1) proviso. The Central Government may, by notification, direct that in the case of any foreign company or class of foreign companies the requirements of clause (a) of section 381(1) shall not apply, or shall apply subject to such exceptions and modifications as may be specified. It is the one relaxation printed in the pack on this section, and it is worth a line in a full-length answer.

What default does and does not do — section 393. Failure to comply does not affect the validity of any contract, dealing or transaction entered into by the company, or its liability to be sued in respect thereof. But until the company has complied with the provisions applicable to it, it cannot bring any suit, claim any set-off, make any counter-claim or institute any legal proceeding in respect of such contract, dealing or transaction. So a defaulting foreign company's claim that non-compliance affects it in no way is **only partly correct: the contracts survive, the right to enforce them does not.**

Understanding explain it, and place it in context · 1 question

- Distinguish the financial statements of the Indian business operations from the consolidated financial statements of the parent. Both go in, and an answer that mentions only one is incomplete.

TQ 3.2 · MTP 2024-Nov [6] (b) · 5M · Pg 558

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 3 questions

- Compute the dates: close of financial year, plus six months, plus the maximum three-month extension. Say where the company's actual filing falls against each.
- Where the company pleads that there was nothing to report, answer it directly — Nil statements are still required — rather than restating the general rule.

TQ 3.1 · MTP 2024-Mar [6] (b) · 5M · Pg 556

LEVEL II
Application

Medium

CSQ 3.1 · PYQ 2026-May [6] (b) · 5M · Pg 559

LEVEL II
Application

Medium

TQ 3.3 · MTP 2026-Apr S2 [6] (a) · 5M · Pg 558

LEVEL II
Application

Hard

Topic 4: Display of Name, Etc., of Foreign Company (Section 382)

L2P2-2A-C11-T04

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 11, Display of name etc. of a foreign company —

section 382.

NOTES

What the section covers. Section 382 governs the **display of the name and other particulars of a foreign company** — the name of the company and the country of its incorporation, and where they must be exhibited and stated. **The pack prints no question and no answer on this section**, so learn its particulars from the ICAI Study Material and do not reproduce a list from memory.

What can be sourced, and it is worth stating. Sections 380 to 386, and sections 392 and 393, **apply to all foreign companies** — so section 382 binds **every** company answering the definition in section 2(42), not only those with substantial Indian shareholding. And under **section 379(2)**, a foreign company in which the prescribed proportion of the paid-up capital is held by Indian citizens or Indian bodies corporate must comply with Chapter XXII and such other provisions as may be prescribed, with regard to the business carried on by it in India, as if it were a company incorporated in India.

The consequence of default. Contravention of any provision of Chapter XXII, which comprises sections 379 to 393, is punishable under section 392, and section 393 bars the company from suing, claiming set-off, making a counter-claim or instituting any legal proceeding on its contracts until it has complied. Those two consequences are the same whichever section of the chapter has been breached, so they can be stated with confidence in any answer that reaches this section.

Note on the Scanner. No question has been printed on section 382 in the papers covered by this pack. Treat it as a recall topic to be got from the Study Material, and be careful not to import the display requirements of an Indian company under section 12 into an answer on section 382.

Topic 5: Service on Foreign Company (Section 383)

L2P2-2A-C11-T05

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 11, Service on a foreign company — section 383.

NOTES

What the section covers. Section 383 deals with **service of documents on a foreign company** — how a process, notice or other document is validly served on a company incorporated outside India that has a place of business in India. **The pack prints no question and no answer on this section**, so the mode and address of service must come from the ICAI Study Material.

What can be sourced. Sections 380 to 386, and sections 392 and 393, apply to all foreign

companies. Section 383 therefore applies to every company answering **section 2(42)**, and, under **section 379(2)**, a foreign company crossing the Indian shareholding threshold complies with Chapter XXII as if it were a company incorporated in India, with regard to the business carried on by it in India.

Where it connects to what you do know. Service matters because of **section 393**: non-compliance with the chapter does not affect the validity of a contract, dealing or transaction, or the company's liability to be sued in respect thereof — the foreign company remains **suable** even while in default, and it is section 383 that makes suing it workable. What the defaulting company loses is the right to sue, not the liability to be sued.

Note on the Scanner. No question has been printed on section 383 in the papers covered by this pack. Learn the service provision from the Study Material; do not assume the service rules for an Indian company under section 20 apply unchanged.

Topic 6: Debentures, Annual Returns, Registration of Charges, Books of Account and their Inspection (Section 384)

L2P2-2A-C11-T06

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 11, Debentures, annual return, registration of charges, books of account and their inspection — section 384.

NOTES

What the section covers. Section 384 applies to foreign companies, with such exceptions, modifications and adaptations as may be made by rules, the provisions of the Act on debentures, annual return, registration of charges, and books of account and their inspection. It is the bridge by which parts of the Act written for Indian companies reach a foreign company's Indian business.

The pack prints no question and no answer on this section, so the specific sub-sections it borrows must be taken from the ICAI Study Material.

What can be sourced. Sections 380 to 386, and sections 392 and 393, apply to all foreign companies, so section 384 binds every company within **section 2(42)**. And under **section 379(2)**, where not less than fifty per cent of the paid-up share capital, whether equity or preference or partly equity and partly preference, is held by one or more citizens of India or by one or more companies or bodies corporate incorporated in India, whether singly or in the aggregate, the company must comply with Chapter XXII and such other provisions as may be prescribed, with regard to the business carried on by it in India, as if it were a company incorporated in India — which is where the wider borrowing of Indian company obligations comes from.

The related accounts obligations you can state with confidence. Alongside section 384, section 381 requires the foreign company to prepare a financial statement of its Indian business operations in accordance with Schedule III or as near thereto as possible and to get those accounts audited by a practising Chartered Accountant in India, or a firm or LLP of practising chartered accountants, **the provisions of Chapter X applying mutatis mutandis**. Where a question mixes books of account with accounts and audit, that is the sourced part of the answer.

Note on the Scanner. No question has been printed on section 384 in the papers covered by this pack. Do not state which provisions of Chapter V, Chapter VI, Chapter VII or Chapter IX are applied, or with what modifications, unless you have read it in the Study Material.

Topic 7: Fee for Registration of Documents

L2P2-2A-C11-T07

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 11, Fee for registration of documents by a foreign company — section 385, with the Companies (Registration Offices and Fees) Rules, 2014.

NOTES

What the topic covers. This is the **fee payable for the registration of documents** delivered by a foreign company to the Registrar under Chapter XXII. The pack prints no question and no answer setting out the fee provision itself, so the amounts and the manner of payment must come from the ICAI Study Material.

What can be sourced — the fee is always attached to a filing. Each filing obligation in this chapter carries its fee with it. The return of particulars of an alteration under section 380(3) shall be filed along with the prescribed fees under the Companies (Registration of Foreign Companies) Rules, 2014. The list of all places of business established in India is filed in Form FC-3 with such fee as provided under the Companies (Registration Offices and Fees) Rules, 2014. The financial statements under section 381 are filed with the Registrar read with Rule 4 of the Companies (Registration Offices and Fees) Rules, 2014. So in an answer, **state the document, the form, the time limit and then the fee rule** — that is the order the printed answers use.

Where it sits in the chapter. Sections 380 to 386, and sections 392 and 393, apply to all foreign companies, so the fee provision applies to every company within **section 2(42)**. Failure to file a document required by the chapter is a contravention punishable under section 392, and until compliance section 393 bars the company from suing, claiming set-off, making a counter-claim or instituting any legal proceeding on its contracts.

Note on the Scanner. No question has been printed on this topic in the papers covered by this pack. Do not quote a rupee figure for the registration fee — no printed answer in the pack contains

one.

Topic 8: Interpretation (Section 386)

L2P2-2A-C11-T08

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 11, Interpretation — section 386.

NOTES

What the section does. Section 386 is the **interpretation section for Chapter XXII** — it defines the expressions used in sections 379 to 393, including what is meant by a **place of business** and by the **date of establishment** of a place of business in India, and who is a **director** and a **secretary** for the purposes of the chapter. **The pack prints no question and no answer on this section**, so take the definitions themselves from the ICAI Study Material.

What can be sourced, and it does the interpretive work in practice. The definition that actually decides the questions in this chapter is **section 2(42)**: any company or body corporate incorporated outside India which (a) has a place of business in India, whether by itself or through an agent, physically or through electronic mode; and (b) conducts any business activity in India in any other manner. The printed answers apply it directly: **a branch office is a place of business, a liaison office is a place of business**, carrying on business through electronic mode is a place of business whether or not the main server is in India, but **employing agents in India without a place of business is not**, and **merely holding Board meetings in India is not conducting business activity**.

Where it sits in the chapter. Sections 380 to 386, and sections 392 and 393, apply to all foreign companies; **Chapter XXII comprises sections 379 to 393**; and contravention of any provision of the chapter is punishable under section 392, with the **section 393 disability** running until compliance.

Note on the Scanner. **No question has been printed on section 386 in the papers covered by this pack.** In an answer, prefer the section 2(42) definition, which the printed answers rely on, and cite section 386 only for a definition you have actually read in the Study Material.

Topic 9: Dating of Prospectus and Particulars to be Contained Therein (Section 387)

L2P2-2A-C11-T09

Read first Read ICAI Study Material Chapter 11, Dating of prospectus and particulars to be contained therein — section 387, with section 26.

NOTES

The rule in one line — section 387. A prospectus offering securities of a company incorporated outside India for subscription in India **must be dated and signed before it is circulated or distributed in India**. The dating and the signature are what fix **authenticity and accountability** for what the document says.

The particulars the prospectus must contain. It must state **(a) the instrument constituting or defining the constitution of the company**; (b) the enactments, or provisions, under which the incorporation of the company was effected; (c) an address in India where the instrument, enactments or provisions, or certified translations of them in English where they are not in English, can be inspected; **(d) the date on which and the country in which the company was incorporated**; and (e) whether the company has established a place of business in India and, if so, the address of its principal office in India. Learn these as five items — the answer is marked item by item.

Section 26 rides on top. The prospectus must also comply with the matters specified under section 26 of the Companies Act, 2013, which covers the essential details about the company, its management, its capital structure and the terms of the offering. So a foreign company's Indian prospectus has to satisfy **section 387 and section 26 together**; an answer that gives only the section 387 list is incomplete.

The exception, and it is the marked point. The requirements to state the instrument of constitution, the enactments or provisions under which incorporation was effected, and the address in India for inspection — items (a), (b) and (c) — do not apply where the prospectus is issued more than two years after the date on which the company is entitled to commence its business. **Note what the exception does not touch:** the date and country of incorporation and the Indian place of business details, and the dating and signing requirement, remain in every case.

Application use the section - apply it to the facts · 1 question

- If the facts tell you when the company became entitled to commence business, work out whether the prospectus is more than two years later and apply the exception expressly to items (a), (b) and (c).

TQ 9.1 · MQ · Pg 561

LEVEL II
Application

Medium

Topic 10: Provisions as to Expert's Consent and Allotment (Section 388)

L2P2-2A-C11-T10

Read first Read ICAI Study Material Chapter 11, Provisions as to expert's consent and allotment — section 388, with sections 33 and 40.

NOTES

The prohibition, and how wide it is — section 388(1). No person shall issue, circulate or distribute

in India any prospectus offering for subscription in securities of a company incorporated or to be incorporated outside India, whether the company has or has not been established, or when formed will or will not establish, a place of business in India, if either of the two conditions below is not met. **Note the reach:** the section bites **whether or not the company has a place of business in India** and **whether or not it has yet been incorporated** — this is not confined to foreign companies within section 2(42).

The expert's consent limb — clause (a). The prospectus may not be issued if, where the prospectus includes a statement purporting to be made by an expert, he has not given, or has before delivery of the prospectus for registration withdrawn, his written consent to the issue of the prospectus with the statement included in the form and context in which it is included, or there does not appear in the prospectus a statement that he has given and has not withdrawn his consent as aforesaid. Two things are needed and both are examinable: **the written consent itself**, and the statement in the prospectus recording that it was given and not withdrawn. The timing matters too — withdrawal before delivery of the prospectus for registration destroys the consent.

The allotment limb — clause (b). The prospectus may not be issued if it does not have the effect, where an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions of sections 33 and 40, so far as applicable. Section 388 does not restate those sections; it **imports** them, so that an applicant on a foreign company's Indian prospectus stands where an applicant on an Indian prospectus stands.

What counts as a statement 'included' in the prospectus — section 388(2). A statement shall be deemed to be included in a prospectus if it is contained in any report or memorandum appearing on the face thereof, or by reference incorporated therein, or issued therewith. This is the deeming that defeats the obvious avoidance: an expert's statement does not escape the consent requirement by being put in an accompanying report or incorporated by reference.

Understanding explain it, and place it in context · 1 question

- Quote the words 'whether the company has or has not established, or when formed will or will not establish, a place of business in India'. They show the section is not limited to registered foreign companies, and that is the point being tested.

TQ 10.1 · PYQ 2024-May [6] (b) (ii) · 2M · Pg 562

LEVEL I
Understanding

Easy

Topic 11: Registration of Prospectus (Section 389)

L2P2-2A-C11-T11

Read first Read ICAI Study Material Chapter 11, Registration of prospectus — section 389, with section 388 and the rules made thereunder.

NOTES

The rule in one line — section 389. No person shall issue, circulate or distribute in India any prospectus offering for subscription in securities of a company incorporated or to be incorporated outside India, whether the company has or has not established, or when formed will or will not establish, a place of business in India, unless before the issue, circulation or distribution of the prospectus in India, a copy certified by the chairperson of the company and two other directors of the company as having been approved by resolution of the managing body has been delivered for registration to the Registrar. Fix the certification: **the chairperson and two other directors**, certifying **approval by resolution of the managing body**. It applies even where no place of business has been established in India.

The two things that must appear on or with the copy. The prospectus must state on the face of it that a copy has been so delivered, and there must be endorsed on or attached to the copy any consent to the issue of the prospectus required by section 388, together with **such documents as may be prescribed**. The face statement and the endorsement are separate requirements and each is marked separately.

The documents to be annexed for registration. Read with the Companies (Registration of Foreign Companies) Rules, 2014, the following are annexed to the prospectus: (a) any consent to the issue of the prospectus required from any person as an expert; (b) a copy of contracts for the appointment of the managing director or manager, and, where a contract is not reduced into writing, a memorandum giving full particulars of it; (c) a copy of any other material contracts not entered into in the ordinary course of business but entered into within the preceding two years; **(d) a copy of the underwriting agreement**; and (e) a copy of the power of attorney, where the prospectus is signed through a duly authorised agent of the directors. The two-year window in item (c) and the ordinary-course exclusion are the details that get dropped.

How this section pairs with section 388. Section 388 says **what the prospectus must contain or be accompanied by** — the expert's written consent and the statement that it has not been withdrawn, and the binding effect of sections 33 and 40. Section 389 says **what must be done with the prospectus before it is issued** — certification, delivery to the Registrar, the statement on its face and the annexures. A complete answer on issuing a prospectus in India cites both.

Application use the section - apply it to the facts · 2 questions

- Where the question asks what documents must be annexed, give the list and nothing else — do not pad it with the general prospectus provisions. Where it asks for the procedure, give certification, delivery, face statement, endorsement of the section 388 consent, and then the annexures, in that order.

CSQ 11.1 · PYQ 2021-Dec [3] (b) (i) · 4M · Pg 564

LEVEL II
Application

Medium

TQ 11.1 · MTP 2025-Dec S2 [6] (b) · 5M · Pg 563

LEVEL II
Application

Hard

Topic 12: Offer of Indian Depository Receipts (Section 390)

L2P2-2A-C11-T12

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 11, Offer of Indian Depository Receipts — section 390.

NOTES

What the section covers. Section 390 empowers the Central Government to make rules for the **offer of Indian Depository Receipts** by a company incorporated outside India — including the class of companies that may issue them, the form and manner of issue, the conditions subject to which they may be issued, and the manner in which they may be dealt with. **The pack prints no question and no answer on this section**, so the rules, the classes of company and the conditions must be taken from the ICAI Study Material.

What can be sourced about its place in the chapter. Chapter XXII comprises sections 379 to 393. Sections 380 to 386, and sections 392 and 393, apply to all foreign companies; section 390 sits outside that list and operates as a rule-making power. Contravention of any provision of Chapter XXII is punishable under section 392, and section 393 bars the company from suing, claiming set-off, making a counter-claim or instituting any legal proceeding on its contracts until it has complied.

A definitional point that is sourced, and adjacent. Under the Rules on **electronic mode**, offering to accept deposits or inviting or accepting deposits or subscriptions in securities, in India or from citizens of India is electronic mode for the purposes of section 2(42); but electronic based offering of securities, subscription thereof or listing of securities in the International Financial Services Centres set up under section 18 of the Special Economic Zones Act, 2005 shall not be construed as electronic mode. Where a question mixes IDRs with foreign company status, that carve-out is the sourced part of the answer.

Note on the Scanner. No question has been printed on section 390 in the papers covered by this pack. Do not state figures, eligibility conditions or listing requirements for IDRs that you have not read in the Study Material.

Topic 13: Application of Sections 34 to 36 and Chapter XX (Section 391)

L2P2-2A-C11-T13

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 11, Application of sections 34 to 36 and Chapter XX — section 391.

NOTES

What the section does. Section 391 applies sections 34 to 36 and the provisions of Chapter XX to a company incorporated outside India — sections 34 to 36 being the prospectus liability provisions and Chapter XX the winding up provisions — in the manner and to the extent the section provides.

The pack prints no question and no answer on this section, so the precise conditions on which the winding up provisions are applied must come from the ICAI Study Material.

What can be sourced, and it is the natural companion. Section 388(1)(b) already requires that a prospectus offering securities of a company incorporated outside India for subscription in India must have the effect, where an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions of sections 33 and 40, so far as applicable. Section 391 continues that pattern of importing the Indian prospectus regime. State section 388 for what you can source, and section 391 for the heads it applies, without adding conditions you have not read.

Where it sits in the chapter. Chapter XXII comprises sections 379 to 393, contravention of any provision of the chapter is punishable under section 392, and section 393 provides that non-compliance does not affect the validity of any contract, dealing or transaction, or the company's liability to be sued, but bars the company from bringing any suit, claiming any set-off, making any counter-claim or instituting any legal proceeding until it has complied.

Note on the Scanner. No question has been printed on section 391 in the papers covered by this pack. Be particularly careful with the winding up limb — do not state which company may be wound up, or on what grounds, from memory.

Topic 14: Punishment for Contravention (Section 392)

L2P2-2A-C11-T14

Read first Read ICAI Study Material Chapter 11, Punishment for contravention — section 392, in the setting of Chapter XXII (sections 379 to 393).

NOTES

What section 392 covers. Chapter XXII of the Companies Act, 2013 comprises sections 379 to 393 and lays down the governing provisions for foreign companies. The penalties for non-filing, and for contravention of any provision of this chapter — including non-filing of documents with the Registrar as required by section 380 and by the other sections in the chapter — are laid down in section 392. So section 392 is not a section you reach only for one default: it is the **single penal provision for the whole chapter**.

The penalty on the company. If a foreign company contravenes the provisions of this chapter, the foreign company shall be punishable with a fine which shall not be less than ₹1,00,000 but which may extend to ₹3,00,000, and, in the case of a continuing offence, with an additional fine which

may extend to ₹50,000 for every day after the first during which the contravention continues.

The penalty on the officer. Every officer of the foreign company who is in default shall be punishable with fine which shall not be less than ₹25,000 but which may extend to ₹5,00,000. Note the shape of it: the officer's maximum (₹5,00,000) is higher than the company's maximum (₹3,00,000), while the company's minimum is the higher of the two minimums. Students routinely reverse these, so learn the four figures as a set — ₹1,00,000 to ₹3,00,000 for the company, ₹50,000 a day continuing, ₹25,000 to ₹5,00,000 for the officer in default.

Applying it. The question is usually short and factual: a foreign company failed to deliver documents to the Registrar as required under section 380, what is the penalty. Answer in three moves — **the default is a contravention of Chapter XXII, section 392 supplies the penalty for contraventions of the chapter, here are the figures for the company and for every officer in default.** Add the continuing-offence limb, because a failure to file is by nature a continuing default.

Understanding explain it, and place it in context · 1 question

- Open by saying that section 392 penalises contravention of any provision of Chapter XXII, then name the section actually breached. The link between the two carries a mark in a two-mark question.

TQ 14.1 · PYQ 2018-Nov [6] (b) · 2M · Pg 565

LEVEL I
Understanding

Easy

Topic 15: Company's Failure to Comply with Provisions of this Chapter not to affect Validity of Contracts, Etc. (Section 393)

L2P2-2A-C11-T15

Read first Read ICAI Study Material Chapter 11, Company's failure to comply with the provisions of this Chapter not to affect validity of contracts etc. — section 393.

NOTES

The rule in two halves — section 393. Any failure by a company to comply with the provisions of Chapter XXII shall not affect the validity of any contract, dealing or transaction entered into by the company or its liability to be sued in respect thereof. But the company shall not be entitled to bring any suit, claim any set-off, make any counter-claim or institute any legal proceeding in respect of any such contract, dealing or transaction, until the company has complied with the provisions of the Companies Act, 2013 applicable to it. Both halves must be written out — the section is a shield for the Indian counterparty and a disability on the foreign company.

Read the disability as a list of four. The foreign company in default cannot **bring any suit, claim any set-off, make any counter-claim, or institute any legal proceeding** in respect of the contract. Give all four; the examiner sets the fact pattern around the one you are most likely to omit, usually

the set-off or the counter-claim.

The disability is temporary, and that is the point of the words 'until'. The bar lifts once the company has complied with the provisions applicable to it. So the correct advice is never that the foreign company has lost its money — it is that it must first regularise its position under the chapter and can then enforce.

Applied. A foreign company to which Chapter XXII applies supplies machinery to an Indian company, which refuses to pay; the foreign company then finds it has not complied with the registration provisions of the chapter. **The contract remains valid and the Indian company remains bound to pay; but the foreign company cannot sue on it until it complies.** Where the same point is raised as a defence to a filing default under section 381, the company's claim that non-compliance affects it in no way is **only partly correct** — the contracts survive, the right to enforce them does not.

Do not confuse section 393 with section 392. Section 392 punishes the contravention; section 393 governs its effect on contracts. A default produces both consequences at once: a fine on the company and its officers, and a bar on enforcement until compliance.

Application use the section - apply it to the facts · 1 question

- Answer in the order the section is drafted: first the validity of the contract and the liability to be sued, then the four things the company cannot do, then the word 'until' and what lifts the bar.
- Where the question asks whether the company can sue, say no, and then say what it must do to be able to. A conclusion without the cure is incomplete.

CSQ 15.1 · MTP 2024-Dec S2 [6] (b) · 5M · Pg 566

LEVEL II
Application

Medium

Topic 16: Rule 12 of Companies (Registration of Foreign Companies) Rules, 2014

L2P2-2A-C11-T16

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 11, Rule 12 of the Companies (Registration of Foreign Companies) Rules, 2014.

NOTES

What this topic is. It is a rule under the Companies (Registration of Foreign Companies) Rules, 2014, the rules made under Chapter XXII. **The pack prints no question and no answer on Rule 12,** and no printed answer in it states the content of that rule, so **take Rule 12 from the ICAI Study**

Material and do not reconstruct it from the neighbouring rules.

What the pack does source from these Rules, and it is worth having together. 'Electronic mode' is defined in Rule 2(1)(c) for the purposes of section 2(42). The return of particulars of an alteration under section 380(3) is filed with the prescribed fees under these Rules. The financial statement of the Indian business operations is prepared in accordance with Schedule III or as near thereto as possible, with the parent's latest consolidated financial statements attached. **The list of all places of business established in India is filed in Form FC-3.** The accounts of the Indian business operations are audited by a practising Chartered Accountant in India, or a firm or LLP of practising chartered accountants, and Chapter X applies mutatis mutandis. The documents to be annexed to a prospectus for registration under section 389 are prescribed by these Rules.

Where it sits. Chapter XXII comprises sections 379 to 393; sections 380 to 386 and sections 392 and 393 apply to all foreign companies; contravention of any provision of the chapter is punishable under section 392; and section 393 bars the company from suing, claiming set-off, making a counter-claim or instituting any legal proceeding until it has complied.

Note on the Scanner. No question has been printed on Rule 12 in the papers covered by this pack. If a question names it, answer from the Study Material; if a question merely concerns foreign company filings, answer from the rules above, which the printed answers do support.

Topic 17: Exemption under this Chapter

L2P2-2A-C11-T17

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 11, Exemptions under Chapter XXII — section 381(1) proviso and the exclusions in the definition of electronic mode.

NOTES

The Central Government's power to exempt from the accounts requirement. The Central Government is empowered to direct that, in the case of any foreign company or class of foreign companies, the requirements of clause (a) of section 381(1) shall not apply, or shall apply subject to such exceptions and modifications as may be specified in a notification in that behalf. Clause (a) is the obligation to **make out a balance sheet and profit and loss account in the prescribed form**, so the relief goes to the preparation requirement itself.

The extension of time under section 381 — a relaxation, not an exemption. The documents are to be delivered to the Registrar within six months from the close of the financial year, and the Registrar may, for any special reason and on an application made in writing by the foreign company, extend that period by a period not exceeding three months. **Two conditions gate it: a special reason, and a written application.** It does not run automatically, and a company that files

after ten months is outside even the extended period. Note too what is **not** exempted: even where there are no transactions of the kind described, Nil statements must still be filed.

The IFSC carve-out from 'electronic mode'. Electronic based offering of securities, subscription thereof or listing of securities in the International Financial Services Centres set up under section 18 of the Special Economic Zones Act, 2005 shall not be construed as electronic mode for the purpose of clause (42) of section 2 of the Act — inserted by the **Companies (Specification of Definitions Details) Third Amendment Rules, 2021**. This is an exemption at the definition stage: the activity is carried on electronically, but it **does not make the company a foreign company**.

The threshold exemptions built into the sections themselves. Section 379(2) applies only where not less than fifty per cent of the paid-up share capital is held by Indian citizens or Indian bodies corporate or both — below that, the deeming does not apply and **49% Indian shareholding leaves the company simply a foreign company**. And under **section 387**, the requirements to state the instrument of constitution, the enactments under which incorporation was effected, and the Indian address for inspection do not apply where the prospectus is issued more than two years after the date on which the company is entitled to commence its business.

Note on the Scanner. No question is printed under this topic heading in the pack. Everything above is drawn from the printed answers on sections 379, 381 and 387 and on the definition of electronic mode; any further exemption, and any exemption notification, must come from the ICAI Study Material.

PART 2A · CORPORATE LAWS · CHAPTER 12

The Limited Liability Partnership Act, 2008

9 Topics · 32 Classified Questions · Importance: B

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**

Level I — Comprehension & Knowledge **28.4%** 42 of 148 marks

Level II — Analysis & Application **71.6%** 106 of 148 marks

This chapter sits on the paper's own profile — 28% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: LLP- Meaning and Concept

L2P2-2A-C12-T01

Read first Read ICAI Study Material Chapter 12, LLP — meaning and concept — sections 2(1)(l), 2(1)(ta), 6 and 26 of the LLP Act, 2008.

NOTES

The hybrid, in one line: an LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership. Take the two halves separately, because the question is usually set in those words. **Limited liability — section 26:** every partner of an LLP is, for the purpose of the business of the LLP, the agent of the LLP, but not of the other partners; **the liability of the partners is limited to their agreed contribution**, while **the LLP itself is liable to the full extent of its assets**. **Flexibility — the agreement:** the LLP lets its members organise their internal structure as a partnership on a mutually arrived agreement, which is why it suits professionals, technical and scientific services, small enterprises and venture capital investment.

Small LLP — section 2(1)(ta). An LLP is a small LLP where the contribution does not exceed twenty-five lakh rupees, or such higher amount as may be prescribed not exceeding five crore rupees; **and** the turnover, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed forty lakh rupees, or such higher amount as may be prescribed not exceeding fifty crore rupees; **or** which meets such other requirements as may be prescribed and fulfils such terms and conditions as may be prescribed. Quote the outer prescribed ceilings — ₹5 crore and ₹50 crore — because the scenario is usually built on them.

Applying the small LLP test. Run the two limbs one after the other and say which limit each figure is measured against. A contribution of ₹20 lakh is inside the ₹25 lakh limit and a turnover of ₹35 lakh is inside the ₹40 lakh limit, so the LLP **qualifies**. If turnover later **exceeds ₹50 crore**, the LLP **no longer meets the requirements of a small LLP** and becomes subject to the full compliance requirements applicable to regular LLPs. Note that the turnover taken is that per the Statement of

Accounts and Solvency for the immediately preceding financial year, not the current year's projection.

Financial year — section 2(1)(l). In relation to an LLP, financial year means the period from the 1st day of April of a year to the 31st day of March of the following year. **Exception:** where an LLP is **incorporated after the 30th day of September of a year** (the Scanner also puts it as **on or after the 1st day of October**), **the financial year may end on the 31st day of March of the year next following** — that is, a first year longer than twelve months. An LLP therefore **cannot** elect a January to December year; advice to keep the accounts on a calendar-year basis is wrong in law.

Minimum of two partners — section 6. Every LLP shall have at least two partners. If at any time the number is **reduced below two** and the LLP **carries on business for more than six months** while the number is so reduced, the person who is the only partner during the time it so carries on business after those six months, and who has knowledge of the fact that it is carrying on business with him alone, is personally liable for the obligations of the LLP incurred during that period. Three conditions travel together — **more than six months, knowledge**, and liability **only for the obligations of that period**. The LLP is not automatically dissolved; it continues, and the sole partner simply loses the shield.

The pairing the examiner uses. A single-partner scenario is almost always followed by winding up, so carry section 6 straight into **section 64**: the Tribunal may wind up an LLP where **the number of partners is reduced below two for a period of more than six months**, and also where the LLP decides to be wound up by the Tribunal, where it has acted against the interests of the sovereignty and integrity of India, the security of the State or public order, where it has defaulted in filing the Statement of Account and Solvency or annual return for any five consecutive financial years, or where **the Tribunal is of opinion that it is just and equitable** that it be wound up.

Remembering reproduce what you have learnt · 2 questions

- The definitions of 'small limited liability partnership' and 'financial year' are asked bare, for five marks. Reproduce the clause number and the figures exactly — the marks sit on ₹25 lakh/₹5 crore and ₹40 lakh/₹50 crore, and on the 30 September cut-off.

TQ 1.2 · MTP 2024-Jul [4] (b) · 5M · Pg 571

LEVEL I
Remembering

Medium

TQ 1.3 · MTP 2024-Nov [4] (b) · 5M · Pg 572

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 2 questions

- When asked to explain the hybrid character, split the answer under two headings, 'Limited Liability' and 'Flexibility of a partnership'. An answer that describes only the liability half loses half the marks.

TQ 1.1 · MTP 2024-Mar [5] (a) · 5M · Pg 571

LEVEL I
Understanding

Medium

CSQ 1.1 · PYQ 2024-May [4] (b) · 5M · Pg 572

LEVEL I
Understanding

Medium

Topic 2: Incorporation of LLP

L2P2-2A-C12-T02

Read first Read ICAI Study Material Chapter 12, Incorporation of LLP — sections 5, 7, 8, 13, 15, 16, 17, 23 and 32 of the LLP Act, 2008, with Rule 21 of the LLP Rules, 2009.

NOTES

Designated partners — section 7. Every LLP shall have at least two designated partners who are individuals, and at least one of them shall be a resident in India. Two consequences the examiner tests. First, a body corporate cannot itself be a designated partner — only individuals are eligible; where all the partners are bodies corporate, at least two individuals must be appointed as designated partners. Second, appointing two non-residents as the only designated partners **is not in consonance with the Act**, however sound they are commercially. For residency, the Scanner's answer takes a resident of India as a person who has stayed in India for at least 120 days in the financial year, so a designated partner who relocates permanently abroad will cease to satisfy it.

Who may be a partner — section 5, and the three exclusions. Any individual or body corporate may be a partner in an LLP. The marks are in what is left out. **A co-operative society cannot** be inducted, because the definition of body corporate under the LLP Act does not include a co-operative society registered under any law for the time being in force. **A HUF, and its Karta, cannot** — clarified by **MCA General Circular No. 13/2013 dated 29 July 2013** and **MCA General Circular No. 2/16 dated 15 January 2016**, a HUF is not a body corporate for the purposes of the Act, so neither the HUF nor its Karta can be a partner or a designated partner. **A trust cannot**, because a trust is not recognised as a body corporate in India. The classic wrong answer reads 'body corporate' loosely and lets all three in.

Responsibility of designated partners — sections 7 and 8. The incorporation document must **specify the designated partners**, or they must be appointed in accordance with the LLP agreement; so an LLP whose agreement is silent is still validly formed where the incorporation document names them. Designated partners are **responsible for ensuring that the LLP complies with the Act**, and where the LLP fails to comply they are **personally liable for the penalties** and may face fines or other legal consequences. **Ignorance is no defence:** a designated partner who says he was unaware of the regulatory requirement **cannot plead ignorance and cannot avoid the liability**, and nor can he shift it by delegating the work to an employee.

Name — sections 15, 16 and 17. Under **section 15**, no LLP shall be registered by a name which, in the opinion of the Central Government, is undesirable, or is identical with or too nearly resembles that of any other LLP or a company or a registered trade mark of any other person under the Trade Marks Act, 1999. Under **section 16**, a person may apply to the Registrar to reserve a name either as the name of a proposed LLP or as the name to which an existing LLP proposes to change its

name, in the prescribed form and manner with the prescribed fee; if satisfied that the name is not liable to be rejected under **section 15(2)**, the Registrar may reserve it for a period of three months from the date of intimation by the Registrar.

Rectification of name — section 17, and the trap in it. Notwithstanding sections 15 and 16, if **through inadvertence or otherwise** an LLP is registered, on first registration or on registration by a new name, by a name identical with or too nearly resembling that of any other LLP or a company, or a registered trade mark of a proprietor under the Trade Marks Act, 1999 as likely to be mistaken, then on the application of such LLP, proprietor or company the Central Government may direct the LLP to change its name within three months from the date of issue of the direction.

Proviso: an application by the proprietor of a registered trade mark is maintainable only within three years from the date of incorporation, registration or change of name of the LLP. **The trap:** the section covers resemblance to **an LLP, a company or a registered trade mark only** — a firm registered under the Indian Partnership Act, 1932 is not in the list, so an LLP need not change its name merely because it resembles a partnership firm's name. **After a change:** within **15 days** of the change the LLP gives notice to the Registrar with the Central Government's order, and within **30 days** of the consequent change in the certificate of incorporation it changes the name in the LLP agreement.

Registered office and service — section 13. Every LLP shall have a registered office to which all communications and notices may be addressed and where they shall be received. A document may be served on the LLP, or on a partner or designated partner, by post under a certificate of posting, by registered post or in any other prescribed manner, at the registered office and at any other address specifically declared by the LLP for the purpose. An LLP may change the place of its registered office and file notice of the change with the Registrar, but **any such change takes effect only upon such filing**. So an LLP that physically shifts and does not file has **not** changed its registered office — the old address remains the registered office and **service there is legally valid**, even though nobody is sitting at it.

LLP agreement and contribution — section 23 with Rule 21, and section 32. The **LLP agreement must be in writing and filed with the Registrar** in the prescribed form and manner; Rule 21 of the LLP Rules, 2009 requires information relating to the agreement to be filed in Form 3 within thirty days from the date of incorporation, and its proviso requires **any change in the agreement to be filed within thirty days of the change**. An agreement submitted on the twentieth day is therefore in time. On contribution, **section 32(1)** is deliberately wide: a partner's contribution may consist of tangible or intangible property, movable or immovable, or any other benefit to the LLP, including money, promissory notes, agreements to contribute cash or property, and contracts for services performed or to be performed — so **a promise of future services for a year is a valid contribution**, and partners who object to it are wrong.

Understanding explain it, and place it in context · 1 question

- For a name question, state section 15 (what may not be registered), then section 16 (reservation and the three-month period), then section 17 (the direction to change) — the examiner marks the three separately.

CSQ 2.2 · RTP 2024-Sep [17] · Pg 574

LEVEL I
Understanding**Medium****Application** use the section - apply it to the facts · 4 questions

- Set out the section, apply it to the facts, then give a one-line conclusion naming the party. The conclusions here are short and blunt — 'the appointment is not in consonance with the Act', 'service at the Mumbai address is legally valid' — and they carry marks of their own.
- Where the question gives a date of incorporation and a date of filing, do the arithmetic on the page. Twenty days against a thirty-day limit is compliance; say so in those words.

CSQ 2.1 · MTP 2024-Mar [4] (b) · 5M · Pg 573

LEVEL II
Application**Medium**

CSQ 2.3 · MTP 2025-Mar S1 [4] (b) · 5M · Pg 575

LEVEL II
Application**Medium**

CSQ 2.5 · RTP 2025-May [17] · Pg 577

LEVEL II
Application**Medium**

CSQ 2.7 · RTP 2025-Sep [17] · Pg 579

LEVEL II
Application**Medium****Analysis** break it down and take the parts separately · 4 questions

- These questions come in numbered parts — designated partner, agreement, contribution, eligibility of a proposed partner. Answer them in the order asked, one section per part, and do not merge them into a single narrative.
- When a proposed partner is a co-operative society, a HUF or a trust, the analysis is the same each time: start from section 5, then show that the entity is not a body corporate for the purposes of the LLP Act.

CSQ 2.4 · MTP 2025-Mar S2 [4] (b) · 5M · Pg 576

LEVEL II
Analysis**Medium**

CSQ 2.6 · MTP 2025-Aug S2 [4] (b) · 5M · Pg 578

LEVEL II
Analysis**Medium**

CSQ 2.8 · PYQ 2025-Sep [4] (b) · 5M · Pg 580

LEVEL II
Analysis**Medium**

CSQ 2.9 · PYQ 2025-Sep [5] (b) · 5M · Pg 581

LEVEL II
Analysis**Medium**

Topic 3: Partners and their Relations

L2P2-2A-C12-T03

Read first Read ICAI Study Material Chapter 12, Partners and their relations — sections 24, 25, 26, 27 and 31 of the LLP Act, 2008, with sections 7 and 8 on designated partners.

NOTES

Separate entity, limited liability — the answer to every creditor scenario. An LLP is a body corporate formed and incorporated under the LLP Act, 2008 and a legal entity separate from that of its partners. The LLP is liable to the full extent of its assets; the liability of the partners is limited to their agreed contribution. It follows that the creditors of an LLP are creditors of the LLP alone and cannot claim from the partners. So where the claim is ₹10,00,000 and the assets realise ₹7,00,000, **the shortfall of ₹3,00,000 cannot be demanded from the partners.** Do not water this down with a general reference to 'limited liability' — name the separate legal entity, then the limit on the partners, then the conclusion.

Whistleblowers — section 31. Sub-section (1): the Court or Tribunal may reduce or waive any penalty leviable against any partner or employee of an LLP if satisfied that (a) such partner or employee has provided useful information during the investigation of the LLP, or (b) any information given by him, whether or not during an investigation, leads to the LLP or any partner or employee being convicted under this Act or any other Act. **Sub-section (2):** no partner or employee may be discharged, demoted, suspended, threatened, harassed or in any other manner discriminated against in the terms and conditions of his LLP or employment merely because of his providing information, or causing information to be provided, under sub-section (1). The two limbs answer two different questions — the first whether the penalty can go, the second whether the LLP can retaliate — and a scenario usually asks both.

Former partners — section 24(3). Where a person has ceased to be a partner, the former partner is still to be regarded, in relation to any person dealing with the LLP, as being a partner of the LLP, unless (a) **that person has notice that the former partner has ceased to be a partner**, or (b) notice that he has ceased to be a partner has been delivered to the Registrar. Either route ends the exposure; neither happening leaves it in place. So a partner who resigns and neither he nor the LLP informs the Registrar **remains liable for transactions entered into after the date of his resignation.** Resignation by itself, however clearly minuted, is not enough.

Changes in partners and their particulars — section 25. (1) Every partner shall inform the LLP of any change in his name or address within fifteen days of the change. (2) The LLP shall file a notice with the Registrar (a) within thirty days from the date a person becomes or ceases to be a partner, and (b) within thirty days of any change in the name or address of a partner. **(3)** the notice shall be in the prescribed form with the prescribed fees, shall be signed by a designated partner of the LLP and authenticated as prescribed, and, if it relates to an incoming partner, shall contain a statement by that partner that he consents to becoming a partner, signed by him and authenticated in the prescribed manner. Note that there are **two separate defaults** — the partner's fifteen days and

the LLP's thirty days — and a scenario often contains both. Filing on the forty-fifth day after admission is a non-compliance under section 25(2).

A vacancy in the designated partners. Every LLP must have at least two designated partners who are individuals, at least one of them resident in India, and a vacancy must be filled within the period the Act allows from the date it arises — **the pack does not print that number of days, so do not quote one.** Where the number falls below the minimum and is not made up, **every partner of the LLP is deemed to be a designated partner for that period.** That deeming answers the standard excuse: a designated partner is responsible for compliance with the Act, and delegating the filing work to an accounts manager does not shift the responsibility. Say who is responsible in the general case — the designated partners and the LLP itself — and then add the deeming provision that catches every partner during the vacancy.

Understanding explain it, and place it in context · 1 question

- State the rule as a rule before you apply it. For section 24(3) that means writing out the deeming and both exceptions, then saying which exception is missing on the facts.

TQ 3.1 · PYQ 2024-May [5] (b) (i) · 3M · Pg 583

LEVEL I
Understanding

Easy

Application use the section - apply it to the facts · 2 questions

- Where a partner has left, the whole answer turns on notice. Ask two questions in order: did the person dealing with the LLP have notice, and was notice delivered to the Registrar. If both answers are no, the former partner is liable.
- Where the question gives dates, anchor the conclusion to them — 'transactions entered into after 11 November, 2024' — rather than concluding in the abstract.

CSQ 3.1 · RTP 2024-May [17] · Pg 583

LEVEL II
Application

Medium

CSQ 3.2 · MTP 2024-Nov [5] (a) · 5M · Pg 584

LEVEL II
Application

Medium

Analysis break it down and take the parts separately · 3 questions

- A section 25 scenario usually hides two defaults, one by the partner and one by the LLP. Deal with each separately and name the sub-section breached in each case.

CSQ 3.3 · PYQ 2025-Jan [4] (b) · 5M · Pg 585

LEVEL II
Analysis

Medium

CSQ 3.4 · PYQ 2026-Jan [5] (b) · 5M · Pg 586

LEVEL II
Analysis

Medium

CSQ 3.5 · PYQ 2026-Sep [4] (b) · 5M · Pg 587

LEVEL II
Analysis

Medium

Topic 4: Financial Disclosures

L2P2-2A-C12-T04

Read first Read ICAI Study Material Chapter 12, Financial disclosures and the extent of liability — sections 24, 27, 37 and 38 of the LLP Act, 2008.

NOTES

False statements — section 37. Where, in any return, statement or other document required by or for the purposes of any of the provisions of the Act, any person makes a statement **which is false in any material fact knowing it to be false, or which omits any material fact knowing it to be material**, he shall, **save as otherwise expressly provided in this Act**, be punishable with imprisonment for a term which may extend to two years, and shall also be liable to fine which may extend to five lakh rupees but which shall not be less than one lakh rupees. Two things carry the marks: the punishment is **imprisonment and fine, not one or the other**, and the fine has a **floor of ₹1,00,000** as well as a ceiling of ₹5,00,000.

The Registrar's power to call for information — section 38(1). To obtain such information as he considers necessary for carrying out the provisions of the Act, the Registrar may require any person, including any present or former partner or designated partner or employee of an LLP, to answer any question, make any declaration, or supply any details or particulars in writing to him within a reasonable period. **The word 'former' is in the section.** The classic wrong answer is that a person who has already left the LLP is beyond the Registrar's reach; she is not, and the fact that she is a former designated partner is no answer to the notice.

What the Registrar can do next — section 38(2). Where the person does not answer the question, make the declaration or supply the details within a reasonable time or the time given by the Registrar, or where the Registrar is not satisfied with the reply, declaration, details or particulars provided, the Registrar has power to summon that person to appear before him, or before an inspector or any other public officer whom the Registrar may designate, to answer the question, make the declaration or supply the details. Note that **an unsatisfactory reply is treated the same as no reply** — an incomplete answer filed within time does not close the matter.

When the LLP is bound by a partner's act — section 27. An LLP is not bound by an act of a partner only if both of the following are satisfied: the partner in fact had no authority to act for the LLP in that matter; and the person dealing with him knew that he had no authority, or did not believe him to be a partner of the LLP. Both limbs, cumulatively. Internal restrictions in the LLP agreement bind the partners among themselves but do not protect the LLP against an outsider who does not know of them. So where the agreement allows only two named partners to contract and a third takes a bank loan for a line of business outside the LLP's usual activity, the first limb is satisfied but the second is not — the bank was unaware — and **the LLP is bound**.

Retirement and continuing liability — section 24. On retirement a partner continues to be treated as a partner in relation to persons dealing with the LLP unless that person has been informed of the retirement or a notice of it has been filed with the Registrar; and separately, retirement does

not automatically release the former partner from liabilities incurred while he was a partner. Keep the two propositions apart in your answer. In the standard scenario the retiring partner is caught by the first: a contract made days after he left, by a client with no notice of his cessation and with nothing filed with the Registrar, **can be enforced against him**.

Application use the section - apply it to the facts · 1 question

- Section 27 is a two-condition test and the answer is decided by whichever condition fails. Say expressly which limb is satisfied and which is not, then conclude that the LLP is or is not bound.
- Where the question has numbered parts on different partners, take them one at a time under their own section — section 27 for the unauthorised act, section 24 for the retired partner — and do not carry the reasoning of one into the other.

TQ 4.1 · PYQ 2024-May [5] (b) (ii) · 2M · Pg 589

LEVEL II
Application

Easy

Analysis break it down and take the parts separately · 2 questions

- Answer the numbered limbs in order. Each asks about a different actor — the Registrar, a former partner, a third party — so **identify the actor before you identify the section**.
- Where a third party dealt with the LLP without notice of an internal restriction, say what the LLP agreement does and does not do against that person.

CSQ 4.1 · MTP 2026-Apr S2 [2] (c) · 4M · Pg 589

LEVEL II
Analysis

Medium

CSQ 4.2 · PYQ 2026-May [4] (b) · 5M · Pg 590

LEVEL II
Analysis

Medium

Topic 5: Assessment and Transfer of Partnership Rights

L2P2-2A-C12-T05

Read first Read ICAI Study Material Chapter 12, Assessment and transfer of partnership rights — section 42 of the LLP Act, 2008.

NOTES

What is transferable — section 42(1). The rights of a partner to a share of the profits and losses of the LLP and to receive distributions in accordance with the LLP agreement are transferable, either wholly or in part. So the economic interest can be assigned, and it can be assigned in a fraction — 40% or 70% of a partner's share is as valid a transfer as the whole.

What the transfer does not do to the partner — section 42(2). The transfer of any right by a partner under sub-section (1) does not by itself cause the disassociation of the partner, or a

dissolution and winding up of the LLP. **'By itself' is the operative expression.** The transferor stays a partner with all his other rights and duties; the LLP carries on. A claim that a partner who has assigned part of his profit share has thereby left the LLP is simply wrong.

What the transfer does not give the transferee — section 42(3). The transfer does not, by itself, entitle the transferee or assignee to participate in the management or conduct of the activities of the LLP, or to access information concerning the transactions of the LLP. Both denials are in the same sub-section and both are examined. A transferee who demands a role in the business, or sight of the trading transactions, has no right to either, and **the partners are correct in refusing** — the transferee has **no remedy against the denial**.

The line to hold on to. What passes under section 42 is **the money, not the membership**. Profit share and distributions move; management rights, information rights and the status of partner do not. Every scenario on this topic is built on someone confusing the two — a friend who is given part of the profits and then asks to run the business, a daughter who receives 70% of the profits and then asks for the trading records. Answer both halves of such a question from the one section, sub-section by sub-section.

Application use the section - apply it to the facts · 1 question

- Take the transferor and the transferee separately. First say what has happened to the partner (no disassociation, no dissolution), then say what the transferee has acquired (profits only) and what he has not (management, information).
- Finish with the plain conclusion the examiner is looking for — the partners were right to refuse, and the transferee has no remedy.

CSQ 5.1 · PYQ 2024-Sep [5] (b) · 5M · Pg 594

LEVEL II
Application

Medium

Analysis break it down and take the parts separately · 1 question

- The transferee makes two claims. **Deal with them one at a time** — the right to participate in management, and the effect on the transferor's own status.
- State what a transfer of a share of profits does and does not carry. The whole answer follows from that single distinction.

TQ 5.1 · RTP 2026-Jan [17] · Pg 592

LEVEL II
Analysis

Hard

Topic 6: Conversion into LLP

L2P2-2A-C12-T06

Read first Read ICAI Study Material Chapter 12, Conversion into LLP — sections 57 and 58 of the LLP Act, 2008 with the Fourth Schedule.

NOTES

The enabling provision — section 57 with the Fourth Schedule. An unlisted public company is permitted to convert itself into an LLP by complying with the prescribed legal requirements of section 57 read with **the Fourth Schedule** to the Act. Name the schedule; conversion answers that do not cite it lose the reference mark.

Registration of the conversion — section 58(1). If the Registrar is satisfied that the company has fulfilled all the conditions laid down in the Act and in the Fourth Schedule, the Registrar shall register the conversion documents and issue a Certificate of Registration; from the date mentioned in that certificate, the LLP comes into existence under the LLP Act. The gate is the Registrar's satisfaction on the statutory conditions — nothing else.

Effect of registration — section 58. From the date specified in the certificate: (a) a new LLP is formed and registered under the name specified in the Certificate of Registration; (b) all the company's movable and immovable property, tangible and intangible assets, rights, interests, privileges, liabilities, obligations and the whole of its business undertaking transfer to and vest in the LLP, and this happens by operation of law, so that no separate deed, agreement or further legal formality is required; and (c) the company is deemed to be dissolved and its name is removed from the records of the Registrar of Companies. The vesting and the dissolution are automatic and simultaneous — that is the whole point of the section.

The red herring the examiner plants. A pending regulatory proceeding — typically a show cause notice under the Companies Act, 2013 for alleged failure to comply with accounting standards, not yet concluded — **does not by itself prohibit conversion into an LLP**. Deal with it head on: say that the proceeding is pending, then say that the Act makes the Registrar's satisfaction on the conditions of the Act and the Fourth Schedule the test, and conclude that conversion may legally proceed if those conditions are met. An answer that refuses conversion because litigation is pending gets the law wrong.

Understanding explain it, and place it in context · 1 question

- The effect of registration under section 58 is a three-limb answer — new LLP, automatic vesting without any further instrument, deemed dissolution and removal from ROC records. Write all three, in that order.

CSQ 6.1 · PYQ 2026-May [5] (b) (2 + 3 = 5 Marks) · 5M · Pg 594

LEVEL I
Understanding

Medium

Topic 7: Compromise, Arrangement or Reconstruction of LLPs

L2P2-2A-C12-T07

Read first Read ICAI Study Material Chapter 12, Compromise, arrangement or reconstruction of LLPs — section 60 of the LLP Act, 2008, with sections 29(2) and 42.

NOTES

Who may move, and for what — section 60(1). Where a compromise or arrangement is proposed **between an LLP and its creditors**, or **between an LLP and its partners**, the Tribunal may, on the application of the LLP, or of any creditor or partner of the LLP, or, where the LLP is being wound up, of the liquidator, order a meeting of the creditors or of the partners, as the case may be, to be called, held and conducted in such manner as may be prescribed or as the Tribunal directs. Note that **a single partner or a single creditor can make the application** — the scenario often has one partner applying, and that is competent.

The majority — section 60(2). If a majority representing three-fourths in value of the creditors or partners, as the case may be, at the meeting agree to the compromise or arrangement, it shall, if sanctioned by the Tribunal by order, be binding on all the creditors or all the partners, on the LLP, and, in a winding up, on the liquidator and contributories. The test is **three-fourths in value**, measured at the meeting. **80% in value clears it; 75% exactly meets it.** Say so in figures — the examiner sets the percentage precisely so that you will compare it against three-fourths.

The disclosure proviso — the limb most often decisive. No order sanctioning a compromise or arrangement shall be made by the Tribunal unless it is satisfied that the LLP, or the other person making the application, has disclosed to the Tribunal, by affidavit or otherwise, all material facts relating to the LLP, including the latest financial position of the LLP and the pendency of any investigation proceedings in relation to the LLP. **The disclosure is mandatory.** Where the pendency of an investigation is not disclosed, **the Tribunal cannot validly sanction the scheme**, and a dissenting creditor who objects on that ground is **legally sustainable** in his objection — even if the three-fourths majority was comfortably obtained.

Filing with the Registrar — section 60(3). The Tribunal's order shall be filed by the LLP with the Registrar within thirty days after the order is made, and shall have effect only after it is so filed. The sanction alone does nothing. **Non-filing renders the order ineffective**, so the compromise **does not become effective or binding** on anybody until the filing is made.

Penalty for not filing — section 60(4). On default in complying with sub-section (3), the LLP and every designated partner shall be liable to a penalty of ₹10,000 and, in case of continuing default, to a further penalty of ₹100 for each day after the first during which the default continues, subject to a maximum of ₹1,00,000 for the LLP and ₹50,000 for every designated partner. Quote both the flat penalty and the daily penalty with its two separate caps.

Death of a partner — section 29(2). Where **a partner dies and the business is continued in the same LLP name**, the continued use of that name, or of the deceased partner's name as a part of it, does not of itself make his legal representative or his estate liable for any act of the LLP done after his death. So where the LLP carried on without being dissolved and the losses were incurred after the death, **the deceased partner's share cannot be used to repay those debts.**

Transfer of a share, again — section 42. This topic keeps borrowing section 42, so carry it here. A partner may transfer his share of profits and losses and his right to distributions, wholly or in part;

the transfer **does not by itself disassociate him or dissolve the LLP**; and it does not by itself entitle the transferee to participate in the management or conduct of the LLP's activities or to access information about its transactions. A father may therefore transfer his share to his son, but the remaining partners can lawfully forbid the son from taking part in the business, whatever his experience.

Application use the section - apply it to the facts • 1 question

- Compare the percentage given in the question against three-fourths in words, not just in conclusion: '80% in value, which exceeds the required three-fourths majority'.
- Where the question asks about a failure to file, answer in two parts — the order is ineffective until filed, and the LLP and every designated partner incur the penalty under sub-section (4).

CSQ 7.2 • PYQ 2026-Jan [4] (b) • 5M • Pg 598

LEVEL II
Application

Medium

Analysis break it down and take the parts separately • 2 questions

- A scheme can be defective at more than one point. Test it against each requirement in turn — majority, disclosure, sanction, filing — and say for each whether it is met, before giving a combined conclusion.

CSQ 7.1 • PYQ 2025-May [4] (b) • 5M • Pg 596

LEVEL II
Analysis

Medium

CSQ 7.3 • RTP 2026-May [17] • Pg 599

LEVEL II
Analysis

Medium

Topic 8: Winding Up And Dissolution

L2P2-2A-C12-T08

Read first Read ICAI Study Material Chapter 12, Winding up and dissolution — sections 63 and 64 of the LLP Act, 2008, with section 35 on the annual return.

NOTES

The two modes — section 63. The winding up of an LLP may be either voluntary or by the Tribunal, and an LLP so wound up may be dissolved. Open every answer on this topic with that sentence, because a question that asks about 'the modes by which an LLP may be wound up' is asking for both routes and for the relationship between winding up and dissolution. Voluntary winding up rests on the decision of the partners in the manner the Act and the LLP agreement provide. A creditor's petition to the Tribunal is a **separate route and does not depend on the partners agreeing** among themselves.

Grounds for winding up by the Tribunal — section 64. An LLP may be wound up by the Tribunal —

(a) if the LLP decides that it be wound up by the Tribunal; (b) if, for a period of more than six months, the number of partners of the LLP is reduced below two; (c) if the LLP is unable to pay its debts; (d) if the LLP has acted against the interests of the sovereignty and integrity of India, the security of the State or public order; (e) if the LLP has made a default in filing with the Registrar the Statement of Account and Solvency or the annual return for any five consecutive financial years; (f) if the Tribunal is of the opinion that it is just and equitable that the LLP be wound up. Learn the list in that order and reproduce it in full even when the question turns on one ground.

Counting the five years — the trap in ground (e). The default must run for **five consecutive financial years**, and the examiner sets facts that fall just short. Where an LLP has not filed its annual returns from 2020-21 and the matter arises in the financial year 2024-25, **the default has not continued for five consecutive years, so the Tribunal cannot order winding up** and the partners objecting to the petition are right. Do the count on the page, year by year, before you conclude. The same discipline applies to ground (b) — it is **more than six months** below two partners, not merely a fall below two at some moment.

Annual return — section 35. Every LLP shall file an annual return, duly authenticated, with the Registrar within sixty days of the closure of its financial year, in the prescribed form and manner and with the prescribed fee. Penalty for non-filing: the LLP is liable to ₹100 per day, subject to a maximum of ₹1,00,000; every designated partner is liable to ₹100 per day, subject to a maximum of ₹50,000. Note the two different ceilings — that is what the marks are for.

Winding up is not dissolution. Keep the two apart in the final paragraph. Winding up is the process of realising the assets and paying the liabilities; dissolution is the end of the LLP's existence, and it follows only when the Tribunal so orders and the name is struck off. A question that asks 'whether dissolution would follow after winding up' is testing exactly this, and a one-word answer will not do.

Remembering reproduce what you have learnt · 1 question

- Section 64 is asked bare as a five-mark 'state the circumstances' question. Six grounds, in the Act's order, with 'more than six months' and 'five consecutive financial years' stated exactly.

TQ 8.1 · PYQ 2025-Jan [5] (b) · 5M · Pg 601

LEVEL I
Remembering

Medium

Application use the section - apply it to the facts · 2 questions

- Reproduce the whole of section 64 first, then isolate the ground the facts engage, then apply it. An answer that goes straight to the relevant clause loses the recall marks.
- Where the question also asks about the annual return, give section 35 as a separate head with both penalty ceilings — it is a distinct part of the marks.

CSQ 8.1 · PYQ 2024-Sep [4] (b) · 5M · Pg 602

LEVEL II
Application

Medium

CSQ 8.2 · PYQ 2026-Sep [5] (b) · 5M · Pg 603

LEVEL II
Application

Medium

Topic 9: Differences with other forms of Organisation

L2P2-2A-C12-T09

Read first Read ICAI Study Material Chapter 12, Distinction between an LLP and other forms of organisation — LLP versus a company under the Companies Act, 2013.

NOTES

Set it out as a table and mind the count. The question asks for **any five points** of distinction between an LLP and a limited liability company, so give five clean points in a three-column table — feature, LLP, company — and do not write loose prose. **Regulating Act:** an LLP is governed by **the LLP Act, 2008**, a company by **the Companies Act, 2013**. **Members and partners:** the individuals contributing to an LLP are called **partners**; the individuals who invest money in the shares of a company are called **members**.

Name. The name of an LLP must include 'Limited Liability Partnership' or 'LLP' as a suffix. The name of a public company must include the word 'Limited', and that of a private company must include 'Private Limited', as a suffix. This is an easy point to state and an easy one to state incompletely — give both the public and the private company forms.

Number of members or partners. LLP: minimum two partners; no limit on the maximum number under the Act; partners may be individuals or bodies corporate represented by nominees. Company: minimum two members for a private company and seven for a public company; maximum two hundred members for a private company, with no limit for a public company; members may be organisations, trusts, businesses or individuals. Four figures — 2, 7, 200 and 'no limit' — and the examiner expects all of them.

Liability. In an LLP, each partner's liability is limited to the extent of his agreed contribution, except in cases of intentional fraud. In a company, a member's liability is limited to the amount unpaid on the shares held by him. Do not drop the **fraud rider** — it is the qualification that distinguishes the two formulations, and it is written into the Scanner's table.

Management, and the minimum at the top. An LLP's business is managed by the partners themselves, including the designated partners authorised in the LLP agreement; a company's affairs are managed by a board of directors elected by the shareholders — ownership and management are separated in the company and fused in the LLP. On numbers: **an LLP must have a minimum of two designated partners**; a private company must have a minimum of two directors and a public company a minimum of three.

Understanding explain it, and place it in context · 1 question

- Each row must contrast — state the LLP position and the company position side by side. A row that describes only the LLP earns nothing.

TQ 9.1 · PYQ 2025-May [5] (b) · 5M · Pg 604

LEVEL I
Understanding**Medium**

PART

2B

Other Laws

3 chapters

PART 2B • OTHER LAWS • CHAPTER 1

The General Clauses Act, 1897

9 Topics • 61 Classified Questions • Importance: B

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **theory-heavy**

Level I — Comprehension & Knowledge **36.3%** 78 of 215 marks

Level II — Analysis & Application **63.7%** 137 of 215 marks

This chapter leans further on Comprehension and Knowledge than the paper does — 36% of its marks against 28% across Paper 2. Reading carries more of the preparation here than it does elsewhere in the paper; do not prepare it by working scenarios alone.

Topic 1: Object, Purpose and Importance of The General Clauses Act

L2P2-2B-C1-T01

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 1, the object, purpose and importance of the General Clauses Act, 1897 — read it alongside sections 3, 6, 8 and 13, which are where the object of the Act actually shows itself.

NOTES

What the Act is for: it is a **definition and interpretation Act** for the whole body of Central law. Rather than repeat the same definitions in every statute, **section 3** collects them once — 'Person', 'Document', 'Immovable Property', 'Good Faith', 'Offence', 'Official Gazette' and the rest — and **section 13** supplies standing rules on gender and number '**in all Central Acts and Regulations**'. The result is shorter statutes and one uniform meaning across them. That is why a question on the Income Tax Act, the Companies Act or the Negotiable Instruments Act can be answered out of this Act.

It supplies machinery, not just meanings. Look at what the rest of the chapter does: **section 9** tells you how 'from' and 'to' compute a period, **section 10** what happens when the court or office is closed on the last day, **section 11** how a distance is measured, **section 12** how a duty is charged on a fraction of the stated quantity, **sections 16 to 19** who may exercise an official power, **section 23** how rules are made after previous publication, and **section 27** when service by post is complete. Every one of these would otherwise have to be written into each individual Act.

It is a residual code — it yields to the special enactment. Almost every provision carries the qualification '**unless there is anything repugnant in the subject or context**' or '**unless a different intention appears**'. The clearest illustration in the pack is good faith: the definition in **section 3(22)** does not apply to an enactment which contains its own special definition of 'good faith', and there

the definition in that particular enactment must be followed. **The classic wrong answer** is to apply a General Clauses Act definition on top of a statute that has defined the term for itself.

It keeps the statute book continuous when the law changes. **Section 6** preserves rights, liabilities, penalties and proceedings when an enactment is repealed, and **section 8** makes a reference to a repealed provision read as a reference to the provision that re-enacts it. That is how a reference to section 25 of the Companies Act, 1956 still works after the Companies Act, 2013, and how **section 3(27)**, which still speaks of the Indian Penal Code, continues to operate after the Code was replaced by the Bharatiya Nyaya Sanhita, 2023. Without these two sections every repeal would break every other law that referred to the repealed one.

Topic 2: Application of The General Clauses Act

L2P2-2B-C1-T02

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 1, the application of the General Clauses Act, 1897 — read the opening words of sections 3, 5, 11, 12, 13, 17, 18 and 23, because those words are what fix the reach of the Act.

NOTES

The reach in one line: the Act applies to **Central Acts and Regulations**. Section 13 says so in terms — 'in all Central Acts and Regulations, unless there is anything repugnant in the subject or context' — and section 5 is worded for a **Central Act** and an **Act of Parliament**. When a question hands you a Central enactment (the Companies Act, 2013, the Income Tax Act, 1961, the Negotiable Instruments Act, 1881, the Motor Vehicles Act, 1988) the General Clauses Act is available to interpret it.

Several sections apply only prospectively. Sections **11 (measurement of distances)**, **12 (duty pro rata)**, **17 (substitution of functionaries)**, **18 (successors)** and **23 (previous publication)** each say 'made after the commencement of this Act'. That is why the case scenarios take care to tell you that the parent Act is 'a Central Act enacted after the commencement of the General Clauses Act, 1897'. When the question gives you that fact, use it — it is a limb of the section, not scene-setting.

It applies to subordinate legislation too, not only to Acts. **Section 3(51)** defines 'Rule' as a rule made in exercise of a power conferred by any enactment, including a regulation made as a rule; **section 21** speaks of **notifications, orders, rules and bye-laws**; and sections 9 and 10 are worded for '**any legislation or regulation**'. So SEBI Regulations, the Companies (Cost Records and Audit) Rules, 2014 and a Government notification are all within the Act's operation.

Where the Act stops. It is displaced wherever the particular enactment provides otherwise — that is the force of '**unless there is anything repugnant in the subject or context**' and '**unless a**

different intention appears'. The pack's own illustration: the expression 'good faith' is **not defined in the Indian Contract Act, 1872**, and the definition in **section 3(22)** **does not expressly apply** to the term as used in that Act; the civil-law sense — nothing is done in good faith which is done without due care and attention as is expected of a man of ordinary prudence — is taken as the practical guide there instead.

Topic 3: Some Basic Understanding of Legislation

L2P2-2B-C1-T03

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read ICAI Study Material Chapter 1, the basic understanding of legislation — how a Central Act comes into force, how rules, regulations, notifications and bye-laws are made under it, and how it is repealed (sections 3(51), 5, 6, 8, 21 and 23).

NOTES

Two levels of law, and the vocabulary for each. At the top is the **enactment** — a Central Act or an Act of Parliament. Below it sits **subordinate legislation** made under a power the Act confers: **rules**, defined by **section 3(51)** as a rule made in exercise of a power conferred by any enactment, **including a regulation made as a rule under any enactment**, and alongside them **notifications, orders and bye-laws**, which **section 21** groups together. Getting the label right matters, because the section you cite depends on it.

When each starts to operate. For an Act, **section 5**: if it is **not expressed to come into operation on a particular day**, it comes into force on the day it **receives the assent** — of the Governor-General for a Central Act made before the commencement of the Constitution, of the **President** for an Act of Parliament; and where a date of enforcement is prescribed, it operates **from that date**. For subordinate legislation, the effective date is the date of **publication by Gazette notification**, not the date when the rules were under preparation [**State of Uttar Pradesh v. Mahesh Narain, AIR 2013 SC 1778**].

Subordinate legislation is made by a procedure, and it can be undone by the same procedure. Where the parent Act requires **previous publication**, **section 23** prescribes the steps — draft, notice of the date on which the draft will be taken into consideration, consideration of objections, then publication. And **section 21** gives the authority that may issue a notification, order, rule or bye-law the power to **add to, amend, vary or rescind it, in the same manner and subject to the same conditions** as the original power.

'May' and 'shall' — the mandatory or directory question. 'Shall' raises a presumption that the provision is mandatory or imperative; 'may' connotes something directory or enabling. But the presumption is not conclusive: 'may' carries mandatory force where a directory reading would

defeat the object of the Act, and the two words may be read interchangeably depending on the intention of the legislature. The pack's illustration is section 3 of the Companies Act, 2013 — 'a company may be formed for any lawful purpose' — where 'may' must be read as 'shall', because the law would never allow a company to be formed for an unlawful object.

Topic 4: Preliminary (Section 1)

L2P2-2B-C1-T04

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read ICAI Study Material Chapter 1, Preliminary — section 1 of the General Clauses Act, 1897, the short title and commencement provision with which the Act opens.

NOTES

What section 1 is: the opening, formal provision — the short title by which the Act is cited, and the point from which it operates. There is no rule here that you apply to facts, and the Scanner prints no question on it. Read it once and move on to section 3.

Why the commencement date is nevertheless worth knowing: it is a **working limb of five other sections**. Sections **11, 12, 17, 18** and **23** each apply only to a **Central Act or Regulation made after the commencement of this Act**. So the date of commencement is not decoration — it is a condition those sections impose, and the answers quote it every time they quote the section.

How it shows up in a case scenario: when the facts tell you that the parent enactment is 'a Central Act enacted after the commencement of the General Clauses Act, 1897' — as they do in the successors problem on the National Infrastructure Authority Act, 2005 — that sentence is there to be used. **Say expressly that the condition is satisfied** before you apply section 17 or 18. It costs one line and it is a step the marking scheme looks for.

Topic 5: Definitions (Section 3)

L2P2-2B-C1-T05

Read first Read ICAI Study Material Chapter 1, Definitions — section 3 of the General Clauses Act, 1897, in particular clauses (3), (18), (21), (22), (23), (26), (27), (36), (37), (38), (39), (42), (51) and (66).

NOTES

Good faith — section 3(22), and by some distance the most examined definition in this chapter. A thing shall be deemed to be done in 'good faith' where it is in fact done honestly, whether it is done negligently or not. **Honesty is the test; negligence alone does not destroy good faith. The**

question of good faith is one of fact, to be determined on the circumstances of each case. Set against that, the sense **generally understood in civil law**, taken as the practical guide for the Indian Contract Act, 1872 — which does not define the term — is that nothing is said to be done in good faith which is done without due care and attention as is expected of a man of ordinary prudence. And note the closing rule from the pack: this definition does not apply to an enactment which contains its own special definition of 'good faith'.

The good faith trap, because the examiner has now set it four times. Mr X buying a watch carelessly without proper enquiry; Mrs K buying diamonds honestly but without enquiry from notoriously smuggling jewellers; Mr P buying a friend's car without checking it or test-driving it — in every one the printed answer is the same: an honest purchase made carelessly without making proper enquiries cannot be said to have been made in good faith so as to convey good title. **The classic wrong answer** is to quote section 3(22), notice the buyer was honest, and conclude 'yes, good faith'. Quote section 3(22), then the civil-law guide on due care and attention, then conclude **no** — with the words 'so as to convey good title' where a purchase is involved.

'Person' — section 3(42): 'Person' shall include (a) any company, or (b) any association, or (c) any body of individuals, whether incorporated or not. It is an inclusive definition and is not limited to a natural human being. Applied in the pack: **an idol is a person**, being a juristic person — a legal entity with a legal personality recognised by law; **a public body is a person**, and it need not have been created by statute, since it may be created by the government in exercise of its executive functions; **a company is a person**, being named in the definition itself.

'Document' — section 3(18): 'Document' shall include any matter written, expressed or described upon any substance by means of letters, figures or marks, or by more than one of those means, which is intended to be used, or which may be used, for the purpose of recording that matter. Break it into its **four elements — matter, record, substance and means** — and the application questions answer themselves. **A power of attorney and a cheque are documents; a CCTV recording is a document**, because it records matter, is stored on a medium and can be used as proof, even though nothing is written on paper; books, files, paintings, inscriptions and computer files are documents; **Indian currency notes are not**.

Immovable and movable property — sections 3(26) and 3(36). 'Immovable Property' shall include: land; benefits to arise out of land; and things attached to the earth, or permanently fastened to anything attached to the earth — an inclusive definition with four elements. 'Movable Property' shall mean property of every description, except immovable property; debts, shares and electricity are movable. Two applications recur. **Standing trees are immovable** — a mango orchard sold with its trees is a sale of immovable property, because trees are benefits arising out of land and attached to the earth. **Timber cut from the trees is not**, because it is no longer permanently attached to the earth; and in **Jagdish v. Mangal Pandey (A.I.R. 1986 All. 182)** the Court held that apart from the size of the tree the relevant consideration is the intention — to cut it, in which case it is standing timber, or to let it remain attached, in which case it remains immovable property. Also print-ready: **an insurance policy covering immovable property is not itself immovable**

property.

The short definitions that come as two-mark and three-mark asks. **'Financial year' — section 3(21)** — shall mean **the year commencing on the first day of April**; **'Year' — section 3(66)** — means **a year reckoned according to the British calendar**, that is the calendar year from January to December. The difference the examiner wants is one line: the financial year starts on 1 April, the calendar year on 1 January. **'Government' — section 3(23)** — shall include both the Central Government and the State Government, so an exemption granted to employees of 'the government' reaches State Government employees too. **'Official Gazette' or 'Gazette' — section 3(39)** — shall mean the Gazette of India, or the Official Gazette of a State.

Four more you can be asked to define cold. **'Affidavit' — section 3(3)** — shall include affirmation and declaration in the case of persons by law allowed to affirm or declare instead of swearing; the definition is inclusive and does not actually define an affidavit, which in general parlance is a written statement confirmed by oath or affirmation for use as evidence in court or before an authority. **'Oath' — section 3(37)** — carries **the same words**, so learn the two together. **'Rule' — section 3(51)** — shall mean a rule made in exercise of a power conferred by any enactment, and shall include a Regulation made as a rule under any enactment. **'Offence' — section 3(38)** — shall mean **any act or omission made punishable by any law for the time being in force**. And **'Imprisonment' — section 3(27)** — means **imprisonment of either description as defined in the Indian Penal Code**, that is **rigorous, with hard labour, or simple, without hard labour**; so where an Act says an offence is 'punishable with imprisonment', **the Court may in its discretion award either**.

Remembering reproduce what you have learnt • 2 questions

- Learn the clause number with the definition. 'Person' without '3(42)' and 'good faith' without '3(22)' are half-answers, and the paper asks for two or three definitions at a time.
- Where the definition is inclusive, say so — the word 'include' is itself a mark, because it is what lets an idol, a public body or a CCTV recording in.

TQ 5.2 • PYQ 2020-Nov [4] (c) (2 + 2 = 4 Marks) • 4M • Pg 611

LEVEL I
Remembering

Medium

CSQ 5.5 • PYQ 2026-Jan [2] (c) • 4M • Pg 624

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context • 10 questions

- Quote the definition in the Act's own words first, then explain, then illustrate. On 'good faith' both halves are needed: the section's honesty test, and the civil-law due care and attention guide.
- On the financial year question, give the definition of 'year' in section 3(66) as well — the marks are for the contrast, not for either definition alone.

TQ 5.6 · PYQ 2021-Dec [5] (d) · 3M · Pg 614	LEVEL I Understanding	Easy
TQ 5.9 · RTP 2024-May [18] · Pg 615	LEVEL I Understanding	Medium
TQ 5.10 · MTP 2024-Nov [2] (c) · 4M · Pg 616	LEVEL I Understanding	Medium
TQ 5.11 · MTP 2024-Dec S2 [2] (c) · 4M · Pg 616	LEVEL I Understanding	Medium
TQ 5.12 · PYQ 2025-Jan [2] (c) · 4M · Pg 617	LEVEL I Understanding	Medium
TQ 5.13 · PYQ 2025-Jan [5] (c) · 4M · Pg 618	LEVEL I Understanding	Medium
TQ 5.15 · MTP 2025-Dec S2 [6] (c) · 4M · Pg 619	LEVEL I Understanding	Medium
TQ 5.16 · PYQ 2026-May [5] (c) · 4M · Pg 620	LEVEL I Understanding	Medium
TQ 5.7 · MTP 2022-Mar [4] (c) (i) · 2M · Pg 614	LEVEL I Understanding	Hard
TQ 5.14 · MTP 2025-Mar S2 [2] (c) · 4M · Pg 618	LEVEL I Understanding	Hard

Application use the section - apply it to the facts · 9 questions

- Set out the clause, then apply it to the facts, then conclude. The purchase scenarios are decided on one fact — whether proper enquiry was made — so name that fact expressly before concluding.
- Where the question lists items to classify (a power of attorney, a cheque, an idol, a public body, a company), take them one at a time under their own heading and give each its own one-line reason. A single merged paragraph loses the per-item marks.

TQ 5.3 · PYQ 2021-Jan [4] (c) (ii) · 2M · Pg 612	LEVEL II Application	Easy
TQ 5.8 · PYQ 2022-Nov [5] (d) · 3M · Pg 615	LEVEL II Application	Easy
CSQ 5.2 · PYQ 2020-Nov [3] (b) (i) · 2M · Pg 622	LEVEL II Application	Easy
CSQ 5.3 · PYQ 2024-Sep [5] (c) (ii) · 2M · Pg 622	LEVEL II Application	Easy
TQ 5.1 · PYQ 2019-Nov [4] (c) · 4M · Pg 610	LEVEL II Application	Medium
TQ 5.5 · PYQ 2021-Dec [4] (c) · 4M · Pg 613	LEVEL II Application	Medium
CSQ 5.1 · PYQ 2018-May [1] (d) · 4M · Pg 621	LEVEL II Application	Medium
CSQ 5.4 · RTP 2025-May [18] · Pg 623	LEVEL II	Medium

Application

TQ 5.4 · PYQ 2021-Jan [5] (d) · 3M · Pg 612

LEVEL II
Application

Hard

Topic 6: General Rules of Construction (Sections 5-13)

L2P2-2B-C1-T06

Read first Read ICAI Study Material Chapter 1, General Rules of Construction — sections 5 to 13 of the General Clauses Act, 1897, with particular care over sections 6, 9, 10, 12 and 13.

NOTES

Commencement — section 5. Where a Central Act **has not specifically mentioned a particular date to come into force**, it comes into force **on the day on which it receives the assent** — of the **Governor-General** for a Central Act made before the commencement of the Indian Constitution, and of the **President** for an Act of Parliament. Where a **specific date of enforcement is prescribed**, the Act comes into force from that date. Two applications the pack repeats: SEBI Regulations notified on 14 August 2015 **with effect from 1 January 2016** come into force **on 1 January 2016, not on the date of notification in the gazette**; and an Act assented to on 15 July 2024 but specifying 1 September 2024 as its commencement **applies only from 1 September 2024** — assent is not commencement where a date is given. Add **State of Uttar Pradesh v. Mahesh Narain, AIR 2013 SC 1778**: the effective date of rules is when they are **published by Gazette notification**, not when they were under preparation.

Effect of repeal — section 6, and learn all five limbs. Where a Central legislation or regulation repeals an enactment, then **unless another purpose exists**, the repeal shall not: **(1) revive anything not in force or prevailing at the time of the repeal**; (2) affect the previous operation of the repealed enactment or anything duly done or suffered thereunder; (3) affect any right, privilege, obligation or liability acquired, accrued or incurred under it; **(4) affect any penalty, forfeiture or punishment incurred** in respect of any offence committed against it; or **(5) affect any inquiry, litigation or remedy** with regard to such claim, privilege, debt or responsibility — and any such inquiry, litigation or remedy may be **initiated, continued or insisted**. On the statement 'whenever an Act is repealed it must be considered as if it had never existed', the answer is **correct only subject to section 6: State of Uttar Pradesh v. Hirendra Pal Singh, (2011) 5 SCC 305** says exactly that, the object of repeal being to obliterate the Act from the statute book **except for the purposes saved by section 6**.

Repeal is not the same as deletion — a two-mark ask that comes back. 'Repeal' ordinarily brings about complete obliteration of the provision as if it never existed, and so reaches back to rights and causes of action related to the repealed provision. 'Deletion' ordinarily takes effect from the date of the legislature effecting it, and never wipes out the provision as if it had never existed [**Navrangpura Gam Dharmada Milkat Trust v. Rmtuji Ramaji, AIR 1994 Guj 75**]. The distinction is **prospective versus retrospective obliteration**; say that and you have the answer.

References to a repealed and re-enacted provision — section 8. Where a Central Act or Regulation **repeals and re-enacts** a provision of an earlier law, **with or without modification**, a reference to the repealed provision in any other enactment or instrument is, **unless a contrary intention appears**, to be read as a reference to the **re-enacted provision**. So section 2(18)(aa) of the Income Tax Act, 1961, which still refers to section 25 of the Companies Act, 1956, is read as referring to the corresponding provision of the Companies Act, 2013, even though no amendment was made [Gauri Shankar Gaur v. State of U.P., AIR 1994 SC 169 — each Act has its own identity; where a later Act merely refers to a former Act, subsequent amendments, repeals and new law take effect unless the relevant provision saves the operation]. The same section is what keeps section 3(27) working now that the Indian Penal Code has been replaced by the Bharatiya Nyaya Sanhita, 2023.

Computation of time — section 9. 'From' excludes, 'to' includes. In any legislation or regulation it is sufficient, for the purpose of excluding the first in a series of days or any other period of time, to use the word 'from', and for the purpose of including the last in a series of days or any other period of time, to use the word 'to'. Work it on the printed facts. Dividend: where the 30 days expire on **30.10.2018**, that day is included and the further 7 days run from it, so the transfer must be made **on or before 06.11.2018**. Cheque: issued **31.12.2023**, which is the first day and is **excluded**, presented **31.03.2024**, which is the last day and is **included** — so presentation was within three months and the plea of dishonour for late presentment is **not tenable**. Cost auditor: the notice must be filed within 30 days from the Board meeting of **1 August 2024**, being **31 August 2024**, or within 180 days from the commencement of the financial year on 1 April 2024, being **27 September 2024, whichever is earlier** — so **31 August 2024**.

Court or office closed on the last day — section 10. Where any act or proceeding is directed or allowed to be done or taken in **any court or office** on a certain day or within a prescribed period, and the court or office is **closed on that day or on the last day of the prescribed period**, the act or proceeding is considered as done in due time if it is done on the next day afterwards on which the court or office is open. A hearing fixed for 29.04.2018 and later declared a holiday **stands extended to the next working day**. A promissory note dated 17 May 2022 payable three months after date matures on 17 August 2022, **three days of grace** carry it to 20 August 2022, and that day having been declared a holiday for Moharram, **the due date is 21 August 2022. The distinction the examiner is testing:** where an appeal could not be filed because the High Court was closed in the Covid lockdown, this is **not a question of condonation of delay at all** — section 10 computes the time, and filing on the day the court reopens is filing in time.

Distances, duty, gender and number — sections 11, 12 and 13. Section 11: in the measurement of any distance for the purposes of any Central Act or Regulation made after the commencement of this Act, the distance shall, unless a different intention appears, be measured in a straight line on a horizontal plane — as the crow flies, so neither the 100 km by road nor the 80 km by water is the distance. **Section 12:** where any duty of **customs or excise or in the nature thereof** is leviable on **any given quantity by weight, measure or value**, a like duty is leviable according to the same rate on any greater or less quantity — so a factory producing 350 litres against a rate of ₹10 per 100

litres pays ₹35, and cannot escape duty on the odd 50 litres. **Section 13:** in all Central Acts and Regulations, unless there is anything repugnant in the subject or context, **words importing the masculine gender shall be taken to include females, and words in the singular shall include the plural, and vice versa** — so section 166 of the Companies Act, 2013 binds a woman director, and a whole-time KMP may hold office in **more than one** subsidiary because 'subsidiary' includes the plural. **The exception, and it is examined:** where a word connoting a common gender is available but the word used conveys a specific gender, there is a presumption that the General Clauses Act does not apply — 'bullocks' cannot be read to include 'cows'.

Remembering reproduce what you have learnt · 1 question

- A define question with two limbs. **Give each definition in its own sentence**, in the Act's own words as far as you can.
- Add the one-line illustration each carries. On a four-mark definition question the illustration is usually the second mark.

TQ 6.10 · MTP 2024-Jul [2] (c) · 4M · Pg 631

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 5 questions

- Section 6 is asked as 'state four effects of repeal' — write the limbs as a numbered list in the Act's own words. Prose loses limbs; a list does not.
- On section 5, always give both halves: the assent rule where no date is expressed, and the prescribed date where one is.

TQ 6.1 · PYQ 2018-Nov [4] (e) · 2M · Pg 625

LEVEL I
Understanding

Easy

TQ 6.9 · PYQ 2024-May [5] (c) · 4M · Pg 631

LEVEL I
Understanding

Medium

TQ 6.11 · PYQ 2024-Sep [2] (c) · 4M · Pg 632

LEVEL I
Understanding

Medium

CSQ 6.1 · PYQ 2019-May [4] (c) · 4M · Pg 633

LEVEL I
Understanding

Medium

CSQ 6.5 · RTP 2022-Nov [11] · Pg 636

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 15 questions

- On every date problem, write the section first, then fix the first day and the last day expressly, then compute, then state the date. The marks are in the identification of which day is excluded and which included, not in the arithmetic.
- Under section 10, name the day the office was closed and the next day it was open, and say the act is deemed done in due time — do not drift into limitation or condonation of delay.

- Under section 12, show the working (quantity ÷ stated unit × rate) and state the amount. The pack's answers always finish with a figure.

TQ 6.5 • MTP 2021-Oct [5] (d) • 3M • Pg 627	LEVEL II Application	Easy
CSQ 6.2 • PYQ 2020-Nov [3] (b) (ii) • 2M • Pg 634	LEVEL II Application	Easy
CSQ 6.3 • PYQ 2021-Jan [4] (c) (i) • 2M • Pg 635	LEVEL II Application	Easy
CSQ 6.4 • PYQ 2021-Jul [5] (d) • 3M • Pg 635	LEVEL II Application	Easy
CSQ 6.7 • PYQ 2024-May [2] (c) (ii) • 2M • Pg 638	LEVEL II Application	Easy
TQ 6.2 • MTP 2020-Oct [4] (c) • 4M • Pg 626	LEVEL II Application	Medium
TQ 6.4 • MTP 2021-Oct [4] (c) • 3M • Pg 627	LEVEL II Application	Medium
TQ 6.6 • RTP 2022-May [11] • Pg 628	LEVEL II Application	Medium
TQ 6.7 • MTP 2022-Sep [4] (c) • 4M • Pg 629	LEVEL II Application	Medium
CSQ 6.6 • RTP 2023-Nov [19] • Pg 637	LEVEL II Application	Medium
CSQ 6.8 • RTP 2024-Sep [18] • Pg 639	LEVEL II Application	Medium
CSQ 6.9 • RTP 2025-Jan [18] • Pg 639	LEVEL II Application	Medium
CSQ 6.10 • PYQ 2025-May [2] (c) • 4M • Pg 640	LEVEL II Application	Medium
CSQ 6.11 • PYQ 2026-Jan [5] (c) • 4M • Pg 641	LEVEL II Application	Medium
TQ 6.8 • PYQ 2023-May [4] (c) • 4M • Pg 629	LEVEL II Application	Hard

Analysis break it down and take the parts separately • 1 question

- Where the question puts two enactments side by side — an Income Tax provision referring to a repealed Companies Act, or a Companies Act restriction read with section 13 — deal with the parent provision first, then the General Clauses Act section, then the combined effect. That is the order the printed answers use.
- Where a question has numbered parts on different sections, answer each under its own heading with its own section number; a single running answer gets credited for one section only.

TQ 6.3 · PYQ 2021-Jul [4] (c) · 4M · Pg 626

LEVEL II
Analysis

Hard

Topic 7: Power and Functionaries (Sections 14-19)

L2P2-2B-C1-T07

Read first Read ICAI Study Material Chapter 1, Powers and Functionaries — sections 14 to 19 of the General Clauses Act, 1897, and in particular sections 16, 17, 18 and 19.

NOTES

The single idea running through this topic: a statutory power attaches to the office, not to the person who happens to hold it. Every question in the pack is a case scenario in which someone argues that a power was personal to a named individual or a named designation, and every printed answer rejects that argument. Say the principle in that form once at the top of your answer, then prove it with the section.

Section 16 — power to appoint includes power to suspend or dismiss. The authority presently empowered to make an appointment also has the power to suspend or dismiss the person so appointed, and it makes no difference whether the appointment was made by that authority or by another authority exercising the same power. So a CEO authorised by a Board resolution to appoint employees may also dismiss them; the contention that the Board empowered him only to appoint is **not valid**.

Section 17 — substitution of functionaries. In any Central Act or Regulation made after the commencement of this Act, it is sufficient, for the purpose of indicating the application of a law to any person or group of individuals currently fulfilling the responsibilities of an office, to reference the official title of the officer presently executing those functions, or to name the officer who typically performs those functions. In practice: **official acts remain valid despite a change of officeholder**.

Section 18 — successors. In any Central Act or Regulation made after the commencement of this Act, it is sufficient, for the purpose of indicating the relation of a law to the successors of any functionaries or of corporations having perpetual succession, to express its relation to the functionaries or corporations. In plain terms, **a reference to a functionary in a Central Act includes the successor in office**; the Act need not say 'and his successors'. So where the designation 'Chairperson' was replaced by 'Managing Director' by amendment and the same powers were vested in the new office, **a licence granted by the Managing Director is valid** — the office continues under a new name. And where a demolition order was signed by one Assistant Commissioner, **the present Assistant Commissioner may carry it out**, because the authority is retained by the office and not by the individual.

Section 19 — official chiefs and subordinates. A law relating to the chief or superior of an office applies to the deputies or subordinates lawfully performing the duties of that office in the place of their superior, so as to prescribe the duty of the superior. Hence a Deputy Director **lawfully**

assigned to perform the Director's duties during the Director's leave may exercise the Director's statutory powers, and the actions she takes are valid. **The load-bearing word is 'lawfully'** — say expressly that the deputy was lawfully assigned before you conclude.

Application use the section - apply it to the facts · 4 questions

- Identify the office, then the change (a new appointee, a renamed designation, a deputy standing in, a power exercised beyond the words of the authorisation), then the section that covers that change, then conclude by naming whose contention fails.
- Every printed answer in this topic ends by holding the challenger's plea invalid. State that conclusion in terms — 'the contention of X is not valid' — rather than trailing off after the section.

CSQ 7.1 · PYQ 2024-May [2] (c) (i) · 2M · Pg 642

LEVEL II
Application

Easy

CSQ 7.3 · RTP 2026-May [18] · Pg 643

LEVEL II
Application

Medium

CSQ 7.4 · PYQ 2025-May [5] (c) · 4M · Pg 645

LEVEL II
Application

Medium

CSQ 7.5 · PYQ 2026-Sep [5] (c) · 4M · Pg 646

LEVEL II
Application

Medium

Analysis break it down and take the parts separately · 1 question

- Sections 17 and 18 are read together where an officeholder has changed: 17 keeps the act alive across the change of person, 18 carries the law to the successor. Cite both and say what each contributes.

CSQ 7.2 · MTP 2024-Jul [5] (c) · 4M · Pg 642

LEVEL II
Analysis

Medium

Topic 8: Provision as to Orders, Rules Etc. Made Under Enactments (Sections 20-24)

L2P2-2B-C1-T08

Read first Read ICAI Study Material Chapter 1, Provisions as to Orders, Rules etc. made under Enactments — sections 20 to 24 of the General Clauses Act, 1897, and above all sections 21 and 23.

NOTES

Section 21 — the power to make carries the power to unmake. Where a Central Act or Regulation confers a power to **issue notifications, orders, rules or bye-laws**, that power also includes the authority to **add to, amend, vary or rescind** them — but that power must be exercised in the same manner and subject to the same conditions as the original power. In **Rasid Javed v. State of Uttar Pradesh** the Supreme Court confirmed that an authority empowered to issue a notification also has the power to **withdraw, modify or cancel** it under section 21, **unless the parent statute**

provides otherwise.

How section 21 is applied to facts. A notification granting a tax exemption for three years was withdrawn after eight months because the exemption was being misused. The answer: the Government that was empowered to grant the exemption is equally empowered to rescind it by another notification issued in the same manner, and the fact that the original notification mentioned a three-year period does not take away that statutory power — particularly where public interest requires it. **The classic wrong answer** is to treat the stated period, or the manufacturer's reliance and investment, as binding the Government. It does not; the withdrawal is valid.

Section 23 — making rules or bye-laws after previous publication, in five steps. Where a Central Act or Regulation confers power to make rules or bye-laws **subject to the condition of previous publication**: (1) the authority shall, before making them, publish a draft of the proposed rules or bye-laws for the information of persons likely to be affected; (2) the publication shall be **in such manner as the authority considers sufficient**, or, where the condition requires, in the manner prescribed by the Government; (3) there shall be published with the draft a notice specifying a date on or after which the draft will be taken into consideration; (4) the authority — and, where the rules require the sanction, approval or concurrence of another authority, that authority also — shall consider any objection or suggestion received from any person with respect to the draft before the date so specified; and (5) the **publication in the Official Gazette** of a rule or bye-law purporting to have been made in exercise of a power to make rules after previous publication **shall be conclusive proof that the rule or bye-law has been duly made**.

What limb (5) does, and it is the trap. Because publication in the Official Gazette is **conclusive proof** of due making, **any irregularity in the publication of the draft cannot afterwards be questioned** — the presumption is that the procedure for making the rules was followed. So on the MCA facts: yes, the draft had to be published; no, irregularities in publishing the draft cannot be challenged once the rule is gazetted; yes, the authority may make suitable changes in the draft, because limb (4) requires it to consider objections and suggestions; and it is not necessary to re-publish the rules in the amended form where the changes made are ancillary to the earlier draft.

Read the instruction in the question. Where the facts describe objections that the Government did not discuss in detail and then ask **'what procedure must be followed'** and **'is the authority required to consider objections'**, the answer is the **procedure in order** plus yes, consideration of objections before the specified date is a statutory step. **Do not volunteer a view on whether the rules are invalid** — the question did not ask it, and the marks are for the steps.

Understanding explain it, and place it in context · 1 question

- Section 23 is asked straight, as 'explain the provisions relating to making of rules after previous publication'. Write the five limbs as a numbered list; the conclusive-proof limb is the one candidates drop.

TQ 8.2 · PYQ 2025-Sep [5] (c) · 4M · Pg 648

LEVEL I
Understanding

Medium

Application use the section - apply it to the facts · 1 question

- Where the question is put as several numbered sub-questions on one set of facts, answer them in the order asked, one short paragraph each, each anchored to the limb of section 23 that decides it.
- On a withdrawal or amendment of a notification, quote section 21 with the words 'in the same manner and subject to the same conditions', then say the authority issuing it was competent, then conclude that the rescission is valid.

CSQ 8.1 · PYQ 2026-May [2] (c) · 4M · Pg 649

LEVEL II
Application

Medium

Analysis break it down and take the parts separately · 2 questions

- These questions ask three or four separate things about the same draft. **Number the answer to match**, and give each limb its own conclusion.
- Keep the two ideas apart: **what previous publication requires**, and **whether a defect in it can be questioned afterwards**. Candidates who merge them lose the second limb.
- On whether changes may be made, say what turns on the change being ancillary — that word decides whether re-publication is needed.

TQ 8.1 · PYQ 2022-May [4] (c) · 4M · Pg 647

LEVEL II
Analysis

Medium

CSQ 8.2 · PYQ 2026-Sep [2] (c) · 4M · Pg 650

LEVEL II
Analysis

Medium

Topic 9: Miscellaneous (Sections 25-30)

L2P2-2B-C1-T09

Read first Read ICAI Study Material Chapter 1, Miscellaneous — sections 25 to 30 of the General Clauses Act, 1897, in particular section 26 on offences punishable under two or more enactments and section 27 on meaning of service by post.

NOTES

Section 26 — offence punishable under two or more enactments. Where an act or omission constitutes an offence under two or more enactments, the offender shall be liable to be prosecuted and punished under either or any of those enactments, but shall not be punished twice for the same offence. Read it with **Article 20(2) of the Constitution** — no person shall be prosecuted and punished for the same offence more than once. So an advocate liable to a fine under both the Advocates Act, 1961 and the Income Tax Act, 1961, or a seller liable for fraud under both the Indian Contract Act, 1872 and the Sale of Goods Act, 1930, may be proceeded

against under either, but cannot be punished twice for the same offence.

The limit of the protection — this is where the marks are. Section 26 and Article 20(2) apply only when the offences are the same, that is when the ingredients constituting the two offences are identical. Where the offences under the different enactments are distinct and separate, the protection does not apply at all. So overloading a truck under the Motor Vehicles Act, 1988 and damaging public property under the Prevention of Damage to Public Property Act, 1984 are **different offences**, and the plea of double jeopardy is **not tenable**. **The test you must run, in this order:** identify the two enactments, compare the ingredients of the two offences, and only then say whether section 26 bites.

Alternative charges in the same trial. In *State of Madhya Pradesh v. Veereshwar Rao Agnihotry* it was held that where there are **two alternative charges in the same trial** — there, section 409 of the Indian Penal Code, 1860 (now section 316(5) of the Bharatiya Nyaya Sanhita, 2023) and section 5(2) of the Prevention of Corruption Act (now section 13(2) of the Prevention of Corruption Act, 1988) — **acquittal on one of the charges does not bar conviction on the other**. By virtue of **section 8**, the references to the repealed Indian Penal Code are read as references to the corresponding provisions of the Bharatiya Nyaya Sanhita, 2023, so the principle continues to apply.

Section 27 — meaning of service by post. Where any legislation or regulation requires a document to be served by post, then **unless a different intention appears**, the service is deemed to be effected by properly addressing, pre-paying and posting by registered post a letter containing the document, and is deemed to have been effected at the time at which the letter would be delivered in the ordinary course of post. Three limbs — **properly addressed, pre-paid, sent by registered post** — and the presumption operates **unless the contrary is proved**. Write all three limbs out; each carries a mark.

Refusal is service. It has been judicially held that where a notice sent by registered post is **returned with an endorsement of refusal**, the notice is **presumed to have been duly served** [*Jagdish Singh v. Natthu Singh*]. So a notice refused by the tenant, or by the tenant's wife, is deemed served on the landlord's addressee; and a notice sent to the address on the department's records but refused by the present owner of a house the assessee had left **is proper service** — **it was the assessee's duty to update his address**. The classic wrong answer is to hold there is no service because the document never reached the addressee's hands; under section 27 it is the posting, not the receipt, that completes service.

Where the presumption fails — the exception to learn. If the statutory rules themselves require the notice to be sent by 'registered post acknowledgement due' and it is instead sent by 'registered post' only, that is **not compliance with those rules**, and the protection of the presumption under section 27 is not tenable [*United Commercial Bank v. Bhim Sain Makhija*, AIR 1994 Del 181]. The presumption survives only where the rules do not prescribe a stricter mode; a different intention appearing in the rules displaces section 27.

Understanding explain it, and place it in context · 2 questions

- On section 27, list the three limbs — properly addressing, pre-paying, posting by registered post — and then the deemed time of service. On section 26, give the section and Article 20(2) together.
- Name the case where the pack names one; a single citation on service by post or on alternative charges lifts the answer.

TQ 9.3 · PYQ 2023-May [5] (d) · 3M · Pg 653

LEVEL I
Understanding**Easy**

TQ 9.2 · RTP 2018-May [14] · Pg 652

LEVEL I
Understanding**Hard****Application** use the section - apply it to the facts · 7 questions

- On a service problem, walk the three limbs against the facts, then deal with what happened to the letter (refused, returned, undelivered), then conclude that service is deemed effected unless the contrary is proved.
- On a double punishment problem, state section 26, then compare the ingredients of the two offences expressly, then conclude. An answer that quotes section 26 and stops has not done the comparison the marks are for.

TQ 9.1 · PYQ 2018-May [4] (e) · 2M · Pg 651

LEVEL II
Application**Easy**

CSQ 9.5 · PYQ 2024-Sep [5] (c) (i) · 2M · Pg 657

LEVEL II
Application**Easy**

CSQ 9.1 · RTP 2018-Nov [14] · Pg 654

LEVEL II
Application**Medium**

CSQ 9.2 · MTP 2019-Mar [4] (c) · 4M · Pg 654

LEVEL II
Application**Medium**

CSQ 9.3 · PYQ 2022-Nov [4] (c) · 4M · Pg 655

LEVEL II
Application**Medium**

CSQ 9.4 · MTP 2024-Mar [2] (c) · 4M · Pg 656

LEVEL II
Application**Medium**

CSQ 9.6 · PYQ 2025-Sep [2] (c) · 4M · Pg 658

LEVEL II
Application**Medium**

PART 2B • OTHER LAWS • CHAPTER 2

Interpretation of Statutes

5 Topics • 52 Classified Questions • Importance: A

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **theory-heavy**

Level I — Comprehension & Knowledge **66.5%** 125 of 188 marks

Level II — Analysis & Application **33.5%** 63 of 188 marks

This chapter leans further on Comprehension and Knowledge than the paper does — 66% of its marks against 28% across Paper 2. Reading carries more of the preparation here than it does elsewhere in the paper; do not prepare it by working scenarios alone.

Topic 1: Introduction

L2P2-2B-C2-T01

Read first Read ICAI Study Material Chapter 2, Interpretation of Statutes — the introductory part: interpretation and construction, and the meaning of 'document' and 'instrument'.

NOTES

Document — section 3 of the Indian Evidence Act, 1872: document means any matter expressed or described upon any substance by means of letters, figures or marks, or by more than one of those means, intended to be used, or which may be used, for the purpose of recording that matter. This is a two-mark definition; reproduce all of it — the substance, the means (letters, figures or marks), and the purpose of recording — because each limb is a scoring phrase.

Instrument — section 2(14) of the Indian Stamp Act, 1899: 'instrument' includes every document by which any right or liability is or purports to be created, transferred, extended, extinguished or recorded. Open with the common-parlance meaning first — a **formal legal document which creates or confirms a right or records a fact**, a formal writing of any kind such as an agreement, deed, charter or record, drawn up and executed in a technical form, having legal effect either as creating liability or as affording evidence of it — and then give the statutory definition.

Interpretation: it is the art of ascertaining the meaning of words and the true sense in which the author intended that they should be understood. It is the drawing of conclusions from a statute that lie beyond the direct expression of the words used therein [**Bhagwati Prasad Kedia v. C.I.T. (2001)**]. It is the duty of the courts to give effect to the meaning of an Act when the meaning can be equitably gathered from the words used, and words of legal import which have acquired a definite and precise sense must be understood in that sense (**State of Madras v. Gannon Dunkerly Co., AIR 1958**).

Construction: as applied to a written statute or document it means to determine from its known elements its true meaning or the intention of its framers. Construction involves drawing

conclusions beyond the actual expressions used in the text, by referring to other parts of the enactment and the context in which the law was made. When you construe a statute you are attempting to ascertain the intention of the legislature.

The difference, in the six points the answers use: (1) interpretation is understanding the words and true sense of the legal text, construction is drawing conclusions that lie beyond the direct expression of the text; (2) interpretation finds the original meaning, all other forms of analysis come under construction; (3) interpretation takes place when the meaning is clear and unambiguous; construction takes place when the meaning is unclear, ambiguous and is challenged; (4) interpretation rules out ambiguity, construction creates additional rules to resolve vagueness; (5) interpretation may be done partly, **construction has to be done as a whole**; (6) interpretation is limited by the letter of the law, construction is extended by the spirit of the law.

The relationship — do not stop at the table: where the court **adheres to the plain meaning** of the language used by the legislature it is 'interpretation'; **where the meaning is not plain** and the court has to decide whether the wording was meant to cover the situation before it, the court is resorting to 'construction'. Conclusions drawn by means of construction are within the spirit though not necessarily within the letter of the law. In practice construction includes interpretation and the two terms are frequently used synonymously. An answer that gives only the differences and never the link loses the second half of the marks.

Remembering reproduce what you have learnt · 1 question

- 'Document' and 'instrument' are pure recall. Name the Act and the section — section 3 of the Indian Evidence Act, 1872 and section 2(14) of the Indian Stamp Act, 1899 — and then the words of the definition.

TQ 1.1 · PYQ 2018-May [4] (d) (ii) · 2M · Pg 662

LEVEL I
Remembering

Easy

Understanding explain it, and place it in context · 2 questions

- The interpretation-versus-construction question is asked as a difference and, since 2024, as a difference plus relationship. Put the differences in a numbered two-column form and add a closing paragraph on how the two connect.
- Cite Bhagwati Prasad Kedia v. C.I.T. and State of Madras v. Gannon Dunkerly Co. — this chapter is marked on the named authority as much as on the proposition.

TQ 1.2 · PYQ 2019-Nov [3] (d) · 3M · Pg 663

LEVEL I
Understanding

Easy

TQ 1.4 · PYQ 2024-May [3] (c) · 4M · Pg 664

LEVEL I
Understanding

Medium

Analysis break it down and take the parts separately · 1 question

- A differentiate question. **Set the two side by side on the same points** — what each does, when each is needed, and which comes first.
- Close with the sentence that relates them rather than separating them. The examiner is looking for the relationship as well as the difference.

TQ 1.3 · MTP 2021-Mar [5] (d) · 4M · Pg 663

LEVEL II
Analysis

Medium

Topic 2: Why do we need Interpretation/Construction?

L2P2-2B-C2-T02

Read first Read ICAI Study Material Chapter 2, Interpretation of Statutes — why interpretation and construction are needed, and grammatical and logical interpretation.

NOTES

The frame for every answer here: interpretation is the process by which the real meaning of an Act and the intention of the legislature enacting it is ascertained. Interpretation may be **grammatical** or **logical**. Open with this sentence and the two-way split before you explain either limb; the examiner asks for both in the same question.

Grammatical interpretation: it concerns itself exclusively with the verbal expression of the law and **does not go beyond the letter of the law. In all ordinary cases it is the sole form allowable.** The Court cannot take from, add to or modify the letter of the law. That prohibition is the marks-carrying line.

The exceptions to grammatical interpretation, with the duty of the court attached to each: (1) where the letter of the law is logically defective on account of ambiguity, inconsistency or incompleteness — if defective for **ambiguity**, the Court is under a duty to travel beyond the letter of the law so as to determine from other sources the true intention of the legislature; if defective for **inconsistency**, the Court **must ascertain the spirit of the law**. (2) If the text leads to a result which is so unreasonable that it is self-evident that the legislature could not mean what it says — here the Court **may infer logically the intention of the legislature**. Answer the exceptions in this paired form; a bare list of the three defects without the court's duty is half an answer.

Logical interpretation: it seeks more satisfactory evidence of the true intention of the legislature. But note the counterweight the answers always add: **a statute is enforceable at law however unreasonable it may be, and the duty of the Court is to administer the law as it stands**, whether it is just or unreasonable. Only **where there are two possible constructions of a clause** may the Courts prefer the logical construction which emerges from the setting in which the clause appears, the circumstances in which it came to be enacted and the words used therein.

Absoluta sententia expositore non indiget — 'an absolute sentence or proposition needs no

explanation', that is, **plain words require no explanation**. The primary rule of statutory construction is that **the intention of the legislature must be discerned from the words it has used**. A statute must be construed literally and grammatically, giving the words their ordinary and natural meanings. If the language is clear and unambiguous and capable of only one interpretation, it is not open to the court to stretch the words beyond their natural and ordinary meaning or to adopt a hypothetical construction merely because it seems better aligned with the supposed purpose and policy of the Act. This is the **rule of literal construction**. Applied to a definition in a statute, it means you take the defined words as they stand and do not read the definition up or down to suit an assumed intention.

Remembering reproduce what you have learnt · 1 question

- Learn the maxim in the Latin and the English together — 'absoluta sententia expositore non indiget', an absolute sentence needs no expositor. A question that names the Latin expects the translation in your first line.

TQ 2.1 · PYQ 2018-May [4] (d) (i) · 4M · Pg 665

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 2 questions

- When asked to 'define grammatical interpretation and state the exceptions', structure it as Meaning, then the two exceptions, then the Duty of Court under each. The structure itself carries marks.
- Where the question asks for both grammatical and logical interpretation and the situations in which courts adopt them, contrast them in one sentence and then give the trigger: grammatical is the sole form in ordinary cases, logical comes in when the letter is defective or two constructions are open.

TQ 2.2 · PYQ 2022-Nov [3] (d) · 3M · Pg 666

LEVEL I
Understanding

Easy

TQ 2.3 · PYQ 2025-Jan [3] (c) · 4M · Pg 667

LEVEL I
Understanding

Medium

Topic 3: Rules of Interpretation/Construction

L2P2-2B-C2-T03

Read first Read ICAI Study Material Chapter 2, Interpretation of Statutes — the rules of interpretation and construction: literal, mischief, harmonious, beneficial, exceptional and purposive construction, and the maxims.

NOTES

Start where the courts start — literal construction. It is a cardinal rule of construction that a statute must be construed literally and grammatically, giving the words their ordinary and natural

meaning; where the words are in themselves clear and unambiguous they must be construed in their natural and ordinary sense and **it is not open to the court to adopt any other hypothetical construction**. This is '**plain words require no explanation**', the maxim **absoluta sententia expositore non indiget**. Its companion is that **technical words are to be understood in the technical sense only** — in construing 'practice' in the Supreme Court it was held that the practice of law involves **both acting and pleading** on behalf of a litigant party, so an advocate given the right to practise is authorised to appear and plead as well as to act. Interpretation only becomes necessary where the language is not straightforward: ambiguity in language, vagueness or obscurity, conflict within the statute, silence or omission, changing social and economic conditions, technical or unfamiliar language, and the effect of external events or agreements. **Where the literal rule gives way — and the trap the examiner sets**. Sometimes a choice has to be made between two interpretations, one narrower and the other wider or bolder; if the narrower interpretation would fail to achieve the manifest purpose of the legislation, adopt the wider one. That is the whole of the director's-disclosure scenario: disclosure of the '**nature of concern or interest, financial or otherwise**' under **section 102 of the Companies Act, 2013** must be read in its broader sense — what is required is a full and frank disclosure without reservation or suppression, so that where a son, daughter, father, mother, brother or sister is concerned in a contract or matter, **the shareholders ought fairly to be informed of it. The classic wrong answer is to invoke the rule of literal construction and stop**, as the director did; a restricted narrow interpretation would defeat the very purpose of the disclosure, so his presumption is wrong and he should have disclosed. The same point is made by 'no vehicles are allowed in the park': read literally it bars bicycles, strollers and wheelchairs; **construction** looks to the legislative purpose — preventing pollution and ensuring pedestrian safety — and confines the ban to motorised vehicles. The significance of construction: it clarifies legislative intent, resolves ambiguities, ensures justice, and adapts laws to changing contexts.

Mischief Rule and purposive construction. Where the language of a statute is **capable of more than one interpretation**, the most firmly established rule is the principle in **Heydon's case (1584) 3 Co. Rep 7a, 76 ER 637**, known as '**purposive construction**' or the '**mischief**' rule. It considers **four matters**: (1) what was the law before the making of the Act; (2) what was the mischief or defect for which the law did not provide; (3) what is the remedy that the Act has provided; and (4) what is the reason for the remedy. **Purposive construction** is the evolution of the mischief rule and is now the default modern method in India where a literal reading would frustrate the evident object; in **Gullipilli Sowria Raj v. Bandaru Pavani, (2009) 1 SCC 714** the Supreme Court used the **Preamble** — 'An Act to amend and codify the law relating to marriage among Hindus' — to hold that '**may**' in **section 5 of the Hindu Marriage Act, 1955 is mandatory**, so a marriage between a Christian male and a Hindu female solemnised under that Act was **void**.

Harmonious construction, and the maxim that finishes it. The rule is that the provisions of a statute should be interpreted so as to bring harmony and consistency to the whole law, and it applies **where two provisions of the same statute appear inconsistent**, or where a provision appears to conflict with the object for which the law was enacted. The court must make every possible effort to interpret conflicting provisions so that both can operate together; the statute is

read as a whole and each provision read in relation to the others; an interpretation that defeats the object of the Act or makes it invalid is avoided. **Only if reconciliation is impossible** may the court treat one provision as an **exception** to the other, and then **a specific provision prevails over a general provision** — **generalia specialibus non derogant**. Two cautions the answers repeat: the maxim is available **only where there is a real and not merely an apparent conflict**, and where the words on a reasonable construction admit of one meaning only, that natural meaning prevails and the court shall not attempt an interpretation based on equity and harmonious construction.

Ejusdem generis — '**of the same kind or species**'. Where specific words pertaining to a class, category or genus are followed by general words, the general words are construed as limited to things of the same kind as those specified. It is not an absolute rule of law but part of a wider principle of construction, and it has no application where the intention of the legislature is clear. It applies when: (1) the statute contains an enumeration of specific words; (2) the subject of the enumeration constitutes a class or category; (3) that class or category is not exhausted by the enumeration; (4) general terms follow the enumeration; and (5) there is no indication of a different legislative intent. The exceptions — where it is not applied: (1) where the preceding term is general as well as that which follows; (2) where the particular words exhaust the whole genus; (3) where the specific objects enumerated are essentially diverse in character; and (4) where there is an express intention of the legislature that the general term shall not be read ejusdem generis with the specific terms. The five conditions and the four exceptions are mirror images — learn them as one set. *Noscitur a sociis* — 'associated words are to be understood in a common-sense manner', the meaning of a word is judged by the company it keeps. When two or more words susceptible of analogous meaning are coupled together they are understood to be used in their cognate sense; they take their colour from each other, the meaning of the more general word being restricted to a sense analogous to that of the less general. Two decided examples carry the marks: **fresh orange juice is not a fruit juice** — under a Purchase Tax Act using 'manufactured beverages including fruit-juices and bottled waters and syrups', 'fruit juices' was construed in the context of the preceding words and unsweetened freshly pressed orange juice fell outside it (**Commissioners v. Savoy Hotel, (1966) 2 All E.R. 299**); and **a private dispensary of a doctor is not a commercial establishment** — in **section 2(4) of the Bombay Shops and Establishments Act, 1948** ('an establishment which carries on any business, trade or profession'), 'profession' was construed with 'business' and 'trade' (**Dr. Devendra M. Surti v. State of Gujarat, A.I.R. 1969 SC 63**).

Non-obstante clause and 'without prejudice' — the pair the examiner asks together. A clause beginning 'notwithstanding anything contained' is a non-obstante clause; unlike a 'subject to' clause it makes the provision prevail over others, and it prevails over the provision(s) mentioned in it (**K. Parasurammaiah v. Pakari Lakshman, AIR 1965 AP 220**). It **operates at four levels**: notwithstanding anything contained in another section or sub-section of that statute — it overrides that section or sub-section; in a statute — it overrides the entire enactment; in specific sections or sub-sections or all the provisions of another statute — it prevails over that other enactment; in any other law for the time being in force — it overrides all other laws. Watch: a non-obstante clause overrides only so far as its own terms extend; it does not enlarge the power beyond what it grants — so a clause allowing the Chancellor to make **temporary appointments in**

an **emergency** notwithstanding the Selection Committee requirement will not save an appointment that is neither temporary nor made in an emergency, and the general provision revives. **'Without prejudice'** is the opposite instrument: where particular provisions follow general provisions and are stated to be **without prejudice** to them, the particular provisions do not restrict or limit the operation and generality of the general provisions — they operate in addition to and not in derogation of them. Example: **section 4(3) of the Companies Act, 2013** — 'Without prejudice to the provisions of sub-section (2), a company shall not be registered with a name which contains...' — so **section 4(2) remains operative** alongside. On the same logic, a clause saying the licence 'may also be suspended' **without prejudice** to the penalty means both may be ordered.

The two 'distinguish between' questions. Mandatory and directory provisions: a mandatory provision requires a particular course of action and must be observed as it is, being essential to the substance of the law, is **characterised by 'shall'**, and **non-compliance generally attracts the penal provisions of the statute**; a directory provision is **optional, a statutory instruction that is desirable but not absolutely necessary, is characterised by 'may', lacks strict compliance and does not injure any substantive right, and non-compliance is a procedural deficiency that does not attract penal provisions**. A mandatory provision must be strictly observed; for a directory provision substantial compliance is sufficient. Then the line that decides the fact question: look to the substance and not merely the form — an enactment in mandatory form might substantially be directory and a statute in directory form may in substance be mandatory. **If a provision gives a power coupled with a duty, it is mandatory**, and whether it does depends on the nature of the thing empowered to be done, the object for which it is done, and the person for whose benefit the power is to be exercised. **Beneficial construction against exceptional construction:** beneficial (also called the **liberal or purposive rule**) interprets a statute **liberally in favour of the class for whom it is enacted, to promote the object of welfare or remedial legislation**, applied in **social welfare, labour, tax relief and protective statutes**, presuming the legislature intended to benefit that group; exceptional construction applies where a provision is **out of the ordinary and is an exception to the general law, is strict and narrow, is applied to provisos, exceptions and penal provisions**, and presumes **the exception must be limited to what is expressly stated** — a tax exemption is read strictly and ambiguity favours taxation, not the exemption. **Beneficial construction in a case scenario, and the limit on it.** It is not a strict rule of interpretation but a method of interpreting a statute liberally to give effect to the declared intention of the legislature, particularly where the statute is enacted to benefit a specific class — those **underprivileged or not treated fairly in the past** — and **it is permissible to give an extended meaning to words or clauses**. But only when two constructions are reasonably possible: if the language is clear and unequivocal the court must follow the plain meaning and cannot stretch it. On the adoptive-mother facts, run it in two steps as the answer does: **purpose over literal meaning** — the object is child welfare and mother-child bonding, not merely post-delivery recovery — and **no discrimination between biological and adoptive mothers**, since excluding adoptive mothers would create unjust discrimination and violate the spirit of gender equality; conclude that the leave must be granted.

Usage, customs and practice — and the two maxims that must be named. Usage or practice developed under the statute is indicative of the meaning recognised to its words by contemporary opinion. A uniform notorious practice continued under an old statute, together with the inaction of the Legislature to amend it, are important factors showing that the practice was based on a correct understanding of the law, and when the usage or practice receives judicial or legislative approval it gains additional weight. The maxims: 'Optima legum interpres est consuetudo' — custom is the best interpreter of the law; and 'Contemporanea expositio est optima et fortissima in lege' — contemporaneous exposition is the best and strongest in the law, that is, the best way to interpret a document is to read it as it would have been read when made. Doctrine of Contemporanea Expositio: a statute or document is to be interpreted by reference to the exposition it has received from contemporary authority, and should be understood in the sense in which it was understood when it was passed — in **Cox v. Leigh (43 LJQB 123)** the court was influenced by an interpretation consistently accepted for nearly one hundred and sixty years. The limit: the maxim is applied to ancient or long-standing statutes and not ordinarily to comparatively modern Acts, and it is an aid and not a rule of law — it cannot prevail against clear statutory language. Note the qualification the answers add in India: contemporary official statements have been used as contemporanea expositio to interpret not only ancient but even recent statutes in India.

Remembering reproduce what you have learnt · 2 questions

- These ask for a named rule and an example. **Define, then illustrate** — the illustration or decided case is a separate mark and is the half candidates omit.
- Name the case with its parties. A rule stated without its authority reads as unsupported on a doctrinal paper.

TQ 3.8 · PYQ 2023-Nov [5] (c) · 3M · Pg 674

LEVEL I
Remembering

Easy

TQ 3.22 · MQ · 4M · Pg 685

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 15 questions

- Almost every question here is 'explain the rule/maxim'. Give the Latin, the literal translation, the rule in one sentence, and then the conditions or exceptions as a numbered list — that four-part shape fits the three- and four-mark format exactly.
- Where the question says 'illustrate' or 'with the help of an example', the example is a separate marks head. Use the printed ones: orange juice and the private dispensary for noscitur a sociis, section 4(3) of the Companies Act, 2013 for 'without prejudice', Gullipilli Sowria Raj for purposive construction.

TQ 3.3 · PYQ 2020-Nov [5] (d) · 3M · Pg 670

LEVEL I
Understanding

Easy

TQ 3.6 · PYQ 2023-Nov [2] (c) · 3M · Pg 672	LEVEL I Understanding	Easy
TQ 3.2 · PYQ 2018-Nov [4] (d) (i) · 4M · Pg 670	LEVEL I Understanding	Medium
TQ 3.5 · RTP 2023-Nov [20] · Pg 671	LEVEL I Understanding	Medium
TQ 3.7 · PYQ 2023-Nov [3] (b) · 4M · Pg 673	LEVEL I Understanding	Medium
TQ 3.9 · PYQ 2024-May [4] (c) · 4M · Pg 674	LEVEL I Understanding	Medium
TQ 3.10 · MTP 2024-Jul [3] (c) · 4M · Pg 675	LEVEL I Understanding	Medium
TQ 3.11 · PYQ 2024-Sep [3] (c) · 4M · Pg 675	LEVEL I Understanding	Medium
TQ 3.14 · PYQ 2025-May [3] (c) · 4M · Pg 678	LEVEL I Understanding	Medium
TQ 3.16 · PYQ 2025-Sep [3] (c) · 4M · Pg 679	LEVEL I Understanding	Medium
TQ 3.17 · PYQ 2025-Sep [4] (c) · 4M · Pg 680	LEVEL I Understanding	Medium
TQ 3.18 · PYQ 2026-Jan [3] (c) · 4M · Pg 681	LEVEL I Understanding	Medium
TQ 3.21 · PYQ 2026-May [4] (c) · 4M · Pg 684	LEVEL I Understanding	Medium
CSQ 3.2 · RTP 2024-Sep [19] · Pg 687	LEVEL I Understanding	Medium
CSQ 3.5 · PYQ 2026-Sep [3] (c) · 4M · Pg 690	LEVEL I Understanding	Medium

Application use the section - apply it to the facts · 10 questions

- Set out the rule and its authority first, then apply it to the facts, then conclude. On these case scenarios the conclusion sentence is short but it is a separate mark — do not leave the answer hanging after the law.
- Identify which rule the facts are testing before you write: a 'notwithstanding' clause means non-obstante, a welfare statute denied to an unlisted class means beneficial construction, a long-standing administrative practice means contemporanea expositio, a general section sitting beside specific ones means read the statute as a whole.
- When the scenario says a party relied on the literal rule, your answer is almost always that the narrower reading defeats the purpose and the wider one must be adopted — say so expressly, and say the party's presumption was wrong.

TQ 3.4 · MTP 2022-Sep [4] (d) · 3M · Pg 671	LEVEL II Application	Easy
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CSQ 3.1 · PYQ 2021-Jan [3] (d) · 3M · Pg 686	LEVEL II Application	Easy
TQ 3.1 · PYQ 2018-May [3] (d) · 4M · Pg 668	LEVEL II Application	Medium
TQ 3.12 · PYQ 2025-Jan [4] (c) · 4M · Pg 676	LEVEL II Application	Medium
TQ 3.15 · RTP 2025-Sep [19] · Pg 678	LEVEL II Application	Medium
TQ 3.19 · PYQ 2026-Jan [4] (c) · 4M · Pg 682	LEVEL II Application	Medium
TQ 3.20 · PYQ 2026-May [3] (c) · 4M · Pg 683	LEVEL II Application	Medium
CSQ 3.3 · MTP 2025-Mar S2 [4] (c) · 4M · Pg 688	LEVEL II Application	Medium
CSQ 3.4 · RTP 2026-May [19] · Pg 689	LEVEL II Application	Medium
TQ 3.13 · MTP 2025-Mar S2 [3] (c) · 4M · Pg 677	LEVEL II Application	Hard

Topic 4: Internal aids to Interpretation/Construction

L2P2-2B-C2-T04

Read first Read ICAI Study Material Chapter 2, Interpretation of Statutes — internal aids to interpretation: title, preamble, definition clauses, provisos, explanations, illustrations and schedules.

NOTES

Read the statute as a whole. It is an elementary principle that the construction of a statute is to be made of all its parts taken together and not of one part only. The statute must be read as a whole to ascertain the true meaning of its several clauses, and the words of each clause should be so interpreted as to bring them into harmony with the other provisions, if that interpretation does no violence to the meaning of which they are naturally susceptible. One of the safest guides to the construction of sweeping general words is to examine other words of like import in the same enactment to see what limitations must be imposed on them; where a number of such expressions have to be subjected to limitations of the same nature, that is a strong argument for subjecting the disputed expression to a similar limitation. Applied to facts, this is how a general section is cut down: a section saying documents '**may be submitted**' cannot be read alone where other sections say they '**shall be submitted in the prescribed electronic form**' and '**shall be filed online**' — the general words are read subject to the specific ones and physical filing is invalid.

Preamble. It expresses the scope, object and purpose of the Act more comprehensively than the Long Title, and may recite the ground and the cause of making the statute and the evil sought to be remedied by it. The preamble is a part of the enactment and can legitimately be used for

construing it. **But it does not over-ride the plain provision of the Act** — it can be brought in as an aid to construction only if the language of the statute is not clear, for example where a word or phrase has more than one meaning and a doubt arises as to which was intended. The printed example: '**may**' in **section 5 of the Hindu Marriage Act, 1955** ('a marriage may be solemnized between two Hindus') was construed as **mandatory**, so that both parties must be Hindus as defined in section 2, and a marriage between a Christian male and a Hindu female solemnised under that Act was held void — a result reached having regard to the preamble, 'An Act to amend and codify the law relating to marriage among Hindus' [**Gullipilli Sowria Raj v. Bandaru Pavani, (2009) 1 S.C.C. 714**].

Proviso. The normal function of a proviso is to except something out of the enactment, or to qualify something stated in the enactment which would be within its purview if the proviso were not there. Its effect is to qualify the preceding enactment which is expressed in terms which are too general. **Ordinarily a proviso is not interpreted as stating a general rule.** Usually it is **embedded in the main body of the section and becomes an integral part of it.** The cardinal rule: a proviso to a particular provision embraces only the field covered by the main provision — it carves out an exception to the main provision to which it has been enacted as a proviso and to no other (**Ram Narain Sons Ltd. v. Assistant Commissioner of Sales Tax, AIR 1955 SC 765**). **Proviso, exception and saving clause — keep the three apart.** An exception is intended to restrain the enacting clause to particular cases; a proviso is used to remove special cases from the general enactment and provide for them specially; a saving clause is used to preserve from destruction certain rights, remedies or privileges already existing. This three-line distinction is a standing short-note and is worth adding even to a plain 'write a note on proviso' answer.

Explanation. An explanation is at times appended to a section to explain the meaning of the text of the section, and may be added to include something within the section or to exclude something from it. It should normally be so read as to harmonise with and clear up any ambiguity in the main section. **But it should not be construed so as to widen the ambit of the section** — that is the direct answer to the question 'does an explanation widen the ambit of a section?', and the answer is no. In **Sundaram Pillai v. Pattabiraman**, Fazal Ali, J. gathered the objects of an explanation: to explain the meaning and intendment of the Act itself; to clarify any obscurity and vagueness in the main enactment and make it consistent with the object; to provide additional support to the object of the Act so as to make it meaningful and purposeful; to fill up a gap relevant for the purpose of the explanation, to suppress the mischief and advance the object of the Act; and it cannot take away a statutory right. Add the qualification: it would be wrong always to construe an explanation as limited to these objects — the meaning depends on its own terms and not on any theory of its purpose.

Definition clauses. The purpose is two-fold: to provide a key to the proper interpretation of the enactment, and to shorten the language of the enacting part by avoiding repetition of the same words every time the legislature refers to the expression. Where a word is defined as having a particular meaning, it is that meaning alone which must be given to it in interpreting a section, unless there be anything repugnant in the context. Then the four formulas, which are pure marks:

'means' — prima facie restrictive and exhaustive, you must restrict the word to the meaning given; 'includes' — prima facie extensive, the word is not restricted to the assigned meaning but has an extensive meaning which also includes it; **'means and includes' — the definition is exhaustive; 'to apply to and include' — the definition is extensive.** The common error is to treat 'means and includes' as extensive because of the word 'includes'; it is exhaustive.

Two problem definitions. Definitions subject to a contrary context: where a word is defined to bear a number of inclusive meanings, the sense in which it is used in a particular provision must be ascertained from the context of the scheme of the Act, the language of the provision, and the object intended to be served. **Ambiguous definitions:** the definition section may itself be ambiguous, and then it must be interpreted in the light of the other provisions of the Act and having regard to the ordinary meaning of the word defined; such a definition is not to be read in isolation but in the context of the phrase which it defines, recognising that the function of a definition is to give accuracy and certainty to a word which would otherwise be vague and uncertain — not to contradict it or depose it altogether.

Illustrations. Illustrations cannot modify the language of a section and can neither curtail nor expand its scope. Many sections contain illustrations following the main text, but **they do not form part of the sections themselves**, though **they have relevance and value in interpreting the text.** **The section alone constitutes the law.** The printed example: **section 73 of the Indian Contract Act, 1872** does not allow interest to be awarded as damages for mere detention of a debt, and the Privy Council rejected the argument that the illustrations in the Act could be used to reach a different conclusion, observing that an illustration cannot change the language of the section, which is the only thing that constitutes the enactment.

Remembering reproduce what you have learnt · 2 questions

- Short-note questions. **Give the meaning, the function, and one worked example** for each item asked, and keep the items under separate headings.
- On a proviso, say what it does to the main provision. On an explanation, say what it does not do. The contrast is the mark.

TQ 4.6 · PYQ 2020-Nov [4] (d) · 3M · Pg 695

LEVEL I
Remembering

Easy

TQ 4.2 · PYQ 2018-Nov [3] (d) · 4M · Pg 692

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 8 questions

- These are short-note questions of three or four marks. Give the function of the aid, then the limit on it — the preamble cannot override the plain provision, the explanation cannot widen the ambit, the illustration cannot modify the language. The limit is where most of the marks sit.
- Name the authority: Ram Narain Sons Ltd. for the proviso, Sundaram Pillai v. Pattabiraman for the explanation, Gullipilli Sowria Raj for the preamble.

- For 'means' and 'includes', answer with the words 'prima facie restrictive and exhaustive' and 'prima facie extensive' — the examiner is looking for those exact labels.

TQ 4.3 · MTP 2019-Mar [3] (d) · 3M · Pg 693	LEVEL I Understanding	Easy
TQ 4.7 · PYQ 2021-Jul [3] (d) · 3M · Pg 695	LEVEL I Understanding	Easy
TQ 4.8 · PYQ 2022-May [4] (d) · 3M · Pg 696	LEVEL I Understanding	Easy
TQ 4.9 · PYQ 2022-May [5] (d) · 3M · Pg 696	LEVEL I Understanding	Easy
TQ 4.10 · MTP 2023-Mar [4] (d) · 3M · Pg 697	LEVEL I Understanding	Easy
TQ 4.1 · RTP 2018-Nov [15] · Pg 691	LEVEL I Understanding	Medium
TQ 4.4 · RTP 2019-May [12] · Pg 693	LEVEL I Understanding	Medium
CSQ 4.1 · MTP 2026-Apr S2 [5] (c) · 4M · Pg 700	LEVEL I Understanding	Medium

Application use the section - apply it to the facts · 4 questions

- Where a scenario sets a general section against specific ones, state the principle 'read the statute as a whole' first, then take the sections in numerical order and show how the specific ones cut down the general words, then conclude on the validity of what the party did.
- Do not simply say the general section is overridden. Say the general expression must be read subject to the specific provisions, and support it with the guide of examining like expressions elsewhere in the same statute.

TQ 4.11 · PYQ 2023-May [3] (d) · 3M · Pg 698	LEVEL II Application	Easy
TQ 4.12 · PYQ 2024-Sep [4] (c) · 4M · Pg 698	LEVEL II Application	Medium
TQ 4.13 · PYQ 2025-May [4] (c) · 4M · Pg 699	LEVEL II Application	Medium
TQ 4.5 · PYQ 2019-May [3] (d) · 3M · Pg 694	LEVEL II Application	Hard

Topic 5: External aids to Interpretation/Construction

L2P2-2B-C2-T05

Read first Read ICAI Study Material Chapter 2, Interpretation of Statutes — external aids to interpretation: historical setting, dictionary definitions, use of foreign decisions, and usage and practice.

NOTES

What external aids are: apart from the statute itself there are many matters which may be taken into account when the statute is ambiguous, and these are called **external aids to interpretation**. The trigger word is **ambiguity** — say it in your opening line, because an external aid is not available while the words of the Act are plain.

Dictionary definitions. First refer to the Act in question to find out whether the particular word or expression is defined in it. Only where the word is not defined in the Act itself may you refer to dictionaries to find the general sense in which the word is commonly understood. In selecting one out of the several meanings, you must always take into consideration the context in which it is used in the Act — it is the fundamental rule that the meanings of words and expressions used in an Act must take their colour from the context in which they appear. Two riders the answers add: judicial decisions laying down the meaning of words in construing statutes in 'pari materia' have greater weight than the meaning furnished by dictionaries, and **for technical terms reference may be made to technical dictionaries**. The order — Act first, then case law on statutes in pari materia, then the dictionary — is the answer.

Use of foreign decisions. Foreign decisions of countries following the same system of jurisprudence as ours, and given on laws similar to ours, can be legitimately used for construing our own Acts. Two qualifications carry the second half of the marks: **prime importance is always to be given to the language of the Indian statute**, and where guidance can be obtained from Indian decisions, reference to foreign decisions may become unnecessary.

Historical setting. The history of the external circumstances which led to the enactment in question is of much significance in construing any enactment. You take help from all those external or historical facts which are necessary in the understanding and comprehension of the subject matter and the scope and object of the enactment. History in general and Parliamentary History in particular, ancient statutes, contemporary or other authentic works and writings are all relevant in interpreting and construing an Act.

Usage, custom and long-standing practice. Where the words are ambiguous, the construction consistently placed on them over a long period by those who administer the Act is a legitimate external aid — **contemporanea expositio est optima et fortissima in lege**, contemporaneous exposition is the best and strongest in the law. The weight of that construction increases where the Legislature has re-enacted or amended the statute without disturbing it, since acquiescence suggests approval, and **judicial acceptance of the practice strengthens it further**. Name the second maxim alongside: *optima legum interpret est consuetudo* — custom is the best interpreter of the laws. Watch: the maxim is an aid, not a rule of law. It cannot prevail against clear statutory language, and it applies to ancient or long-standing usage rather than to a recent practice. Note too that contemporary official statements have been used as *contemporanea expositio* to interpret not only ancient but even recent statutes in India.

Understanding explain it, and place it in context · 2 questions

- Open by defining external aids and saying when they may be used — only where the statute is ambiguous. Then take each named aid as a separate head with its own limit.
- On foreign decisions, never answer with a flat yes. The answer is yes, subject to the same system of jurisprudence, similar laws, primacy of the Indian statute's language, and the redundancy of foreign authority where Indian decisions guide.

TQ 5.1 · PYQ 2021-Jan [4] (d) · 3M · Pg 701

LEVEL I
Understanding**Easy**

TQ 5.3 · PYQ 2021-Dec [4] (d) · 3M · Pg 703

LEVEL I
Understanding**Easy****Application** use the section - apply it to the facts · 2 questions

- On the long-standing-practice scenario, build the answer in four steps: the ambiguity in the term, the uniform administrative construction, legislative inaction on re-enactment, and judicial acceptance — then conclude that the settled construction is preferred to a fresh dictionary reading.
- Name both Latin maxims in an answer that asks for maxims. A correct answer that omits the Latin loses the marks allotted to it.

TQ 5.2 · PYQ 2021-Jul [4] (d) · 3M · Pg 702

LEVEL II
Application**Easy**

CSQ 5.1 · PYQ 2026-Sep [4] (c) · 4M · Pg 703

LEVEL II
Application**Medium**

PART 2B · OTHER LAWS · CHAPTER 3

The Foreign Exchange Management Act, 1999

3 Topics · 38 Classified Questions · Importance: A

ICAI SKILL PROFILE Level III is not assessed anywhere in CA Intermediate — this chapter reads **on the paper's profile**

Level I — Comprehension & Knowledge **26.0%** 38 of 146 marks

Level II — Analysis & Application **74.0%** 108 of 146 marks

This chapter sits on the paper's own profile — 26% Comprehension and Knowledge against 28% across Paper 2. Prepare it in the paper's proportions: know the section, then practise applying it.

Topic 1: Introduction, Preamble Definitions etc.

L2P2-2B-C3-T01

Read first Read ICAI Study Material Chapter 3, the preamble and the definitions in section 2 of the Foreign Exchange Management Act, 1999 — in particular sections 2(h), 2(l), 2(n), 2(o), 2(u), 2(v) and 2(w), together with the prohibited sectors under the Foreign Exchange Management (Permissible Capital Account Transactions) Rules, 2000.

NOTES

Currency — section 2(h). 'Currency' includes all currency notes, postal notes, postal orders, money orders, cheques, drafts, travellers' cheques, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments, as may be notified by the Reserve Bank. The definition is inclusive, not exhaustive, and the closing words let the Reserve Bank notify further instruments. Write the whole list — a two-mark question on this is a list question, and marks follow the items you name.

Foreign exchange — section 2(n). It means **foreign currency** and includes: (1) deposits, credits and balances payable in any foreign currency; (2) drafts, travellers' cheques, letters of credit or bills of exchange expressed or drawn in Indian currency but payable in any foreign currency; and (3) drafts, travellers' cheques, letters of credit or bills of exchange drawn by banks, institutions or persons outside India but payable in Indian currency. Limbs (2) and (3) carry the marks: the instrument may be in rupees and still be foreign exchange, depending on where it is payable or who drew it.

Foreign security — section 2(o). Any security in the form of shares, stocks, bonds, debentures or any other instrument denominated or expressed in foreign currency, and it includes securities expressed in foreign currency where the redemption, or any form of return such as interest or dividend, is payable in Indian currency. Denomination in foreign currency is what makes the security foreign; the fact that the return comes back in rupees does not take it out of the

definition.

Export — section 2(l). 'Export', with its grammatical variations and cognate expressions, means (a) the taking out of India to a place outside India any goods and (b) provision of services from India to any person outside India. There is no monetary element in the definition. Goods shipped out of India against allotment of equity shares in a foreign company, with no money changing hands, is still an export — the classic wrong answer is that the absence of a price defeats the transaction.

Person, and the residence of a branch — sections 2(u), 2(v) and 2(w). 'Person' includes a company and any agency, office or branch owned or controlled by such person, so a branch is itself a 'person'. A **person resident in India** covers (a) a person or body corporate registered or incorporated in India; (b) an office, branch or agency in India owned or controlled by a person resident outside India; and (c) an office, branch or agency outside India owned or controlled by a person resident in India. **Control alone is enough — ownership is not required.** So a foreign company is a person resident outside India under section 2(w); its Indian branch is a person resident in India under limb (b); and a branch abroad **controlled** by that Indian branch is also a person resident in India under limb (c). Take the chain one link at a time and name the limb for each entity.

Absolute prohibition on investment by a person resident outside India. Under the Foreign Exchange Management (Permissible Capital Account Transactions) Rules, 2000, a person resident outside India is prohibited from investing, **in any form**, in any company, partnership firm, proprietary concern or other entity, whether incorporated or not, which is engaged or proposes to engage in — (1) the business of chit funds; (2) a Nidhi company; (3) agricultural or plantation activities; (4) real estate business or construction of farm houses; and (5) trading in Transferable Development Rights (TDRs).

The two carve-outs buried inside that list. For chit funds, the **Registrar of Chits or an officer authorised by the State Government** may, in consultation with the concerned State Government, permit a chit fund to accept subscriptions from non-resident Indians, who may subscribe through banking channels and on a non-repatriation basis, without any monetary limit, subject to conditions specified by the Reserve Bank. And 'real estate business' does not include development of townships, construction of residential or commercial premises, roads or bridges, or REITs registered with and regulated by SEBI under the SEBI (REITs) Regulations, 2014. 'Transferable Development Rights' are certificates issued in respect of land acquired for public purposes by the Central or State Government in consideration of surrender of land without monetary compensation, and are transferable in nature.

Remembering reproduce what you have learnt · 2 questions

- The five prohibited sectors are a straight list question — number them, then add the chit-fund proviso and the real estate exclusion underneath. The exclusions are where the extra marks are.
- Quote each definition by its section number. 'Currency' is 2(h), 'export' 2(l), 'foreign exchange' 2(n), 'foreign security' 2(o).

TQ 1.2 · PYQ 2025-May [6] (c) · 4M · Pg 707

LEVEL I
Remembering

Medium

TQ 1.3 · PYQ 2025-Sep [6] (c) · 4M · Pg 707

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 1 question

- Reproduce the limbs in full. A paraphrase of section 2(n) that drops the two rupee-denominated limbs loses half the answer.

TQ 1.1 · MTP 2024-Jul [6] (c) · 2M · Pg 706

LEVEL I
Understanding

Easy

Application use the section - apply it to the facts · 1 question

- For the residential status of a company and its branches, first identify each entity as a 'person' under section 2(u), then test it against each clause of section 2(v), and give a separate conclusion for each entity.

CSQ 1.1 · RTP 2026-May [20] · Pg 708

LEVEL II
Application

Medium

Topic 2: Residential Status Under FEMA, 1999

L2P2-2B-C3-T02

Read first Read ICAI Study Material Chapter 3, Residential Status under the Foreign Exchange Management Act, 1999 — section 2(v) read with sections 2(u), 2(w) and 6(4), the permissible capital account transactions under the Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000, and the Liberalised Remittance Scheme limits in Schedule III to the Foreign Exchange Management (Current Account Transactions) Rules, 2000.

NOTES

The test — section 2(v). A **person resident in India** is a person residing in India for more than 182 days during the course of the preceding financial year. The definition then excludes, on both sides, a person who has **gone out of India or stays outside India**, and a person who has **come to or stays in India**, otherwise than for one of three purposes: (1) taking up employment, (2) carrying on a business or vocation, or (3) any other purpose in such circumstances as would indicate an intention to stay for an uncertain period. **Purpose beats the day count.** A person who stayed 200 or 250 days in the preceding financial year but then leaves on a long-term work visa or a five-year employment contract is **not** a person resident in India — he ceases to be one from the date of his departure.

What does not decide residence. Owning a flat in India, keeping savings accounts with Indian

banks, or later supervising the overseas branch of an Indian company do not pull a departed person back into residence. Residence turns on the period of stay in the preceding financial year together with the purpose of the departure, not on the ownership of assets in India. Where the facts dangle Indian assets in front of you, say so expressly — that is what the question is testing.

Students. A student who goes abroad for a stated course goes for a **certain period**, and on the bare words of section 2(v) he would remain a resident. But RBI A.P. circular no. 45 dated 8 December 2003 clarifies that students will be considered non-residents, because they usually start working there to meet their stay and study costs. So on a departure on 15 July 2024 for a two-year course, the student is a person resident in India **up to 16 July 2024**, a **person resident outside India from 17 July 2024**, and a person resident outside India for the whole of the following financial year.

Resident but not permanently resident. A person resident in India on account of employment or deputation of a specified duration (irrespective of its length), or for a specific job or assignment the duration of which does not exceed three years, is a resident but **not permanently** resident. Such a person, being a citizen of India on deputation to the office, branch, subsidiary or joint venture in India of a foreign company, **may remit up to his net salary** — net meaning after deduction of taxes, contribution to provident fund and other deductions.

Section 6(4) — the assets built up while abroad. A person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by him when he was resident outside India, or inherited from a person who was resident outside India. **RBI A.P. (DIR Series) Circular No. 90 dated 9 January 2014** clarifies that section 6(4) covers: foreign currency accounts opened and maintained while he was resident outside India; income from employment, business or vocation taken up outside India, or from investments made, or from gift or inheritance received, while he was resident outside India; foreign exchange, and income arising from it, held outside India and acquired by inheritance from a person resident outside India; and, under **section 6(4)(iv)**, free utilisation of all eligible assets abroad and the income on them or the sale proceeds received after return to India, for making payments or fresh investments abroad **without approval of the Reserve Bank**, provided the cost is met exclusively out of funds forming part of eligible assets and the transaction does not contravene extant FEMA provisions.

Permissible capital account transactions for a person resident in India — the list you may be asked to reproduce (any seven will do when the question says seven): investment in foreign securities; foreign currency loans raised in India and abroad; transfer of immovable property outside India; guarantees issued in favour of a person resident outside India; export, import and holding of currency or currency notes; loans and overdrafts (borrowings) taken from a person resident outside India; maintenance of foreign currency accounts in India and outside India; taking out an insurance policy from an insurance company outside India; loans and overdrafts given to a person resident outside India; remittance outside India of capital assets; and undertaking derivative contracts. **Schedule II(e)** of the Permissible Capital Account Transactions Regulations, 2000 permits **deposits between a resident and a non-resident**, which is the authority for an NRI

opening an **NRE or FCNR** account in India.

Liberalised Remittance Scheme. All resident individuals, including minors, may freely remit up to USD 2,50,000 per financial year (April to March) for any permissible current or capital account transaction, or a combination of both. Clubbing of limits by other family members is not permitted for capital account transactions — opening a bank account, making investments, purchasing property — **if they are not co-owners or co-partners**. Where they **are** co-owners, clubbing is allowed, so four family members holding equal shares in an overseas property may together remit **USD 10,00,000** in one financial year without approval. For **studies abroad** the ceiling is the same USD 2,50,000, and the **proviso to Para I of Schedule III** permits remittance beyond it **on the estimate received from the institution abroad**; where the education facility is used beyond the limit, the individual's applicable limit is reduced from USD 2,50,000 by the amount so remitted.

Remembering reproduce what you have learnt • 2 questions

- These are list questions with a stated number ('any seven'). **Give the number asked and no more**, and make each item a distinct class rather than a variation of the one before.
- Where clarifications issued by the Reserve Bank are asked for, name them separately at the end rather than folding them into the list.

TQ 2.1 • MTP 2025-Nov S1 [6] (c) • 4M • Pg 709

LEVEL I
Remembering

Medium

TQ 2.2 • MTP 2025-Jul S1 [6] (c) • 4M • Pg 710

LEVEL I
Remembering

Medium

Application use the section - apply it to the facts • 13 questions

- Fix the preceding financial year first, count the stay, then ask why the person left or came. Give the date from which the status changes, not just the label.
- For a remittance question, say which limit applies, compare the amount asked for with it, and only then conclude whether RBI approval is needed.

CSQ 2.13 • PYQ 2026-Jan [1] (c) (i) {C} • 2M • Pg 723

LEVEL II
Application

Easy

CSQ 2.14 • PYQ 2026-Jan [1] (c) (ii) {C} • 2M • Pg 724

LEVEL II
Application

Easy

CSQ 2.3 • MTP 2025-Mar S2 [5] (c) • 4M • Pg 713

LEVEL II
Application

Medium

CSQ 2.4 • MTP 2025-Mar S2 [6] (c) • 4M • Pg 714

LEVEL II
Application

Medium

CSQ 2.5 • RTP 2025-May [20] (i) • Pg 715

LEVEL II
Application

Medium

CSQ 2.6 • RTP 2025-May [20] (ii) • Pg 716

LEVEL II
Application

Medium

CSQ 2.7 · PYQ 2025-May [1] (c) {C} · 4M · Pg 716	LEVEL II Application	Medium
CSQ 2.8 · MTP 2025-Jul S1 [1] (c) · 4M · Pg 718	LEVEL II Application	Medium
CSQ 2.9 · MTP 2025-Aug S2 [6] (c) · 4M · Pg 719	LEVEL II Application	Medium
CSQ 2.10 · PYQ 2025-Sep [1] (c) {C} · 4M · Pg 720	LEVEL II Application	Medium
CSQ 2.11 · MTP 2025-Nov S1 [5] (c) · 4M · Pg 721	LEVEL II Application	Medium
CSQ 2.12 · RTP 2026-Jan [20] · Pg 722	LEVEL II Application	Medium
CSQ 2.15 · PYQ 2026-Jan [6] (c) · 4M · Pg 725	LEVEL II Application	Medium

Analysis break it down and take the parts separately · 3 questions

- Where the facts give a husband and a wife, or several family members, take each one separately and say which limb of section 2(v), or which LRS rule, decides that person.
- For a chain of branches, work outward from the parent: parent, then the Indian branch, then the branch abroad controlled by it, giving the clause relied on at each step.

CSQ 2.1 · RTP 2025-Jan [20] · Pg 711	LEVEL II Analysis	Medium
CSQ 2.2 · MTP 2025-Mar S2 [1] (c) · 4M · Pg 712	LEVEL II Analysis	Medium
CSQ 2.16 · PYQ 2026-Sep [6] (c) · 4M · Pg 726	LEVEL II Analysis	Medium

Topic 3: Regulation and Management of Foreign Exchange

L2P2-2B-C3-T03

Read first Read ICAI Study Material Chapter 3, Regulation and Management of Foreign Exchange — sections 2(c), 2(j), 4, 5 and 6(4) of the Foreign Exchange Management Act, 1999 read with the Foreign Exchange Management (Current Account Transactions) Rules, 2000 and Schedules I, II and III to those Rules.

NOTES

Current account transaction — section 2(j). It means a transaction other than a capital account transaction and, without prejudice to the generality of that, includes payments due in connection with foreign trade, other current business, services, and short-term banking and credit facilities in the ordinary course of business; payments due as interest on loans and as net income from investments; remittances for living expenses of parents, spouse and children residing abroad; and

expenses in connection with foreign travel, education and medical care of parents, spouse and children. The general rule, in one line: current account transactions are allowed unless prohibited; capital account transactions are prohibited unless permitted.

The machinery — section 5. Any person may sell or draw foreign exchange to or from an authorised person if such sale or drawal is a current account transaction, subject to the proviso that the Central Government may, in public interest and in consultation with the Reserve Bank, impose such reasonable restrictions for current account transactions as may be prescribed. The Rules then sort every drawal into three categories: (1) transactions for which drawal is prohibited; (2) transactions needing prior approval of the appropriate Government of India; and (3) transactions needing the prior approval of the Reserve Bank. Whatever the category, where remittance is allowed by general or special permission the remitter must obtain the exchange from an **authorised person as defined in section 2(c)** — add that line, it is a routine mark.

Holding of foreign exchange — section 4, and its exception in section 6(4). A person resident in India shall not acquire, hold, own, possess or transfer any foreign exchange, foreign security or immovable property situated outside India unless permitted under FEMA. **Section 6(4)** permits it where the currency, security or property was acquired, held or owned by him when he was resident outside India, or inherited from a person who was resident outside India; and under **section 6(4)(iv)**, read with **A.P. (DIR Series) Circular No. 90 dated 9 January 2014**, he may freely utilise his eligible assets abroad and the income on them or the sale proceeds received after his return to India for payments or fresh investments abroad **without approval of the Reserve Bank**, provided the cost is met exclusively out of eligible assets. So a house bought in the USA while non-resident may be retained after returning to India, **and a second house may be bought out of the rent that first house earns.**

Schedule I — drawal prohibited altogether. The instances the Scanner returns to: **remittance out of income from lottery winnings; payment related to call back services of telephones;** payment of commission on exports made towards equity investment in joint ventures or wholly owned subsidiaries abroad of Indian companies; and payment of commission on exports under the Rupee State Credit Route, except commission up to ten per cent of the invoice value of exports of tea and tobacco. The Rupee State Credit Route trap is twofold — the ten per cent concession is only for **tea and tobacco**, so eight per cent on machinery is prohibited outright, and twelve per cent on tea is **bad only to the extent it exceeds ten per cent.**

Schedule II — prior approval of the Central Government. Remittance for cultural tours requires prior permission or approval of the Ministry of Human Resources Development (Department of Education and Culture), irrespective of the amount of foreign exchange required — there is no threshold to argue about, so a dancer drawing USD 50,000 and a troupe drawing USD 100,000 are in the same position. **Remittance towards hire charges of transponders** likewise needs the approval of the Central Government. Naming the Reserve Bank instead of the Government is the standard wrong answer here.

Schedule III — individuals. The overall limit is **USD 2,50,000 in a financial year**, and any drawal above it needs the **prior approval of the Reserve Bank**. Two purposes escape the ceiling on an

estimate. For **studies abroad**, the **proviso to Para I of Schedule III** allows remittance exceeding USD 2,50,000 **based on the estimate received from the institution abroad**, so a drawal of USD 1,40,000 or USD 2,00,000 needs no approval at all. For **medical treatment abroad**, approval is required where the individual's withdrawal **exceeds USD 2,50,000**, but authorised dealers may release exchange beyond the limit **on the estimate from the doctor in India, or the hospital or doctor abroad**. **Gift remittance** is a current account transaction and needs RBI approval only where it **exceeds USD 2,50,000**.

Schedule III — persons other than individuals. Prior approval of the Reserve Bank is required for: donations exceeding one per cent of the foreign exchange earnings during the previous three financial years, or USD 50,00,000 (USD 5 million), whichever is less, for (a) creation of Chairs in reputed educational institutes, (b) contribution to funds, not being an investment fund, promoted by educational institutes, and (c) contribution to a technical institution, body or association in the field of activity of the donor company; commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or five per cent of the inward remittance, whichever is more; remittances exceeding USD 10,000,000 per project for any consultancy services in respect of infrastructure projects, and USD 1,000,000 per project for other consultancy services, procured from outside India; and remittances exceeding five per cent of the investment brought into India or USD 100,000, whichever is higher, by way of reimbursement of pre-incorporation expenses. 'Infrastructure' bears the meaning given in the Explanation to para 1(iv)(A)(a) of Schedule I of FEMA Notification 3/2000-RB dated 3 May 2000. Under **Rule 5**, drawal for Schedule III transactions must follow the conditions specified there, but the Rule does not apply to a remittance made from the remitter's **Resident Foreign Currency (RFC) account**; and while remittances for Schedule II and Schedule III transactions from an **EEFC account** normally need no approval, commission to agents abroad still needs approval once the prescribed limit is crossed, even out of an EEFC account.

Remembering reproduce what you have learnt · 1 question

- The Schedule III limits are recall marks. Write the figure, the unit — per transaction, per project, per financial year — and the direction of the comparison. Donations are 'whichever is less'; commission to agents and pre-incorporation expenses are 'whichever is higher'. Reversing the comparison loses the mark.
- Learn which Schedule each transaction sits in: lottery winnings and call back services in Schedule I, cultural tours and transponder hire in Schedule II, the monetary ceilings in Schedule III.

CSQ 3.5 · MTP 2024-Nov [1] (c) {C} · 4M · Pg 737

LEVEL I
Remembering

Medium

Understanding explain it, and place it in context · 4 questions

- Open with section 5 and the three categories of drawal, then place the transaction in one of them and name the approving authority before you say anything else.

TQ 3.2 • MTP 2024-Mar [6] (c) • 4M • Pg 728	LEVEL I Understanding	Medium
TQ 3.4 • PYQ 2024-May [6] (Or) (c) • 4M • Pg 729	LEVEL I Understanding	Medium
TQ 3.5 • PYQ 2025-Jan [6] (c) • 4M • Pg 730	LEVEL I Understanding	Medium
TQ 3.6 • PYQ 2026-May [6] (c) (2 + 2 = 4 Marks) • 4M • Pg 731	LEVEL I Understanding	Medium

Application use the section - apply it to the facts • 8 questions

- Do the arithmetic on the page. Compute one per cent of the foreign exchange earnings of the **three immediately preceding** financial years, compare it with USD 50,00,000, state which is the lesser, and only then conclude. Ignore the earlier years a question supplies to tempt you.
- For commission to an agent abroad, five per cent is computed on the **inward remittance actually received**, not on the contract price — on 60 per cent of a Rs. 2 crore price, the five per cent figure is Rs. 6,00,000 per broker, and you take the higher of that and USD 25,000.

CSQ 3.2 • RTP 2024-Sep [20] • Pg 733	LEVEL II Application	Medium
CSQ 3.4 • PYQ 2024-Sep [6] (c) • 4M • Pg 735	LEVEL II Application	Medium
CSQ 3.7 • MTP 2026-Mar S1 [1] (c) • 4M • Pg 739	LEVEL II Application	Medium
CSQ 3.8 • MTP 2026-Mar S1 [4] (c) • 4M • Pg 739	LEVEL II Application	Medium
CSQ 3.9 • PYQ 2026-May [1] (c) {C} • 4M • Pg 740	LEVEL II Application	Medium
CSQ 3.10 • PYQ 2026-Sep [1] (c) {C} • 4M • Pg 742	LEVEL II Application	Medium
TQ 3.1 • MTP 2024-Mar [1] (d) {C} • 4M • Pg 727	LEVEL II Application	Hard
TQ 3.3 • RTP 2024-May [20] • Pg 728	LEVEL II Application	Hard

Analysis break it down and take the parts separately • 3 questions

- Where two remittances are proposed together, ask whether the ceiling is collective or per project. **Donations are tested on the aggregate** — USD 4 million plus USD 3 million is USD 7 million against a USD 5 million ceiling and needs approval. **Consultancy ceilings are per project and per service**, so an infrastructure remittance and a software remittance on a different project are tested separately, never added.
- When a director or CFO in the question has already stated an opinion, answer the opinion in terms — say plainly that it is right or wrong and why, because the marks are for correcting it.

CSQ 3.1 · MTP 2024-Jul [1] (c) {C} · 4M · Pg 732	LEVEL II Analysis	Medium
CSQ 3.3 · PYQ 2024-Sep [1] (c) {C} · 4M · Pg 734	LEVEL II Analysis	Medium
CSQ 3.6 · PYQ 2025-Jan [1] (c) {C} · 4M · Pg 738	LEVEL II Analysis	Medium

AT THE END OF THE BOOK

Corrigendum

Every printed Topic-Wise Question Frequency table in this Scanner reconciles exactly against the questions printed under it — all 113 examined topics, on each of the PYQ, RTP and MTP columns separately. The items below are the whole of what did not, and none of them affects a question, an answer, or a page reference. They are listed so that a reader who notices one knows it has been noticed.

In a chapter opening

Part 2A, Chapter 9, frequency table, topic 1

Printed: Books of Accounts etc, to be Kept by Company (Section 128)

Read: Books of Accounts, etc., to be Kept by Company (Section 128)

Punctuation only. The body block head for the same topic is set correctly.

In the Front Matter, where the coverage is stated

Sources of questions — PYQ line

Printed: PYQ's: 2018 May to 2026 Sep (20 Exams)

Read: the book also carries questions from five earlier sittings — 2015 May, 2015 November, 2016 May, 2016 November and 2017 May

The questions are right; the statement of the window is narrower than the book. Most of these sit in chapters the Front Matter itself notes were drawn from the old course or from the Final Scanner.

Sources of questions — MTP line

Printed: MTP's: 2019 March to 2026 April

Read: four questions carry a repeat from MTP 2018 October

Part 2A Chapter 7 (three questions) and Part 2B Chapter 2 (one).

Sources of questions — RTP line

Printed: RTP's: 2018 May to 2026 May (19 Exams)

Read: 20 distinct RTP sittings appear in the book

The range is right; the count is one short.

Counted afresh on this edition: 613 questions across 148 declared topics, of which 113 carry questions and 35 are declared but not yet examined. 2,576 marks are printed on the question heads. 20 questions — all from PYQ 2026 September — carry the Scanner's answer key and

solution hints in place of a worked answer, as the Front Matter explains, because the Institute's own Suggested Answers for that sitting are not yet published.