15

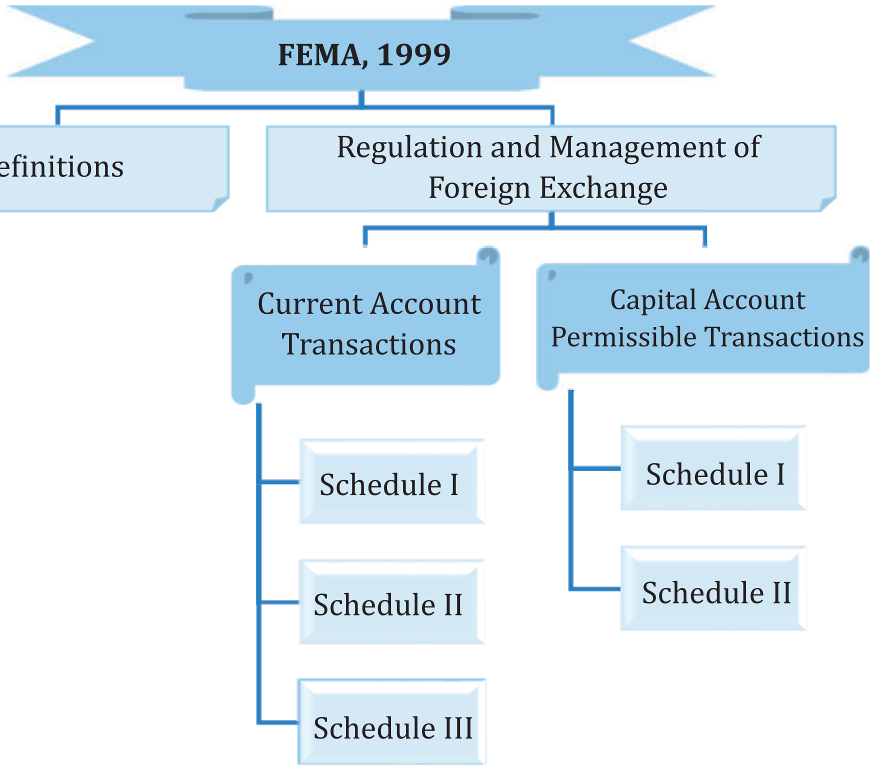
CHAPTER

The Foreign Exchange Management Act, 1999

OVERVIEW OF THE CHAPTER

Broad Structure of FEMA

Chapters	Matters	Sections
I	Preliminary	1 – 2
II	Regulation and Management of Foreign Exchange	3 – 9
III	Authorized Person	10 – 12
IV	Contraventions and Penalties	13 – 15
V	Adjudication and Appeal	16 – 35
VI	Directorate of Enforcement	36 – 38
VII	Miscellaneous	39 – 49



INTRODUCTION

Need for the Act

- **Economic Changes:** Globalization, free trade, and cross-border capital flows created a need for organized foreign exchange management.
- **Exchange Control Law:** Introduced initially through the Defense of India rules by the British in 1939.
- **FERA Enactments:**
  - 1947: Foreign Exchange Regulation Act (FERA) enacted.
  - 1973: Revised and replaced by an updated FERA
- **1991 Liberalization:**
  - Allowed free movement of foreign exchange for trade-related receipts and payments.

- Encouraged foreign investments in various sectors.
- Led to an increase in foreign exchange inflows and reserves.

- **FEMA Enactment:**
  - Foreign Exchange Management Act (FEMA), 1999, replaced FERA.
  - Came into effect on 1st June 2000.
  - Focuses on the management of FOREX reserves for the country.

SALIENT FEATURES OF THE ACT

1. Regulation of **transactions** between residents and non-residents
2. **Investments** in India by non-residents and overseas investments by Indian residents
3. Freely permissible transactions on **current** account subject to reasonable restrictions that may be imposed
4. RBI and CG control over **capital** account transactions
5. Requirement for **realization** of **export** proceeds and **repatriation** to India
6. **Dealing in foreign exchange** through 'Authorised Persons' like Authorised Dealer/ Money Changer/ Off-shore banking unit
7. **Adjudication** and Compounding of Offences **(A)**
8. **Investigation** of offences by Directorate of Enforcement **(A)**
9. **Appeal** provisions including Special Director (Appeals) & Appellate Tribunal **(I)**

ENFORCEMENT OF FEMA – SECTION 36

- Though RBI exercises overall control over foreign exchange transactions,
- Enforcement of FEMA has been entrusted to a separate **'Directorate of Enforcement' formed for this purpose**
- Rules are notified by the Ministry of Finance, Government of India
- Regulations are notified by the Reserve Bank of India

PREAMBLE, EXTENT, APPLICATION, AND COMMENCEMENT OF FEMA, 1999

Preamble

This Act aims to consolidate and amend the law relating to foreign exchange with the objective of:

(i) facilitating external trade and payments and

(ii) for promoting the orderly development and maintenance of foreign exchange market in India.

EXTENT AND APPLICATION [SECTION 1]

- FEMA, 1999 extends to the whole of India.
- Also applies to branches, offices, and agencies outside India owned or controlled by Indian residents.
- Covers contraventions outside India by persons subject to this Act.
- Emphasis on ownership or control makes the scope broad.

Commencement: The Act, 1999 came into force with effect from 1st June, 2000 vide Notification G.S.R. 371(E), dated 1.5.2000.

[SECTION 2] DEFINITIONS

Section	Term	Meaning
2(c)	Authorised Person	A. An authorised dealer, money changer, offshore banking unit, or any person authorised under Section 10(1) to deal in foreign exchange or securities.
2(h)	Currency	B. Includes currency notes, postal notes/orders, money orders, cheques, drafts, traveler's cheques, letters of credit, bills of exchange, promissory notes, credit cards, or other instruments notified by RBI.
2(i)	Currency Notes	C. Cash in the form of coins and bank notes.
2(l)	Export	D. Taking goods out of India to a foreign country E. Providing services from India to a person outside India
2(m)	Foreign Currency	F. Any currency other than Indian Rupees.
2(n)	Foreign Exchange	Includes: - G. Deposits, credits and balances payable in any foreign currency, H. Drafts, travelers' cheques, letters of credit or bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency, I. Drafts, travelers' cheques, letters of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency;
2(o)	Foreign Security	J. Securities like shares, stocks, bonds etc., denominated or expressed in foreign currency. K. Includes those where interest/dividends are in INR.
2(p)	Import	L. Bringing goods or services into India.
2(w)	Person Resident Outside India	M. A person not qualifying as "resident in India".
2(ze)	Transfer	N. Includes sale, purchase, exchange, mortgage, pledge, gift, loan, or any other form of transferring rights or ownership.

RESIDENTIAL STATUS

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PERSON – SECTION 2(u)

Includes:

1. **An individual,**
2. **A Hindu undivided family,**
3. **A Company,**
4. A Firm,
5. An Association Of Persons (AOP) or a body of individuals, whether incorporated or not
6. Every artificial juridical person, not falling within any of the preceding sub-clauses, and;
7. **Any agency, office or branch owned or controlled by such person**

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Remember !

FEMA requires Resident Status and not CITIZENSHIP.

As it is not the criteria for determining whether or not a person is resident in India

In the case of individuals, to bo considered as "resident", the person should have resided in India in the preceding financial year for more than 182 days.

Citizenship is not the criteria for determining whether or not a person is resident in India.

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Person Resident in India

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A person staying in India >182 days in previous FY, but does not include:

(a) A person who has gone out of India or who stays outside India, in either case:

- for or on taking up employment outside India, or
- for carrying on outside India a business or vocation outside India, or
- for any other purpose, in such circumstances as would indicate his intention to stay outside India for an uncertain period;

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<tr><th>Who?</th><th>Gone For ?</th><th>Status</th></tr>
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PRI
Person who goes/stays Out of India</td><td>Employment/BIZ/ Vocation/Intention to satys for uncertain period
(लंबा गया ये तो)</td><td>PROI
(Ignore 182 days status) Convert to PROI – Next Day</td></tr>
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(आ जाएगा ये तो)</td><td>PRI only</td></tr>
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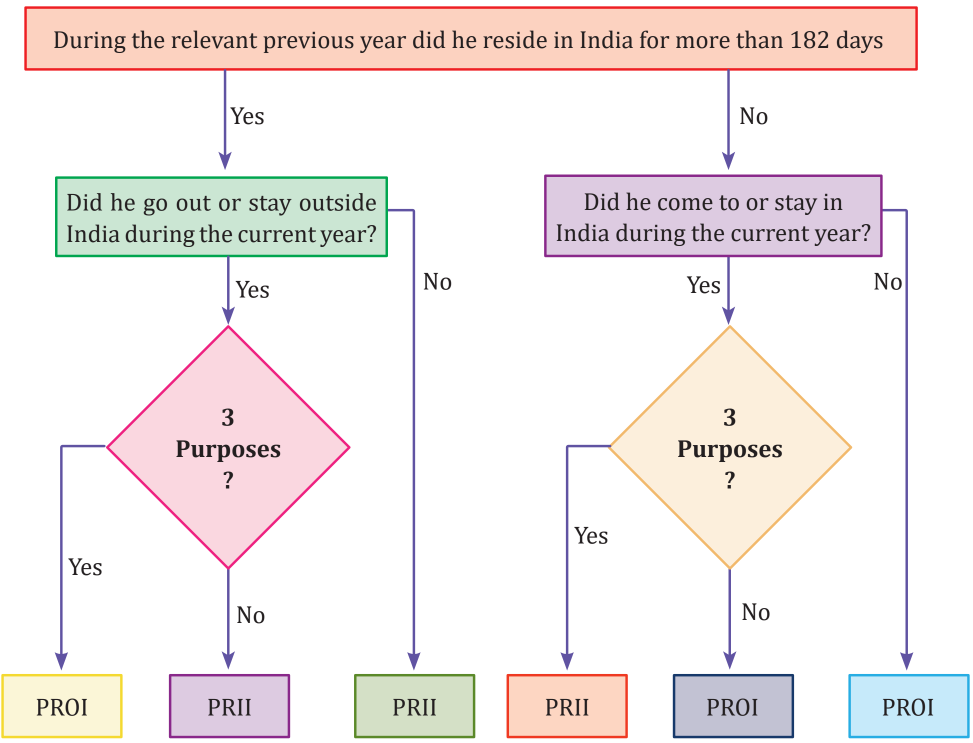
(b) A person who has come to or stays in India, in either case, otherwise than:

- for or on taking up employment in India, or
- for carrying on in India a business or vocation in India, or
- for any other purpose, in such circumstances as would indicate his intention to stay in India for an uncertain period

Also Includes:

- Any person or body corporate registered or incorporated in India,
- An office, branch or agency in India owned or controlled by a person resident outside India,
- An office, branch or agency outside India owned or controlled by a person resident in India.

Who?	Came For ?	Status
B **PROI** **Person comes to/stays in India**	Employment/BIZ/ Vocation/Intention to stay for uncertain period **(लंबा गया ये तो)**	**PRI** **(Ignore 182 days status) Convert to PRI – Same Day**
	Other purpose than the above then? **(जल्दी चला जाएगा ये तो)**	**PROI only**



Some pointers worth considering	
1.	**A person's residential status is not for a year but for a particular date unlike Income Tax Act**
2.	When left India for the 3 purposes – Status will change from the **NEXT** days (PRI to PROI)
3.	When came to India for the 3 purposes – Status will change from the **SAME** days (PROI to PRI)
4.	Visiting parents who are sick and stayed for more than 182 days. But it is certain that the person will leave so still - PROI
5.	Green card holder will be considered as PROI
6.	Student leaves India for studies – considered as PROI only as eventually he/she will end up working under internship / part time job etc.
7.	**Air hostess – (REFER EXAMPLE)** If employed under the foreign branch. Eg: **UK – PROI** If employed under the INDIAN branch. Eg: **MUM – PRI**
8.	**Applicability to Individuals vs. Non-Individuals**

- The conditions about going out of or coming into India apply only to individuals.
- These conditions do NOT apply to entities like:
  - HUF (Hindu Undivided Family)
  - AOP (Association of Persons)
  - BOI (Body of Individuals)
  - Artificial Juridical Persons
- Because such entities cannot be employed or physically move in or out of India.

Legal Gaps for Non-Individual Entities

- The legal definition of PRII fails for HUF, AOP, BOI, etc. These entities:
  - Are not required to register/incorporate like companies.
  - Can't be interpreted using "owned or controlled" tests.
- Practical Understanding:-
  - If such entities exist and operate in India, they are generally treated as Persons Resident in India (PRII).

Special Cases under PRII Definition

- Person or Body Corporate
  - Any person or body corporate registered or incorporated in India = PRII.
  - Again, excludes AOP, BOI, etc., as they don't fit this clause neatly.

Office, Branch, or Agency

- Branch/agency outside India, but owned or controlled by PRII = still considered PRII. It prevents misuse of foreign branches to bypass FEMA rules

- Branch/agency inside India, but owned or controlled by PROI = still considered PRII.
  - Indian residents can deal freely with such branches without FEMA restrictions.
  - If treated as PROI, many domestic transactions would become complicated under FEMA

Illustration: Mr. X had resided in India during the financial year 2019-2020 for less than 182 days. He had come to India on April 1, 2020 for carrying on business. He intends to leave the business on April 30, 2021 and leave India on June 30, 2021. Determine his residential status for the financial years 2020-2021 and 2021-2022 up to the date of his departure?

Answer: As explained in the above illustration, Mr. X will be considered as a 'person resident in India' from 1st April 2020. As regards, financial year 2021-2022, Mr. X would continue to be an Indian resident from 1st April 2021.

If he leaves India for the purpose of taking up employment or for business/vocation outside India, or for any other purpose as would indicate his intention to stay outside India for an uncertain period, he would cease to be person resident in India from the date of his departure. It may be noted that even if Mr. X is a foreign citizen, has not left India for any of these purposes, he would be considered, 'person resident in India' during the financial year 2021-2022. Thus, it is the purpose of leaving India which will decide his status from 1st July 2021.

Illustration: Mr. Z had resided in India during the financial year 2019-2020. He left India on 1st August, 2020 for United States for pursuing higher studies for three years. What would be his residential status during financial year 2020-2021 and during 2021- 2022?

Answer: Mr. Z had resided in India during financial year 2019-2020 for more than 182 days. After that he has gone to USA for higher studies. He has not gone out of or stayed outside India for or on taking up employment, or for carrying a business or for any other purpose, in circumstances as would indicate his intention to stay outside India for an uncertain period. Accordingly, he would be 'person resident in India' during the financial year 2020-2021. RBI has however clarified in its AP circular no. 45 dated 8th December 2003, that students will be considered as non-residents. This is because usually students start working there to take care of their stay and cost of studies.

For the financial year 2021-2022, he would not have been in India in the preceding financial year (2020-2021) for a period exceeding 182 days. Accordingly, he would not be 'person resident in India' during the financial year 2021-2022.

Illustration: Toy Ltd. is a Japanese company having several business units all over the world. It has a robotic unit with its head quarters in Mumbai and has a branch in Singapore. The Headquarters at Mumbai controls the Singapore branch of the robotic unit. What would be the residential status of the robotic unit in Mumbai and that of the Singapore branch?

Answer: Toy Ltd. being a Japanese company would be a person resident outside India. [Section 2(w)]. Section 2(u) defines 'person'. Under clause (viii) thereof person would include any agency, office or branch owned or controlled by such 'person'. The term such 'person' appears to refer to a person who is included in clauses (i) to (vi). Accordingly, robotic unit in Mumbai, being a branch of a company, would be a 'person'.

Section 2(v) defines 'person resident in India'. Under clause (iii) thereof 'person resident in India' would include an office, branch or agency in India owned or controlled by a person resident outside India. Robotic unit in Mumbai is owned or controlled by a person 'resident outside India'. Hence, it would be 'person resident in India'.

The robotic unit headquartered in Mumbai, which is a person resident in India as discussed above, controls the Singapore branch, Hence, the Singapore branch is a 'person resident in India'.

Illustration: Miss Alia is an airhostess with the British Airways. She flies for 12 days in a month and thereafter takes a break for 18 days. During the break, she is accommodated in 'base', which is normally the city where the Airline is headquartered. However, for security considerations, she was based at Mumbai. During the financial year, she was accommodated at Mumbai for more than 182 days. What would be her residential status under FEMA?

Answer: Miss Alia stayed in India at Mumbai 'base' for more than 182 days in the preceding financial year. She is however employed in UK. She has not come to India for employment, business or circumstances which indicate her intention to stay for uncertain period. Under section 2(v)(B), such persons are not considered as Indian residents even if their stay exceeds 182 days in the preceding year. Thus, while Miss Alia may have stayed in India for more than 182 days, she cannot be considered to be a Person Resident in India.

If however she has been employed in Mumbai branch of British Airways, then she will be considered a Person Resident in India.

MULTIPLE CHOICE QUESTIONS (MCQ)

1. Mr. Ram had resided in India during the Financial Year 2017-2018 for less than 183 days. He again came to India on 1st May, 2018 for higher studies and business and stayed upto 15th July, 2019. State the correct answer as to the residential status of Mr. Ram in the light of the given fact as per the Foreign Exchange Management Act, 1999.

1. Mr. Ram can be considered as 'Person resident in India' during the financial year 2018-2019
2. Mr. Ram cannot be considered as 'Person resident in India' during the financial year 2018-2019
3. Mr. Ram can be considered as 'Person resident in India' during the financial year 2019-2020

(a) Both the statement (1) & (3) are correct

(b) Both the statement (2) & (3) are correct

(c) Only statement (1) is correct

(d) Only statement (2) is correct

2. Person in India in India for than 182 days during the resident means a person residing more course of the ______.

(a) Preceding Financial year

(b) Current financial year

(c) Assessment year

(d) Calendar year

3. Srihari had resided in India during the financial year 2017-2018 for less than 183 days. He had come to India on April 1,2018 for employment. What would be his residential status during the Financial Year 2018-2019?

(a) Person Resident in India

(b) Person Resident outside India

(c) Person Ordinary Resident in India

(d) Person not Ordinary Resident in India

4. Aruna had resided in India during the Financial Year 2016-2017. She left India on 1st August 2017 for USA for pursuing higher studies for 3 years. What would be her residential status during the Financial Year 2017-2018 and during 2018-2019?

(a) RFY-2017-18 PRII, RFY-2018-19 PROI

(b) RFY-2017-18 PROI, RFY-2018-19 PRII

(c) RFY-2017-18 PRII, RFY-2018-19 PRII

(d) RFY-2017-18 PROI, RFY-2018-19 PROI

5. Mr. Pankaj born and brought up in India, goes to USA on 10.04.2017 to look after his son, Alok, who is suffering from chronic disease, with the intention to stay over there till his son, Alok recovers completely. Determine his residential status under FEMA for the financial years 2017-2018 and 2018-2019?
   (a) RPY-16-17- PROI, RPY-17-18- PRII
   (b) RPY-16-17- PRII, RPY-17-18- PRII
   (c) RPY-16-17- PRII, RPY-17-18- PROI
   (d) RPY-16-17- PROI, RPY-17-18- PROI

6. Printex Computers is a Singapore based Company having several business units all over the world. It has a unit for manufacturing computer printers with its Headquarters in Pune. It has a Branch in Dubai which is controlled by the Headquarters in Pune. What would be the residential status under FEMA, of the Printer Unit in Pune & that of Dubai Branch?
   (a) Person Resident in India
   (b) Person Resident outside India
   (c) Person Ordinary Resident in India
   (d) Person Not Ordinary Resident in India

7. After five years of stay in USA, Mr. Umesh came to India at his paternal place in New Delhi on October 25, 2021, for the purpose of conducting business with his two younger brothers Rajesh and Somesh and contributed a sum of ₹ 10,00,000 as his capital. Simultaneously, Mr. Umesh also started a proprietary business of selling artistic brass ware, jewellery, etc. procured directly from the manufacturers based at Moradabad. Within a period of two months after his arrival from USA, Mr. Umesh established a branch of his proprietary business at Minnesota, USA. You are required choose the appropriate option with respect to residential status of Mr. Umesh and his branch for the financial year 2022-23 after considering the applicable provisions of the Foreign Exchange Management Act, 1999:
   (a) For the financial year 2022-23, Mr. Umesh and his branch established in Minnesota, USA, are both persons resident outside India.
   (b) For the financial year 2022-23, Mr. Umesh is a resident in India, but his branch established in Minnesota, USA, is a person resident outside India.
   (c) For the financial year 2022-23, Mr. Umesh and his branch established in Minnesota, USA, are both persons resident in India.
   (d) For the financial year 2022-23, Mr. Umesh is a person resident outside India, but his branch established in Minnesota, USA, is a person resident in India.

CAPITAL AND CURRENT ACCOUNT TRANSACTIONS

2(e)	**Capital Account Transaction**	**A transaction which alters :** **The assets or liabilities, including contingent liabilities,** ❑ Outside India ❑ Of Persons Resident in India (PRI) **OR**
		The Assets or liability ❑ In India ❑ Of Persons Resident Outside India (PROI) and ❑ Includes transactions referred to in Section 6(3)

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<tr><td rowspan="2">Alters/Changes ASSETS & LIABILITY or Contingent Liability</td><td>PROI</td><td>India</td></tr>
<tr><td>PRI</td><td>Outside India</td></tr>
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Basically, these two transactions must be understood as being like:

The concepts of items relating to the profit and loss account or revenue items (with respect to current account transactions) and
of Balance Sheet or capital items (with respect to capital account transactions)
Cross-border transactions including investments, loans, immovable property, transfer of assets are CAT

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<td>2(j)</td>
<td>Current Account Transaction</td>
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Any transaction other than capital account transactions.
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.

PSC – L.E.T.Me.

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

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Example: An Indian resident imports machinery from a vendor in UK for installing in his factory. As per accounts and income-tax law, machinery is a “capital expenditure”. However, under FEMA, it does not alter (create) an asset in India for the UK vendor. It does not create any liability to a UK vendor for the Indian importer. Once the payment is made, the Indian resident or the UK vendor neither owns nor is owed anything in the other country. Hence it is a Current Account Transaction.
Example: An Indian resident imports machinery from a vendor in UK for installing in his factory on a credit period of 3 months. As per accounts and income-tax law, for the credit period of 3 months, there is a liability of the Indian importer to the UK vendor. Technically under FEMA also, it is a liability outside India. However, under definition of Current Account Transaction [Section 2(j)(i)], “short-term banking and credit facilities in the ordinary course of business” are considered as a Current Account Transaction. Hence, import of machinery on credit terms is Current Account Transaction.
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Example: A Person Resident in India transfers US$ 1,000 to his NRI brother in New York as "gift". The funds are sent from the PRII's Indian bank account to the NRI brother's bank account in New York. Under accounts and income-tax law, gift is a "capital receipt". However, under FEMA, once the gift is accepted by the NRI, no one owns or owes anything to anyone in India or USA. The transaction is over. Hence, it is a Current Account Transaction.

He is supposed to bring back the funds as provided in section 8.

REGULATION AND MANAGEMENT OF FOREIGN EXCHANGE

[Section 3] Dealing in Foreign Exchange, Etc.

Clause	Prohibited Activity	Explanation	Example
(a)	Dealing in or transferring foreign exchange or foreign security to anyone other than an Authorised Person (AP)	Only Authorised Persons like banks or licensed dealers can legally deal in foreign exchange	A PROI sells USD 1,000 to an Indian friend at a better rate than banks. ✕ Not allowed. It's an unauthorised forex transaction.
(b)	Making any payment to or for credit of a PROI in any manner	Indian residents cannot make direct payments to non-residents unless permitted	An Indian pays insurance premium for his NRI brother's policy in India. ✕ Not allowed. It's a payment for credit of a PROI.
(c)	Receiving payment from or on behalf of a PROI otherwise than through an AP	All receipts from non-residents must go through Authorised Persons	A restaurant accepts USD 20 in cash from a foreign tourist. ✕ Not allowed. Must be routed through an authorised money changer.
	Explanation for Clause (c)	If someone in India receives payment on behalf of a PROI without actual foreign remittance coming in, it's treated as unauthorised	Even if routed through an AP, if no inward remittance exists, it's considered unauthorised.
(d)	Entering into financial transactions in India in connection with acquiring or creating any asset outside India	Such cross-border transactions must be permitted by FEMA or RBI	A resident gives 70,000 to a dealer in India. His brother receives USD 1,000 in Dubai. ✕ Not allowed. This is a hawala transaction.

	Permitted When: **These transactions may be allowed:** ❑ As provided in FEMA, or ❑ With general/special permission of RBI ❑ Section 3 and 4 are subject to RBI/CG/ Rules and Conditions
	Meaning of Financial Transaction (Explanation to clause d): **Includes:** ❑ **Making/receiving payments** ❑ **Drawing/issuing bills of exchange or promissory notes** ❑ **Transferring securities** ❑ **Acknowledging debts**
	Purpose of this Section: ❑ **Regulates foreign exchange inflow/outflow** ❑ **This section imposes blanket restrictions on the specified transactions** ❑ **Ensures that only Authorised Persons handle foreign exchange** ❑ **Applicable to Persons Resident in India (PRII) and Persons Resident Outside India (PROI)**

[SECTION 4] HOLDING OF FOREIGN EXCHANGE

- Except as provided in this Act,
- No person resident in India shall acquire, hold, own, possess or transfer any:
  - foreign exchange,
  - foreign security or
  - any immovable property situated outside India.
- This section prevents Indian residents to acquire, hold, own, possess or transfer **(T.O.P.A.H.)** any foreign exchange, foreign security or immovable property abroad.
- Then through separate notifications, acquisition of these assets has been permitted subject to certain conditions and compliance rules.

Example: If an Indian resident receives bank balance of US$ 10,000 from his uncle in London, the Indian resident cannot hold on to the foreign funds. He is supposed to bring back the funds as provided in section 8.

[SECTION 5] CURRENT ACCOUNT TRANSACTIONS

Heading	Explanation
Definition (Defined negatively)	**A transaction other than a Capital Account Transaction.**

Section 5	❑ Allows any person to sell or draw foreign exchange ❑ from an Authorised Person ❑ for a current account transaction.
Restrictions and CG's power	❑ Though generally permitted, ❑ reasonable restrictions can be imposed by the Central Government in public interest, ❑ in consultation with RBI, via rules.
Rules Applicable	❑ Foreign Exchange Management (Current Account Transactions) Rules, 2000
General Rule	
General Rule for Transactions	❑ **Current Account Transaction:** Freely permitted unless specifically prohibited. ❑ **Capital Account Transactions:** Prohibited unless specifically or generally permitted
Includes	❑ Payments in foreign trade, services, short-term banking/credit facilities in ordinary business. ❑ Interest on loans and income from investments. ❑ Remittances for living expenses of parents, spouse, children living abroad. ❑ Expenses on foreign travel, education, and medical care.
Gift as a Current Account Transaction **Gifts are generally treated as current account transactions, but reasonable restrictions can be imposed to prevent misuse, Otherwise, people may transfer funds abroad under the garb of current account transactions**	
Gift by PRII to PROI in India	**PRII gives a PROI a gift in India:** ❑ In Foreign currency – CUAT ❑ In INR – CAT because ❍ For the PROI it will result in funds lying in India (creation of an asset in India) and ❍ For PRII, there is no creation of asset or a liability. As this transaction creates an asset in India for the PROI, hence a Capital Account transaction.
Gift by PROI to PRII in India	❑ If a PROI gives a gift to a PRII via inward remittance of funds in India, there is no restriction. ❑ However, if the PROI gives the funds abroad, the resident cannot keep it abroad. He has to bring it to India.

THREE SCHEDULES OF CURRENT ACCOUNT TRANSACTIONS

SCHEDULE - 1	RULE 3	**Transactions for which drawal of foreign exchange is prohibited**
SCHEDULE - 2	RULE 4	**Transactions, which require prior approval of the Government of India for drawal of foreign exchange**
SCHEDULE - 3	RULE5	**Facilities for individuals and other than individuals who can avail foreign exchange facility for the following purposes within the limit of USD 250,000 only.**

Prohibited Transactions for Drawal of Foreign Exchange

Schedule I – Rule 3

1	Remittance out of **lottery** winnings.
2	Remittance of income from **racing/riding**, etc., or any other hobby.
3	Remittance for **purchase** of lottery tickets, banned/prescribed magazines, football pools, sweepstakes, etc.
4	Payment of **commission** on exports made towards **equity investment** in Joint Ventures/ Wholly Owned Subsidiaries abroad of Indian companies.
5	Remittance of **dividend** by any company to which the requirement of dividend balancing is applicable.
6	Payment of commission on exports under Rupee State Credit Route, except commission up to 10% of invoice value of exports of **tea and tobacco.**
7	Payment related to **"Call Back Services"** of telephones.
8	Remittance of **interest** income on funds held in **Non-resident** Special Rupee Scheme **account.**

Key to Remember Schedule I

- **Purchase of Lottery tickets** करोगे
- **Banned/prescribed magazines** ख़रीदोगे और
- **Racing/Riding** में पैसा लगाओगे तो यही होगा
- इससे अच्छा तो - **commission** कमाओ **equity investment** करके
- और **Dividend** भी आयेगा
- और जो **Commission** से **Rupee** आयेगा **exports** करके उसका **10% tea and tobacco** के जैसा **business** करो
- तब लोग तुम्हें **Call Back** करेंगे
- और **Interest** लेंगे **Non-resident.**

Transactions which require prior approval of the Government of India for drawal of foreign exchange **Schedule II – Rule 4** **CG**	
Purpose of Remittance	**Ministry of Human Resources Development**
❑ **Cultural Tours**	Department of Education and Culture
❑ **Remittance of prize money/ sponsorship** ❑ **Of sports activity abroad** ❑ **by a person other than –** ❑ **International/ National/State Level sports bodies,** ❑ **if the amount involved exceeds US $ 100,000**	Department of Youth Affairs and Sports
❑ **Advertisement in foreign print media** ❑ **for the purposes other than** ❑ **Promotion of tourism, foreign investments and international bidding (No permission required)** ❑ **exceeding US$ 10,000** ❑ **by a State Government (No CG) and its Public Sector Undertakings (PSU)**	Department of Economic Affairs
❑ **Remittance for membership of P & I Club (Protection and Indemnity Insurance)**	Insurance Division
❑ **Remittance of container detention charges** ❑ **exceeding the rate prescribed by Director General of Shipping**	Director General of Shipping
❑ **Remittance of freight of vessel charted by a PSU**	Chartering Wing
❑ **Payment of import through ocean transport** ❑ **by a Govt. Department or a PSU on CIF basis** ❑ **i.e., other than FOB and FAS basis**	Chartering Wing
❑ **Multi-modal transport operators making remittance to their agents abroad**	Registration Certificate from the Director General of Shipping
❑ **Remittance of hiring charges of transponders by** ❍ **TV Channels** ❍ **Internet service providers**	Ministry of Information and Broadcasting Ministry of Communication and Information Technology
Transactions which require RBI's prior approval for drawal of Foreign Exchange **Schedule III – Rule 5** **RBI**	

Facilities for Individuals – As per Liberalized Remittance Scheme (LRS) (Allowed Up to USD 2,50,000 per year)
RBI approval IS Required if (>) More than USD 2,50,000
1. Private visits to any country (except Nepal and Bhutan)
2. Gift or donation
3. Going abroad for employment
4. Maintenance of close relatives abroad
5. Travel for business, attending a conference, specialized training, or meeting medical expenses/ check-ups abroad.
6. Accompanying a patient going abroad for medical treatment/check-up
7. Any other current account transaction
RBI approval is NOT required (If Proof given) even if more than USD 2,50,000
8. Emigration - If the country of emigration requires more funds, you may send extra **but respective country's certificate is required**
9. Expenses for medical treatment abroad - If the medical institute asks for more than USD 250,000, it can be remitted **but medical certificate from the respective institute is required**
10. Studies abroad - If the university demands higher payment, it can be remitted beyond the limit **but the certificate from the respective University or institute is required**

Facilities for Other than Individuals – SPECIFIC LIMITS ARE GIVEN	
Donations **Prior RBI Approval Required for if spent beyond an amount**	Donations exceeding: Lower of (1% of Forex Earnings in the last 3 financial years or USD 50,00,0000 For what ? 1. Creation of Chairs in reputed educational institutes 2. Contributions to non-investment funds by educational institutes 3. Contributions to technical institutions or bodies related to the donor company's field
Commission to Agents Abroad **(For Sale of Residential/ Commercial Property in India)**	Exceeds the higher of: USD 25,000 per transaction OR 5% of the inward remittance. It is for per transaction
Consultancy Services (Remittance Limits)	❑ USD 10,000,000 (10M) per project for infrastructure projects ❑ USD 1,000,000 (1M) per project for other consultancy services
Reimbursement of Pre-incorporation Expenses	Exceeds the higher of: 5% of investment brought into India OR USD 100,000

EXEMPTIONS RELATED TO CURRENT ACCOUNT TRANSACTIONS

<table>
<tr><td>1.</td><td colspan="3">No approval required for transactions listed in Schedule II and Schedule III if payment is made from an RFC account.</td></tr>
<tr><td colspan="4">Resident Foreign Currency (RFC)
AND
Exchange Earners' Foreign Currency (EEFC)</td></tr>
<tr><td colspan="2" rowspan="4">Exceptions for EEFC
(Means NO Exemption)
Approval will be required</td><td colspan="2">❑ Remittance for membership of P & I Club</td></tr>
<tr><td colspan="2">❑ Approval is required for the following</td></tr>
<tr><td>Commission to Agents Abroad (For Sale of Residential / Commercial Property in India)</td><td>Exceeds the higher of:
USD 25,000 per transaction OR 5% of the inward remittance</td></tr>
<tr><td>Reimbursement of Pre-incorporation Expenses</td><td>Exceeds the higher of:
5% of investment brought into India OR USD 100,000</td></tr>
<tr><td>2.</td><td colspan="3">EXEMPTION FOR Residents Not Permanently Resident (RNPR)</td></tr>
<tr><td></td><td colspan="3">WHO IS RNPR?
A person residing in India temporarily for employment or deputation for a specific duration/job not exceeding three years is considered Resident but not Permanently Resident (RNPR).</td></tr>
<tr><td></td><td>Allowed above the limit of
USD 2,50,000</td><td colspan="2">❑ Citizens of foreign states (except Pakistan).
❑ Indian citizens deputed to a foreign company's office/branch, or to its subsidiary/joint venture in India.
❑ They can remit up to net salary (after taxes, provident fund, and other deductions)</td></tr>
<tr><td></td><td>International credit card</td><td colspan="2">❑ No LRS permission is required if a person making expenses in schedule III with International Credit card</td></tr>
<tr><td>3.</td><td colspan="3">Liberalized Remittance Scheme (LRS) EXEMPTION points:</td></tr>
<tr><td></td><td colspan="3">❑ Limit: Up to USD 250,000 per financial year (April–March)
❑ For resident individuals (Including minors)
  ❍ For permissible current (SCH III) or
  ❍ Capital account (SCH I) or
  ❍ A combination of both.</td></tr>
<tr><td></td><td>LRS – Exclusions</td><td colspan="2">Not available to corporates, partnership firms, HUFs, or Trusts.</td></tr>
</table>

	LRS – Minor Specific Rule	❑ If the remitter is a minor, the LRS declaration form must be countersigned by the natural guardian.
	Consolidation of Family Remittance	❑ Permitted for family members under the Scheme, subject to individual compliance with its terms and conditions.
	Clubbing is also allowed Except -	❑ Clubbing of remittances is not allowed for capital account transactions (e.g., opening a bank account, investment, or property purchase) ❑ Unless the family members are co-owners/co-partners in the overseas bank account, investment, or property.

MULTIPLE CHOICE QUESTIONS (MCQ)

8. X, a Film Star, requires USD 20,000 to perform along with his associates in New York on the occasion of Diwali, for Indians residing at New York

(a) Prior approval of Central Government required

(b) Prior approval of RBI required

(c) Prohibited Transaction

(d) Permissible Transaction

9. Mr. Shah proposes to visit United States on a business tour and for this purpose he wants to draw foreign exchange USD 40,000 for meeting expenses

(a) Prior approval of Central Government required

(b) Prior approval of RBI required

(c) Prohibited Transaction

(d) Permissible Transaction

10. Remittance of USD 10,000 for payment of goods purchased from a party in Nepal

(a) Prior approval of Central Government required

(b) Prior approval of RBI required

(c) Prohibited Transaction

(d) Permissible Transaction

11. Payment of commission on exports made towards Equity Investment in wholly owned Subsidiary abroad of an Indian Company:

(a) Prior approval of Central Government required

(b) Prior approval of RBI required

(c) Prohibited Transaction

(d) Permissible Transaction

12. R wants to draw USD 20,000 to make Donation to a Charitable Trust situated in South Korea.

(a) Prior approval of Central Government required

(b) Prior approval of RBI required

(c) Prohibited Transaction

(d) Permissible Transaction

13. Drawal of Foreign Exchange for Payment related to Call Back Services of Telephones

(a) Prior approval of Central Government required

(b) Prior approval of RBI required

(c) Prohibited Transaction

(d) Permissible Transaction

14. Under Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000, prior approval of the Central Government is required for drawl of foreign exchange in respect of Remittance of Prize Money I Sponsorship of sports activity abroad by a person other than International I National I State Level Sports Bodies, where the amount exceeds USD 1 Lakh.

(a) Ministry of Surface Transport (Chartering Wing)

(b) Ministry of Human Resources Development (Department of Youth Affairs and Sports)

(c) Ministry of Human Resource Development (Department of Education and Culture)

(d) Ministry of Finance (Department of Economic Affairs)

15. Under Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000, prior approval of the Central Government is required for drawl of foreign exchange in respect of Remittance for membership of P & I Clubs.

(a) Ministry of Finance (Insurance Division)

(b) Ministry of Finance (Department of Economic Affairs)

(c) Ministry of Information & Broad—casting, Ministry of Communication & Information Technology.

(d) Ministry of Human Resource Development (Department of Education and Culture)

16. Lifesys Limited, a billion-dollar, Indian Company wishes to create a Chair in a Reputed University in the U.S. This Chair is for the Department of Computer Science. Is such "Chair" creation permissible?

(a) Prohibited Transactions

(b) Permissible with RBI approval

(c) Permissible with Central Govt. approval

(d) Permissible Transaction

17. Drawal of foreign exchange for payments due on account of amortisation of loans is

(a) Current Account Transactions

(b) Capital Account Transaction with RBI Approval

(c) Permissible Capital Account Transactions

(d) Capital Account Transaction with No RBI restriction

18. Taking out of insurance policy by a person resident in India, from Insurance Company outside India.

(a) Current Account Transactions

(b) Capital Account Transaction with RBI Approval

(c) Permissible Capital Account Transactions

(d) Capital Account Transaction with No RBI restriction

19. In September, 2021, Mr. Purshottam Saha visited Atlanta as well as Athens and thereafter, London and Berlin on a month-long business trip, for which he withdrew foreign exchange to the extent of US$ 50,000 from his banker State Bank of India, New Delhi branch. In December, 2021 he further, withdrew US$ 50,000 from SBI and remitted the same to his son Raviyansh Saha who was studying in Toronto, Canada. In the first week of January, 2022, he sent his ailing mother Mrs. Savita Saha for a specialised treatment along with his wife Mrs. Rashmi Saha to Seattle where his younger brother Pranav Saha, holder of Green Card, is residing. For the purpose of his mother's treatment and to help Pranav Saha to meet increased expenses, he requested his banker SBI to remit US$ 75,000 to Pranav Saha's account maintained with Citibank, Seattle. In February, 2022, Mr. Purshottam Saha's daughter Devanshi Saha got engaged and she opted for a 'destination marriage' to be held in August, 2022 in Zurich, Switzerland. While on a trip to Dubai in the last week of March, 2022, he again withdrew US$ 35,000 to be used by him and Devanshi Saha for meeting various trip expenses including shopping in Dubai. Later, the event manager gave an estimate of US$ 2,50,000 for the wedding of Devanshi Saha at Zurich, Switzerland. Which option do you think is the correct one in the light of applicable provisions of Foreign Exchange Management Act, 1999 including obtaining of prior approval, if any, from Reserve Bank of India since Mr. Purshottam Saha withdrew foreign exchange on various occasions from his banker State Bank of India.

(a) In respect of withdrawal of foreign exchange on various occasions from his banker State Bank of India and remitting the same outside India during the financial year 2021-22, Mr. Purshottam Saha is not required to obtain any prior approval.

(b) In respect of withdrawal of US$ 35,000 in the last week of March, 2022, for a trip to Dubai, Mr. Purshottam Saha must have obtained prior approval of Reserve Bank of India since the maximum amount of foreign exchange that can be withdrawn in a financial year is US$ 1,75,000.

(c) After withdrawing US$ 1,00,000, Mr. Purshottam Saha must have obtained prior approval of Reserve Bank of India for the remaining remittances made during the financial year 2021-22, otherwise SBI would not have permitted further withdrawals.

(d) After withdrawing US$ 50,000, Mr. Purshottam Saha must have obtained prior approval of Reserve Bank of India for the remaining remittances made during the financial year 2021-22, otherwise SBI would not have permitted further withdrawals.

20. M/s. Kedhar Sports Academy, a private coaching club, provides coaching for cricket, football and other similar sports. It coaches sports aspirants pan India. It also conducts various sports events and campaigns, across the country. In 2022, to mark the 25th year of its operation, a cricket tournament (akin to the format of T-20) is being organized by M/s. Kedhar Sports Academy in Lancashire, England, in the first half of April. The prize money for the 'winning team' is fixed at USD 40,000 whereas in case of 'runner-up', it is pegged at USD 11,000. You are required to choose the correct option from the four given below which signifies the steps to be taken by M/s. Kedhar Sports Academy for remittance of the prize money of USD 51,000 (i.e. USD 40,000+USD 11,000) to England keeping in view the relevant provisions of Foreign Exchange Management Act, 1999:

(a) For remittance of the prize money of USD 51,000, M/s Kedhar Sports Academy is required to obtain prior permission from the Ministry of Human Resource Development (Department of Youth Affairs and Sports).

(b) For remittance of the prize money of USD 51,000, M/s Kedhar Sports Academy is required to obtain prior permission from the Reserve Bank of India.

(c) For remittance of the prize money of USD 51,000, M/s Kedhar Sports Academy is not required to obtain any prior permission from any authority, whatsoever, and it can proceed to make the remittance.

(d) For remittance of the prize money of USD 51,000, M/s Kedhar Sports Academy is required to obtain prior permission from the Ministry of Finance (Department of Economic Affairs).

21. Akash Ceramics Limited, an Indian company, holds a commercial plot in Chennai which it intends to sell. M/s. Super Seller, a real estate broker with its Head Office in the USA, has been appointed by Akash Ceramics Limited to find some suitable buyers for the said commercial plot in Chennai which is situated at a prime location. M/s. Super Seller identifies Glory Estate Inc., based out of USA, as the potential buyer. It is to be noted that Glory Estate Inc. is controlled from India and hence, is a 'Person Resident in India' under the applicable provisions of Foreign Exchange Management Act, 1999. A deal is finalised and Glory Estate Inc. agrees to purchase the commercial plot for USD 600,000 (assuming 1 USD = ₹ 70). According to the agreement, Akash Ceramics Limited is required to pay commission @ 7% of the sale proceeds to M/s. Super Seller for arranging the sale of commercial plot to Glory Estate Inc. and commission is to remitted in USD to the Head Office of M/s. Super Seller located in USA. Considering the relevant provisions of Foreign Exchange Management Act, 1999, which statement out of the four given below is correct (ignoring TDS implications arising under the Income-tax Act, 1961):

(a) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 25,000 by Akash Ceramics Limited to M/s. Super Seller but for the balance commission of USD 17,000, prior permission of RBI is required to be obtained.

(b) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of commission upto USD 30,000 by Akash Ceramics Limited to M/s. Super Seller but for the balance commission of USD 12,000, prior permission of RBI is required to be obtained.

(c) There is no requirement of obtaining prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 42,000 by Akash Ceramics Limited to M/s. Super Seller.

(d) It is mandatory to obtain prior permission of Reserve Bank of India (RBI) for remittance of entire commission of USD 42,000 by Akash Ceramics Limited to M/s. Super Seller.

22. Mohita Periodicals and Mags Publications Limited, having registered office in Chennai, has obtained consultancy services from an entity based in France for setting up a software programme to strengthen various aspects relating to publications. The consideration for such consultancy services is required to be paid in foreign currency. The compliance officer of Mohita Periodicals and Mags Publications Limited, Mrs. Ritika requires your advice regarding the foreign exchange that can be remitted for the purpose of obtaining consultancy services from abroad without prior approval of Reserve Bank of India. Out of the following four options, choose the one which correctly portrays the amount of foreign exchange remittable for the given purpose after considering the provisions of the Foreign Exchange Management Act, 1999 and regulations made thereunder:

(a) Permissible amount of foreign exchange that can be remitted by Mohita Periodicals and Mags Publications Limited for obtaining consultancy services from an entity based in France without prior approval of RBI is US$ 50,000,000.

(b) Permissible amount of foreign exchange that can be remitted by Mohita Periodicals and Mags Publications Limited for obtaining consultancy services from an entity based in France without prior approval of RBI is US$ 10,000,000.

(c) Permissible amount of foreign exchange that can be remitted by Mohita Periodicals and Mags Publications Limited for obtaining consultancy services from an entity based in France without prior approval of RBI is US$ 5,000,000.

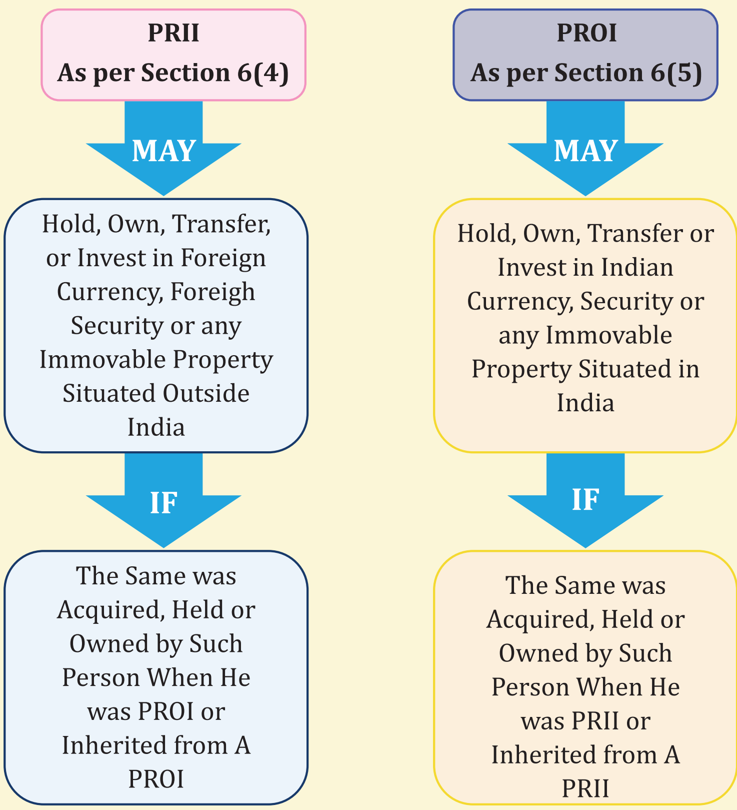
(d) Permissible amount of foreign exchange that can be remitted by Mohita Periodicals and Mags Publications Limited for obtaining consultancy services from an entity based in France without prior approval of RBI is US$ 1,000,000.

[SECTION 6] CAPITAL ACCOUNT TRANSACTIONS

Definition – Capital Account Transaction [Section 2(e)]	❑ A capital account transaction is one that – ○ **Alters the assets or liabilities** (including contingent liabilities) **outside India** of a person **resident in India**, or ○ **In India** of a person **resident outside India.** **Also includes:** ❑ Transactions related to cross-border investments, ❑ Loans, immovable property, and ❑ Transfer of assets fall under capital account transactions.
Nature	❑ These two categories form the **core of FEMA**. ❑ Capital transactions are like **Balance Sheet items** ❑ Current account ones are like **P&L items**. ❑ They are **mutually exclusive**.
Capital A/c transactions allowed only if permitted	❑ A person can undertake a capital account transaction **only to the extent permitted** under FEMA. ❑ Since the **Indian Rupee is not fully convertible**, these transactions are **regulated**.
General Permission [Section 6(1)]	❑ Any person may sell or draw foreign exchange from an authorized person **for capital account transactions**, but **subject to rules under sub-sections (2) and (2A)**.
RBI's Power [Section 6(2)]	❑ RBI may, in consultation with the Central Government, specify: (a) Which **classes of debt-related capital transactions** are allowed (b) **Foreign exchange limits** for them, and (c) **Conditions** applicable.
Central Government's Power [Section 6(2A)]	❑ Central Government may, in consultation with RBI, prescribe (a) Which **non-debt (Equity) capital transactions** are allowed, (b) **Limits** applicable, (c) Any **conditions** for them.
What are debt instruments?	❑ 'Debt instruments' shall mean instruments **as notified by the Central Government** in consultation with RBI.
Assets acquired while NRI [Section 6(4)]	❑ A person who became resident in India can continue to **hold, own, transfer, or invest** in foreign currency/assets if: (a) Acquired when he was **resident outside India**, OR (b) **Inherited** from a non-resident.
Clarification by RBI (2014 Circular)	**Section 6(4) covers:** ❑ Foreign accounts opened as NRI - ❑ Income earned or assets acquired abroad while NRI - ❑ Inheritance/gifts from non-residents.

Use of such assets	❑ These eligible foreign assets/income **can be used freely** for investment, payments, or reinvestment **without RBI approval**, if not violating FEMA.
NR holding assets acquired in India	❑ A person resident outside India may **hold, own, transfer, or invest** in Indian currency/assets/property if acquired: (a) When he was **resident in India**, OR (b) **Inherited** from a resident.
Restriction on establishment in India by non-residents	❑ RBI may **prohibit, restrict, or regulate** any **branch, office, or place of business** set up in India by a person resident outside India.
SECTION 6(4)	❑ 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 such person when he was resident outside India or inherited from a person who was resident outside India.
SECTION 6(5)	❑ A person resident outside India may hold, own, transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by a such person when he was resident in India or inherited from a person who was resident in India.

Capital Account Transactions [Sec. 6(4) & 6(5)]



TWO SCHEDULES OF CAPITAL ACCOUNT TRANSACTIONS

OVERVIEW
FOREIGN EXCHANGE MANAGEMENT
(Permissible capital account transactions) Regulations, 2000

1. Transaction, which are **permissible** in respect of:
   - Person resident in India (SCH I) and
   - Person resident outside India (SCH II)
2. Transaction on which **restrictions cannot** be imposed; and
3. Transactions, which are **prohibited.**

Note: LRS limit of USD 2,50,000 is for aggregate spend on
- Current Account transactions (CUAT) in Schedule III and
- Capital Account transactions (CAT) in schedule I means for PRII

Capital A/c Transactions for Resident Individuals	Resident individuals may draw up to **USD 250,000 per financial year** for capital account transactions listed in **Schedule I**, subject to FEMA rules. **RBI approval IS Required > More than USD 2,50,000**

PERMISSIBLE CAPITAL Account Transactions SCHEDULE - I AND II	
Schedule I **Permissible Transactions for PRI** **Schedule I** **PRI**	**Schedule II** **Permissible Transactions for PROI** **Schedule II** **PROI**
(a) Investment by a person resident in India in foreign securities.	**(a)** Investment in India by a person resident outside India like issue of securities etc.
(b) Foreign currency loans raised in India and abroad by a person **resident in India.**	**(b)** Deposits between a person resident in India and a person resident outside India.
(c) Transfer of immovable property outside India by a person resident in India.	**(c)** Acquisition and transfer of immovable property in India by a person resident outside India.
(d) Guarantees issued by a person resident in India in favour of a person resident outside India.	**(d)** Guarantee by a person resident outside India in favour of, or on behalf of, a person resident in India.
(e) Export, import, and holding of currency/ currency notes.	**(e)** Import and export of currency/currency notes into/from India by a person resident outside India.
(f) Loans and overdrafts (borrowings) by a person resident in India from a person resident outside India.	—

(g) Maintenance of foreign currency accounts in India and outside India by a person resident in India.	**(f)** Foreign currency accounts in India of a person resident outside India.
(h) Taking out of an insurance policy by a person resident in India from an insurance company outside India.	—
(i) Loans and overdrafts by a person resident in India to a person resident outside India.	—
(j) Remittance outside India of capital assets of a person resident in India.	**(g)** Remittance outside India of capital assets in India of a person resident outside India.
(k) Undertake derivative contracts.	**(h)** Undertake derivative contracts.

Transactions with NO Prohibitions

- For Payments on Amortization of Loan | No restrictions on foreign exchange drawal for payments due on amortization of loans. Also, restrictions cannot be imposed when drawal is of the purpose of repayments of loan installments
- Depreciation of direct investments in ordinary course of Business

Prohibited Transactions

PROHIBITION on Non-Residents in India on Investments: Persons residing outside India are prohibited from investing in India in certain businesses, such as:	
Investments by Non-Residents in India: Persons residing outside India are prohibited from investing in India in certain businesses, such as:	
Chit Fund	Generally No but Non-Resident Indians (NRIs) can subscribe in chit funds **if receives approval of registrar of chits and subject to RBI conditions**.
Nidhi Companies	Investment in Nidhi companies is prohibited.
Agricultural and Plantation Activities	Investment in agricultural or plantation activities is prohibited.
Real Estate Business	Investment in real estate, construction of farmhouses, or in the real estate business is prohibited Excluding development of townships, residential/commercial premises, roads, bridges, and REITs regulated by SEBI
Trading in Transferable Development Rights (TDRs)	Trading in TDRs is prohibited.
PROHIBITION on PRI on Remittance to -	
Financial Action Task Force (FATF)	The foreign exchange drawn under the USD 250,000 limit cannot be used for remittance to **(Financial Action Task Force) FATF designated non-cooperative countries and territories**

PRI can't do Investment with DPRK Nationals or Entities	❑ No capital account transaction can be made with citizens or entities of **North Korea Democratic People's Republic of Korea (DPRK)** unless approved by the Government of India.
Existing Investments in DPRK	❑ Investments, representative offices, or assets in DPRK must be closed/liquidated within 180 days unless specific approval is granted to continue.

NOTES TO REMEMBER

- ❑ General Rule - No one can buy/sell/draw foreign exchange for capital account transactions unless allowed by FEMA or RBI.
- ❑ Core Rule of Capital A/c Transactions - Capital account transactions are allowed only if specifically permitted. If not mentioned = needs prior approval.

Sample Question Paper
CA-Intermediate Jan 2026

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions of Part I are to be marked on the OMR answer sheet given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written inside the descriptive answer book. Answers to MCQs, if written inside the descriptive answer book will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit the descriptive answer books with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer book.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch or any other electronic gadget will be expelled from the examination and will also be liable for further punitive action.

PART-1

1. Answer all MCQs.
2. Use HB pencil only to darken the circles for MCQ answers in the answer sheet.
3. After each MCQ, four options have been given. Choose the correct or most appropriate option and darken the corresponding circle against the question number in the OMR Answer Sheet, completely, as shown below, with HB pencil.
4. Any answer to MCQ marked inside descriptive answer book will not be considered and no marks will be awarded.

5. If a candidate wants to change the option already darkened, he should erase it completely, with good quality eraser and ensure that no mark is visible after erasing.
6. No mark will be awarded if no circle is darkened or more than one circle is darkened for a particular MCQ. There is no negative marking for a wrong answer.
7. Rough work, if any, must be done on the pages, specified as SPACE FOR ROUGH WORK only and nowhere else in the question paper booklet or in the answer sheet.
8. Before commencement of the exam, please fill up the necessary information in the space provided below and also in the answer sheet.

This booklet is the property of the Examination Body. Any unauthorized and illegal circulation of its contents in part or in full in any manner whatsoever is strictly prohibited. Candidates involved in such unauthorized and illegal acts are liable to be prosecuted besides being disqualified to appear in any further examinations of the Examination Body.

(1) After each MCQ, four options have been given. Choose the correct or most appropriate option and darken the corresponding circle against the MCQ number in the OMR answer sheet.
(2) Answer to MCQs, if written inside the descriptive answer book shall not be awarded any mark.
(3) Please ensure to write and darken correct MCQ booklet number in the OMR answer sheet. The correct MCQ booklet number must also be written in the attendance register.
(4) Please write your Roll No. and name on the topmost page of the MCQ booklet at the specified place without fail.

PART -I (30 MARKS) (MCQ)

Case Scenario – I

In Hyderabad's tech hub, Horizon Innovations Ltd. was a fast-growing company, famous for its digital payment solutions. But in 2022, the company faced a serious problem-not with its technology, but with the auditor who was supposed to audit its financial statements.

At the AGM on September 30, 2021, shareholders appointed M/s. Vikas & Associates as statutory auditor for 2021-22. The firm's lead partner, Vikas Reddy, was a respected CA with 15 years of experience. Most shareholders trusted him, but one investor, Anjali Desai, who owned 10% shares, was suspicious. When Anjali checked the auditor's background, she found following issues :

- Vikas Reddy's spouse owned 10,000 shares (₹100 each) in Horizon, which was never disclosed.
- The firm had taken a ₹50 lakh loan from Horizon in 2020, still unpaid.
- Vikas had also provided tax consultancy services to Horizon in 2020-21.
- The firm did not submit the mandatory eligibility certificate under the Companies Act, 2013.

Anjali complained to the Registrar of Companies (ROC), Hyderabad, saying the auditor was ineligible under Section 141. The investigation confirmed her claims. The ROC ruled that Vikas & Associates was ineligible and must vacate office under Section 141(4) and imposed the penalties. Horizon was fined ₹2,00,000 for appointing an ineligible auditor. Vikas & Associates was fined ₹50,000 for accepting the appointment. Further, Horizon was ordered to call an Extraordinary General Meeting (EGM) within 60 days to appoint a new eligible auditor.

Based on the facts given in above case scenario and by applying the relevant provisions of the Companies Act, 2013, choose the correct answer of the following questions : (Q. No. 1 to Q. No. 3)

1. Following the regulatory authority's decision, Horizon Innovations Ltd. was penalized and directed to convene an Extraordinary General Meeting (EGM) to address the auditor's disqualification. Which of the following provisions correctly applies in this situation ?
   (a) When an auditor becomes disqualified, the auditor must vacate the position, and such vacation shall be deemed to be a casual vacancy and the company is required to appoint another eligible auditor.
   (b) The regulatory authority has the power to directly appoint a new auditor for the company.
   (c) The law requires the company to rotate its auditors periodically each financial year.
   (d) The company may retain the same auditor by passing a special resolution till the next AGM.

2. Vikas & Associates argued that the 10,000 shares held by Vikas Reddy's spouse were held in her personal capacity and not in the firm's name. How should this argument be treated under professional ethics and company law ?
   (a) Acceptable, as the shares were not in the auditor's name.
   (b) Acceptable only if disclosed to the Board before appointment.
   (c) Not acceptable, as relatives' shareholding is also considered for eligibility.
   (d) Acceptable if the auditor's spouse had no voting rights.

3. The audit firm did not furnish the eligibility certificate as prescribed before its appointment. What is the importance of this certificate?
   (a) It is a voluntary self-declaration provided at the auditor's discretion.
   (b) It is a mandatory requirement under Section 139(1) read with Rule 4 of the Companies (Audit and Auditors) Rules, 2014, confirming that the auditor satisfies the eligibility criteria under Section 141.
   (c) It is a requirement applicable only to listed companies.
   (d) It is a certificate issued by ICAI attesting to the auditor's professional competence.

Case Scenario – II

Globacom Pvt. Ltd., a tech Services Company headquartered in India, plans to engage in several foreign exchange transactions:

(1) Send sponsorship funds worth USD 1,30,000 to support a private tech conference abroad, organized by a non-governmental association.

(2) Remit royalty payments totaling USD 1,50,000 under a technical collaboration agreement for licensing software developed overseas.

(3) Make a marketing payment exceeding ₹15,000 in a foreign print publication to promote inbound tourism (targeting foreign visitors).

(4) Sponsor several cultural exchange tours for college students for USD 80,000.

The Finance Team must determine which transactions are permitted, which require prior government approval, and which are strictly prohibited under the applicable provisions of the Foreign Exchange Management Act, 1999 (FEMA).

Based on the above facts, answer the following questions : (Q. No. 4 to Q. No. 6)

4. Globacom has made two other remittances –
   (1) Marketing payment (₹15,000/-) in foreign print media to promote inbound tourism.
   (2) Cultural exchange tours sponsorship worth USD 80,000.

   Which of the following is the correct option ?

(a) Both (1) and (2) are freely permissible.
(b) (1) is allowed freely, but (2) requires prior government approval.
(c) (1) requires approval, but (2) is freely permissible.
(d) (1) is prohibited, and (2) requires approval.

5. Related to the remittance of the amount mentioned for sponsoring a private tech conference abroad - which of the following is the correct option ?
(a) Allowed freely as it's a promotion of trade.
(b) Prohibited under Schedule I.
(c) Requires prior approval under Schedule II.
(d) Does not require approval from the Government if routed via EEFC or RFC account.

6. Above said royalty remittance under a technical collaboration agreement –
Which of the following is the correct option ?
(a) Freely permissible without approval.
(b) Prohibited under Schedule I.
(c) Requires approval under Schedule II since the amount exceeds thresholds.
(d) Only allowed if remitted from an EEFC or RFC account.

Case Scenario – III

M/s ABCD Capital Limited, a listed public company, was found guilty of manipulating its share prices through false disclosures in its quarterly financial statements. The company's Managing Director, Mr. Arvind, was charged under:

(1) Section 447 of the Companies Act, 2013 (Fraud), and
(2) Regulation 9 & 10 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 read with Section 24 of the SEBI Act, 1992, for misleading investors and distorting the securities market.

The SEBI Adjudicating Officer imposed a monetary penalty of ₹25 lakh and recommended criminal prosecution. Later, the Special Court under the Companies Act also imposed a fine of ₹10 lakh and three years' imprisonment on Mr. Arvind for the same fraudulent act.

Mr. Arvind appealed, raising two legal objections :

(1) That he cannot be punished twice for the same act of fraud under both SEBI and the Companies Act (double punishment issue).
(2) That the fine imposed under SEBI Act cannot be recovered using Code of Criminal Procedures, since SEBI laws are "special" enactments with their own mechanisms.

Based on the facts given in above case scenario and by applying the relevant provisions of the General Clauses Act, 1897, choose the correct answer of the following questions : (Q. No. 7 to Q. No. 8)

7. Which of the following statements correctly applies to Mr. Arvind's claim of "double punishment" under the General Clauses Act, 1897 ?
(a) He cannot be trialed under both SEBI Act and Companies Act for the same fraudulent act.
(b) He can be punished twice under both enactments for the same offence.
(c) He can be trialed and convicted under both enactments but cannot be punished twice for the same offence.
(d) Once SEBI imposes a penalty, Companies Act proceedings automatically become void.

8. If the SEBI Act, 1992 does not expressly exclude the application of Code of Criminal Procedure provisions for fine recovery, which of the following is correct as per the provisions of the General Clauses Act, 1897?

(a) The fine cannot be recovered under Code of Criminal Procedure because SEBI is a special law.

(b) Code of Criminal Procedure provisions like issuance of warrant for levy of fine will automatically apply.

(c) SEBI must recover fines only through civil recovery suits.

(d) The Central Government must issue a separate recovery notification.

Case Scenario – IV

Aquarius Design LLP was incorporated on 1st April 2023 with three partners - Arjun, Anjali, and Nakul.

Arjun and Anjali were Designated Partners, while Nakul was an ordinary partner contributing ₹5 lakh capital.

In August 2023, Nakul withdrew ₹3 lakh from the LLP's bank account without prior consent and used it to repay his personal car loan. The LLP later suffered a major business loss and defaulted on a vendor payment of ₹7 lakh. Meanwhile, Anjali went abroad for six months and stopped taking part in management but remained formally a designated partner.

In January 2024, the LLP admitted a new partner Bheem, a relative of Arjun, but no notice of his admission was filed with the Registrar. Around the same time, the LLP borrowed ₹10 lakh from Mr. Sharma, who believed Anjali was still actively managing the firm.

Later, an internal audit revealed that Arjun knowingly prepared a false Statement of Account & Solvency, showing profits though the LLP was in serious financial trouble. The LLP failed to file that statement within the prescribed period and continued business till October 2024, when Mr. Sharma demanded repayment.

Based on the facts given in above case scenario and by applying the relevant provisions of the Limited Liability Partnership Act, 2008 (LLP), choose the correct answer of the following questions : (Q. No. 9 to Q.No.10)

9.

(i) Is Nakul personally liable for the ₹3 lakh withdrawn from LLP funds for personal use ?

and

(ii) Is Anjali, who was a designated partner but inactive and abroad, personally liable for vendor debts incurred while she was away ?

(a) (i) Yes and (ii) Yes
(b) (i) No and (ii) Yes
(c) (i) No and (ii) No
(d) (i) Yes and (ii) No

10.

(i) Is Bheem liable to Mr. Sharma for LLP debts incurred before his admission, since no notice of admission was filed ?

and

(ii) Is Arjun personally liable for LLP obligations arising from the false Statement of Account & Solvency not filed within time ?

(a) (i) Yes and (ii) Yes
(b) (i) No and (ii) Yes
(c) (i) Yes and (ii) No
(d) No and (ii) No

Case Scenario – V

Sunset Pvt. Ltd., a private company incorporated in 2016, was engaged in large-scale construction projects. In April 2024, the company faced a severe cash crunch. The board decided to raise funds urgently. On 20th April 2024, one of the directors, Mr. Ramesh, advanced ₹25 lakh to the company. He orally stated that the money came from his personal account but did not provide any written declaration. On 25th April 2024, the company also circulated a notice inviting deposits from the public promising 11% interest. Within 15 days, ₹80 lakh was collected from the public. The company did not appoint any trustees, did not deposit 20% of maturing deposits into a Deposit Repayment Reserve Account, nor did it purchase deposit insurance.

In June 2024, Sunset Pvt. Ltd. borrowed ₹2 crore from Horizon Bank against the creation of a mortgage on its plant and machinery. However, the company never filed particulars of the charge with the Registrar of Companies. In March 2025, default occurred both in repayments of deposits and in repayment of the bank loan. Subsequently, winding-up proceedings were initiated. During liquidation, depositors filed claims before the Tribunal for repayment of deposit amount along with interest. Horizon Bank also sought to enforce its security.

Meanwhile, the company had fixed its Annual General Meeting (AGM) on 30th September 2024. The notice was issued to all members on 10th September. On the scheduled date of AGM, only one shareholder attended within half an hour of the meeting time. The chairperson adjourned the meeting to 7th October 2024. On the adjourned date, again only one shareholder was present, but resolutions regarding approval of accounts and reappointment of a director were passed. Another member later challenged the validity of those resolutions.

In parallel, a group of minority shareholders alleged that the invitation for deposits was a disguised attempt by the directors to avoid stricter conditions of raising secured loans, and that the company deliberately failed to comply with deposit related provisions. They filed a complaint seeking disqualification of directors for contravention of statutory requirements. The Tribunal was also approached to determine whether the resolutions passed at the adjourned meeting could bind absent shareholders when only one member attended. The creditors argued that such resolutions could not stand in law, whereas the directors maintained that said resolutions were validly passed under statutory provisions.

Adding to the complications, the Ministry initiated prosecution under Section 76A of the Companies Act, 2013, for default in repayment of deposits, making every officer of the company personally liable with fines and imprisonment. At the same

time, the Registrar imposed penalties under Section 86 of the Companies Act, 2013, for failure to register charges. Directors argued that since the company was already in winding up, they should not be personally liable. The Tribunal had to decide

whether liability under Section 76A attracted automatically on default and whether non-registration of charges rendered Horizon Bank's security unenforceable in liquidation.

Based on the facts given in above case scenario and by applying the relevant provisions of the Companies Act, 2013, choose the correct answer of the following questions : (Q. No. 11 to Q. No. 13)

11. In the adjourned general meeting of Sunset Pvt. Ltd., where only one shareholder attended and resolutions were passed, the validity of such resolutions will be determined by :

(a) Articles of Association only.

(b) Section 103, which provides that members present at adjourned meeting form quorum.

(c) Section 96, which deals with the holding of AGM.

(d) Tribunal's discretion under Section 98.

12. The default by Sunset Pvt. Ltd. in repaying deposits raised from the public, and the initiation of proceedings under Section 76A, will result in :
   (a) Only the company being punishable with fine, directors not liable.
   (b) Directors liable only if wilful fraud is proved.
   (c) Both company and every officer in default being liable, with imprisonment possible.
   (d) Only depositors entitled to civil recovery, no criminal liability arises.

13. For failure to register a charge created in favour of Horizon Bank, the effect under Section 77 read with Section 86 is:
   (a) The charge is void against liquidator and creditors, and company along with officers are liable for penalty.
   (b) The charge remains valid against liquidator and creditors, but company is fined.
   (c) The charge becomes void ab initio even between company and bank.
   (d) The charge can still be enforced if bank produces the mortgage deed in court.

Case Scenario – VI

Novus Labs LLP was formed in 2019 by three practising technologists, Asha (designated partner no.1), Rohan (designated partner no. 2) and Mira (partner). In 2024 Novus decided to convert into a private limited company to raise institutional capital and to offer stock options to employees. The LLP completed conversion formalities and on 10th October 2024, Novus Labs Pvt. Ltd. (the Company) was incorporated; Asha (who had acted as the LLP's designated partner and had been the compliance lead) became Managing Director and retained 60% of equity, Rohan became a non-executive director and Mira took 10% equity, while the balance was allotted to two angel investors. Within the same financial year, Novus Labs Pvt. Ltd. planned two fund-raising steps. First, on 20th November 2024 the Board approved a private placement offer to identified investors aggregating to 205 persons (the invitations included 5 Qualified Institutional Buyers and 10 employees to be issued under the employee stock option scheme). The Board relied on the fact that these investors were known to the company and treated the issue as a private placement. Second, in March 2025, the company proposed a rights issue to raise further working capital (i.e. 1 right equity share for every 2 equity shares held) and sent the notice of offer to shareholders only two days prior to opening the issue. Ninety-four percent (94%) of the members had earlier given written consent via email that the company may adopt a short notice period. During the private placement process some foreign subscribers were nationals of a neighbouring country that shares a land border with India; the company's secretarial team received queries whether any additional Government approvals under FEMA were required. Meanwhile Asha (now MD) received a notice from an investor alleging non-compliance with procedural formalities for private placement and warning of invocation of penalties and refund obligations under the Companies Act.

The company's finance head is not sure, whether the 205 persons invitation is treated as a public offer; whether QIBs and employees are to be counted in the 200 person threshold; whether the dispatch of short notice of offer (2 day) for the rights issue is valid for this private company and whether Asha (previously designated partner) has any special filing or liability exposure for procedural defaults that may arise under the relevant provisions.

Based on the facts given in above case scenario and by applying the relevant provisions of the Companies Act, 2013, choose the correct answer of the following questions : (Q. No. 14 to Q. No. 15)

14. In the facts above the company issued private placement invitation letters to 205 identified persons in aggregate during the financial year. Which of the following statements is correct ?
   (a) The issue will be deemed to be a public offer (and Sections 23 -41 will apply) because the total number of invitees (205) exceeds 200, so Section 42 is violated.

(b) The company need not file any return of allotment (Form PAS-3) for private placement issues and hence has no filing exposure.

(c) Even if excluded, because any single allotment to more than 180 persons is prohibited, the issue is invalid and the entire subscription must be refunded.

(d) The issue will not be deemed a public offer because QIBs and employees under an ESOP are excluded while computing the 200-person threshold; after excluding them the count is 190 (<200), so it remains a valid private placement subject to other procedural compliances.

15. The company sent the rights-issue notice to shareholders only two days prior to opening the issue. Considering Sections 60–62 implications and conversion of LLP to Company (designated partner Asha is now MD), which statement is correct?

(a) The rights issue is valid in a private company since the shareholders' written consent exceeded 90%, so the 2 day dispatch is acceptable for this private company; Asha (formerly designated partner) will be treated as an officer/director for compliance purposes and is bound by filing/penalty provisions if defaults occur.

(b) The rights issue is invalid because Section 62 requires a minimum of 15 days' notice to shareholders and no member consent can shorten this statutory minimum period.

(c) The rights issue is valid only if the company is listed; for unlisted private companies Section 62 does not apply.

(d) The rights issue is valid only if the company simultaneously increases its authorised capital first by an ordinary. resolution and also obtain written consent from the shareholders holding not less than 95% shares; otherwise the offer is void.

GENERAL INSTRUCTIONS TO CANDIDATES:

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. The bar-coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit the descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer book.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having / using mobile phone or smart watch or any other electronic gadget will be expelled from the examination and will also be liable for further punitive action.

PART - II (70 Marks)

1. Question paper comprises **6** questions. Answer Question No. **1** which is compulsory and any **4** out of the remaining **5** questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

1.

(a) ABC Ltd., a listed company in the Indian manufacturing sector, has concluded its financial year ended 31st March 2025. The company is now considering declaring a final dividend of ₹3 per equity share, with a face value of ₹10 per share. Before proceeding, the Board of Directors seeks to ensure that the proposed dividend complies with all relevant provisions of the Companies Act, 2013, particularly those related to the permissible sources and conditions for dividend distribution. The summarized financial position of the company for FY 2024-25 is as follows :

- Revenue from operations amounts to ₹10,000 lakhs, and
- Other income contributes an additional ₹1,000 lakhs, bringing the total income to ₹11,000 lakhs.
- The company has incurred expenses (excluding depreciation) of ₹8,000 lakhs, and Provided for depreciation of ₹1,200 lakhs, as per Schedule II of the Companies Act.
- The resulting profit before tax (PBT) stands at ₹1,800 lakhs, with a tax provision of ₹450 lakhs, leading to a net profit after tax (PAT) of ₹1,350 lakhs.

In addition to current year earnings, ABC Ltd. has accumulated retained earnings of ₹2,000 lakhs from previous financial years and holds free reserves (excluding any revaluation reserves) of ₹500 lakhs. The company has 100 lakh equity shares and the total proposed dividend pay-out amounts to ₹300 lakhs (i.e., ₹3 per share).

Based on the above information, analyse whether ABC Ltd. is eligible to declare dividends under the following scenarios in compliance with the Companies Act, 2013 :

(1) Out of the current year's profits.

(2) Out of the accumulated profits of previous years only.

Support your answer with appropriate provisions and calculations under the Companies Act, 2013.

(b) MNP Tech Ltd., a fast-growing start-up in Bangalore, recently issued equity shares at a premium of ₹200 per share, raising a Securities Premium balance of ₹10 crore.

The CFO proposes the following uses of the Securities Premium Account to manage the company's financial commitments and investor expectations :

(1) To write off advertisement expenses of ₹50 lakhs incurred during the product launch.

(2) To issue fully paid bonus shares worth ₹2 crore to the existing shareholders, as a gesture of goodwill.

(3) To provide ₹1.5 crore for the premium payable on redemption of preference shares.

(4) To distribute ₹1 crore as interim dividend since the company has not yet earned adequate profits.

As a legal advisor to the company, examine the validity of each proposed use with reference to the Companies Act, 2013.

(c)

(i) Skynex Ltd., incorporated in India in 2024, is engaged in the manufacture of lithium batteries for two-wheeler. The company markets its products domestically and exports to Mexico. During the financial year 2025, the company engaged in the following transaction :

Commission paid to the agent in Mexico for the sale of the company's commercial plot in India to the tune of USD"50,000 against the inward remittance of USD 9,50,000 from Exchange Earners Foreign Currency (EEFC) Account.

Examine whether the above transaction is exempt from the approval of the RBI, with reference to the relevant provisions of FEMA, 1999.

(ii) Bob, a Director at Skynex Ltd., along with his wife, major son, and father, purchased a property in Mexico, holding equal shares in the property. They collectively remitted USD 1,000,000 during the financial year. Bob confirmed that all family members complied with the applicable terms and conditions, and the amount sent is within the limit prescribed for remitting funds to Mexico.

Examine whether Bob and his family members can remit USD 1,000,000 to Mexico in a single financial year without requiring any approval.

2.

(a) Amrit Praksh Ltd. was incorporated in 1996 and its registered office is in Dehradun. For expanding the business in manufacturing Mobile equipment (including its Spare Parts) to mobile accessories also, it required capital and for this the Company issued 10,00,000 equity shares of ₹10 each at par to the public by issuing a prospectus. The prospectus discloses the minimum subscription amount of ₹50,00,000 required to be received on application of shares and share application money shall be payable at ₹5 per share. The prospectus further reveals that Amrit Praksh Ltd. has applied for listing of shares in recognized stock exchanges of which application has been rejected.

The issue was fully subscribed and Amrit Praksh Ltd. received an amount of ₹50,00,000 on share application. Amrit Praksh Ltd., then proceeded for allotment of shares.

Examine the disclosures in the above case study which are the deciding factors in an allotment of shares and the consequences for violation, if any under the provisions of the Companies Act, 2013.

(b) PRT Ltd. is an eligible public company. The following details are available from its audited balance sheet as on 31st March 2024 :

- Paid-up Share Capital : ₹20 crore
- Free Reserves : ₹8 crore
- Securities Premium Account : ₹2 crore
- Existing deposits from members : ₹2 crore
- Existing deposits from public (excluding members) : ₹5 crore

The company now proposes to accept further deposits during the year 2024-25 :

(1) ₹3 crore from its members; and

(2) ₹2 crore from persons other than members (general public).

You are required to examine, with reference to the relevant provisions of the Companies Act, 2013, whether the above proposal is valid. If not, calculate the maximum permissible deposits in each category.

(c) ABC Ltd. is in the business of manufacturing life-saving drugs. The company has its plant in Kerala. The turnover for the last financial year crossed ₹52 crore. During the first quarter of the current financial year (2024-2025), the company's turnover has already reached ₹50 crore. ABC Ltd. is expecting its turnover to reach ₹200 crore for the financial year 2024-25.

The company held its Board meeting on August 1, 2024, and decided to appoint a cost auditor for the financial year 2024-25.

(1) According to the General Clauses Act, 1897, by what date must ABC Ltd. file the cost auditor appointment, and how is this timeline calculated ?

(2) ABC Limited's failure to appoint a cost auditor, where it is statutorily required, constitutes an offence under Section 148 of the Companies Act, 2013. What is meant by "offence" under the General Clauses Act, 1897 ?

3.

(a) A group of five professionals decided to start a private limited company in the anti-drone solutions sector under the name Ddrone Pvt. Ltd. in April 2025. The company wants to have its registered office in Mumbai. On April 2, 2025, it applied for name reservation through RUN (Reserve Unique Name) and received approval on April 6, 2025. On May 15, 2025, due to a delay in documentation, the SPICe+ (Simplified Proforma [for Incorporating Company Electronically) Plus (INC-32) form for incorporation was filed after 39 days from the date of name reservation.

The company proposed two directors, one Indian resident, one foreign national residing in the U.S. The foreign director did not have a DIN, and his passport was notarized but not apostiled. The company's registered office address was not finalized at the time of filing INC-32. Memorandum of Association and Articles of Association (MoA and AoA) were signed electronically, but one subscriber used a digital signature of a third party (his consultant), with verbal consent.

Based on the above facts and applicable provisions of the Companies Act, 2013, answer the following questions

(i) Was the name Ddrone Pvt. Ltd. still valid when INC-32 was filed on May 15, 2025 ?

(ii) Is it mandatory to provide the company's registered office address at the time of incorporation ? What is the time limit to furnish it otherwise ?

(iii) What are the consequences if the company fails to file the declaration for commencement of business within the prescribed time, and fails to carry on any business or operations ?

(b) LMN Ltd. created a charge on one of its plant and machinery in favour of a financial institution. The company secretary was on leave when the charge was created. To avoid delay, an accounts officer of the company entered the particulars of the charge in the Register of Charges without any authorisation of the Board.

Later, a dispute aróse between two creditors regarding priority of charges. One creditor challenged the validity of the Register entries, claiming that the entries were unauthorised and not duly authenticated as per law.

Based on the Companies (Registration of Charges) Rules, 2014, examine whether the entry made in the Register of Charges, by the accounts officer is legally valid and what consequences may follow in case of non- authentication ?

(c) Write any four differences between The Rule of Beneficial Construction and Rule of Exceptional Construction.

4.

(a) The Board of Directors of XYZ Petrochemicals Limited consists of Mr. R (Managing Director), Mr. N (Director), Mr. P (Director), Mr. A (Chairperson), Mr. D (Chief Financial Officer, not a director) and Mr. C (Company Secretary). The Board as a policy does not authorize the chairperson of the company to sign the financial statements. The Profit and Loss Account and Balance Sheet of the company were signed by Mr. N, Mr. P and Mr. A. Examine whether the authentication of financial statements of the company was in accordance with the provisions of the Companies Act, 2013.

What would be your answer in case the company is a One Person Company (OPC) and has only one Director, who has authenticated the Balance Sheet and Statement of Profit & Loss and the Board's Report ?

(b) ABC LLP is engaged in the business of providing software consulting services. Due to an economic slowdown, the LLP is unable to meet its obligations towards some creditors. The management of ABC LLP proposes a compromise arrangement with its creditors to restructure its outstanding debts by extending repayment periods and waiving a portion of interest.

The LLP files an application before the National Company Law Tribunal (NCLT), seeking directions to convene a meeting of its creditors.

At the meeting, creditors representing 80% of the total value of debts agree to the proposed arrangement. The Tribunal, after ensuring that all material facts including the LLP's latest financial statements and the disclosure of pending tax investigations have been presented, sanctions the compromise.

However, ABC LLP fails to file the Tribunal's order with the Registrar within the prescribed period. Examine the validity of compromise or arrangement approved by the creditors and sanctioned by the Tribunal with reference to the Limited Liability Partnership Act, 2008. Also explain the effect of failure by ABC LLP to file the Tribunal's order to the Registrar.

(c) Statutory interpretation becomes essential when the language of a statute is unclear or leads to ambiguity. Discuss the circumstances under which the interpretation of statutes is applied.

5.

(a) Zen Tech Ltd., a company incorporated in Singapore, has a branch office in Bengaluru, India. The financial year of the company ends on 31st March 2025. As per the provisions of the Companies Act, 2013, Zen Tech Ltd. is required to file certain documents with the Registrar of Companies (ROC) every year. However, due to internal audit delays in its Singapore headquarters, the company could not finalize its financial statements by the end of September 2025.

The management seeks clarification on the following points :

(1) What documents need to be filed by Zen Tech Ltd. along with its financial statements, with the Registrar ?

(2) By what time should these documents normally be filed ?

Examine it as per the provisions of the Companies (Registration of Foreign Companies) Rules, 2014.

(b) Amit and Priya are partners in XYZ LLP, a consulting firm. Recently, Priya moved to a new address but forgot to notify the LLP within the required period. A month later, Amit's cousin, Ramesh, expressed interest in joining XYZ LLP as a partner, and after a few discussions, he was accepted as a new partner. However, XYZ LLP did not immediately update the Registrar of Companies (ROC) regarding Priya's address change or Ramesh's admission as a partner. After 45 days of joining Mr. Ramesh, the LLP filed a notice with the ROC about these changes. Advise the LLP about the default on part of LLP about the non-compliance in respect to not informing the ROC about:

(i) Whether Ms. Priya contravene any provision regarding address change ?

(ii) Default on non-compliance in Mr. Ramesh's admission as a partner.

(c) Under an enactment, an excise duty of ₹10 is levied on every 100 litres of a certain chemical produced in a factory. During inspection, it was found that Factory A had produced 350 litres of that chemical but had paid duty only for 300 litres, arguing that the Act only specifies duty per 100 litres and does not mention fractional quantities.

With reference to the General Clauses Act, 1897, determine whether the factory is liable to pay excise duty on the remaining 50 litres. Support. your answer with reasoning.

6.

(a)

(i) Monika Solutions Pvt. Ltd. is registered as a One Person Company (OPC) under the Companies Act, 2013. Mr. Gautam Kumar is the sole member and director of the company. With the financial year ending on 31st March 2025, the company is preparing to comply with its annual filing and disclosure requirements.

Mr. Gautam Kumar is uncertain, whether his company is required to hold an Annual General Meeting (AGM) or there are any other alternative procedures that his company can follow. As a financial advisor, please advise Mr. Gautam Kumar on this matter.

(ii) What is the difference between a motion and a resolution?

OR

(a)

(i) Saras Ventures Ltd., a public limited company incorporated under the Companies Act, 2013, has a Board comprising seven directors. A group of shareholders holding 1.2% of the total voting power has expressed dissatisfaction with one of the directors, Mr. Ankur Chabra, and has proposed his removal under Section 169 of the Companies Act, 2013.

The company's Annual General Meeting (AGM) is scheduled for 25th August 2025. On 1st August 2025, the company received a special notice under Section 115, proposing an ordinary-resolution for the removal of Mr. Ankur Chabra at the upcoming AGM. However, the company subsequently failed to notify its members of the special notice.

With reference to the applicable provisions of the Companies Act, 2013, examine the validity of the special notice.

(ii) What are the consequences of failure to notify the members about the special notice?

(b) RMP Private Limited is an unlisted company having:

Paid-up share capital of ₹6 crore, and

Annual turnover of ₹90 crore.

The company is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015.

The company filed its financial statements for the financial year 2024-25 in Form AOC-4 (normal form) instead of Form AOC-4 XBRL.

State the classes of companies required to file financial statements and documents in XBRL format under Section 137 of the Companies Act, 2013 and examine whether RMP Private Limited has complied with the applicable legal provisions.

(c) Examine the given situations in the light of the FEMA, 1999 :

(1) Bhargav Ltd. had total foreign exchange earnings of USD 12,000,000 in the last three financial years. What is the maximum amount the company can donate without RBI approval ?

(2) Preeto Ltd. wants to make remittances 6% of investment brought into India. Does it need RBI approval ?