BLOGS

Sectional Test on Company Law for CLAT PG

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1. The golden rule for framing a prospectus was propounded by Judge V.C. Kindersley in:

A. Henderson v. Lacon

B. Peek v. Gurney

C. New Brunswick Canada Railway Co. v. Muggeridge

D. Foss v. Harbottle

2. A government company is one in which the government owns at least the paid-up share capital of ……..

A. 50%

B. 55 %

C. 45%

D. 51 %

3. Chapter III of the Companies Act, 2013 deals with ….

A. Share Capital and Debentures

B. Incorporation of Company

C. Prospectus and allotment of securities

D. Appointment and qualification of directors

4. The doctrine of indoor management was laid down in which of the following cases:

A. Salomon v. Saloman and Co. Ltd.

B. Royal British Bank v. Turquand

C. Hely-Hutchinson v. Brayhead Ltd.

D. Ashbury Railway Carriage and Iron Co Ltd v. Riche

5. Which of the following sections of the Companies Act deals with the incorporation of a company?

A. Section 3

B. Section 7

C. Section 6

D. Section 8

6. A prospectus in respect of which the securities or class of securities included therein are issued for subscription in one or more issues over a certain period without the issue of a further prospectus is a:

A. Shelf prospectus

B. Red herring prospectus

C. Abridged prospectus

D. Deemed prospectus

7. What is the minimum number of members needed to establish a public company?

A. Two or more persons

B. Seven or more persons

C. Three or more persons

D. Nine or more persons

8. As per Section 135 of the Companies Act, 2013, the board of a company shall ensure that the company spends, in every financial year, at least _______ per cent. of the average net profits of the company made during the three immediately preceding financial years.

A. Three

B. Two

C. Four

D. Five

9. Identify the correct statements with reference to The Companies (Amendment) Bill, 2025:

I. The Companies (Amendment) Bill, 2025 was introduced in the Parliament of India on 5th December, 2025.

II. The formation of a CSR committee and the carrying out of CSR initiatives are the two primary areas of change in this bill.

III. The Bill gives the central government the authority to permit specific categories of public companies to list classes of securities in foreign jurisdictions.

IV. The Bill removes certain provisions of Companies Act, 1956 which continued to apply to producer companies from the Companies Act, 2013, and added a new chapter with similar provisions.

A. I and III

B. I and II

C. III and IV

D. I and IV

10. Match List I with List II:

List I

A. Salomon v. Salomon & Co. Ltd.

B. Ashbury Railway Carriage Co. Ltd v. Riche

C. Royal British Bank v. Turquand

D. Gilford Motor Co. Ltd v. Horne

List II

I. Doctrine of indoor management

II. Lifting of corporate veil

III. Doctrine of ultra vires

IV. Separate legal personality

A. A-I, B-III, C-II, D-IV

B. A-II, B-I, C-IV, D-III

C. A-IV, B-II, C-III, D-I

D. A-IV, B-III, C-I, D-II

11. Which of the following documents contains the internal rules that govern the management and operations of a company?

A. Memorandum of Association

B. Articles of Association

C. Prospectus of a Company

D. Statement in Lieu of Prospectus

12. Consider the following statements:

I. A company can have a maximum of 15 directors

II. At least one director of every company must stay in India for a minimum of 180 days during the financial year.

III. A company shall have a minimum number of three directors in the case of a public company, and two directors in the case of a private company.

A. All are correct

B. I and II are correct

C. Only I is correct

D. I and III are correct

13. The National Financial Reporting Authority is constituted under Section _____ of the Companies Act, 2013.

A. Section 132

B. Section 130

C. Section 128

D. Section 139

14. Consider the following statements regarding the Foss v. Harbottle judgement:

I. The corporation can take direct or derivative action to recover damages if it sustains a loss as a result of the negligent or fraudulent activities of its members or outsiders.

II. The majority rule and the rights of minority shareholders were formed as a result of this case.

III. The court does not interfere with internal corporate management decisions made by a majority of members.

A. I and III are correct

B. II and III are correct

C. Only II is correct

D. All are correct

15. Formation of a company is provided under Section _____ of the Companies Act, 2013.

A. Section 5

B. Section 3

C. Section 4

D. Section 6

Answers And Explanations

1. (C) The golden rule for framing prospectus was propounded by Judge V.C. Kindersley in New Brunswick Canada Railway Co. v. Muggeridge. In this case, it was held that, “Prospectus is one of the means by which the investor is informed about the soundness of the company’s venture.” The main idea of the rule is that the company must publish a prospectus; it must accurately provide all pertinent facts and information and make sure that it does not conceal any material that could influence an investor’s choice. Judge Pagewood referred to the rule as the “Golden Legacy” in Henderson v. Lacon (1865).
2. (D) As per Section 2(45), a “Government company” means any company in which not less than fifty-one per cent. of the paid-up share capital is held 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, and includes a company which is a subsidiary company of such a Government company.
3. (C)
4. (B) The doctrine of Indoor management was laid down in the case of Royal British Bank v. Turquand. Hence, it is also known as the ‘Tarquand’s Rule”. It was established in this case that while outsiders must be aware of the company’s external position, they are not need to be aware of its internal management.
5. (B)
6. (A) According to the Explanation to Section 31 of the Companies Act, a “Shelf Prospectus” is a prospectus in respect of which the securities or class of securities included therein are issued for subscription in one or more issues over a certain period without the issue of a further prospectus.
7. (B) Section 3 of the Act deals with the formation of a company, which states that seven or more persons are required to form a public company, and two or more persons for a private company, and one person where the company is a one person company.
8. (B) As per Section 135 of the Companies Act, 2013, the board of a company shall ensure that the company spends, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial year or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years

9. (B) Only I and II are correct. III and IV are related to the Companies (Amendment) Bill, 2020.
10. (D)
11. (B) The articles of a company shall contain the regulations for management of the company as per Section 5 of the Act.
12. (D) As per Section 149 of the Act, at least one director of every company must stay in India for a minimum of 182 days during the financial year.
13. (A) Section 132 of the Act deals with the Constitution of the National Financial Reporting Authority by the Central Government to provide for matters relating to accounting and auditing standards under the Act.
14. (D)
15. (B)