GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

(New Syllabus)

DECEMBER 2018

MODULE 2

THE INSTITUTE OF
Company Secretaries of India
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
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The Guideline Answers contain the information based on the Laws/Rules applicable at the time of preparation. However, students are expected to be well versed with the amendments in the Laws/Rules made upto **six** months prior to the date of examination.

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MODULE 2

EXECUTIVE PROGRAMME EXAMINATION

DECEMBER 2018

CORPORATE & MANAGEMENT ACCOUNTING

Time allowed : 3 hours Maximum marks : 100

*NOTE : 1. Answer **ALL** Questions.*

2. All working notes should be shown distinctly.

PART I

Question 1

Explain the following :

(a) Share-based payments as per Ind AS-102.

(b) Minority interest and its calculating procedure.

(c) Provisions of the Companies Act, 2013 regarding "Corporate Social Responsibility (CSR) spend". (5 marks each)

Answer 1(a)

A share-based payment is a transaction in which the entity receives goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity.

The objectives of this standard is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effect of share-based payment transactions, including expenses associated with transactions in which share options are granted to the employees.

An entity shall apply this standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

(a) Equity-settled share-based payments transactions.

(b) Cash-settled share-based payment transactions, and

(c) Transactions in which the entity receives or acquires goods or services and the terms of the agreement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. It also applies to an entity that

(a) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction,

(b) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

Answer 1(b)

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries by the holding (parent) company. In short, minority interest represents the claims of the outside shareholders of a subsidiary. Minority interest in the net income of consolidated subsidiaries for the reporting period are identified and adjusted against the income of the group in order to arrive at the net income attributable to the shareholders of the holding company.

Objectives

1. The objective of the policy is to protect the rights of the minority shareholders and keep them updated about their rights from time to time.
2. To check that the Shareholder Relationship Committee is redressing the grievances of the minority shareholders.

As per para 13(e) of AS 21, minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority Interest in the net assets consist of:

(i) The amount of equity attributable to minority at the rate on which investments in a subsidiary is made: and

(ii) The minorities share of movements in equity since the date the parent subsidiary relationship came into existence.

Minority interest may be computed as follows:

The remaining shareholders in the subsidiary company are called minority shareholders and their share in the assets of subsidiary company is called minority interest. This is calculated as under:

Share in equity share capital of subsidiary company	………………
Add : Share in total profit of subsidiary company	………………
Less : Share in total loss of subsidiary company	………………
Add : Share in reserve of subsidiary company	………………
Add : Share in revaluation profit on assets of subsidiary company	………………
Less : Share in revaluation loss on assets of subsidiary company	………………
Less : Share in fictitious assets written off	………………
Minority interest	………………

Answer 1 (c)

The Companies Act, 2013 requires that every company with net worth of ₹500 crore or more, or turnover of ₹1000 crore or more, or net profit of ₹5 crore or more during any financial year will constitute a CSR committee.

The CSR Rules state that every company, which ceases to be a company covered under the above criteria for three consecutive financial years, will not be required to (a) constitute the CSR, and (b) comply with other CSR related requirements, till the time it again meets the prescribed criteria.

The Companies Act, 2013 requires that a company which meets the CSR applicability criteria should constitute a CSR committee comprising of three or more directors. The Companies Act, 2013 also states that out of these three directors, at least one director should be an independent director.

The CSR Rules state that a non-listed public company or a private company, which is not required to appoint an independent director as per the Companies Act, 2013 / Directors' Appointment Rules, can have its CSR Committee without an independent director. Also, a private company having only two directors on its board can constitute the CSR Committee with the two directors.

CSR Expenditure

In accordance with Section 135(5) of the Companies Act, 2013, the Board of each company covered under the CSR requirement needs to ensure that the company spends, in every financial year, at least 2% of its average net profits made during the three immediately preceding financial years in pursuance of CSR policy. Neither the Companies Act, 2013 nor the CSR Rules prescribe any specific penal provision if a company fails to spend the 2% amount. However, the Board, in its report, needs to specify the reason for not spending the specified amount.

Neither the Companies Act, 2013, nor the CSR Rules prescribe any specific penal provision if a company fails to spend the amount. Also, there does not appear to be any legal obligation on companies to make good of short spending of one year in the subsequent years.

Attempt all parts of either Q. No. 2 or Q. No. 2A

Question 2

(a) B Ltd. forfeited 2000 equity shares of ₹10 each, ₹8 called up for non-payment of first call money of ₹2 each. The company has already received ₹2 on application and ₹4 on allotment on these shares. Out of the shares forfeited, 1500 shares were re-issued at ₹7 per share as showing ₹8 paid up.

Journalize the above transactions in the books of the company. (3 marks)

(b) Titanic Ltd. issued 10,000 equity shares at ₹20 per share for cash and 20,000 equity shares to supplier of plant costing ₹4,50,000. Assuming face value of shares at ₹10 each, show the resultant disclosure in the notes to accounts attached to balance sheet as per Schedule III of the Companies Act, 2013. (3 marks)

(c) *Briefly describe the benefits of "Accounting Standards".* *(3 marks)*

(d) *What do you mean by contingent liability ? Briefly explain it.* *(3 marks)*

(e) *The following balances were stood in the Balance Sheet of Gauru Ltd. as on 31st March, 2018 :*

(i) *Share capital—Issued and subscribed :*

2,00,000, 9% Preference shares of ₹100 each fully paid : ₹200 lakh
50,00,000 Equity shares of ₹10 each fully paid : ₹500 lakh

(ii) *Reserves and surplus :*

Capital Reserve ₹40,00,000 (created due to revaluation of fixed assets)

Securities Premium ₹60,00,000

General Reserve ₹35,00,000

Surplus (Statement of Profit & Loss) ₹80,00,000

On 1st April, 2018 the company decided to capitalise its reserves by way of issue of bonus shares at the rate of one equity share for every four equity shares held.

Show necessary journal entries in the books of the company. *(3 marks)*

OR (Alternate question to Q. No. 2)

Question 2A

(i) *The following balances are extracted from the books of Raj Ltd. :*

		₹
(1)	*1,000, 7% Preference Shares of ₹100 each fully called up :*	*1,00,000*
	Less : Calls in arrears @ ₹25 per share	*500*
	Amount paid up	*99,500*
(2)	*Securities Premium Account*	*14,000*
(3)	*General Reserve*	*34,000*

The directors redeemed the preference shares at a premium of 10% and for that purpose made a fresh issue of equity shares at par for such an amount as was necessary for the purpose after utilising the available sources to the maximum extent. Pass the necessary journal entries in the books of the company.

(5 marks)

(ii) *A company has supplied the following data regarding underwriting of shares :*

Underwriter	*A*	*B*	*C*	*Total*
(a) Gross Liability (No. of shares)	*24,000*	*10,000*	*6,000*	*40,000*
(b) Firm underwriting (to be treated as marked applications)	*3,200*	*1,200*	*4,000*	*8,400*
(c) Marked applications (excluding firm underwriting)	*4,000*	*8,000*	*2,000*	*14,000*
(d) Unmarked applications	—	—	—	*6,000*

Ascertain the final liability of each underwriter. *(5 marks)* *(iii) The following balances are obtained from the Balance Sheet of Pimo Ltd. as on 31st March, 2018 :*

(1) Shareholders' funds :

	(₹ in lakh)
(a) Issued and subscribed share capital :	
40,00,000 Equity Shares of ₹10 each fully paid	*400*
2,00,000, 10% Preference Shares of ₹100 each fully paid	*200*
(b) Reserves and Surplus :	
Capital Reserve	*15*
Securities Premium	*75*
General Reserve	*125*
(2) Non-current Investment	*20*
(3) Cash and Cash Equivalents	*85*

On 1st April, 2018 the shareholders of the company have approved the scheme of buy-back of equity shares as under :

(a) 10% of the equity shares would be bought back at ₹25 per share.

(b) Investment would be sold for ₹35 lakh.

(c) Premium on buy-back of shares should be met from securities premium account.

Pass necessary journal entries to record the above transactions. *(5 marks)*

Answer 2(a)

Journal Entries in the books of B Ltd.

	Particulars		*Debit (₹)*	*Credit (₹)*
1.	Equity Share Capital A/c	Dr.	16,000	
	To Share Forfeited A/c			12,000
	To Equity Share Capital First Call /Call in arrears A/c			4,000
	(Being 2000 Equity shares of ₹8 called up forfeited for non-payment of first call of ₹2)			
2.	Bank A/c	Dr.	10,500	
	Share Forfeited A/c	Dr.	1,500	
	To Equity Share Capital A/c			12,000
	(Being re-issue of 1500 shares @ ₹8 at a discount of ₹1)			
3.	Share Forfeited A/c	Dr.	7,500	
	To Capital Reserve A/c			7,500

Working Notes: Calculation of Capital Reserve:

	(₹)
Share Forfeited A/c credited at the time of forfeiture of 2000 shares	12,000
Proportionate Share Forfeited A/c on 1500 shares re-issued	9,000
Less Share Forfeited A/c used for discount	1,500
Balance transferred to Capital Reserve A/c	7,500

Answer 2(b)

Issued Subscribed and Paid up Capital

30000 Equity Shares of ₹10 each ₹3,00,000
(of the above 20,000 Equity Shares were issued for consideration other than Cash)

Reserve & Surplus		(₹)
Security Premium		3,50,000
Computation of Security Premium :		
(a) For Cash issue: 10,000 shares @ ₹10		
(b) For other than Cash:		
Value of Plant & Machinery	4,50,000	
No. of Shares issued	20,000	
Value per Share (4,50,000/20,000)	22.50	
Premium Per Share	12.50	
Total Premium		**2,50,000**
Total Security Premium		**3,50,000**

Answer 2(c)

Accounting Standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the Accounting Standards the accountant has following benefits:

(i) *Standardization of alternative accounting treatments* : Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) *Requirements for additional disclosures* : There are certain areas where important information not statutorily required to be disclosed. Standards may call for disclosure if required by law.

(iii) *Comparability of financial statements* : The application of Accounting Standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world, and also of different companies situated in the same country. However, it should be noted in this respect the differences in the institutions, traditions and legal systems from one country to another that give rise to differences in Accounting Standards adopted in different countries.

(iv) *Prevents Frauds and Accounting Manipulations* : Accounting Standards (AS) lay down the accounting principles and methodologies that all entities must follow. One outcome of this is that the management of an entity cannot manipulate with financial data. Following these standards is not optional, it is compulsory. So these standards make it difficult for the management to misrepresent any financial information. It even makes it harder for them to commit any frauds.

(v) *Assists Auditors* : Now the accounting standards lay down all the accounting policies, rules, regulations etc. in a written format. These policies have to be followed. So if an auditor checks that the policies have been correctly followed he can be assured that the financial statements are true and fair.

(vi) *Comparability* : This is another major objective of accounting standards. Since all entities of the country follow the same set of standards their financial accounts become comparable to some extent. The users of the financial statements can analyze and compare the financial performances of various companies before taking any decisions. Also, two statements of the same company from different years can be compared. This will show the growth curve of the company to the users.

(vii) *Determining Managerial Accountability* : The accounting standards help measure the performance of the management of an entity. It can help in guaging the management's ability to increase profitability, maintain the solvency of the firm, and other such important financial duties of the management.

Answer 2(d)

Contingent Liability represents a potential obligation that could be created depending on the outcome of an event. For example if a supplier of a business files a legal suit, it will not be treated as a liability because no obligation is created immediately. If the verdict of the case is given in favour of the supplier then only the obligation is created. Till that point it is treated as a contingent liability. Please note that contingent liability is not recorded in books of account, but disclosed in the footnote in the financial statements.

For example, if you took an educational loan of Rs 10,00,000 from your bank to fund your child's higher studies, that amount could well become a contingent liability if your child fails to make monthly payments after getting a job. You might have to pay the loan amount because you have taken the loan from your bank.

Answer 2(e)

Journal Entry in the books of Gauru Ltd.

(₹ in Lacs)

	Particulars		Debit (₹)	Credit (₹)
1.	Security Premium A/c	Dr.	60	
	General Reserve A/c	Dr.	35	
	Surplus A/c	Dr.	30	
	To Bonus to Equity Shareholders A/c			125
	(Being bonus declared out of reserves)			
2.	Bonus to Equity Shareholders A/c	Dr.	125	
	To Equity Share Capital A/c			125
	(Being bonus shares issued)			

Answer 2A(i)

Journal Entry in the books of Raj Ltd.

	Particulars		*Debit* (₹)	*Credit* (₹)
1.	Bank A/c	Dr.	64,000	
	To Equity Share Application & Allotment A/c			64,000
	(Being share application amount received)			
2.	Equity Share Application & Allotment A/c	Dr.	64,000	
	To Equity Share Capital A/c			64,000
	(Being Share application amount transferred to share capital)			
3.	General Reserve A/c	Dr.	34,000	
	To Capital Redemption Reserve A/c			34,000
	(Being General Reserve transferred capital redemption reserve)			
4.	Securities Premium A/c	Dr.	9,800	
	To Premium on Redemption of Preference Share A/c			9,800
	(Being adjusted for premium)			
5.	7% Cumulative Preference Capital A/c	Dr.	98,000	
	Premium on Redemption of Preference Shares A/c	Dr.	9,800	
	To 7% Preference Shareholders' A/c			1,07,800
	(Being amount due to preference shareholders)			
6.	7% Preference Shareholders' A/c	Dr.	1,07,800	
	To Bank A/c		1,07,800	
	(Being payment made)			

Working Note:

(1) Calls in arear is on 20 shares i.e. (500/25)

(2) 1000-20 = 980 Preference shares shall be redeemed

(3) 980 x100 = 98,000-34,000(General Reserve) = ₹64,000

(4) 980 x 10 = ₹9,800 is premium on redemption.

Answer 2A(ii)

Particulars	*A*	*B*	*C*	*Total (₹)*
Gross Liabilities (No. of Shares)	24,000	10,000	6,000	40,000
Less : Marked applications + Firm under writing	7,200	9,200	6,000	22,400
Less : Unmarked application in Gross liabilities Ratio	16,800	800	–	17,600
	3,600	1500	900	6,000
Surplus of B & C allotted to A	13,200	-700	-900	11,600
	-1,600	+700	+900	---
Add : Firm under writing	11,600	-----	---	11,600
	3,200	1,200	4,000	8,400
Final Liability	**14,800**	**1,200**	**4.000**	**20,000**

Answer 2A(iii)

Journal Entries in the Books of Pimo Ltd.

	Particulars		*Debit (₹)*	*Credit (₹)*
1.	Bank A/c	Dr.	35,00,000	
	To Investment A/c			35,00,000
	(Being investment sold)			
2.	Investment A/c	Dr.	15,00,000	
	To Statement of Profit & Loss A/c			15,00,000
	(Being profit on sale of investment transferred)			
3.	Equity Share Capital A/c	Dr.	40,00,000	
	Securities Premium A/c	Dr.	60,00,000	
	To Equity Shareholders A/c			1,00,00,000
	(Being amount payable on buyback of 10% equity shares transferred)			
4.	General Reserve A/c	Dr.	40,00,000	
	To Capital Redemption Reserve A/c			40,00,000
	(Being amount equal to face value of shares buy back transferred to CRR)			
5.	Equity Shareholders A/c	Dr.	1,00,00,000	
	To Bank A/c			1,00,00,000
	(Being amount paid on buy back)			

Note: Entry 1 & 2 can be combined as :

Bank A/c	Dr.	35,00,000
To Investment A/c		20,00,000
To Profit & Loss A/c		15,00,000

Question 3

(a) *Pass necessary journal entries in the books of Karan Ltd. in each of the following cases :*

(i) *3,000, 8% Debentures of ₹100 each have been issued at par and are redeemable at par.*

(ii) *6,000, 8% Debentures of ₹100 each are issued at par and are redeemable at 5% premium.*

(iii) *5,000, 8% Debentures of ₹100 each have been issued at 5% discount and are redeemable at par.*

(iv) *2,000, 8% Debentures of ₹100 each are issued at 5% discount and are redeemable at 4% premium.*

(v) *4,000, 8% Debentures of ₹100 each are issued at 5% premium and are redeemable at par.* *(5 marks)*

(b) *From the following information of Varsha Ltd., prepare a cash flow statement as per AS-03 :*

Equity & Liabilities	Previous Year (₹)	Current Year (₹)	Assets	Previous Year (₹)	Current Year (₹)
Share Capital	5,00,000	7,00,000	Goodwill	—	50,000
General Reserve	1,20,000	1,30,000	Plant & Machinery	2,70,000	2,90,000
Profit & Loss A/c	1,00,000	1,20,000	Building	3,70,000	3,60,000
Sundry Creditors	1,10,000	1,20,000	Stock	2,60,000	2,40,000
Bills Payable	70,000	30,000	Sundry Debtors	1,90,000	2,20,000
Bank Overdraft	1,40,000	—	Cash & Bank	30,000	40,000
Provision for taxes	80,000	1,00,000			
	11,20,000	12,00,000		11,20,000	12,00,000

Additional information :

(1) *During the current year an interim dividend of ₹50,000 was paid.*

(2) *The assets of Seema Ltd. were purchased on first day of the current year for ₹2,00,000 payable in fully paid shares of the company. These assets consisted of stock ₹80,000, machinery ₹70,000 and goodwill ₹50,000.*

In addition company purchased a machine worth ₹20,000.

(3) Income tax paid during the current year amounted to ₹60,000.

(4) The net profit for the current year before tax was ₹1,60,000. *(5 marks)*

(c) What are the objectives of the Institute of Cost Accountants of India ? Give any five points. *(5 marks)*

Answer 3(a)

Journal Entries in the Books of Karan Ltd.

	Particulars		Debit (₹)	Credit (₹)
(i)	Bank A/c	Dr.	3,00,000	
	To 8% Debentures A/c			3,00,000
	(Being debentures issued at par & redeemable at par)			
(ii)	Bank A/c	Dr.	6,00,000	
	Loss on Issue of Debenture A/c	Dr.	30,000	
	To 8% Debentures A/c			6,00,000
	To Premium on Redemption of 8% Debentures A/c			30,000
	(Being issue of 8% debentures at par and repayable at 5% premium)			
(iii)	Bank A/c	Dr.	4,75,000	
	Discount on Issue of debentures A/c	Dr.	25,000	
	To 8% Debentures A/c			5,00,000
	(Being issue of debentures at 5% discount and redeemable at par)			
(iv)	Bank A/c	Dr.	1,90,000	
	Loss on issue of debentures A/c	Dr.	8,000	
	Discount on Issue of debentures A/c	Dr.	10,000	
	To 8% Debentures A/c			2,00,000
	To Premium on Redemption of 8% Debentures A/c			8,000
	(Being issue of debentures at a discount of 5% and payable at a premium of 4%)			
(v)	Bank A/c	Dr.	4,20,000	
	To 8% Debentures A/c			4,00,000
	To Security Premium A/c			20,000
	(Being issue of debentures at a premium of 5% and payable at par)			

Answer 3(b)

Cash Flow Statement (AS-3, Indirect Method)

	Particulars	*Amount (₹)*	*Amount (₹)*
(A)	**Cash flow from operating activities**		
	Net Profit before Tax & Extraordinary items:	1,60,000	
	Depreciation on Plant & Machinery	70,000	
	Depreciation on Land & Building	10,000	
		2,40,000	
	Decrease in Stock (2,60,000+80,000-2,40,000)	1,00,000	
	Increase in Debtors	(30,000)	
	Increase in Creditors	10,000	
	Decrease in bills payable	(40,000)	
		2,80,000	
	Income Tax paid	(60,000)	2,20,000
(B)	**Cash flows from investing activities :**		
	Purchase of plant & Machinery	(20,000)	(20,000)
(C)	**Cash flows from Financing Activities**		
	Payments of Bank overdraft	(1,40,000)	
	Interim dividend paid	(50,000)	(1,90,000)
Net increase in cash and cash equivalents (A+B+C)			10,000
Cash & Bank Balance at the beginning			30,000
Cash & Bank Balance at the end			40,000

Working Notes:

(1) Plant & Machinery Account

Dr. *Cr.*

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Balance b/d	2,70,000	By Depreciation (Bal. Figure)	70,000
To Share Capital	70,000	By Balance c/d	2,90,000
To Bank A/c (Purchase)	20,000		
	3,60,000		3,60,000

(2) Provision for Tax Account

Dr. *Cr.*

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Bank A/c	60,000	By Balance b/d	80,000
To Balance c/d	1,00,000	By Profit & Loss A/c (Charged from P & L)	80,000
	1,60,000		1,60,000

Note: Overdraft of ₹1,40,000 may be adjusted against the opening bank balance also.

Answer 3(c)

Following are the objectives of the Institute of Cost Accountants of India:

(i) To develop the Cost and Management Accountancy function as a powerful tool of management control in all spheres of economic activities.

(ii) To promote and develop the adoption of scientific methods in Cost and Management Accountancy.

(iii) To develop the professional body of members and equip them fully to discharge their functions and fulfill the objectives of the Institute in the context of the developing economy.

(iv) To keep abreast of the latest developments in the Cost and Management accounting principles and practices, to incorporate such changes are essential for sustained vitality of the industry and othereconomic activities.

(v) To exercise supervision on the entrants to the profession and to ensure strict adherence to the best ethical standards by the profession.

(vi) To organize seminars and conferences on subjects of professional interest in different parts of the country for cross-fertilization of ideas for professional growth.

(vii) To carry out research and publication activities covering various economic spheres and the publishing of books and booklets for spreading information of professional interest to members in industrial,education and commercial units in India and abroad.

Question 4

(a) From the balance sheets given below, prepare a consolidated balance sheet :

Particulars	*M Ltd. (₹)*	*D Ltd. (₹)*
I. EQUITY AND LIABILITIES :		
1. Shareholders' fund		
(a) Share Capital ₹ 1 each share	*1,50,000*	*30,000*
(b) Reserves and Surplus :		
General Reserve	*15,000*	*9,000*
Profit & Loss Account	*60,000*	*18,000*

2. Current Liabilities		
Creditors	20,000	14,000
Bills payable	10,000	8,500
Total	2,55,000	79,500
II. ASSETS :		
1. Non-current Assets		
Fixed Assets	1,20,000	18,000
Non-current Investments—22,500 shares in D Ltd.	22,500	
2. Current Assets		
Debtors	19,500	25,500
Stock	81,500	24,000
Bills Receivables	11,500	12,000
Total	2,55,000	79,500

Additional information :

(1) *All the profits of D Ltd. have been earned since the shares were acquired by M Ltd. but there was already the general reserve of ₹9,000 at the date.*

(2) *There are mutual bills payable of ₹6,000 and ₹5,000 included in the bills payable of M Ltd. and D Ltd. respectively, out of which, the drawer companies discounted 60% of the mutual bills.*

(3) *Fixed assets of D Ltd. are undervalued by ₹3,000, and those of M Ltd. overvalued by ₹10,000.* *(8 marks)*

(b) *From the following statement of Profit & Loss of Rajshree Ltd., you are required to prepare a Value Added Statement for the year ended 31st March, 2018. Also prepare a reconciliation statement reconciling the gross value added and profit before tax :*

Particulars		₹ ('000)	₹ ('000)
Income :	Sales		7,000
	Other income (dividend)		100
			7,100
Expenses :	Production and operational charges (Note 1)	4,490	
	Adminsitrative expenses (Note 2)	210	
	Finance and other cost (Note 3)	780	
	Depreciation	20	5,500
Profit before tax			1,600
Provision for tax			100
Profit after tax			1,500

Balance of profit brought forward from last balance sheet		*200*
		1,700
Transferred to general reserve	*800*	
Dividend paid	*400*	*1,200*
Surplus carried to balance sheet		*500*

Notes : *₹('000)*

1. *Production and operational charges consists of :*

Raw materials consumed	*2,700*
Local taxes	*190*
Salaries and wages	*1,200*
Other production expenses	*400*
	4,490

2. *Administration charges include salaries to directors* *10*
3. *Finance and other cost include :*

(a) Interest :	*on bank overdraft (temporary nature)*	*130*
	on fixed loan	*80*
	on working capital loan	*40*

(b) Excise duties amount to 10% of the total value added by manufacturing and trading activities. *(7 marks)*

Answer 4(a)

Particulars	*Total (100%)*	*Holding (75%)*	*Minority Interest (25%)*
Share Capital	30,000		
General Reserve	9,000		
Revaluation Profit on Fixed Assets	3,000		
Intrinsic Value of Shares	42,000	31,500	10,500
Less : Cost of Shares		22,500	
Capital Reserve		9,000	
Post Acquisition Profit	18,000	13,500	4,500

Consolidated Profit & loss

Balance of profit and Loss account	60,000
+ Post Acquisition Profits	13,500
- Revaluation loss on Fixed Assets (M Ltd.)	10,000
	63,500

Fixed Assets:

M Ltd.: (1,20,000-10,000 Revenue Loss)	1,10,000
D Ltd. : (18,000 + 3,000 Revenue Profit)	21,000
	1,31,000

Consolidated Balance Sheet

	Particulars	Amount ₹
I.	**Equity & Liabilities**	
	Shareholders' Fund	
	(a) Share Capital	1,50,000
	(b) Reserves & Surplus	
	General Reserves	15,000
	Profit & Loss Account	63,500
	Capital Reserve	9,000
	Non-Current Liabilities : Minority interest	15,000
	Current Liabilities	
	Creditors	34,000
	Bills payable	14,100
	Total	3,00,600
II.	**Assets**	
	Non-Current Assets	1,31,000
	Fixed Assets	
	Current Assets	
	Debtors	45,000
	Stock	1,05,000
	Bills Receivables	19,100
	Total	3,00,600

Note:

(1) If one company has issued bill to the other company, the amount of the bills still in the hands of receiving company is treated as mutual bills and deducted accordingly. Inter company owning means the amount owned by one company to other company.

(2) The fixed assets of D ltd. are under valued by ₹3,000. It means the value given with balance sheet is lower than the actual value by ₹3,000 will be added to the book value and so there is a profit on revaluation. The point is reversed in case of M. Ltd. and so there is loss ₹10,000 on revaluation.

(3) B/P =10,000+8,500-(6,000+5,000) 40% = 14,100,

B/R = 11,500+12,000-(6,000+5000) 40% =19,100

Answer 4(b)

Value Added Statement
For the year ended 31st March 2018

Particulars		*₹ ('000)*	*₹ ('000)*
Sales			7,000
Less: Cost of bought in materials and services :		3,100	
Production and operational charges (4490-190-1200)		200	
Admn. Expenses (210-10)			
Finance & other Cost:			
Interest on Bank overdraft	130		
Interest on working capital loan	40		
Excise duty (10% of 3000)	300		
Other Charges (Balancing figures)	230	700	4,000
Value added by manufacturing and trading activities :			3,000
Add : Other incomes (Dividend)			100
Total Gross Value Added			**3,100**

Application of Value Added		*₹ ('000)*	*%*
Employees: Salaries to Admin staff		1200	
Directors: Salaries & Commission		10	38.71
Government : Local Tax	190		0.32
Income Tax	100	290	
Providers of capital: Interest on Fixed Loan	80		9.35
Dividend	400	480	
Business: Depreciation	20		15.49
General Reserve	800		
Retained Profit (500-200)	300	1120	36.13
		3,100	100

Reconciliation Statement

Particulars		*Amount* ₹ *('000)*
Profit before tax		1,600
Add back :	Depreciation	20
	Salaries etc.	1,200
	Director's Remuneration	10
	Interest on Fixed Loan	80
	Local Tax	190
	Total	**3,100**

Note : Total finance and other cost :780-80 (Interest on fixed loan) = 700

PART II

Question 5

(a) The Costs of an article at a capacity level of 5,000 units is given under 'A' below. For a variation of 25% in capacity the individual expenses vary as indicated under 'B' below :

Item	*A (₹)*	*B*
Materials	*1,00,000*	*100% varying*
Wages	*60,000*	*100% varying*
Works overhead :		
Power	*5,000*	*80% varying*
Repairs	*8,000*	*75% varying*
Stores	*4,000*	*100% varying*
Inspection	*2,000*	*20% varying*
Depreciation	*40,000*	*100% fixed*
Administrative overhead	*20,000*	*25% varying*
Selling overhead	*12,000*	*50% varying*

Find the total cost and total cost per unit at the production levels of 4,000 units and 6,000 units. *(5 marks)*

(b) *The following is the information of Govind Trading Co. Ltd. :*

Estimated annual sales	*₹20,00,000*
Ratios—	
Sales to shareholders' fund	*2.5 times*
Current debts (liabilities) to shareholders' fund	*1 : 4*
Current ratio	*3.6 times*
Ratio of net sales to inventory	*4 times*
Average collection period (taking 360 days in a year)	*36 days*

You are required to calculate :

(i) Net worth or Shareholders' fund

(ii) Current liabilities

(iii) Current assets

(iv) Inventory

(v) Debtors. *(5 marks)*

(c) *What do you mean by Cost Sheet ? State its advantages.* *(5 marks)*

(d) *Discuss the social objectives (purposes) of Cost Audit.* *(5 marks)*

Answer 5(a)

Particulars	*Level of activity (units)*		
	4000	*5000*	*6000*
Variable Cost:	₹	₹	₹
Material@ ₹20 per unit (1,00,000/5,000)	80,000	1,00,000	1,20,000
Labour @ ₹12 per unit (60,000/5,000)	48,000	60,000	72,000
Power @ ₹0.8 per unit (5,000*80 = 4000/5000)	3,200	4,000	4,800
Repairs @ ₹1.20 per unit (8,000*75% = 6,000/5000)	4,800	6,000	7,200
Stores @ ₹0.80 per unit (4,000/5,000)	3,200	4,000	4,800
Supervision @ ₹0.08 per unit	320	400	4,80
(2,000*20%= 4,000/5,000)			
Overhead: Administrative @ ₹1 per unit	4,000	5,000	6,000
(20,000*25% = 5,000/5000)			
Selling @ ₹1.20 per unit	4,800	6,000	7,200
(12000*50% = 6,000/5,000)			
(A)	1,48,320	1,85,400	2,22,480

Fixed Cost :			
Power	1,000	1,000	1,000
Repairs	2,000	2,000	2,000
Inspection	1,600	1,600	1,600
Depreciation	40,000	40,000	40,000
Overhead : Administrative	15,000	15,000	15,000
Selling	6,000	6,000	6,000
(B)	**65,600**	**65,600**	**65,600**
Total Cost (C=A+B)	**2,13,920**	**2,51,000**	**2,88,080**
Total Cost per unit (C / Output)	**53.48**	**50.20**	**48.01**

Answer 5(b)

(i) Net Worth or Shareholders' Fund = 8,00,000

(ii) Current Liabilities = 2,00,000

(iii) Current Assets = 7,20,000

(iv) Inventory = 5,00,000

(v) Debtors = 2,00,000

Working Notes:

(i) Sales to Net Worth $= \dfrac{\text{Sales}}{\text{Net Worth}}$

$$2.5 = \frac{20,00,000}{\text{Net Worth}}$$

$$\text{Net Worth} = \frac{20,00,000}{2.5}$$

$$\text{Net Worth} = 8,00,000$$

(ii) Current Liabilities (Debt) = 1:4 or 25% of Net Worth

$$= \frac{8,00,000 * 25}{100}$$

$$= 2,00,000$$

(iii) Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

$$3.6.1 = \frac{\text{Current Assets}}{2,00,000}$$

$$2,00,000*3.6 = \text{Current Assets}$$

$$\text{Current Assets} = 7,20,000$$

(iv) Net Sales to Inventory $= \dfrac{\text{Net Sales}}{\text{Inventory}}$

$$4 = \frac{20,00,000}{\text{Inventory}}$$

$$\text{Inventory} = \frac{20,00,000}{4}$$

$$\text{Inventory} = 5,00,000$$

(v) Average Collection Period $= \dfrac{\text{Debtors} * 360}{\text{Sales}}$

$$36 = \frac{\text{Debtors} * 360}{20,00,000}$$

$$\text{Debtors} = 2,00,000$$

Answer 5(c)

Cost Sheet is statement designed to show the output of a particular accounting period along with break-up of costs. The data incorporated in cost sheet are collected from various statements of accounts which have been written in cost accounts, either day to day or in regular records.

There is no fixed form for the preparation of cost sheet, but in order to make the cost sheet more useful, it is generally presented in columns form.

Advantages of the cost sheet

(i) It discloses the total cost & the cost per unit of the units produced during a given period.

(ii) It enables a manufacturer to keep a close watch & control over the cost of production.

(iii) By providing a comparative study of the various elements of current cost with the past results & standard costs, it is possible to find out the causes of variations in costs & to eliminate the adverse factors & conditions which increase the total cost.

(iv) It acts as a guide to the manufacturer & helps him in formulating a definite useful production policy.

(v) It helps in fixing up the selling price more accurately.

(vi) It helps businessmen to minimize the cost of production when there is a cut throat competition.

(vii) It helps businessmen to submit quotations with reasonable degree of accuracy against tenders for the supply of goods.

Answer 5(d)

Social Objectives or purpose of Cost Audit are as follows:

1. Facilitate in fixation of reasonable prices of goods and services produced by the enterprise.
2. Improvement in productivity of human, physical and financial resources of the enterprise.
3. Channelize enterprise resources to most optimum, productive and profitable areas.
4. Availability of audited cost data as regards contracts containing escalation clauses.
5. Facilitate in settlement of bills in the case of cost-plus contracts entered into by the Government.
6. Pinpointing areas of inefficiency and mismanagement, if any for the benefit of shareholders, consumers, etc., such that necessary corrective action could be taken in time.

(Attempt all parts of either Q. No. 6 or Q. No. 6A)

Question 6

(a) The following data are related to a small manufacturing Co. :

Fixed cost	*₹1,60,000*
Variable cost	*60% of sales*

Calculate :

(1) P/V Ratio

(2) Break-even Point (B.E.P.)

(3) Sales required to earn a profit of ₹20,000

(4) Profit at an estimated sales of ₹4,40,000

(5) Margin of Safety when sales are ₹8,00,000. *(5 marks)*

(b) The following information provided by Akul Ltd. for the year ended 31st March, 2018 :

(i)	*Share Capital :*	
	4,00,000, 9% Preference Shares of ₹100 each	*₹4,00,00,000*
	80,00,000, Equity Shares of ₹10 each	*₹8,00,00,000*
(ii)	*90,000, 8% Debentures of ₹100 each*	*₹90,00,000*
(iii)	*Profit before interest and tax*	*₹2,87,20,000*
(iv)	*Corporate tax rate*	*30%*
(v)	*Dividend payout ratio*	*80%*
(vi)	*Price-Earning (P/E) ratio*	*15*

You are required to find out :

(1) Earnings per equity share

(2) Dividend per equity share

(3) Market price per equity share

(4) Earning yield on equity shares

(5) Dividend yield on equity shares *(5 marks)*

(c) The balance sheet of Prateek Ltd. disclosed the following position as on 31st March, 2018 :

Particulars	Amount (₹)
I. EQUITY AND LIABILITIES	
1. Shareholders' fund	
(a) Equity Share Capital	
5,000 Shares of ₹100 each fully paid up	5,00,000
5,000 Shares of ₹100 each ₹60 paid up	3,00,000
5,000 Shares of ₹100 each ₹40 paid up	2,00,000
(b) Reserves and Surplus	
General Reserve	6,50,000
2. Current Liabilities	
Creditors	10,00,000
TOTAL	26,50,000
II. ASSETS	
1. Non-current Assets	
Fixed Assets	
Land & Buildings	14,00,000
Goodwill	50,000
2. Current Assets	12,00,000
TOTAL	26,50,000

Compute the value per share of each category of equities by the 'Net Assets Method'. Goodwill is valueless. *(5 marks)*

(d) What do you understand by 'Management Reporting' ? What is its need in a company ? *(5 marks)*

OR (Alternate question to Q. No. 6)

Question 6A

(i) *B Ltd. agreed to purchase the business of a sole trader. For this purpose, goodwill is to be valued at three years' purchase of the weighted average of previous 4 years' adjusted profits.*

The appropriate weights to be used are—First year-1, second year-2, third year-3, fourth year-4.

The profits for the last 4 years were as follows :

First year : ₹20,400; Second year : ₹24,000; Third year : ₹26,200,

Fourth year : ₹30,180.

The following additional information is also available :

(1) In the third year, on 1st December a major repair expenditure to plant and machinery for ₹6,000 was charged to Profit & Loss A/c. This was agreed to be capitalized for goodwill subject to 10% p.a. depreciation on diminishing balance method.

(2) The closing stock for the second year was over-valued by ₹1,400.

(3) In order to cover cost of management, an annual charge of ₹5,000 should be made for valuation of goodwill.

Compute the value of goodwill. Accounting year ending is 31st March. *(5 marks)*

(ii) *Rank the following three proposals on the basis of net present value index method :*

	A	*B*	*C*
Cost of Proposal (₹)	*2,00,000*	*2,40,000*	*5,00,000*
Working Life	*5 years*	*6 years*	*10 years*
Scrap value (₹)	*20,000*	*40,000*	*80,000*
Annual cash inflow (₹)	*50,000*	*80,000*	*1,00,000*

The present values of the annuity of ₹1 for 5, 6 and 10 years at 10% discount rate are ₹3.791, ₹4.335 and ₹6.145 respectively. Similarly the present values of ₹1 to be received at the end of fifth, sixth and tenth year at 10% discount rate are ₹.621, ₹.564 and ₹.386 respectively. *(5 marks)*

(iii) *Explain the advantages of Economic Value Added (EVA) Analysis in the corporate world.* *(5 marks)*

(iv) *Explain briefly Share Based Payment Transaction and Arrangement with suitable examples of SBP Arrangement.* *(5 marks)*

Answer 6(a)

(1) P/V Ratio = 1- Variable Cost Ratio

= 1-60% = 40%

(2) Break Even Point = $\frac{\text{Fixed Cost}}{\text{P/V Ratio}}$ $\frac{1,60,000 * 100}{40}$ = ₹4,00,000

(3) Sales required to earn a profit of ₹20,000

Sales = $\frac{\text{Fixed Cost} + \text{Desired Profit}}{\text{P/V Ratio}} = \frac{1,60,000 + 20,000}{40}$ = ₹4,50,000

(4) Profit at an estimated sales of ₹4,40,000

Profit = Sales * P/V Ratio- Fixed Cost

= (4,40,000*40/100)-1,60,000 = 1,76,000 -1,60,000

= ₹16,000

(5) Margin of Safety when sales are 8,00,000

Sales – B.E.P.= 8,00,000 - 4,00,000 = ₹4,00,000

Answer 6(b)

(1) EPS = $\frac{\text{Profit available for Equity Shareholders}}{\text{No. of Equity Shares}}$

= $\frac{1,60,00,000}{80,00,000}$

= ₹ 2 per share

(2) Dividend per Equity Share = EPS * Dividend payout Ratio

= 2*80%

= ₹ 1.60 per share

(3) Market Price per Equity Share = P/E Ratio*EPS

= 15*2

= ₹ 30 per share

(4) Earning Yield = $\frac{\text{EPS} * 100}{\text{MPS}} = \frac{2 * 100}{30}$ = 6.67%

(5) Dividend Yield = $\frac{\text{DPS}}{\text{MPS}} = \frac{1.60 * 100}{30}$ = 5.33%

Working Notes:

	Amount (₹)
Profit before interest & Tax (PBIT)	2,87,20,000
Less : Debenture Interest (8% on 90,00,000)	7,20,000
Profit Before Tax	**2,80,00,000**
Less : Tax @ 30%	84,00,000
Profit After Tax	**1,96,00,00**
Less : Preference Dividend (9% on 4,00,00,000)	36,00,000
Profit available for Equity Shareholders	1,60,00,000

Answer 6(c)

Calculations of Net Assets

Land & Buildings	14,00,000
Add :Current Assets	12,00,000
	26,00,000
Less : Creditor	10,00,000
Value of Net Assets	**16,00,000**

Paid up Value of total equity shares of A, B & C Category is 5,00,000, 3,00,000 & 2,00,000 respectively . Ratio 5:3:2 . The net assets of ₹ 16,00,000 will be apportioned in 5:3:2.

Therefore Portion of A Category Equity Shares	=	16,00,000*5/10	=	₹8,00,000
Per Share value of A Category equity shares	**=**	**8,00,000/5000**	**=**	**₹160**
Therefore Portion of B Category Equity Shares	=	16,00,000*3/10	=	₹4,80,000
Per Share value of B Category equity shares	**=**	**4,80,000/5000**	**=**	**₹96**
Therefore Portion of C Category Equity Shares	=	16,00,000*2/10	=	₹3, 20,000
Per Share value of C Category equity shares	**=**	**3,20,000/5000**	**=**	**₹64**

Answer 6(d)

Management Reporting System is imprecise or inadequate, and facts to take into account the actuality of the real-life situation, the de facto points of decision-making, and the recipient personnel, the monitoring system becomes open ended and ineffective. Designers of the reporting system must, therefore, take into account the impact on it of such constraints.

Need of Management Reporting

(i) Selecting appropriately and correctly using the right system to develop and deliver reports.

(ii) Manipulating data in order to display the best metrics to make better business decisions and understand the company's current position.

(iii) Implementing an inefficient accounting close process that does not allow for timely report delivery to stakeholders.

(iv) Ensuring the integrity of the data.

(v) Adopting management reporting processes at the incorrect stakeholder levels throughout the organization.

Answer 6A(i)

Year	*Particulars*		*Amount (₹)*	*Adjusted (₹)*
First	Net Profit		20,400	
	Less : Cost of Management		5,000	15,400
Second	Net Profit		24,000	
	Less : Cost of Management	5,000		
	Overvaluation of Closing Stock	1,400	6,400	17,600
Third	Net Profit		26,200	
	Add : Overvaluation of Closing Stock	1,400		
	Major Repair Expenses	6,000	7,400	
			33,600	
	Less : Dep. (4 Months) on ₹6,000	200		
	Cost of Management	5,000	5,200	28,400
Forth	Net Profit		30,180	
	Less : Cost of Management	5,000		
	Dep. 10% on (6,000-200)	580	5,580	24,600

Year	*Adjusted Profits (a)*	*Weight (b)*	*Weighted adjusted profits (a*b)*
1	15400	1	15,400
2	17600	2	35,200
3	28400	3	85,200
4	24600	4	98,400
		10	2,34,200

Weighted Average profits = 2,34,200/10= 23,420

Goodwill = 23,420 * 3 = 70,260

Answer 6A(ii)

Particulars	*A*	*B*	*C*
Present Value of Cash inflows (50000*3.791); (80000*4.335); (100000*6.145)	1,89,550	3,46,800	6,14,500
Add : Present value of scrap value 30,880 (20000*.621); (40000*.564); (80000*.386)	12,420		22,560
(a)	**2,01,970**	**3,69,360**	**6,45,380**
Less : Cost of project (Cash outflow) **(b)**	2,00,000	2,40,000	5,00,000
Net Present Value (c) = (a-b)	1,970	1,29,360	1,45,380
Net present value index (c/b*100)	0.985%	53.9%	9.076%
Ranking	III	I	II

Answer 6A(iii)

Advantages of Economic Value Added (EVA) Analysis

(i) Company can decide to pay bonus to the employees on the basis of EVA generated. Since a higher EVA implies a higher bonus to employees, it promotes the employees for working hard for generating higher revenues.

(ii) Using EVA, company can evaluate the projects independently and hence decide on whether to execute the project or not.

(iii) It helps the company in monitoring the problematic areas and hence taking corrective actions to resolve those problems.

(iv) Unlike accounting profit, such as EBIT, Net Income and EPS, EVA is based on the idea that a business must cover both the operating costs as well as the capital costs and hence it presents a better and true picture of the company to the owners, creditors, employees, shareholders and all other interested parties.

(v) It also helps the owners of the company to identify the best person to run the company effectively and efficiently.

Answer 6A(iv)

Share Based Payment (SBP) transaction is a transaction in which the entity:

(a) receives goods or services from the supplier of those goods or services in a SBP arrangement, or

(b) incurs an obligation to settle the transaction with the supplier in a SBP arrangement when another group entity receives those goods or services.

SBP arrangement is an agreement between the entity (or another group entity or any shareholder of any group entity) and another party that entitles the other party to receive;

(a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments of the entity or another group entity, or

(b) equity instruments of the entity or another group entity, provided the specified vesting conditions, if any, are met.

Example of Share-Based Payment (SBP) Arrangements :

- Share ownership plans where employees receive an entity's shares in exchange for their services.
- An external consultant (not an employee) may provide services in return for shares in the entity.

***

SECURITIES LAWS & CAPITAL MARKETS

Time allowed : 3 hours Maximum marks : 100

NOTE : *Answer **ALL** Questions.*

PART I

Question 1

(a) *A mutual fund has a NAV of ₹11.50 at the beginning of the year. At the end of the year NAV increases to ₹12.10. Meanwhile the fund distributes ₹0.80 as dividend and ₹0.70 as capital gains.*

(i) *What is the fund's return during the year ?*

(ii) *Had these distributions been re-invested at an average NAV of ₹11.80, what is the return for 200 units ?* *(5 marks)*

(b) *"Expense Ratio for a mutual fund should be as low as possible." Explain how increase or decrease in Total Expense Ratio (TER) shall be disclosed by Asset Management Company under SEBI (Mutual Funds) Regulations, 1996?* *(5 marks)*

(c) *Explain the Stock Appreciation Rights Scheme (SARS).* *(5 marks)*

(d) *Answer the following with reference to the Companies (Share Capital and Debentures) Rules, 2014, as to whether these are the eligible employees under Employee Stock Option ?* *(Yes/No with reasons)*

(i) *Ankit is a permanent employee deputed in USA for a specific project.*

(ii) *Smart Ltd. is an independent company.*

(iii) *Anil is a promoter and employee.*

(iv) *Aneesh is a director holding 11% of outstanding equity shares of the company.*

(v) *If it is a startup company, will the situation be the same in (iii) & (iv) above?* *(5 marks)*

Answer 1(a)

(i) Return for the year (all changes on a per unit basis)

Change in price (₹12.10 - ₹11.50)= ₹0.60

Dividends Received ₹0.80

Capital gains distributions ₹0.70

Total return = ₹2.10

Holding period return = ₹2.10/₹11.50 = ₹18.26

(ii) When all dividends and capital gains distributions are reinvested into additional units of the fund (₹11.80/unit) :

Dividends and capital gains per unit: ₹0.80 + ₹0.70 = ₹1.50

Total received from 200 units: ₹1.50 x 200 = ₹300.00

Additional units acquired: ₹300/ ₹11.80 = 25.42 units

Value of 225.42 units held at theend of year = 225.42 units x ₹12.10 = ₹2727.

Price paid for 200 units at beginning of year 200 units x ₹11.50 = ₹2,300

The holding period return would be = (₹2727.58 - ₹2300)/₹2300 = ₹18.59

Answer 1(b)

The expense ratio is calculated as a percentage of the Scheme's average Net Asset Value (NAV). The daily NAV of a mutual fund is disclosed after deducting the expenses. Thus, the Total Expense Ratio (TER) has a direct bearing on a scheme's NAV- the lower the expense ratio of a scheme, the higher the NAV.

According to the SEBI Circular No. SEBI/ HO/IMD/DF2/CIR/P/2018/91 dated June 05, 2018, the Asset Management Companies (AMCs) shall predominantly disclose on a daily basis, the TER (Scheme-wise, date-wise) of all schemes under a separate head – "Total Expense Ratio of Mutual Fund Schemes" on their website and on the website of Association of Mutual Funds of India (AMFI).

Any change in the base TER (i.e. TER excluding additional expenses provided in SEBI (Mutual Funds) Regulations, 1996 and Goods and Services Tax on investment and advisory fees) in comparison to previous base TER charged to any scheme/plan shall be communicated to investors of the scheme/plan through notice via email or SMS at least three working days prior to effecting such change. Further, the notice of change in base TER shall be updated in the aforesaid section of website at least three working days prior to effecting such change. However, any decrease in TER in a mutual fund scheme due to various regulatory requirements, would not require issuance of any prior notice to the investors.

Answer 1(c)

According to SEBI (Share Based Employee Benefits) ("SBEB") Regulations, 2014, "Stock Appreciation Right Scheme" means a scheme under which a company grants Share Appreciation Right (SAR) to employees.

SAR Scheme under SEBI (SBEB) Regulations, 2014

(i) *Administration and Implementation*

The SAR scheme shall contain the details of the manner in which the scheme will be implemented and operated. The company shall have the freedom to implement cash settled or equity settled SAR scheme. However, in case of equity settled SAR scheme, if the settlement results in fractional shares, then the consideration for fractional shares should be settled in cash. SAR shall not be offered unless the disclosures, as specified by SEBI in this regard, are made by the company to the prospective SAR grantees.

(ii) *Vesting*

There shall be a minimum vesting period of one year in case of SAR scheme. However, in a case where SAR is granted by a company under a SAR scheme in lieu of SAR held by the same person under a SAR scheme in another company which has merged or amalgamated with the first mentioned company, the period during which the SAR granted by the transferor company were held by the employee shall be adjusted against the minimum vesting period.

(iii) *Rights of the SAR Holder*

The employee shall not have right to receive dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of SAR granted to him.

Answer 1(d)

Rule 12 of Companies (Share Capital and Debentures) Rules 2014, define the eligible employees for the purpose of employee stock option. The answers given below are based on the eligibility criteria set out in the rule:

(i) Yes. As per Rule 12 (1) (a), a permanent employee of the company who has been working in India or outside India. Hence, ankit is an eligible employee for ESOP.

(ii) No. Since Smart Ltd. is a company, the Companies Act, 2013 and rules made there under does not recognise a company as an employee.

(iii) No. As per Rule 12 (1) (i), an employee who is a promoter or a person belonging to the promoter group is not an employee. Hence, Anil is not an eligible employee for ESOP.

(iv) No. As per Rule 12 (1) (ii), a director who either himself or through his relative or through anybody corporate, directly or indirectly, holds more than ten percent of the outstanding equity shares of the company, is not eligible employee. Hence, Aneesh is not an eligible employee for this purpose.

(v) Yes, Anil and Aneesh are eligible employees for both the situation in (iii) & (IV) above. As per notification number GSR 180(E) dated 17th February, 2016 issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry Government of India, Government of India, the conditions mentioned in (iii) & (iv) above, shall not apply for a startup company upto five years from the date of its incorporation or registration.

Attempt all parts of either Q. No. 2 or Q. No. 2A

Question 2

(a) What are the provisions for continuous listing requirement under Securities Contracts (Regulation) Rules, 1957 ? List any six methods for achieving minimum public shareholding by a listed company. (4 marks)

(b) Girdhar (Retail Individual Investor) had applied for Initial Public Offer of Six Sigma Ltd. through Applications Supported By Block Amount (ASBA) process. The Self Certified Syndicate Banks (SCSBs) failed to make bids in the Stock

Exchange system even after the amount has been blocked. The issue was oversubscribed. Based on the SEBI guidelines/circulars, answer the following :

(i) What are the factors that have been taken into account by SEBI for finalization of uniform policy for calculation of the minimum fair compensation?

(ii) Calculate the minimum fair compensation payable to Girdhar based on the following information : Listing Price : ₹350, Issue Price : ₹300, Minimum Bid lot-20 shares, probability of allotment of shares on the basis of allotment (ratio 7 : 8). *(4 marks)*

(c) For ensuring independence in the spirit of Independent Directors and their active participation in functioning of the company, SEBI has accepted many recommendations of Committee setup under the Chairmanship of Shri Uday Kotak and made amendments in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Explain any four amended provisions related to Independent Directors. *(4 marks)*

(d) Bombay Stock Exchange Ltd. had suspended trading in shares of XYZ Ltd. for violating conditions of listing agreement. The company has now complied with the listing regulations requirements. By referring to SEBI circular/regulations, discuss the criteria for suspension of the trading in the shares of the listed entities. *(4 marks)*

(e) Explain the following :

(i) Dematerialization

(ii) Fungibility. *(4 marks)*

OR (Alternative question to Q. No. 2)

Question 2A

(i) Hon'ble Justice A, a retired Chief Justice of a High Court, attained the age 62 years on December 31, 2017. The Central Government had appointed him as the Presiding Officer of the Securities Appellate Tribunal (SAT) with effect from January 1, 2018. You are required to state with reference to SEBI Act, 1992, (a) the term for which he may be appointed as Presiding Officer of the SAT (b) Whether he can be re-appointed as such and remains as Presiding Officer of the Securities Appellate Tribunal ? *(4 marks)*

(ii) The equity share of Ashina Buildcon Ltd., was listed on National Stock Exchange Ltd. (NSE). NSE delisted its shares by complying SEBI guidelines on delisting. The order of delisting was passed on March 05, 2017. Kunj, one of the shareholder has not participated in the bidding process due to ill health, He wanted to tender shares on January 01, 2018. Analyze the problem in the light of the SEBI (Delisting of Equity Shares) Regulations, 2009. *(4 marks)*

(iii) Define "Dissenting shareholders". What are the conditions for applicability of Exit offers by dissenting shareholders according to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ? *(4 marks)*

(iv) You are the Company Secretary of Sunglow Ltd., which being listed on the Stock Exchange after an IPO is made by the company. The Managing Director

desires to know about quarterly compliance requirements under listing agreement. Prepare a list of quarterly compliances as per the listing regulations. (4 marks)

(v) What is Trading Plan under SEBI (Prohibition of Insider Trading) Regulations, 2015 ? State the requirements to be complied with in this regard. (4 marks)

Answer 2(a)

The continuous listing requirment has been prescribed under Rule 19A(1) of the Securities Contracts (Regulation) Rules ("SCRR"), 1957, which stipulates that every listed company other than public sector company shall maintain public shareholding of at least 25%. However, any listed company which has public shareholding below 25%, shall increase its public shareholding to at least twenty five per cent, within a period of four years from the date of commencement of amendment to the said rules in 2014, in the manner specified by SEBI.

SEBI has vide its Circular dated November 30, 2015 and February 22, 2018 has prescribed the various methods that may be used by a listed entity to achieve compliance with the minimum public shareholding requirements mandated under rules 19(2) (b) and 19A of the SCRR read with regulation 38 of the SEBI Listing Regulations, 2015. The following are the various methods :

(i) Issuance of shares to public through prospectus;

(ii) Offer for sale of shares held by promoters to public through prospectus;

(iii) Sale of shares held by promoters through the secondary market in terms of SEBI circular CIR/MRD/DP/05/2012 dated February 1, 2012;

(iv) Institutional Placement Programme (IPP) in terms of Chapter VIIIA of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009;

(v) Rights Issue to public shareholders, with promoter/promoter group shareholders forgoing their entitlement to equity shares that may arise from such issue;

(vi) Bonus Issues to public shareholders, with promoter/promoter group shareholders forgoing their entitlement to equity shares that may arise from such issue;

(vii) Sale of shares held by the promoters/promoter group up to 2% of the total paid-up equity share capital of the listed entity in the open market, subject to the conditions specified.

(viii) Allotment of eligible securities through Qualified Institutions Placement in terms of Chapter VIII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009

Answer 2(b)

(i) According to SEBI Circular no. SEBI/HO/CFD/DIL2/CIR/P/2018/22 dated February 15, 2018, the following factors have been taken into account while finalization of uniform policy for calculation of minimum compensation payable to investors:

(a) the opportunity loss suffered by the investor due to non-allotment of shares;

(b) the number of times the issue was oversubscribed in the relevant category;

(c) the probability of allotment; and

(d) the listing gains if any on the day of listing.

(ii) Calculation of minimum fair compensation is as follows:

Compensation =	(Listing Price - Issue Price)	X	No. of Shares that would have been allotted if bid was successful	X	Probability of allotment of shares determined on the basis of allotment

*Listing price shall be taken as the highest of the opening prices on the day of listing across the recognized Stock Exchanges.

Compensation amount = (₹350 - ₹300) x 20 shares x (7/8)

= ₹50 x 20 x (7/8)

Compensation amount = ₹875

Answer 2(c)

Based on the recommendations of Kotak Committee, the amendments made in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with respect to Independent Directors are as follows:

i. The Board of Directors of the top 500 listed entities shall have at least one independent woman director by April 1, 2019 and the Board of Directors of the top 1000 listed entities shall have at least one independent woman Director By April 1, 2020.

ii. The quorum for every meeting of the Board of Directors of the top 1000 listed entities with effect from April 1, 2019 and the top 2000 listed entities with effect from April 1, 2020 shall be one-third of its total strength or three Directors, whichever is higher, including at least one independent director.

iii. A person shall not serve as an independent director in more than seven listed entities. However, any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities.

iv. The evaluation of independent director shall be done by the entire Board of Directors which shall include:-

(a) performance of the director; and

(b) fulfilment of the Independence criteria as specified in SEBI Listing Regulations and their Independence from the management.

However in the above evaluation, directors who are subject to evaluations shall not participate.

v. The quorum for a meeting of the nomination and remuneration committee shall be either two members or one-third of the members of the committee whichever is greater, including at least one independent director in attendance.

vi. At least one independent director on the Board of Directors of the listed entities shall be a director on the Board of Directors of an unlisted material subsidiary, whether incorporated in India or not.

vii. No person shall be appointed or continue as an alternate director for an independent director of a listed entity with effect from October 1, 2018.

viii. Detailed reasons for the resignation of an independent director who resigns before the expiry of his tenure along with a confirmation by such director that there are no other material reasons other than those provided.

ix. At least one independent director on the Board of Directors of the listed entity shall be a director on the Board of Directors of an unlisted material subsidiary, whether incorporated in India or not.

x. Every independent director shall, at the first meeting of the Board in which he participates as a director and thereafter at the first meeting of the board in every financial year or whenever there is any change in the circumstances which may affect his status as an independent director, submit a declaration that he meets the criteria of independence as provided in clause (b) of sub-regulation (1) of regulation 16 of SEBI Listing Regulations and that he is not aware of any circumstance or situation, which exist or may be reasonably anticipated, that could impair or impact his ability to discharge his duties with an objective independent judgment and without any external influence.

(Students may write any four amendments)

Answer 2(d)

SEBI vide its Circular dated May 3, 2018, prescribed the criteria for suspension of the trading in the shares of the listed entities which are as follows:

Failure to comply with respect to:

(i) board composition including appointment of woman director for two consecutive quarters;

(ii) constitution of audit committee for two consecutive quarters;

(iii) submission of corporate governance compliance report for two consecutive quarters;

(iv) submission of the shareholding pattern for two consecutive quarters;

(v) submission of financial result for two consecutive quarters;

(vi) submission of Annual Report for two consecutive financial years;

(vii) submit information on the reconciliation of shares and capital audit report, for consecutive quarters;

(viii) receipt of the notice of suspension of trading of that entity by any other recognised stock exchange or any or all of the above grounds.

Answer 2(e)

(i) Dematerialization

Dematerialization is a process by which the physical share certificates of an investor are taken back by the Company and an equivalent number of securities are credited to his account in electronic form at the request of the investors.

Dematerialization of shares is optional and an investor can still hold shares in physical form. However, he/she has to demat the shares if he/she wishes to sell the same through the Stock Exchanges.

(ii) Fungibility

Section 9 of the Depositories Act, 1996 states that securities in depositories shall be in fungible form. The act envisages that all securities held in depository shall be fungible i.e. all certificates of the same security shall become interchangeable in the sense that investor loses the right to obtain the exact certificate which is surrendered at the time of entry into depository. It is like withdrawing money from the bank without bothering about the distinctive numbers of the currencies.

Answer 2A(i)

According to Section 15N of SEBI Act, 1992, the Presiding Officer or every Judicial or Technical Member of the Securities Appellate Tribunal shall hold office for a term of five years from the date on which he enters upon his office, and shall be eligible for reappointment for another term of maximum 5 years. However, no Presiding Officer or the Judicial or Technical Member shall hold office after he has attained the age of seventy years.

In the given case, Hon'ble Justice A has already attained age of 62 years at the time of first appointment as Presiding Officer of SAT, hence he can be appointed for first five years. He can be also re-appointed further but only for 3 years, as after further 3 years he will attain the age of 70 years.

Answer 2A(ii)

According to the provisions of regulation 21 of the SEBI (Delisting of Equity Shares) Regulations, 2009, where pursuant to acceptance of equity shares tendered in term of SEBI delisting regulations, equity shares are delisted, any remaining public shareholder holding such equity shares may tender his shares to the promoter up to a period of minimum one year from the date of delisting and, in such a case:

(a) The promoter shall accept the shares tendered at the same final price at which the earlier acceptance of shares was made.

(b) The payment of consideration for share accepted as above shall be made out of the balance amount lying in the escrow account.

(c) The amount in the escrow account or the bank guarantee shall not be released to the promoter unless all payments are made in respect of share tendered as above.

In the instant case of the shares of Ashina Buildcon Ltd. which was delisted by NSE on March 05, 2017 where Kunj is one of the shareholders, wanted to tender equity shares on January 01, 2018. So as per the above mentioned provisions, remaining shareholders can tender their share up to a period of minimum one year from the date of delisting. Therefore, Kunj can tender his share on January 01, 2018.

Answer 2A(iii)

According to regulation 69B of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, “dissenting shareholders” means those shareholders who have voted against the resolution for change in objects or variations in terms of a contract, referred to in the prospectus of the issuer

Conditions for applicability of Exit Offers:

The provisions of exit offers by dissenting shareholders shall be applicable only if the following conditions are fulfilled:

(a) Exit offer shall be applied on a prospective basis, i.e. the Public Issue has opened after the commencement of April 01, 2014; and

(b) The proposal shall be dissented by at least 10% of the shareholder; and

(c) The amount to be utilized for the objects for which the prospectus was issued is less than 75% of the amount raised (including the amount earmarked for general corporate purposes as disclosed in the offer document).

Answer 2A(iv)

The followings are the quarterly compliances required to be made under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:

Regulation No.	*Particulars*	*Time Limits*
13(3)	The listed entity shall file with the recognised Stock Exchange, a statement giving the number of investor complaints pending at the beginning of the quarter, received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter.	Within 21 days from end of quarter.
27 (2)(a)	The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by SEBI from time to time to the recognised Stock Exchange(s).	Within 15 days from close of the quarter.
31(1)(b)	The listed entity shall submit to the stock exchange a statement showing holding of securities and share holding pattern separately for each class of securities, specified by SEBI.	Within 21 days from the end of each quarter.
32(1)	The listed entity shall submit to the stock exchange a statement of deviation or variation.	Within 21 days from the end of each quarter.
33(3)	The listed entities shall submit quarterly and year-to-date financial results to the stock exchange.	Within 45 days of end of each quarter, other than the last quarter.

Answer 2A(v)

According to Regulation 5 of SEBI (Prohibition of Insider Trading) Regulations, 2015, an insider shall be entitled to formulate a trading plan and present it to the compliance officer for approval and public disclosure pursuant to which trades may be carried out on his behalf in accordance with such plan.

The trading plan shall comply with the following requirements:

(a) Trading can commence only after 6 months from public disclosure of plan.

(b) No trading between 20th trading day prior to closure of financial period and 2nd trading day after disclosure of financial results.

(c) It shall be submitted for a minimum period of 12 months.

(d) No overlapping of plan with the existing plan submitted by Insider.

(e) It shall setup either the value of trades to be effected or the number of securities to be traded along with nature of the trade and the intervals at, or dates on which such trades shall be affected.

(f) The trading plan shall not entail trading in securities for market abuse.

(g) The compliance officer shall review the trading plan to assess whether the plan would have any potential for violation of the PIT regulations and shall be entitled to seek such express undertakings as may be necessary to enable such assessment.

(h) Compliance Officer to approve and monitor the implementation of the plan.

(i) The trading plan once approved shall be irrevocable and the insider shall mandatorily have to implement the plan, without being entitled to either deviate from it or to execute any trades in the securities outside the scope of the trading plan.

(Except in few cases like where insider is in possession of price sensitive information at the time of formulation of the plan and such information has not become generally available at the time of the commencement of implementation).

(j) Upon approval of the trading plan, Compliance Officer shall notify the plan to the stock exchanges on which the securities are listed.

Question 3

(a) Technopoly Ltd., an unlisted public company, having a paid up equity share capital of ₹3.00 crore consisting of 30,00,000 equity shares of ₹10 each fully paid up, proposes to reduce the denomination of equity shares to less than ₹10 per share and make the initial public offer of equity shares at a premium. Whether it is possible for the company to issue shares at a denomination of less than ₹10 ? Based on the above facts, you are required to state the minimum issue price, with reference to the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. (5 marks)

(b) MCS Ltd. is a listed company with Bombay Stock Exchange Ltd. The Company

enters into related party transactions frequently with MAP Ltd. in which one of director of MCS Ltd. holds 3% paid up capital of MAP Ltd. MCS Ltd. feels that getting the approval of Audit Committee for each transaction is time-consuming and delaying the operational plan. You, being a Company Secretary of MCS Ltd., advise the management with reference to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for approval of the related party transactions from the Audit Committee for next one year. Will your answer be different if MAP Ltd. is wholly owned subsidiary of MCS Ltd. ? (5 marks)

(c) Startups companies have now come up with an Initial Public offer with relaxation of many conditions applicable for Initial Public Offer. In this context, briefly, explain about the "Institutional Trading Platform (ITP)" and eligibility for listing. (5 marks)

Answer 3(a)

Regulation 31 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, provides that an issuer making an initial public offer may determine the face value of the equity share in the following manner:

i. If the issue price per equity share is ₹500 or more, the issuer shall have the option to determine the face value at less than ₹10 per equity share, however, the face value shall not be less than ₹1 per equity share;

ii. If the issue price per equity share is less than ₹500, the face value of equity shares shall be ₹10 per equity share.

However, the above mentioned provisions shall not apply to an initial public offer made by any government company, statutory authority or corporation or any special purpose vehicle set up by any of them, which is engaged in infrastructure sector.

Therefore, the amount of issue price is the determining factor for face value of the equity share.

Further, the amount of premium proposed to be charged by the company will be the determining factor for the face value of shares.

Answer 3(b)

According to Regulation 23 (2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, all related party transactions shall require prior approval of the Audit Committee.

The Audit Committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions:

(i) The audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature;

(ii) The audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;

(iii) The omnibus approval shall specify:

A. the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into;

B. the indicated base price/current contracted price and the formula for variation in the price if any; and

C. such other conditions as the audit committee may deem fit.

However, where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

(iv) The audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approval is given.

(v) Such omnibus approval shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

However, provisions related to the prior approval of audit committee shall not apply, in case the transactions are entered between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval. Therefore, in the case of MAP Ltd. which is a wholly owned subsidiary of MCS Ltd., the approval of audit committee is not required.

Answer 3(c)

SEBI has notified new norms for listing of Small and Medium Enterprises (SMEs) including the startup companies in Institutional Trading Platform (ITP) on stock exchanges without an initial public offering.

As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, "Institutional trading platform" ("ITP") means the trading platform for listing and trading of specified securities of entities that comply with the eligibility criteria specified in regulation 106Y.

On August 14, 2015, SEBI has come up with a notification for insertion of a new chapter, i.e. Chapter XC of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 with a new set of regulations laying down the terms and conditions for entities desirous of listing on ITP.

Eligibility

The following entities shall be eligible for listing on the ITP:

(i) an entity which is intensive in the use of technology, information technology, intellectual property, data Analytics, biotechnology or nanotechnology to provide products, services or business platforms with substantial value addition and at least 25% of its pre-issue capital is held by qualified institutional buyer(s) as on the date of filing of draft information document or draft offer document with the SEBI, the case may be; or

(ii) Any other entity in which at least 50% of the pre-Issue capital is held by qualified institutional buyers as on the date of filing of draft information document or draft offer document with the SEBI, the case may be.

No person, individually or collectively with persons acting in concert, shall hold 25% or more of the post-issue share capital in an entity.

Question 4

(a) Prateek applied in the IPO of Maxgrow Ltd. for 100 Equity Shares. He was not eligible to get any shares according to the allotment schedule and also has not received the refund amount within the time stipulated under the Companies Act, 2013. Prateek approached the Company through written representation on January 10, 2018. The company neither replied nor processed the refund claim. In the light of the SEBI Regulations, answer the following :

(i) How much time should elapse before approaching Ombudsman from the date of written representation ?

(ii) State the grounds and the procedure for filing a complaint before Ombudsman.

(iii) Whether Prateek can hire services of a legal practitioner to plead his case before Ombudsman ? (8 marks)

(b) You are working as the Company Secretary of a listed company viz. Mindspare Ltd. The company is in advance stage of negotiation with a buyer, who will drastically improve the profitability and financial position of the company. You have got some information that one of the employes of the company, who is involved in the negotiation may indulge in trading of shares of the company. Being a compliance officer, you are required to formulate a code of conduct to regulate, monitor and report trading by employees and other connected persons towards achieving compliance with the SEBI (Prohibition of Insider Trading) Regulations, 2015. (7 marks)

Answer 4(a)

(i) As per the SEBI (Ombudsman) Regulations, 2003, if a complainant had not received any reply within a period of 1 month after the listed company or intermediary concerned received his representation or the complainant is not satisfied with the reply given to him by the listed company or an intermediary, he/she can approach to the Ombudsman.

(ii) *Grounds of Complaint*

A person may lodge a complaint on any one or more of the following grounds either to SEBI or to the Ombudsman concerned:

- Non-receipt of refund order, allotment letter in respect of a public issue of securities of companies are units of mutual funds or collective investment schemes;
- Non-receipt of share certificates, unit certificate, debenture certificates, bonus shares;
- Non-receipt of dividend by shareholders or unit-holders;

- Non-receipt of interest on debentures, redemption amount of debentures or interest on delayed payment of interest on debentures;
- Non-receipt of interest on delayed refund of application monies;
- Non-receipt of annual reports or statements pertaining to the portfolios;
- Non-receipt of redemption amount from a mutual fund or return from collective investment scheme;
- Non-transfer of securities by an issuer company, mutual fund, collective investment management company or depository within the stipulated time;
- Non-receipt of letter of offer or consideration in takeover or buy back offer or delisting;
- Non-receipt of statement of holding corporate benefits or any grievances in respect of Corporate benefits, etc;
- Any grievance in respect of public, rights or bonus issue of a listed company;
- Any of the matters covered under section 24 of the Companies Act,2013;
- Any grievance in respect of issue or dealing insecurities against an intermediary or a listed company.

Procedure of Filing Complaint

Any person who has a grievance against a listed company or an intermediary relating to any of the matters specified in regulation 13 may himself or through his authorised representative or any investors association recognised by SEBI, make a complaint against a listed company or an intermediary to the Ombudsman within whose jurisdiction the registered or corporate office of such listed company or intermediary is located.

However, if SEBI has not notified any Ombudsman for a particular locality or territorial jurisdiction, the complainant may request the Ombudsman located at the Head Office of SEBI for forwarding his complaint to the Ombudsman of competent jurisdiction.

The complaint shall be in writing duly signed by the complainant or his authorised representative (not being a legal practitioner) in the Form specified in the Schedule to these regulations and supported by documents, if any.

(iii) As per regulation 19 (3) of the SEBI (Ombudsman) Regulations, 2003, no legal practitioner shall be permitted to represent the defendants or respondents at the proceedings before the Ombudsman except where a legal practitioner has been permitted to represent the complainants by the Ombudsman. In this given case, as Prateek is the petitioner, hence he can hire the services of the legal practitioner.

Answer 4(b)

The minimum standards for code of conduct to regulate, monitor and report trading by employees and other connected persons, is set out in schedule B to the SEBI (Prohibition of Insider Trading) Regulations, 2015, which is discussed below:

i. The compliance officer shall report to the Board of Directors and in particular, help provide reports to the chairman of the audit committee, if any, or to the chairman of the board of Directors at such frequency as may be stipulated by the board of Directors.

ii. All information shall be handled within the organisation on a need-to-know basis and no unpublished price sensitive information shall be communicated to any person except in furtherance of the insiders legitimate purposes, performance of duties of discharge of his legal obligations.

iii. The code of conduct shall contain norms for appropriate Chinese Walls procedures, and processes for permitting any designated person to cross the wall.

iv. Employees and connected persons designated on the basis of their functional role (designated persons) in the organisation shall be governed by an internal code of conduct governing dealings in securities.

v. The board of director shall in consultation with the compliance officer specify the designated persons to be covered by such code on the basis of their role and function in the organisation. Due regard shall be had to the access that such role and function would provide to unpublished price sensitive information in addition to seniority and professional designation.

vi. Designated persons may execute trades subject to compliance with these regulations. Towards this end, notional trading window shall be used as an instrument of monitoring trading by the designated persons.

vii. The trading window shall be closed when the compliance officer determines that a designated person or class of designated persons can reasonably be expected to have possession of unpublished price incentive information. Search closer shall be imposed in relation to such securities to which such unpublished price sensitive information relates.

viii. Designated persons and their immediate relatives shall not trade in securities when the trading window is closed.

ix. The timing for reopening of the trading window shall be determined by the compliance officer taking into account various factors including the unpublished price sensitive information in question becoming generally available and being capable of assimilation by the market, in any event shall not be earlier than 48 hours after the information becomes generally available.

x. The trading window shall also be applicable to any person having contractual or fiduciary relation with the company, such as auditor, accountancy firm, law firms, analysts, consultants, etc. assisting or advising the company.

xi. When the training window is open, trading by designated persons shall be subject to pre-clearance by the compliance officer, the value of the proposed trades is above such threshold as the board of Directors make stipulate. No designated person shall apply for pre-clearance of any proposed trade if such designated person is in possession of unpublished price sensitive information even if the trading window is not closed.

xii. The compliance officer shall confidentially maintain a list of such securities as a restricted list which shall be used as the basis for approving or rejecting applications for pre-clearance of trades.

xiii. Prior to approving any trades, the compliance officer shall be entitled to seek declarations to the effect that the applicant for pre-clearance is not in possession of any unpublished price sensitive information.

xiv. He shall also have regard to whether any such declaration is reasonably capable of being rendered in accurate.

xv. The code of conduct shall specify any reasonable time frame, which in any event shall not be more than 7 trading days, in which trades that have been pre-cleared have to be executed by the designated person, which fresh pre-clearance would be needed for the trades to be executed.

xvi. The code of conduct shall specify the period, which in any event shall not be less than 6 months, which a designated person who is permitted to trade shall not execute a Contra trade. The compliance officer may be empowered to grant relaxation from strict application of such restrictions for reasons to be recorded in writing provided that such relaxation does not violate these regulations. Should a Contra trade be executed, advertently or otherwise, in violation of such a restriction, profits from such trade shall be liable to be disgorged for remittance to SEBI for credit to the Investor Protection and Education Fund administrated by SEBI under the act.

xvii. The code of conduct shall stipulate such format as the board of directors deems necessary for making applications for pre-clearance, reporting of trades executed, reporting of decisions not to trade after securing pre-clearance, recording of reasons for such decisions and for reporting level of Holdings in securities at such intervals as may be determined as being necessary to monitor compliance with these regulations.

xviii. The code of conduct shall stipulate the sanctions and disciplinary actions, including wage freeze, suspension, etc. that may be imposed, by the persons required to formulate a code of conduct for the contravention of the code of conduct.

xix. The code of conduct shall specify that in case it is observed by the persons required to formulate a code of conduct, there has been a violation of these regulations they shall inform SEBI promptly.

PART II

Question 5

(a) Naman had executed following trades on Gama Ltd. stock :

(i) Purchased one 3-month call option with a premium of ₹25 at an exercise price of ₹530.

(ii) Purchased one 3-month put option with a premium of ₹5 at an exercise price of ₹430.

The lot size is 100 share per lot and the current price of Gama Ltd. stock is ₹500. Determine Naman's profit or loss, if the price of Gama Ltd. stock after 3 months is :

(a) ₹500

(b) ₹350.

(b) *What is meant by Anchor Investor ? What are the limitations of allocation to anchor investors in the Book building process ?*

(c) *A listed company, Nishan Hitech Ltd. issued 10 lakh equity shares at a price of ₹150 per share. The company provided Green shoe option for stabilizing the post listing price of the shares. On the day of listing of shares, the news of trade war between the two developed countries flashes and the price of shares of company fall to ₹110. Decide how many shares can be purchased by the stabilizing agent to control the price ? State the provisions for balance money lying in the special account for green shoe option.* *(5 marks each)*

Answer 5(a)

(i) Total premium paid on purchasing a call and put option:

= (₹25 per share x 100 shares) + (₹5 per share x 100 shares)

In this case, Naman neither exercises the call option nor the put option, as both will result in a loss for him.

Ending value : ₹ - 3000 + Nil gain

i.e. Net Loss : ₹3000

(ii) The price of stock is below the exercise price of the call, the call will not be exercised but put is valuable and is exercised.

Total premium paid	:	₹3000 is calculated above
Ending value	:	₹ - 3000 + [(₹430 - ₹350) x 100 shares
Net Gain	:	₹ 5000

Answer 5(b)

According to Regulation 2(1)(c) of SEBI (Issue of Capital and Disclosure Requirements) Regulation 2009, "Anchor Investor" means a qualified institutional buyer who makes an application for a value of ₹10 crores or more in a public issue made through the book building process in accordance with these regulations.

Allocation to anchor investors shall be on a discretionary basis and subject to the following:

1. Maximum of two such investors shall be permitted for allocation up to ₹10 crores.

2. Minimum of 2 and maximum of 15 such investors shall be permitted for allocation above ₹10 crore and up to ₹250 crore subject to minimum allotment of ₹5 crore per such investors.

3. In case of allocation above ₹250 crore; minimum of five such investors and a maximum of 15 such investors for allocation up to ₹250 crores and an additional 10 such investors for every additional ₹250 crore or part thereof, shall be permitted, subject to a minimum allotment of ₹5 crore per such investors. The bidding for Anchor Investors shall open one day before the issue opening date.

4. Allocation to Anchor Investors shall be completed on the day of bidding by Anchor Investors.
5. Shares allotted to the anchor investor shall be locked-in for 30 days from the date of allotment in the public issue.

Up to 60% of the portion available for allocation to QIB shall be available to Anchor Investors for allocation/allotment ("anchor investor portion") and one third of the anchor investor portion shall be reserved for domestic mutual funds.

Answer 5(c)

As per regulation 45 (1) of the SEBI (ICDR) Regulations, 2009, the maximum number of securities that may be borrowed for the purpose of allotment or allocation of securities in excess of issue size shall not be more than 15% of the issue size. Therefore stabilizing agent can purchase only 1.5 lakh equity shares to control the price.

The stabilizing agent shall remit the monies with respect to the specified securities allotted to the issue from the special bank account known as GSO Bank A/c. Any money left in the special bank account after remittance of monies to the issuer for securities allotted and deduction of expenses incurred by the stabilizing agent for the sterilization process shall be transferred to the Investor Protection and Education Fund established by the SEBI and the special bank account shall be closed soon thereafter.

Attempt all parts of either Q. No. 6 or Q. No. 6A

Question 6

Write short notes on the following :

(a) Private Equity

(b) Book Closure and Record Date

(c) Bankers to an issue

(d) Venture capital

(e) Pension Fund. *(3 marks each)*

OR (Alternative question to Q. No. 6)

Question 6A

(i) What is meant by Block deal ? How is it being executed in the Stock Exchange?

(ii) Credit Rating Agencies may not be taking cognizance of information for delays in servicing debt obligations while reviewing of its ratings. What are the material events requiring a review by the Credit Rating Agencies as per SEBI's circular?

(iii) Explain the provisions for compulsory internal audit of Registrars to an Issue/ Share Transfer Agents (RTAs). *(5 marks each)*

Answer 6(a)

Private equity is a type of equity (finance) and one of the asset classes who takes securities and debt in operating companies that are not publicly traded on stock exchange.

Private equity is essentially a way to invest in some assets that aren't publicly traded, or to invest in a publicly traded asset with the intention of taking it private. Unlike stocks, mutual funds and bonds, private equity funds usually invest in more illiquid assets, i.e. companies. By purchasing companies, the firms gain access to those assets and revenue sources of the company, which can lead to a very high return on investments. Another feature of private equity transactions is their extensive use of debt in the form of high-yield bonds.

By using debt to finance acquisitions, private equity firms can substantially increase their financial returns.

Answer 6(b)

Book closure is the periodic closer of the Register of Members and Transfer Books of the company, to take a record of the shareholders to determine their entitlement to dividend or to bonus or right shares or any other rights pertaining to shares.

Record date is the date on which the records of a company are closed for the purpose of determining the stockholders to whom dividends, proxies rights etc. are to be sent.

In accordance with Section 91 of the Companies Act, 2013 a company may close the register of members for a maximum of 45 days in a year and for not more than 30 days at any one time. Book closure/record date is necessary for the purpose of paying dividend, rights issue, bonus issue, etc. For the companies whose securities are listed on the Stock Exchange are required to comply with the SEBI Listing Regulations, 2015. As per the SEBI Listing Regulations, 2015, the companies are required to give 7 working days advance notice of book closure or record date to stock exchange where the securities of the companies are listed.

Answer 6(c)

According to SEBI (Bankers to an Issue) Regulations, 1994, "banker to an issue" means a scheduled bank carrying on all or any of the following activities:

(i) Acceptance of application and application monies;

(ii) Acceptance of allotment or call monies;

(iii) Refund of application monies;

(iv) Payment of dividend or interest warrants.

Answer 6(d)

Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years. Venture Capital is generally equity investments made by Venture Capital funds at an early stage in privately held companies, having potential to provide a high rate of return on their investments. It is a resource for supporting innovation, knowledge based ideas and technology and human capital-intensive enterprises.

Different Venture groups prefer different types of Investments. Some specialize in seed capital and early expansion while others focus on exit financing. Biotechnology, medical services, communications, electronic components and software companies seem to be the most likely attraction of venture firms and receiving the most financing. Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability.

Answer 6(e)

Pension Fund means a fund established by an employer to facilitate and organise the investment of employees' retirement funds which is contributed by the employer and employee. The Pension Fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working here and commence retirement. Pension funds are commonly run by some sort of financial intermediaries for the company and its employees like NPS scheme is managed by UTIAMC (Retirement Solutions), although some larger corporations operate their pension funds in-house. Pensions are broadly divided into two sectors:

(i) Formal sector pensions

(ii) Informal sector pensions

Answer 6A(i)

SEBI vide its circular MRD/DoP/SE/Cir-19/2005 dated September 02, 2005 prescribed guidelines for execution of large size trade through a single transaction. In order to facilitate execution of such large trades, stock exchanges were permitted to provide a separate trading Window. A trade executed on this separate trading window was termed as ‘block deal’.

Execution of Block Deal

i. *Session timings:*

   (a) Morning Block Deal Window: This window shall operate between 08:45 AM to 09:00 AM.

   The reference price for execution of block deals in this window shall be the previous day closing price of the stock.

   (b) Afternoon Block Deal Window: This window shall operate between 02:05 PM to 02:20 PM.

   The reference price for block deals in this window shall be the volume weighted average market price (VWAP) of the trade executed in the stock in the cash segment between 01:45 PM to 02:00 PM.

ii. The minimum order size for execution of trades in the block deal window shall be ₹10 crores.

iii. The orders placed shall be within ± 1% of the applicable reference price in the respective windows as stated above.

iv. Every trade executed in the block deal Windows must result in delivery and cannot be squared off or reversed.

v. The stock exchanges disseminate the information on block deals such as the name of the script, name of the client, quantity of shares bought/sold, price, etc. to the general public on the same day, after the market hours.

Answer 6A(ii)

The statement is based on SEBI circular no. SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/71 dated 30th June, 2017, issued for Monitoring and Review of Ratings by Credit Rating Agencies (CRAs):

As per regulation 15 of SEBI (Credit Rating Agencies) Regulations, 1999, CRAs are required to continuously monitor the rating of securities and disseminate information regarding newly assigned ratings, and changes in earlier rating, promptly through press releases on website of CRAs as well as all the stock exchanges where the said securities are listed.

Material Events requiring a review

CRAs shall carry out a review of the ratings upon the occurrence of or announcement/news of material events including, but not restricted to the following:

a. Quarterly/Half-Yearly/Annual results;

b. Merger/Demerger/Amalgamation/Acquisition;

c. Corporate debt restructuring, reference to BIFR and winding-up petition filed by any party/creditors;

d. Significant decline in Share prices/Bond prices of the issuer or group companies which is not linked to overall market movement;

e. Significant increase in debt level or cost of debt of the issuer company;

f. Losses, sharp revenue De-growth, etc. based on publicly disclosed financial statements, which are not in line with CRA's earlier estimates;

g. Granting, withdrawal, surrender, cancellation or suspension of key licences or regulatory approvals;

h. Disruption/commencement/postponement of operations of any unit or division of the listed entity;

i. Any attachment or prohibitory orders against the Issuer;

j. Any rating action taken by an international rating agency with respect to rating assigned to the Issuer/instruments issued by the Issuer.

Answer 6A(iii)

SEBI vide its circular dated 20th April, 2018 provides for compulsory internal audit of Registrar to an Issue/Share Transfer Agents (RTAs) which is discussed below:

1. All Registrar to an Issue/Share Transfer Agents (RTAs) are required to carry out internal audit on annual basis by independent qualified CA/CS/CMA and Certified Information Systems Auditor (CISA) who don't have any conflict of interest.

2. Eligibility of auditors for conducting the internal audit of the RTA:

   i. The audit firm shall have a minimum experience of 3 years in the financial sector.

   ii. An auditor shall be appointed for a maximum term of 5 years, with a cooling-off period of 2 years.

3. The auditor shall cover all aspects of RTA operations including investor grievance redressal mechanism and compliance with the requirements stipulated in the SEBI Act, Rules and Regulations made there under, and guidelines/circulars issued by SEBI from time to time.

4. The reports and state the methodology adopted, deficiencies observed, and consideration of response of the management on the deficiencies.

5. The report shall include a summary of operations and of the audit, covering the size of operations, number of transactions audited and the number of instances where violations/ deviations where observed while making observations on the compliance of any regulatory requirement.

6. The report shall comment on the adequacy of systems adopted by the RTAs for compliance with the requirements of regulations and guidelines issued by SEBI and investor grievance redressal.

7. The RTA shall submit a copy of report of the internal audit to Issuer Company within 3 months from the end of the financial year. Copy of the same shall also be preserved by the RTA.

8. The Governing Council (Board of Directors, Board of Partners, proprietor, etc. as applicable) of the RTA shall consider the report of the internal auditor and take steps to rectify the deficiencies, if any. The RTA shall send the Action Taken Report in prescribed format to Issuer Company within next one month and a copy thereof shall be maintained by the RTA.

9. The audit observations along with the corrective steps taken by the RTA shall be placed before the Board of Directors of the Issuer Company.

10. The Issuer Companies shall satisfy themselves regarding the adequacy of the corrective measures taken by the concerned RTA. If not satisfied with the corrective measures, Issuer Company may take more stringent corrective measures.

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ECONOMIC BUSINESS AND COMMERCIAL LAWS

Time allowed : 3 hours Maximum marks : 100

NOTE : *Answer **ALL** Questions.*

PART I

Question 1

(a) The object of the Foreign Contribution (Regulation) Act, 2010 is to legalise foreign donations and hospitality to office bearers of political parties. Comment.

(b) Capital goods and spares that have become obsolete/surplus, may be exported, transferred to another Special Economic Zone unit but law does not permit to dispose of in Domestic Tariff Area on payment of applicable duties. Comment.

(c) Prior approval of RBI is not mandatory for transfer of Capital instruments from resident to non-residents by way of sale. Comment.

(d) What are the functions of Reserve Bank of India ? (5 marks each)

Answer 1(a)

The object of the Foreign Contribution (Regulation) Act, 2010 is to regulate the acceptance and utilisation of foreign contribution or foreign hospitality by certain individuals or associations or companies and to prohibit acceptance and utilisation of foreign contribution or foreign hospitality for any activities detrimental to the national interest and for matters connected therewith or incidental thereto.

Section 3 of the Foreign Contribution (Regulation) Act, 2010, imposes restriction on acceptance of foreign contribution by candidate for election; correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper; Judge, Government servant or employee of any corporation or any other body controlled or owned by the Government; member of any Legislature; political party or office-bearer thereof; organisation of a political nature as may be specified by the Central Government; association or company engaged in the production or broadcast of audio news or audio visual news or current affairs programmes through any electronic mode, or any other electronic form.

In view of the above, the statement, the object of the Foreign Contribution (Regulation) Act, 2010 is to legalise foreign donations and hospitality to office bearers of political parties is incorrect.

Answer 1(b)

According to Foreign Trade Policy 2015-20, capital goods and spares that have become obsolete/surplus, may either be exported, transferred to another Export Oriented Unit (EOU)/ Electronic Hardware Technology Park (EHTP)/ Software Technology Park (STP)/ Biotechnology Park (BTP)/ Special Economic Zone (SEZ) unit or disposed of in Domestic Tariff Area (DTA) on payment of applicable duties. Benefit of depreciation, as applicable, will be available in case of disposal in Domestic Tariff Area (DTA) only when the unit has achieved positive Net Foreign Exchange Earnings taking into consideration the depreciation allowed.

Duty shall not be payable in case capital goods, raw material, consumables, spares, goods manufactured, processed or packaged, and scrap/waste/remnants/ rejects are destroyed within unit after intimation to Customs authorities or destroyed outside unit with permission of Customs authorities.

In view of the above, the statement, capital goods and spares that have become obsolete/surplus, may be exported, transferred to another Special Economic Zone (SEZ) unit but law does not permit to dispose of in Domestic Tariff Area (DTA) on payment of applicable duties is incorrect.

Answer 1(c)

Prior approval of RBI is required for Transfer of capital instruments from resident to non-residents by way of sale where:

(a) Transfer is at a price which falls outside the pricing guidelines specified by the Reserve Bank from time to time.

(b) Transfer of capital instruments by the non-resident acquirer involving deferment of payment of the amount of consideration. Further, in case approval is granted for a transaction, the same should be reported in Form FC-TRS to an AD Category-I bank for necessary due diligence, within 60 days from the date of receipt of the full and final amount of consideration.

In view of the above provision the statement prior approval of RBI is not mandatory for transfer of capital instruments from resident to non-residents by way of sale is incorrect.

Answer 1(d)

The functions of the Reserve Bank of India are as under:

— Banking Functions

— Issue bank notes

— Monetary Policy Functions

— Public Debt Functions

— Foreign Exchange Management

— Banking Regulation & Supervision

— Regulation and Supervision of Non-Banking Financial Companies(NBFCs)

— Regulation & Supervision of Co-operative banks

— Regulation of Derivatives and Money Market Instruments

— Payment and Settlement Functions

— Consumer Protection Functions

— Financial Inclusion and Development Functions.

Attempt all parts of either Q. No. 2 or Q. No. 2A

Question 2

(a) What is the object of service export from India Scheme and what are the eligibility conditions of obtaining benefits of the same under Foreign Trade Policy 2015-20 ? (4 marks)

(b) What do you mean by Non-Banking Financial company ? Enumerate the powers of Reserve Bank of India vested in the Reserve Bank of India Act for regulating and supervising the Non-Banking Financial companies. (4 marks)

(c) Foreign Exchange Management (Possession and Retention of Foreign Currency) Regulations, 2015 deals with limits on possession and retention of foreign currency or foreign coins. What is the limit of possession or retention of foreign currency or foreign coins under Regulation 3 ? (4 marks)

(d) What are the eligibility criterias for forming the trust under the Indian Trust Act, 1882 ? (4 marks)

(e) Section 34 of Special Economic Zones Act, 2005 casts upon the Authority a duty to undertake such measures for the development, operation and management of Special Economic Zone. Explain. (4 marks)

OR (Alternate question to Q. No. 2)

Question 2A

(i) What are the obligations on Indian Party which has made direct investment outside India ? (4 marks)

(ii) Which are the organizations and persons who are specifically debarred from receiving foreign contributions under Foreign Exchange Regulation Act, 2010 ? (4 marks)

(iii) Who is an authorized person under Foreign Exchange Management Act, 1999 and what are his obligations ? (4 marks)

(iv) Who can establish the Special Economic Zone ? Discuss. (4 marks)

(v) State to whom the provisions of Non-Banking Financial Company-Systemically Important Non-Deposit Taking Company and Deposit Taking Company (Reserve Bank) Directions, 2016 shall apply ? (4 marks)

Answer 2(a)

As per Foreign Trade Policy 2015-20, the objective of Service Exports from India Scheme (SEIS) is to encourage export of notified Services from India and to contribute in generating forex through service sectors.

Eligibility Conditions for obtaining benefits under Foreign Trade Policy 2015-20:

— Service Providers of notified services, located in India, shall be rewarded under SEIS, subject to conditions as may be notified.

— Such service provider should have minimum net free foreign exchange earnings of US$15,000 in preceding financial year to be eligible for Duty Credit Scrip. For Individual Service Providers and sole proprietorship, such minimum net free foreign exchange earnings criteria would be US$10,000 in preceding financial year.

— Service provider, then the foreign exchange earnings and Total expenses/ payment/remittances shall be taken into account for service sector only.

— In order to claim reward under the scheme, Service provider shall have to have an active Importer Exporter Code at the time of rendering such services for which rewards are claimed.

Answer 2(b)

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

The Reserve Bank of India is entrusted with the responsibility of regulating and supervising the Non-Banking Financial Companies (NBFC's) by virtue of powers vested in Chapter III B of the Reserve Bank of India Act, 1934. The regulatory and supervisory power of Reserve Bank of India are as under :

— Ensure healthy growth of NBFC's

— Issue certificate of registration and prescribe net owned fund for NBFC's

— Regulate or prohibit issue of prospectus or advertisements soliciting deposits of money by NBFC's

— Determine policy for NBFC's

— Call for information and issue directions to NBFC 's

— Prevent the affairs of any NBFC being conducted in a manner detrimental to the interest of the depositors or in a manner prejudicial to the interest of the NBFC.

Answer 2(c)

As per Regulation 3 of the Foreign Exchange Management (Possession and Retention of Foreign Currency) Regulations, 2015, the Reserve Bank has specified following limits for possession or retention of foreign currency or foreign coins, namely:

(i) possession without limit of foreign currency and coins by an authorised person within the scope of his authority;

(ii) possession without limit of foreign coins by any person;

(iii) retention by a person resident in India of foreign currency notes, bank notes and foreign currency travelers cheques not exceeding US $ 2000 or its equivalent in aggregate, provided that such foreign exchange in the form of currency notes, bank notes and travelers cheques acquired during a visit to any place outside India by way of payment for services not arising from any business in or anything done in India; or from any person not resident in India and also who is on a visit to India, or as honorarium or gift or for services rendered or in settlement of any lawful obligation; or as a honorarium or gift while on a visit to any place outside India; or represents unspent amount of foreign exchange acquired from an authorised person for travel abroad.

Answer 2(d)

According to the Indian Trust Act, 1882, a trust may be created for any lawful purpose. A trust may be created - (a) by every person competent to contract, and, (b) with the permission of a principal Civil Court of original jurisdiction, by or on behalf of a minor.

Trust is created when the author of the trust indicates with reasonable certainty by any words or acts (a) an intention on his part to create thereby a trust, (b) the purpose of the trust, (c) the beneficiary, and (d) the trust-property unless the trust is declared by will or the author of the trust is himself to be the trustee. If a trust is to be valid and enforceable, it is material to ascertain the author of the trust.

Answer 2(e)

Section 34 of the Special Economic Zones Act, 2005 casts upon the Authority a duty to undertake such measures as it thinks fit for the development, operation and management of the respective Special Economic Zone.

Section 34(2) of the Special Economic Zones Act, 2005 provides for following measures:

(a) development of infrastructure in the Special Economic Zone;

(b) promoting exports from the Special Economic Zone;

(c) reviewing the functioning and performance of the Special Economic Zone;

(d) levy user or service charges or fees or rent for the use of properties belonging to the Authority;

(e) performing such other functions as may be prescribed.

Answer 2A(i)

An Indian Party which has made direct investment outside India is required to comply with the following:-

(i) Receive share certificates or any other documentary evidence of investment in the foreign Joint Venture(JV) / Wholly Owned Subsidiary (WOS) as an evidence of investment and submit the same to the designated Authorized Dealer within 6 months;

(ii) Repatriate to India, all dues receivable from the foreign JV / WOS, like dividend, royalty, technical fees etc.

(iii) Submit to the Reserve Bank of India through the designated Authorized Dealer, every year, an Annual Performance Report in Part III of Form ODI in respect of each JV or WOS outside India set up or acquired by the Indian party.

(iv) Report the details of the decisions taken by a JV/WOS regarding diversification of its activities /setting up of step down subsidiaries/alteration in its share holding pattern within 30 days of the approval of those decisions by the competent authority concerned of such JV/WOS in terms of the local laws of the host country. These are also to be included in the relevant Annual Performance Report.

(v) In case of disinvestment, sale proceeds of shares/securities are to be repatriated to India immediately on receipt thereof and in any case not later than 90 days from the date of sale of the shares /securities and documentary evidence to this effect is to be submitted to the Reserve Bank through the designated Authorised Dealer.

(vi) Submit an Annual Performance Report (APR) in Form ODI Part III to the Reserve Bank by 30th of June every year in respect of each Joint Venture (JV) / Wholly Owned Subsidiary (WOS) outside India set up or acquired by the Indian Party/ Resident Individual .

Answer 2A(ii)

The following are the organisations and persons prohibited from accepting foreign contribution under Foreign Contribution (Regulation) Act, 2010:

(a) Candidate for election;

(b) Correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper;

(c) Judge, government servant or employee of any entity controlled or owned by the Government;

(d) Member of any Legislature;

(e) Political party or office bearers thereof;

(f) Organisations of a political nature as may be specified;

(g) Associations or companies engaged in the production or broadcast of audio news or audiovisual news or current affairs programmes through any electronic mode or form or any other mode of mass communication;

(h) Correspondent or columnist, cartoonist, editor, owner of the association or company referred to in (g) above.

Answer 2A(iii)

The term authorised person is defined under Section 2(c) of the Foreign Exchange Management Act, 1999, to include an authorised dealer, money changer, offshore banking unit or any other person for the time being authorised under sub-section (1) of section 10 of the Act to deal in foreign exchange or foreign securities.

Authorised persons are required to comply with the directions of the Reserve Bank of India with regard to his dealing in foreign exchange or foreign security receipt with the previous permission of the Reserve Bank of India. However authorised person are required not to engage in any transaction involving any foreign exchange or foreign security which is not in conformity with the terms of his authorisation.

An authorised person, before undertaking any transaction on behalf of any person shall, require that person to make such declaration and give such information as will reasonably satisfy the authorised person that the transaction will not involve or is not intended to violate or contravene any provisions of the Act, rules, notification or directions.

In case, the person refuses to comply with such requirements or makes only unsatisfactory compliances, the authorised person is duty bound to refuse in writing to act on behalf of such person in such transaction and report the matter to Reserve Bank of India.

Answer 2A(iv)

As per Section 3 of the Special Economic Zones Act, 2005, Central Government, State Government, or any other person, jointly or severally, may establish a Special Economic Zone.

Any person who, intends to set up a Special Economic Zone, may, after identifying the area, make a proposal to the State Government concerned for the purposes of setting up a Special Economic Zone. It also allows a person, at his option to make a proposal directly to the Board for the purpose of setting up Special Economic Zone.

In case a State Government intends to set up the Special Economic Zone, it may after identifying the area, forward the proposal directly to the Board of Approval for setting up of Special Economic Zone. However, the Central Government has been empowered to set up and notify the Special Economic Zone without consulting the State Government concerned; without referring the proposal to the Board.

Answer 2A(v)

The provisions of Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 shall apply to the following:

(i) Every Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) registered with the Reserve Bank under the provisions of RBI Act, 1934;

(ii) Every Deposit taking Non-Banking Financial Company (NBFC-D) registered with the Reserve Bank under the provisions of RBI Act, 1934;

(iii) Every NBFC-Factor registered with the Bank under section 3 of the Factoring Regulation Act, 2011 and having an asset size of Rs. 500 crore and above;

(iv) Every Infrastructure Debt Fund – Non-Banking Finance Company (IDF-NBFC) registered with the Reserve Bank under the provisions of RBI Act, 1934;

(v) Every Non-Banking Finance Company – Micro Finance Institutions (NBFC-MFIs) registered with the Reserve Bank under the provisions of RBI Act, 1934 and having an asset size of Rs.500 crore and above;

(vi) Every Non-Banking Finance Company - Infrastructure Finance Company (NBFC-IFC) registered with the Reserve Bank under the provisions of RBI Act, 1934 and having an asset size of Rs. 500 crore and above.

PART II

Question 3

(a) What do you mean by Cartel ? Explain it with reference to Competition Act, 2002.

(b) What agreements are anti competitive agreements under the Competition Act, 2002 ?

(c) What constitutes abuse of dominance under the Competition Act, 2002 ?

(d) What do you understand by the term "Combination" under the Competition Act, 2002 ?

(e) Who is "consumer" under the Competition Act, 2002 ? (3 marks each)

Answer 3(a)

As per Section 2(c) of the Competition Act, 2002, Cartel includes an association of producers, sellers or distributors, traders or service providers who, by agreement amongst themselves, limit control or attempt to control the production, distribution, sale or price of or, trade in goods or provision of services.

Cartel is an anti-competitive practices under Competition Act, 2002. The nature of a cartel is to raise price above competitive levels, resulting in injury to consumers and to the economy. For the consumers, cartelization results in higher prices, poor quality and less or no choice for goods or/and services.

If there is effective competition in the market, cartels would find it difficult to be formed and sustained.

Answer 3(b)

Anti-competitive agreement is an agreement having appreciable adverse effect on competition. Anti-competitive agreements include, but are not limited to:-

— agreement to limit production and/or supply;

— agreement to allocate markets;

— agreement to fix price;

— bid rigging or collusive bidding;

— conditional purchase/ sale (tie-in arrangement);

— exclusive supply / distribution arrangement;

— resale price maintenance; and

— refusal to deal.

Answer 3(c)

Abuse of dominant position impedes fair competition between firms, exploits consumers and makes it difficult for the other players to compete with the dominant undertaking on merit. Abuse of dominant position includes:

— imposing unfair conditions or price,

— predatory pricing,

— limiting production/market or technical development,

— creating barriers to entry,

— applying dissimilar conditions to similar transactions,

— denying market access, and

— using dominant position in one market to gain advantages in another market.

Answer 3(d)

Broadly, Combination under the Competition Act, 2002, means acquisition of control, shares, voting rights or assets, acquisition of control by a person over an enterprise where such person has direct or indirect control over another enterprise engaged in competing businesses, and mergers and amalgamations between or amongst enterprises when the combining parties exceed the thresholds set in the Act.

The thresholds are specified in the Competition Act, 2002 in terms of assets or turnover in India and outside India. Entering into a combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India is prohibited and such combination shall be void.

Answer 3(e)

As per Section 2(f) of the Competition Act, 2002, Consumer means any person who-

(i) buys any goods for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or under any system of deferred payment when such use is made with the approval of such person, whether such purchase of goods is for resale or for any commercial purpose or for personal use.

(ii) hires or avails of any services for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment when such services are availed of with the approval of the first mentioned person whether such hiring or availing of services is for any commercial purpose or for personal use.

Question 4

(a) What factors have to be taken into consideration by Competition Commission of India for the purpose of determining whether an enterprise enjoys dominant position or not ? Explain. *(5 marks)*

(b) What orders can be passed by Competition Commission of India under section 27 of the Competition Act, 2002 after any inquiry into agreement entered into by any enterprise or association of enterprises or person or association of persons or an enquiry into abuse of dominant position ? Explain. (5 marks)

Answer 4(a)

For the purpose of determining whether an enterprise enjoys dominant position or not under Section 4 of the Competition Act, 2002, the Competition Commission of India shall have due regard to all or any of the following factors, namely –

(a) market share of the enterprise;

(b) size and resources of the enterprise;

(c) size and importance of the competitors;

(d) economic power of the enterprise including commercial advantages over competitors;

(e) vertical integration of the enterprises or sale or service network of such enterprises;

(f) dependence of consumers on the enterprise;

(g) monopoly or dominant position whether acquired as a result of any statute or by virtue of being a Government company or a public sector undertaking or otherwise;

(h) entry barriers including barriers such as regulatory barriers, financial risk, high capital cost of entry, marketing entry barriers, technical entry barriers, economies of scale, high cost of substitutable goods or service for consumers;

(i) countervailing buying power;

(j) market structure and size of market;

(k) social obligations and social costs;

(l) relative advantage, by way of the contribution to the economic development, by the enterprise enjoying a dominant position having or likely to have an appreciable adverse effect on competition;

(m) any other factor which the Commission may consider relevant for the inquiry.

Answer 4(b)

Section 27 of the Competition Act, 2002, envisages that the Competition Commission of India after any inquiry into agreement entered into by any enterprise or association of enterprises or person or association of persons, or an inquiry into abuse of dominant position may pass all or any of the following orders, namely-

(i) direct that such agreement, or abuse of dominant position shall be discontinued and such agreement, which is in contravention of Section 3 shall not be re-entered or the abuse of dominant position in contravention of Section 4 shall be discontinued, as the case may be. The direction to discontinue and not to recur is commonly known as “Cease & desist” order.

(ii) The Competition Commission of India may impose penalty.

(iii) The Competition Commission of India may direct that the agreements shall stand modified to the extent and in the manner as specified in the order.

(iv) The Competition Commission of India may direct the enterprises concerned to comply with such other orders and directions, including payment of cost, if any, as it deems fit.

(v) To pass such order or issue such directions as it may deem fit.

PART III

Question 5

(a) A contract for the sale of land has been entered into between A and B. The transferee has paid the price entering into possession and is willing to carry out his contractual obligations. As registration has not been effected, A the transferor, seeks to evict B from the land. Can he do so ? Explain. (4 marks)

(b) The complainant booked a ticket from Delhi to New York by a KLM plane. The airport authorities in New Delhi did not find any fault in his visa and other documents. However, at Amsterdam, the airport authorities instituted proceedings of verification because of which the appellant missed his flight to New York. After reaching New York, the airlines tendered apology to the appellant for the inconvenience and paid as a goodwill gesture a sum of ₹2,500. The appellant made a complaint to the National Commission under the Consumer Protection Act, 1986. Whether the complainant will succeed ? Give reasons with the help of decided case law. (4 marks)

(c) A contracts to sell B a piece of land consisting of 100 bighas. It turns out that 98 bighas of the land belongs to A and the two remaining bighas to a stranger, who refuses to part with them. B files the suit for specific performance against A. Decide with the help of the legal provisions, whether the specific performance suit is maintainable. (4 marks)

(d) The ABZ company offered by an advertisement, a reward of ₹1,000 to anyone who contacted influenza after using smoke ball in the specified manner. Amita used the smoke ball in the specified manner, but was attacked by influenza. She filed the suit against ABZ company and claimed the reward. Decide whether the suit is maintainable. (4 marks)

(e) Mohit finds a ring of Shardha and sells it to a third person Prachi who purchases it for value and in good faith. Whether Shardha can file a suit to recover the ring? Advise with cogent reasons. (4 marks)

Answer 5(a)

No, B will not suffer simply because the formality of registration has not been through. The legislature grants some relief to such a transferee under Section 53A of the Transfer of Property Act, 1882, which embodies the doctrine of part-performance.

Followings are the essential conditions for the operation of the doctrine of part-performance according to Section 53A.

1. There must be a contract to transfer immoveable property.
2. It must be for consideration.
3. The contract should be in writing and signed by the transferor himself or on his behalf.

4. The terms necessary to constitute the transfer must be ascertainable with reasonable certainty from the contract itself.
5. The transferee should have taken the possession of the property in part performance of the contract. In case he is already in possession, he must have continued in possession in part performance of the contract and must have done something in furtherance of the contract.
6. The transferee must have fulfilled or be ready to fulfill his part of the obligation under the contract.

If all the above mentioned conditions are satisfied, then the transferor and the persons claiming under him are debarred form exercising any right in relation to the property other than the rights expressly provided by the terms of the contract notwithstanding the fact that the instrument of transfer has not been registered or complete in the manner prescribed therefor by the law for time being in force.

Answer 5(b)

The complainant will not succeed.

The present case is similar to the case of *Ravneet Singh Bagga* v. *KLM Royal Dutch Fintimes* [1999(7) SCALE 43]. In this case the Supreme Court held that the respondent could not be held to be guilty of deficiency in service. The staff of the airline acted fairly and in a bona fide manner, keeping in mind security and safety of passengers and the Aircraft. The photograph on visa documents was a photo copy and not the original which was unusual. In the circumstances, the staff took some time to ascertain the truth and helped the appellant to reach New York the same day.

Answer 5(c)

Section 12(2) of the Specific Relief Act,1963 provides that where a party to a contract is unable to perform the whole of his part, but the part which must be left unperformed by only a small proportion to the whole in value and admit compensation in money, the Court may, at the suit of the either party, direct the specific performance of so much of the contract as can be performed and award compensation in money for the deficiency.

A contracts to sell B a piece of land consisting of100 bighas. It turns out that 98 bighas of the land belongs to A and the two remaining bighas to a stranger, who refuses to join with them. The two bighas are not necessary for the use of enjoyment of the 98 bighas, nor so important for such use or enjoyment that the loss of them may not be make good in money. A may be directed at the suit of B to convey to B, the 98 bighas and to make compensation to him for not conveying the two remaining bighas; B may be directed at the suit of A, to pay to A, on receiving the conveyance and possession of the land, the stipulated purchase money less the sum awarded as compensation for the deficiency.

Answer 5(d)

The communication of the offer may be general or specific. Where an offer is made to a specific person it is called specific offer and it can be accepted only by that person. But when an offer is addressed to an uncertain body of individuals i.e. the world at large, it is a general offer and can be accepted by any member of the general public by fulfilling the condition laid down in the offer.

In the present case the suit is maintainable and Amita can claim the reward. Amita could recover the reward as general offer can be accepted by anybody.

Answer 5(e)

Section 27 of the Sales of Goods Act, 1930 states about sale by person not the owner. According to this section, subject to the provisions of this Act and of any other law for the time being in force, where goods are sold by a person who is not the owner thereof and who does not sell them under the authority or with the consent of the owner, the buyer acquires no better title to the goods than the seller had, unless the owner of the goods is by his conduct precluded from denying the sellers authority to sell.

The general rule is that only the owner of goods can sell the goods. Conversely, the sale of an article by a person who is not or who has not the authority of the owner, gives no title to the buyer. The rule is expressed by the maxim; "Nemo Dat Quod Non Habet" i.e. no one can pass a better title than he himself has. As applied to the sale of goods, the rule means that a seller of goods cannot give a better title to the buyer than he himself possess.

In the present case the true owner, i.e. Shradha can file a suit to recover ring from Prachi. Mohit having no title to the ring could pass none the better title.

Attempt all parts of either Q. No. 6 or Q. No. 6A

Question 6

Distinguish between the following :

(a) Mortgage and Charge

(b) Sale and agreement to sell

(c) Contract of Indemnity and Guarantee

(d) Negotiability and Assignability

(e) Bill of Exchange and Promissory Note. *(3 marks each)*

OR (Alternate question to Q. No. 6)

Question 6A

(i) Explain the salient features of the Real Estate (Regulation and Development) Act, 2016.

(ii) Explain Adjudication of Benami Property under the Benami Transaction Act, 1988.

(iii) Explain Seizure and Confiscation under the Essential Commodities Act, 1955.

(iv) What do you understand by the term "Money Laundering" under the Prevention of Money Laundering Act, 2002 ?

(v) What do you understand by "Holding out" under the Indian Partnership Act, 1932? Enumerate the circumstances under which the docrine of "Holding out" is not applicable ? *(3 marks each)*

Answer 6(a)

Mortgage and Charges

(a) A mortgage is transfer of an interest in the property made by the mortgagor as a security for the loan, while the charge is not the transfer of any interest in the property though it is security for the payment of an amount.

(b) A charge may be created by act of parties or by operation of law. A mortgage can only be created by act of parties.

(c) A mortgage deed must be registered and attested by two witnesses, while a charge need not be made in writing, and if it is in writing, it need not be attested or registered.

(d) In certain types of mortgage (viz., mortgage by conditional sale and anomalous mortgage) the mortgagor can foreclose the mortgaged property but in charge, the charge-holder cannot foreclose though he can get the property sold as in a simple mortgage.

(e) From the very nature of it, a charge as a general rule, cannot be enforced against a transferee for consideration without notice. But in a mortgage, the transferee of mortgaged property, can only acquire the remaining interest of the mortgagor, and is therefore, only bound by the mortgage.

(f) In a charge created by act of parties the specification of the particular fund or property negates a personal liability and the remedy of the charge-holder is against the property only. In a mortgage, there can be security as well as personal liability. In fact, the absence of a personal liability is the principal test that distinguishes a charge from a simple mortgage.

Answer 6(b)

Sale and Agreement to Sell

(a) In a sale, the property in the goods sold passes to the buyer at the time of contract so that he becomes the owner of the goods. In an agreement to sell, the ownership does not pass to the buyer at the time of the contract, but it passes only when it becomes sale on the expiry of certain time or the fulfilment of some conditions subject to which the property in the goods is to be transferred.

(b) An agreement to sell is an executory contract, a sale is an executed contract.

(c) An agreement to sell is a contract pure and simple, but a sale is contract plus conveyance.

(d) If there is an agreement to sell and the goods are destroyed by accident, the loss falls on the seller. In a sale, the loss falls on the buyer, even though the goods are with the seller.

(e) If there is an agreement to sell and the seller commits a breach, the buyer has only has a personal remedy against the seller, namely, a claim for damages. But if there has been a sale, and the seller commits a breach by refusing to deliver the goods, the buyer has not only a personal remedy against him but also the other remedies which an owner has in respect of goods such as a suit for conversion or detenue, etc.

Answer 6(c)

Contract of Indemnity and Guarantee

(a) In a contract of indemnity there are only two parties : the indemnifier and the indemnified. In a contract of guarantee, there are three parties; the surety, the principal debtor and the creditor.

(b) In a contract of indemnity, the liability of the indemnifier is primary. In a contract of guarantee, the liability of the surety is secondary. The surety is liable only if the principal debtor makes a default, the primary liability being that of the principal debtor.

(c) The indemnifier need not necessarily act at the request of the debtor; the surety gives guarantee only at the request of the principal debtor.

(d) In the case of a guarantee, there is an existing debt or duty, the performance of which is guaranteed by the surety, whereas in the case of indemnity, the possibility of any loss happening is the only contingency against which the indemnifier undertakes to indemnify.

(e) The surety, on payment of the debt when the principal debtor has failed to pay is entitled to proceed against the principal debtor in his own right, but the indemnifier cannot sue third-parties in his own name, unless there be assignment. He must sue in the name of the indemnified.

Answer 6(d)

Negotiability and Assignability

(a) Negotiation requires mere delivery of a bearer instrument and endorsement and delivery of an order instrument to effectuate a transfer. Assignment requires a written document signed by the transferor.

(b) Notice of transfer of debt (actionable claim) must be given by the assignee to the debtor in order to complete his title; no such notice is necessary in a transfer by negotiation.

(c) On assignment, the transferee of an actionable claim takes it subject to all the defects in the title of, and subject to all the equities and defences available against the assignor, even though he took the assignment for value and in good faith. In case of negotiation the transferee, as holder-in-due course, takes the instrument free from any defects in the title of the transferor.

Answer 6(e)

Bill of Exchange and Promissory Note

(a) A promissory note is a two-party instrument, with a maker (debtor) and a payee (creditor). In a bill of exchange there are three parties—drawer, drawee and payee, though any two out of the three capacities may be filled by one and the same person. In a bill of exchange, the drawer is the maker who orders the drawee to pay the bill to a person called the payee or to his order. When the drawee accepts the bill of exchange he is called the acceptor.

(b) A Promissory note cannot be made payable to the maker himself, while in a bill of exchange, the drawer and payee may be the same person.

(c) A Promissory note contains an unconditional promise by the maker to pay to the payee or his order; in a bill of exchange there is an unconditional order to the drawee to pay according to the directions of the drawer.

(d) A Promissory note is presented for payment without any prior acceptance by the maker. A bill of exchange payable after sight must be accepted by the drawee or someone else on his behalf before it can be presented for payment.

(e) The liability of the maker of a Promissory note is primary and absolute, but the liability of the drawer of a bill of exchange is secondary and conditional.

(f) Foreign bill of exchange must be protested for dishonour but no such protest is necessary in the case of a promissory note.

(g) When a bill of exchange is dishonoured, due notice of dishonour is to be given by the holder to the drawer and the intermediate endorsee, but no such notice need to be given in the case of a Promissory note.

(h) A bill of exchange can be drawn payable to bearer provided it is not payable on demand. A promissory note cannot be made payable to bearer, even if it is made payable otherwise than on demand.

Answer 6A(i)

The Salient Features of the Real Estate (Regulation and Development) Act, 2016 are as under :

— To establish the Real Estate Regulatory Authority for regulation and promotion of the real estate sector.

— To ensure sale of plot, apartment of building, as the case may be, or sale of real estate project, in an efficient and transparent manner.

— To ensure protection of the interest of consumers in the real estate sector.

— To establish an adjudicating mechanism for speedy dispute redressal.

— To establish the Appellate Tribunal to hear appeals from the decisions, directions or orders of the Real Estate Regulatory Authority (RERA).

— To regulates transactions between buyers and promoters of residential real estate projects.

— To establish state level regulatory authorities.

— Residential real estate projects, with certain exceptions, need to be registered with RERAs

— Promoters cannot book or offer these projects for sale without registering them with RERA.

— Real estate agents dealing in these projects also need to register with RERAs

— Right to Legal Representation on behalf of client by Company Secretaries or Chartered Accountants or Cost Accountants or Legal Practitioners

— Imposes stringent penalty on promoter, real estate agent and also prescribes imprisonment.

Answer 6A(ii)

Section 26 of the Benami Transactions (Prohibition) Act, 1988 relates to adjudication of benami property.

Adjudicating Authority shall issue notice to the benamidar, to furnish such documents, particulars or evidence as is considered necessary on a date to be specified therein.

Adjudicating Authority shall, after considering the reply, if any, to the notice, making or causing to be made such inquiries and calling for such reports or evidence as it deems fit.

Taking into account all relevant materials, Adjudicating Authority provide an opportunity of being heard to the person specified as a benamidar therein, the Initiating Officer, and any other person who claims to be the owner of such property.

Thereafter, the Adjudicating Authority shall pass an order holding the property not to be a benami property and revoking the attachment order; or holding the property to be a benami property and confirming the attachment order in all other cases.

If Adjudicating Authority has reason to believe that a property, other than a property referred to him by the Initiating Officer is benami property, it shall provisionally attach the property.

Answer 6A(iii)

The Essential Commodities Act, 1955 uses the expressions 'confiscation' and 'seizure' in Section 6A and under this section a commodity which has been seized in pursuance of an order under Section 3 can be confiscated under the circumstances mentioned in Section 6A. Therefore, confiscation is an action posterior to the seizure of the essential commodity.

The expression 'seizure' means to take possession contrary to the wishes of the owner of the property and that such action is unilateral action of the person seizing. The person from whom anything is seized loses, from the moment of seizure, the right or power to control or regulate the use of that thing. Confiscation is condemnation and adjudication of property to the public treasury the goods that are seized.

Answer 6A(iv)

Section 3 of the Prevention of Money Laundering Act, 2002 states that whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or actually involved in any process or activity connected with the proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it is an untainted property shall be guilty of offence of money laundering.

Money laundering is the processing of criminal proceeds to disguise its illegal origin. The process of money laundering can be classified into three stages, namely, placement, layering and integration.

Answer 6A(v)

Holding Out means "to represent". Strangers, who hold themselves out or represent themselves to be partners in a firm, whereby they induce others to give credit to the partnership are called "Partners by Holding Out".

The law relating to partners by holding out is contained in Section 28 of the Indian Partnership Act, 1932 which lays down that "Anyone who by words, spoken or written or by conduct represents himself, or knowingly permits himself to be represented to be a partner in a firm, is liable as a partner in that firm to any one who has on the faith of any such representation given credit to the firm, whether the person representing himself or represented to be a partner does or does not know that the representation has reached the person so giving credit".

The doctrine of Holding Out is not applicable in the following cases:

1. It does not apply to cases of torts committed by partners. A person, therefore, cannot be held liable for the torts of another simply because that other person held himself to be his partner.

2. It does not extend to bind the estate of a deceased partner, where after a partner's death the business of the firm is continued in the old firm name.

3. It also does not apply where the holding Out partner has been adjudicated insolvent.

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FINANCIAL AND STRATEGIC MANAGEMENT

Time allowed : 3 hours *Maximum marks : 100*

NOTE : *1. Answer ALL Questions.*

2. Tables showing the present value of ₹1 and the present value of an annuity of ₹1 for 15 years are annexed.

3. Suitable assumptions, if considered necessary, may be made while answering a question. However, such assumptions must be stated clearly.

4. Working notes should form part of the answer.

PART I

Question 1

Comment on the following :

(a) Profit maximization is the sole objective of Financial Management.

(b) The firm is not required to pay dividends on retained earnings, so it may be argued that the retained earnings have no cost as such.

(c) The interest rate given by a bank for deposits and the repo rate are the decisive factors in the calculation of Marginal Cost of Funds based Lending Rate (MCLR).
(5 marks each)

Answer 1(a)

Profit maximisation is considered as an important goal in financial decision-making in an organisation. It ensures that firm utilizes its available resources most efficiently under conditions of competitive markets. But in recent years, under the changed corporate environment, profit maximisation is regarded as unrealistic, difficult, inappropriate and socially not much preferred goal for business organisation. It is mainly criticized because its emphasis is generally on short run projects and it ignores risk factor. Further it may cause decreasing share prices in the long run. Shareholder wealth maximization on the other hand is more preferred objective as it focuses on maximization of present value (or wealth) of an enterprise. Wealth maximization is preferred for the following reasons : (i) it is consistent with the object of maximising owners economic welfare, (ii) It focuses on the long run picture and considers risk, (iii) It takes into account time value of money and (iv) helps in avoiding volatility in the market price of shares. The wealth maximization strategy takes into consideration the timing and uncertainty and managers are willing to give up short-term profits for long term value of the firm.

Answer 1(b)

Earnings generated by a firm are distributed among the equity shareholders. However, if the entire earnings are not distributed and a part of it is retained by the firm, then these retained earnings are available for reinvestment within the firm. The firm is not required to pay dividends on retained earnings, so it may be argued that the retained earnings have no cost as such. But this is not true. The cost of retained earnings must be considered as the opportunity cost of the dividends foregone . From the point of view of equity shareholder, the earnings could have been profitably invested by them, had these been distributed to them. Thus, there is an opportunity cost involved in the firms retaining the earnings and an estimation of this cost may be considered as a measure of cost of capital of retained earnings. The cost of retained earnings are often taken as equal to the cost of equity. However, it is to be noted that retained earnings are not adjusted for tax,floatation cost and underpricing. While retaining the earnings, the firm does not in any way incur any such cost and the earnings retained are already after tax.

Answer 1(c)

The Reserve Bank of India has brought a new methodology of setting lending rate by commercial banks under the name Marginal Cost of Funds based Lending Rate (MCLR). It has modified the existing base rate system from April 2016 onwards. As per the new guidelines issued by the RBI, banks have to determine Marginal Cost of Funds based Lending Rate (MCLR) which is the internal benchmark lending rates. Based upon this MCLR, interest rate for different types of customers should be fixed in accordance with their risk profile. The base rate will be now determined on the basis of the MCLR calculation.

The MCLR should be revised monthly by considering some new factors including the repo rate and other borrowing rates. Specifically the repo rate and other borrowing rates were not explicitly considered under the base rate system. As per the new guidelines, banks have to set five benchmark rates for different tenure or time periods ranging from overnight (one day) rates to one year. The new methodology uses the marginal cost or latest cost conditions reflected in the interest rate given by the banks for obtaining funds (from deposits and while borrowing from RBI) while setting their lending rate. This means that the interest rate given by a bank for deposits and the repo rate (for obtaining funds from the RBI) are the decisive factors in the calculation of MCLR.

Attempt all parts of either Q. No. 2 or Q. No. 2A

Question 2

(a) *X Ltd. issues 1,000, 6% preference shares of ₹100 each redeemable after a maximum period of 20 years at face value. The floatation cost is ₹4 per share. Find the cost of capital.* *(3 marks)*

(b) *Calculate Reorder level, Minimum level and Average stock level from the following information of X Ltd. :*

Normal usage	*50 units per week*	
Minimum usage	*25 units per week*	
Maximum usage	*75 units per week*	
Re-order quantity	*300 units*	
Re-order period	*4 to 6 weeks*	*(3 marks)*

(c) From the following data, calculate the degree of operating leverage of the two companies X Ltd. and Y Ltd. :

	X Ltd.	Y Ltd.
Sales (₹)	20,00,000	25,00,000
Variable expenses	40%	30%
Fixed cost (₹)	5,00,000	10,00,000

Also state which company has the greater business risk and why ?
(3 marks)

(d) The present credit term of X Ltd. are 1/10 net 30. Its annual sales are ₹40,00,000, its average collection period is 20 days. Its variable cost and average total costs to sales are 0.85 and 0.95 respectively and its cost of capital is 10%. The proportion of sales on which customers currently takes discount is 0.50.

X Ltd. is considering relaxing the discount terms to 2/10 net 30. Such relaxation is expected to increase sales by ₹5,00,000, reduce the average collection period to 14 days and increase the proportion of discount sales to 0.80. What will be the effect of relaxing the discount policy on company's profit ? Take year as 360 days. *(3 marks)*

(e) The following information is available in respect of the rate of return on investment (r), the capitalisation rate (Ke) and earnings per share (E) of X Ltd. :

r = 12%, E = 20.

Determine the value of shares, assuming the following :

D/P ratio = 10, Retention Ratio = 90, Ke = 20%. *(3 marks)*

OR (Alternate question to Q. No. 2)

Question 2A

(i) Company X and Company Y are in the same risk class, and are identical in every respect except that company X uses debt, while company Y does not. The levered firm has ₹4,50,000 debentures, carryng 10% rate of interest. Both the firms earn 20% operating profit on their total assets of ₹7,50,000. Assume perfect capital markets, rational investors and so on; a tax rate of 35% and capitalisation rate of 15% for an all-equity company.

Compute the value of company X and Y using the Net Income (NI) approach.
(5 marks)

(ii) X Ltd. belongs to a risk class for which the approximate capitalisation rate is 10%. It currently has outstanding 2,500 shares selling at ₹100 each. The company is contemplating the declaration of dividend of ₹5 per share at the end of the current financial year. It expects to have a net income of ₹25,000 and has a proposal for making new investments of ₹50,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm.
(5 marks)

(iii) X Ltd. has furnished the following information :

Earnings per share (EPS)	*₹8*
Dividend payout ratio	*25%*
Market price per share	*₹80*
Tax rate	*30%*
Growth rate of dividend	*8%*

The company wants to raise additional capital of ₹10,00,000 including debt of ₹4,00,000.

The cost of debt (before tax) is 10% up to ₹2,00,000 and 15% beyond that. Compute the after tax cost of equity and debt and the weighted average cost of capital. *(5 marks)*

Answer 2(a)

Issue price of share = Rs. 100

Floatation cost = Rs. 4

Net Proceeds (SV) = Rs. 96

Redeemable value (RV) = Rs. 100

Dividend (D) = Rs. 6 per share

Cost of Preference share be K_p

$$K_p = \frac{D+(RV-SV)/N}{\frac{RV+SV}{2}}$$

$$K_p = \frac{6+(100-96)/20}{\frac{100+96}{2}} = 6.33\%$$

Answer 2(b)

Reorder Level = (Maximum Usage * Maximum Delivery Time)

= 75 * 6 = 450 units

Minimum Level = Reorder Level – (Normal Usage * Average Delivery Time)

= 450 – (50 * 5)

= 200 units

Average Stock Level = Minimum Level + (Reorder Quantity/2)

= 200 + (300/2)

= 350 units

Answer 2(c)

Particulars	X Ltd. (Rs.)	Y Ltd. (Rs.)
Sales	20,00,000	25,00,000
Less : variable cost	(8,00,000)	(7,50,000)
Contribution	12,00,000	17,50,000
Less : Fixed cost	(5,00,000)	(10,00,000)
EBIT	7,00,000	7,50,000

Degree of operating leverage (DOL) = Contribution / EBIT

DOL for X Ltd. = 12,00,000 / 7,00,000 = 1.71

DOL for Y Ltd. = 17,50,000 / 7,50,000 = 2.33

Operating leverage of Y Ltd. is higher than that of X Ltd. In Y Ltd., the EBIT is likely to vary more with fluctuation in sales and hence it has higher degree of operating risk.

Answer 2(d)

Increase in Revenue = Rs. 5,00,000

Increase in contribution (Rs. 5,00,000 * 15%) = Rs. 75,000

Investment in receivable

$$\text{Existing} = \frac{40,00,000 \times 0.95 \times 20}{360} = \text{Rs. } 2,11,111$$

$$\text{Proposed} = \frac{(40,00,000 \times 0.95 + 5,00,000 \times 0.85) \times 14}{360} = \text{Rs. } 1,64,306$$

Reduction in Investment x cost of capital

= (Rs. 2,11,111 - Rs. 1,64,306) x 0.10

= Rs. 4,681

Increase in discount

Present discount	=	Rs. 40,00,000 x 0.01 x 0.5	=	Rs. 20,000
Proposed discount	=	Rs. 45,00,000 x 0.02 x 0.8	=	Rs. 72,000
Difference in discount				Rs. 52,000

Net effect on profit/loss = (Rs. 75,000 + Rs. 4681)- Rs. 52,000 = Rs. 27,681

Since, the proposed discount policy will increase the profits of the company by Rs. 27,681. Therefore, it is advisable for the company to relax the present discount policy.

Answer 2(e)

Value of the share	=	P
Retention ratio	=	b
Earnings per share	=	E
Return on investment	=	r
Capitalisation rate	=	Ke

$$P = \frac{E\,(1-b)}{ke - br}$$

$$= \frac{20\,(1-0.90)}{0.20 - (0.90 \times 0.12)}$$

= Rs. 21.74

Answer 2A (i)

Valuation under NI approach

Particulars	*Company X (Rs.)*	*Company Y (Rs.)*
EBIT	1,50,000	1,50,000
Less : Interest @ 10%	(45,000)	-
Taxable income	1,05,000	1,50,000
Less : Taxes @ 35%	(36,750)	(52,500)
Profit after tax (PAT)	68,250	97,500
Equity capitalisation rate (Ke)	0.15	0.15
Market value of equity (S)		
PAT/Ke	4,55,000	6,50,000
Market value of debt (B)	4,50,000	-
Total value of the firm	9,05,000	6,50,000

Answer 2A(ii)

P_1 = Price of the share at the end of year 1

P_0 = Current price of the share

K_e = Cost of equity

D_1 = Dividend at end of year 1

Value of the firm when dividends are paid

$P_0 = (D_1 + P_1) / (1 + K_e)$

$100 = (5 + P_1) / (1 + 0.10)$

$P_1 =$ Rs. 105

Amount required to be raised from the issue of new shares

$n_2 P_1 = I – (E - n_1 D_1)$

$= 50{,}000 – [25{,}000 – (2500 \times 5)]$

= Rs. 37,500

No. of additional shares to be issued

$n_2 = 37{,}500 / 105$ shares

Value of the firm

$$= \frac{(n_1 + n_2)P_1 - I + E}{(I + K_e)}$$

$$= \frac{(2500 + 37500/105)105 - 50{,}000 + 25{,}000}{(1 + 0.10)} = \text{Rs. } 2{,}50{,}000$$

Value of the firm when dividends are not paid

$P_0 = (D_1 + P_1) / (1 + K_e)$

$100 = (0 + P_1) / (1 + 0.10)$

$P_1 =$ Rs. 110

Amount required to be raised from the issue of new shares

$n_2 P_1 = I – (E - n_1 D_1)$

$= 50{,}000 – 25{,}000$

= Rs. 25,000

No. of additional shares to be issued

$n_2 = 25000 / 110$ shares

Value of the firm

$$= \frac{(n_1 + n_2)P_1 - I + E}{(1 + K_e)}$$

$$= \frac{(2500 + 25000/110)110 - 50{,}000 + 25{,}000}{(1 + 0.10)} = \text{Rs. } 2{,}50{,}000$$

So, the value of the firm remains same whether dividend is declared or not declared.

Answer 2A (iii)

Cost of Equity

K_e = $D/P_0 + g$

= 2/80 + 0.08

= 0.025 + 0.08 = 0.105 or 10.5%

Cost of 10% Debt

K_d = Interest (1-t)

= 0.10(1- 0.3) = 0.07 or 7%

Cost of 15% Debt

K_d = Interest (1-t)

= 0.15 (1-0.3) = 0.105 or 10.5%

Calculation of weighted average cost of capital

Type of capital	*Amount (Rs.)*	*Weight (w)*	*Cost of capital (k)*	*(w)*(k)*
Equity	6,00,000	0.6	0.105	0.063
10% Debt	2,00,000	0.2	0.07	0.014
15% Debt	2,00,000	0.2	0.105	0.021
Total	10,00,000	1.0		0.098

Weighted average cost of capital = 0.098 or 9.8%

Question 3

Differentiate between the following :

(a) 'Investment' and 'Speculation'

(b) 'Markowitz model' and 'Sharpe index model'

(c) 'Capital Budgeting' and 'Capital Rationing'. *(5 marks each)*

Answer 3(a)

'Investment' and 'Speculation'

Basis for comparison	*Investment*	*Speculation*
Meaning	The purchase of an asset with the hope of getting returns is called investment.	Speculation is an act of conducting a risky financial transaction, in the hope of substantial profit.

Basis for decision making	Fundamental factors, i.e. performance of the company	Hearsay, technical charts and market psychology
Time horizon	Long term	Short term
Risk involved	Moderate risk	High risk
Behaviour of participants	Conservative and Cautious	Risk takers
Intent to profit	Changes in value	Changes in prices
Expected rate of return	Modest rate of return	High rate of return
Funds	An investor uses his own funds	A speculator uses borrowed funds
Income	Stable	Uncertain and Erratic

Answer 3(b)

Markowitz model and Sharpe Index Model

Markowitz model

Dr. Harry M. Markowitz is credited with developing the first modern portfolio analysis model, the Markowitz Model. It provides a theoretical framework for analysis of risk-return choices. The concept of efficient portfolios has been enunciated in this model. A portfolio is efficient when it yields highest return for a particular level of risk or minimizes risk for a specified level of expected return.

The Markowitz model makes the following assumptions regarding investor behaviour:

— Investors consider each investment alternative as being represented by a probability distribution of expected returns over some holding period.

— Investors maximize one period expected utility and possess utility curve, which demonstrates diminishing marginal utility of wealth.

— Individuals estimate risk on the basis of variability of expected returns.

— Investors base decisions solely on expected return and variance of returns only.

— At a given risk level, higher returns are preferred to lower returns. Similarly for a given level of expected returns, investors prefer less risk to more risk.

Sharpe Index Model

Willam Sharpe introduced a model called Sharp Index Model in which return on a security is correlated to an index of securities or an index or an economic indicator like

GDP or general price level. Sharpe developed the Single-Index Model and Multi index model. The single-index model imposes restrictions on how security returns can co-vary. In particular, it is assumed that all covariance arises through an "index." This leads to a reduction in complexity. Besides simplifying the covariance matrix, this approach is easily extended to take account of non-financial factors. In the multi-index model, for example, one of the indexes could easily be the rate of inflation.

Answer 3(c)

Capital budgeting and Capital Rationing

Capital budgeting

Capital budgeting refers to long-term planning for proposed capital outlays and their financing. It includes both raising of long-term funds as well as their utilization. It contains searching for new and more profitable investment proposals, investigating, engineering and marketing considerations to predict the consequences of accepting the investment and making economic analysis to determine the profit potential of investment proposal. There are various methods used in capital budgeting analysis such as payback period, average rate of return, net present value, internal rate of return and profitability index.

Capital Rationing

Capital rationing decision is a simple process in those firms where fund is not the constraint, but in majority of the cases, firms have fixed capital budget. So large number of projects compete for limited budget. So the firm rations these funds in a manner so as to maximize the long run returns. Thus, capital rationing refers to the situations where the firms have more acceptable investments requiring greater amount of finance than is available with the firm. It is concerned with the selection of a group of investment out of many investment proposals ranked in the descending order of the rate of return.

Question 4

(a) X Ltd. plans to manufacture and sell 400 units of electronic appliances per month at a price of ₹600 each. The ratios of cost to selling price are as follows:

Raw Material	*30%*
Packing Material	*10%*
Direct Labour	*15%*
Direct Expenses	*5%*

Fixed overhead are estimated at ₹4,32,000 per annum.

The following norms are maintained for inventory management :

Raw Material	*30 days*
Packing Material	*15 days*
Finished goods	*150 units*
Work-in-progress	*7 days*

Other details are :

(a) Credit sales represent 80% of total sales and dealers enjoy 30 days credit.

(b) Creditors allow 21 working days credit for payment.

(c) Lag in payment of overhead and expenses are 15 working days.

(d) Cash requirement to be 10% of total current assets (excluding cash balance).

(e) Working days in year are taken as 300 days.

(f) Degree of completion is 100% for Raw Material and 50% of other expenses.

Calculate the net working capital required and the maximum permissible bank finance under second method of financing as per Tondon Committee norms. *(8 marks)*

(b) *X Ltd. has a machine having an additional life of 5 years, which costs ₹2,00,000 and has a book value of ₹80,000. A new machine costing ₹4,00,000 is available. Though its capacity is the same as that of the old machine, it will mean a saving in variable costs to the extent of ₹1,40,000 per annum. The life of the machine will be 5 years at the end of which it will have a scrap value of ₹40,000. The rate of income tax is 46% and it is the policy of the company not to make an investment if the yield is less than 12% per annum. The old machine, if sold today, will realise ₹20,000; and will have no salvage value if sold at the end of 5th year. Advise X Ltd. whether or not the old machine should be replaced. Assume capital gain to be tax free and ignore income tax saving on depreciation as well as on loss due to sale of existing machine.* *(7 marks)*

Answer 4(a)

Calculation of total cost of (400 x 12) 4800 units

Particulars		*Amount (Rs.)*
Raw material	30% x Rs. 600 x 4800 units	8,64,000
Packing material	10% x Rs. 600 x 4800 units	2,88,000
Direct labour	15% x Rs. 600 x 4800 units	4,32,000
Direct expenses	5% x Rs. 600 x 4800 units	1,44,000
Fixed overhead		4,32,000
Total cost		21,60,000
Total sales (4800 x Rs. 600)		28,80,000
Profit		7,20,000

Current Assets

Particulars	*Rs.*	*Rs.*
Raw material Rs. 8,64,000 x 30/300		Rs. 86,400
Packing material Rs. 2,88,000 x 15/300		Rs. 14,400
Work in progress		
Raw material (100%)		
8,64,000 x 7/300	Rs. 20,160	

Direct Labour (50%)		
4,32,000 x 7/300 x 50%	Rs. 5,040	
Direct Expenses (50%)		
1,44,000 x 7/300 x 50%	Rs. 1,680	
Fixed Overhead (50%)		
4,32,000 x 7/300 x 50%	Rs. 5,040	Rs. 31,920
Finished goods		
Rs. 21,60,000 x 150/4800		Rs. 67,500
Debtors		
4800 x 600 x 80% x 30/300		Rs. 2,30,400
Total current assets (without cash)		Rs. 4,30,620
Cash balance		Rs. 43,062
Total Current Assets (A)		**Rs. 4,73,682**

Current liabilities

Particulars	*Rs.*	*Rs.*
Creditors for Raw Material		
8,64,000 x 21/300		60,480
Creditors for Packing Material		
2,88,000 x 21/300		20,160
Direct Expenses		
1,44,000 x 15/300		7,200
Fixed Overhead		
4,32,000 x 15/300		21,600
Total Current liabilities (B)		**1,09,440**
Net Working Capital (A)-(B)		**3,64,242**

Maximum permissible bank finance under second method of financing as per Tandon Committee norms

	Rs.
Total Current Assest	4,73,682
Less : 25% of current assets	(1,18,421)
	3,55,261
Less : Current liabilities	(1,09,440)
Maximum permissible bank borrowings	2,45,821

Note : *In the solution, debtors are calculated on selling price, debtors can also be calculated at cost price.*

Answer 4(b)

Net cash outlay on new machine

	Rs.
Purchase price	4,00,000
Less : realization from old machine	(20,000)
New initial investment	3,80,000

Cash inflows

	Rs.
Annual savings in variable cost as a result of purchase of new machine	1,40,000
Less : Tax @ 46%	(64,400)
Annual savings after tax	75,600
PV of cash inflows annually for 5 years @ 12% p.a.	
(75,600 x 3.6048)	2,72,523
PV of salvage (40,000 x 0.5674)	22,696
Total PV of cash inflows	2,95,219
Less : Initial investment	(3,80,000)
Net present value	(84,781)

Since the net present value of the new machine is negative, the company should not replace the existing machine.

PART II

Question 5

(a) *A private bank, as a part of Comprehensive Internal Management Study, has opted to modernise the banking system. The situation is very tough for the banking players in the current dynamic scenario. The CEO of the bank wants to initate the change whereas the Chairman wants to wait and watch to take any decision.*

Analyse and evaluate the strategies of CEO and Chairman to bring about corporate change in the existing banking system. *(4 marks)*

(b) *A startup company is thinking of launching a low cost detergent powder in the market. The market for the said product is already dominated by big FMCG players.*

As a strategic professional put forward your suggestions to the Company Management Committee to deal with the nature of "entry barriers" while launching the low cost detergent powder. *(4 marks)*

(c) *A company ABC is finding difficult to adapt itself in the changing environment. A strategic consultant has advised it to go for an environmental scanning to deal with the current problem.*

Being company's consultant, submit a report stating the strategic fit between external and internal environment so as to enable the company to regain its previous sustainable market position. *(4 marks)*

(d) *A food processing company has started losing its market share for its products. Based on the result of market survey for its products, it observed that the customers were not being satisfied with the existing quality of products.*

Hence, in the light of above, explain the concept of continuous improvement by TQM. *(4 marks)*

(e) *Two firms A and B are belonging to the service sector. They are identical except growth rate and market share because of locational and other external reasons.*

Firm A has high market share and high growth rate while firm B has a high market share with a low business growth rate.

You need to identify the category of firm A and B to which they belong referring to the BCG matrix and advise them right strategy so as to remain competitive in the market. *(4 marks)*

Answer 5(a)

Banking sectors across the globe are facing a lot of challenges & opportunities to grow. In the banking sector the emergence of both private and public player/parties have created competition among each other and an opportunity for the customers.

Customers have varied options to choose services offered by these banks. In such situation a private bank has two options to choose as put forth by its CEO and Chairman.

The CEO of the bank wants to modernize the bank and sees the current situation as an opportunity. So, if the bank opts for growth strategy, it may go ahead with the decision of CEO, as it helps to expand the activities to achieve growth in sales, assets, profits or some combination as it is needed for the bank to sustain in the long run.

Whereas, the Chairman of the bank wants to play safe by avoiding taking risk at a time when the situation is not very favorable. So he is opting for a stable strategy by making no change in the bank's current activities without any significant change in direction.

It may be viewed as a lack of strategy by critic. As stability strategy may be appropriate for a successful organisation in a predictable environment. For any sector it is useful in the short run and can be dangerous if followed for too long.

Answer 5(b)

A startup company thinking of launching a low cost detergent powder in the market has to face a few threats in establishing itself in the market.

The new entrant to an industry typically bring to it new capacity, a desire to gain market share and substantial resources. Therefore, the threat to the entry for the said startup company may depend on the presence of entry barriers and the reactions that can be expected from exising competitors. Thus, there are obstructions for the said company that makes it difficult to enter an industry.

Some of the possible barriers to enter the industry are as follows:

1. *Economies of scale* - The established players have significant cost advantages over any new rival.
2. *Product differentiation* - it creates huge entry barriers through high levels of advertising and promotion.
3. *Switching cost* - It becomes difficult for new companies to persuade customers to switch to a new product.
4. *Access to distribution channels* - Startups quiet often witnesses the difficulty of securing shelf space in retail shops.
5. *Government policy* - Government can limit entry into an industry through licensing requirements by restricting access to raw materials etc.

Answer 5(c)

Being the company consultant, a SWOT analysis may be proposed to analyse the changes in the external and internal environments.

SWOT analysis is a tool to understand the strength, weaknesses, opportunities and threats that helps in strategic planning for a specific company.

The report may include the following factors:

Strengths (Internal, positive factors)

What internal resources do you have? Think about the following:

(i) Positive attribute of people, such as knowledge, background, education, credentials, network, reputation or skills.

(ii) Tangible assets of the company such as capital, credit, existing customers or distribution channel, patents or technology.

(iii) What advantages do you have over your competitors?

(iv) Do you have strong research and development and manufacturing capabilities?

Weaknesses (Internal, negative factors)

Weaknesses are aspect of your business that detract from the value you offer or place you at a competitive disadvantage. You need to enhance these areas in order to compete with your best competitors.

(i) What factors that are within your control detract from your ability to obtain or maintain a competitive edge.

(ii) What does your business lack (for example, expertise or access to skills or technology)?

(iii) Does your business have limited resources and/or in a poor location?

Opportunities

The opportunities for growth are understanding of the existing market conditions to establish competitive advantage. The study of the competitors (pioneers, close followers, late entrants) will determine the opportunities available for the company.

Threats

Threats amongst other factors can be in the form of restictive government policies, Unpredictable existing demand for product/service, or threat of Global players entering the industry.

Answer 5(d)

TQM or Total Quality Management is mainly concerned with continuous improvement in all tasks, from high level strategic planning and decision-making, to detailed execution of work elements on the shop floor. It stems from the belief that mistakes can be avoided and defects can be prevented. It leads to improving results, in all aspects of work, as a result of continuous improvement in capabilities, people, processes, technology and machine capabilities.

Continuous improvement must deal not only with improving results, but more importantly with improving capabilities to produce better results in the future. The five major areas of focus for capability improvement are-

- Demand generation
- Supply generation
- Technology
- Production and Operations and
- People capability

Therefore, the food processing company should focus on conducting market survey on a continuous basis in order to study the changes in the processes involved for capability improvement to produce better results.

Answer 5(e)

As per the information the firm A belongs to the category of Star. In such category of product, both market share as well as growth rate is high. Stars cannot be complacent when they are on top because they can immediately be overtaken by another company which capitalizes on the market growth rate.

Strategies for Stars

All types of marketing, sales promotion and advertising strategies are used for Stars. Similarly in Stars, because of the high competition and rising market share, the concentration and investment needs to be high in marketing activities so as to increase and retain the market share.

Firm B falls in the category of cash cows. Cash cows are products which have a high market share in low growing market.

Strategies for cash cow

Cash cows are the most stable product/service line for any business and hence the strategy includes retention of the market share for such category. As the market growth rate is low and acquisition is less and customer retention is higher. Thus, customer satisfaction programs, loyalty programs and other such promotional methods form the core of the marketing plan for a cash cow product. The company can also adopt market expansion strategies by identifying opportunities in the emerging global markets.

Attempt all parts of either Q. No. 6 or Q. No. 6A

Question 6

Comment on the following :

(a) Management is the art of getting things done through people. (5 marks)

(b) Strategic Management is of paramount significance for a company secretary. (5 marks)

(c) Strategic Financial Management (SFM) is concerned with taking three key financial decisions. (5 marks)

(d) TOWS strategies are product of trade off between internal and external factors. (5 marks)

OR (Alternate question to Q. No. 6)

Question 6A

Comment on the following :

(i) The first and foremost managerial function is 'planning'.

(ii) Business environment is aggregate of all conditions, events and influences that surround and affect the business.

(iii) The nature of business strategy is executive and governing, whereas the corporate strategy is deterministic and legislative.

(iv) Strategy formulation and strategy implementation are not supplanting each other but supplementing each other. (5 marks each)

Answer 6(a)

Management is a process containing a human element and makes most efficient use of resources through and with people for attaining defined organizational objectives by most economical and effective planning and execution. Therefore, management can be viewed as:

— A process of continuing and inter-related activities.

— Concentrates on attaining organizational goals.

— Focuses on working with and through human and other organizational resources.

Management is an indispensable facet of the economic life of all human beings and of every business organisation too. This is so because, it is concerned with leading and effective utilization of human, physical and financial resources of a business, so that the set objectives and goals may be accomplished in a desired manner.

Answer 6(b)

A Company Secretary is a Key Managerial Personnel and plays a pivotal role in ensuring best governance practices of the corporate world. In order to ensure that every activity of the business organization are conducted in a manner not harmful to the interests of the stakeholders, i.e. shareholders, employees, suppliers, government agencies etc. it is essential that a Company Secretary work as a strategist and not only, as a professional representing the company in compliance and legal matters. .

He is required to contemplate the future changes in the political, economic, social, technological and legal environment and its impact on the industry as well as the company per se. Further, the job of a company secretary is a balancing act, meaning that on the one hand he needs to take care of almost all the aspects of corporate affairs, i.e. acting as a mediator between the board and the shareholders, communicating with the outside world on various corporate issues, conducting of meetings and proper maintenance of its records etc. and on the other hand he is required to play a significant role of a governance professional thereby ensuring best governance practices in the company.

A Company Secretary has to take care of the following critical facets of the business, i.e. Risk management; Assessing the Sustainability of an organisation; Contribution towards corporate vision and mission; Assessment of the magnitude of business competition; Guiding the company on the path of corporate social responsibility etc.

Thus, it is clear that the role of company secretary encompasses almost all the functions which a top management official need to perform and in view of this, strategic management is of paramount significance for a company secretary.

Answer 6(c)

Strategic Financial Management (SFM) is concerned with development of a finance strategy by identification of some key strategic initiatives/measures which are capable of maximizing entity's Net Present Value (NPV) and by allocation of scarce capital resources among the competing opportunities. It is concerned with taking the following three key financial decisions:

1. *Investment decision* - It is the first and foremost important component of financial strategy. In the course of business, the available finance with business is usually limited but the opportunities to invest are in abundance. Hence the finance manager is required to assess the profitability or return of various individual investment decisions and choose a policy which ensures high liquidity, profitably and growth for organization.
2. *Financing decision* - Once the requirement of funds has been estimated, the next important step is to determine the sources of finance. The manager should try to maintain a balance between debt and equity so as to ensure minimum risk and maximum profitability for the business.
3. *Dividend decision* - The third and last function of finance includes dividend decisions. Dividend is that part of profit, which is distributed to shareholders as a reward for high risk investment in business. It is basically concerned with

deciding as to how much part of profit will be retained for the future investments and how much part of profit will be distributed among the shareholders.

Answer 6(d)

TOWS analysis scans opportunities and threats existing in external environment of any organization, and then generates, compares and selects strategies based on internal strengths and weakness to utilize such opportunities and reduce threats. SWOT Analysis starts with an internal analysis whereas the TOWS analyis starts with an external environment analysis. Strengths and weaknesses are internal factors and opportunities and threats are external factors. This trade-off is the point where four potential strategies derive their importance, these are Strength/Opportunity (SO), Weakness/Opportunity (WO), Strength/Threat (ST) and Weakness/Threat (WT). This is shown in matrix given below:

TOWS Analysis

		INTERNAL FACTORS	
EXTERNAL FACTORS		Strengths (S)	Weaknesses (W)
	Opportunities (O)	Strengths/ Opportunities (SO)	Weaknesses/ Opportunities (WO)
	Threats (T)	Strengths/ Threats (ST)	Weaknesses/ Threats (WT)

Thus, there are 4 types of strategies in TOWS:

1. *Aggressive strategy (SO-maxi-maxi strategy)* - Strategies that use strength to maximise opportunities.
2. *Conservative strategy (ST-maxi-mini strategy)* - Strategies that use strengths to minimize threats.
3. *Competitive strategy (WO-mini-maxi strategy)* - Strategies that minimize weaknesses by taking advantage of opportunities
4. *Defensive strategy (WT-mini-mini strategy)* - Strategies that minimize weaknesses and avoid threats.

Answer 6A(i)

Planning means looking ahead and chalking out future courses of action to be followed. It is a preliminary step in business function. This function aims at developing a comprehensive sketch for achieving the organizational objective. Planning involves identification of tasks that are required to realize the desired goals, demarcation of how such tasks should be performed, chalking out who, when and where such task will be performed. A meticulous knowledge about vision and mission of the organisation forms the pre-requisite of short as well as long term success of planning.

It has been aptly said "well planned is half done". Therefore, planning takes into consideration existing as well as potential human, physical and financial, resources of the organization. It is the basic management function which includes formulation of one or more detailed plans to accomplish optimum balance of needs or demands with the available resources. Thus, planning is deciding in advance what to do, how to do and who will do it. Planning is futuristic in nature and bridges the gap between where we are, to where we want to go.

Answer 6A(ii)

The term environment in context of business refers to all external forces or factors having a direct or indirect bearing on events related to functioning of business. A business organisation does not exist in a vacuum but has to take into account both external and internal environment. Business environment may offer opportunities for any firm or pose threats to the firm. A business firm is also affected by a number of internal factors, which are forces internal to the business organisation. While the policy makers and the managers on the top are concerned with the external environment, the middle level and lower level management are more concerned with the internal environment. Suppliers, competitors, consumers, government, bankers, customers, economic conditions, market conditions, investors, technologies, political parties, international institutions and multiple other institutions working externally to a business constitute its business environment. These forces influence the business even though they are outside the business organization. Thus, business environment is the sum total of all individuals, institutions and other forces that are beyond the control of a business enterprise but the business is still influenced by them as they affect the overall performance and sustainability of the business enterprise.

Answer 6A(iii)

Business Strategy is the strategy framed by the business managers to strengthen the overall performance of the enterprise, whereas corporate Strategy is stated in the mission statement, which explains the business type and ultimate goal of the firm.

The fundamental difference between corporate and business strategy are explained below:

1. Business Strategy is framed by middle-level management which comprises of division, unit or departmental managers. Conversely, corporate strategy is formulated by top level managers, i.e. Board of Directors, CEO, and Managing Director.
2. The nature of business strategy is executive and governing, whereas the corporate strategy is deterministic and legislative.
3 The business strategy is a short term strategy, while the corporate strategy is a long term one.
4. The business strategies aim at selecting the business plan to fulfill the objectives of the organization. As against, the corporate strategy focuses on the business selection in which the company wants to compete in the marketplace.

5. Business strategy is concerned with a particular unit or division. Unlike corporate strategy which focuses on the entire organization, comprising of various business units or divisions.

6. The business strategy focuses on competing successfully in the market place with other firms. On the contrary, corporate strategy stresses on increasing profitability and business growth.

Business Strategy has an introverted approach, i.e. it is concerned with the internal working of the organization. In contrast, Corporate Strategy uses extrovert approach, that links the business with its external environment.

The business strategy is concerned with the growth in revenue, profitability and market share, hence it is more from the perspective of executive planning and governance. Corporate strategy takes into consideration the implementation of various processes required for the effective execution of the business strategy, hence it is more deterministic and legislative in nature.

Answer 6A(iv)

Strategy formulation is largely an intellectual process whereas strategy implementation is more operational in nature. Strategy formulation requires good conceptual, integrative and analytical skills but strategy implementation requires special skills in motivating and managing others. Strategy formulation occurs primarily at the corporate level of an organization while strategy implementation permeates at all levels of the hierarchy. In fact, they are not supplanting each other but supplementing each other. In other words, they are not conflicting but contemporary to each other. The relation between strategy formulation and implementation can be best understood by their interdependence. There are two types of linkages between strategy formulation and implementation i.e. forward linkage and backward linkage.

Forward linkage is concerned with the influence of the formulation on implementation. Strategy formulation has forward linkage with implementation in the sense that total implementation activities are geared according to strategy chosen for implementation. The nature and type of organizational processes and systems are conditioned by the strategy for its successful implementation. Thus, implementation is dependent upon formulation.

Backward linkage, on the other hand, deals with the influence in the opposite direction. Strategy formulation has backward linkage with implementation as organization tends to adopt those strategies which can be implemented with the help of existing structure of resources along with some additional efforts.

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TABLE - 1 : **PRESENT VALUE OF RUPEE ONE**

RATE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15
5%	0.9524	0.9070	0.8638	0.8227	0.7835	0.7462	0.7107	0.6768	0.6446	0.6139	0.5847	0.5568	0.5303	0.5051	0.4810
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584	0.5268	0.4970	0.4688	0.4423	0.4173
7%	0.9346	0.8734	0.8163	0.7629	0.7130	0.6663	0.6227	0.5820	0.5439	0.5083	0.4751	0.4440	0.4150	0.3878	0.3624
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632	0.4289	0.3971	0.3677	0.3405	0.3152
9%	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470	0.5019	0.4604	0.4224	0.3875	0.3555	0.3262	0.2992	0.2745
10%	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855	0.3505	0.3186	0.2897	0.2633	0.2394
11%	0.9009	0.8116	0.7312	0.6587	0.5935	0.5346	0.4817	0.4339	0.3909	0.3522	0.3173	0.2858	0.2575	0.2320	0.2090
12%	0.8929	0.7972	0.7118	0.6355	0.5674	0.5066	0.4523	0.4039	0.3606	0.3220	0.2875	0.2567	0.2292	0.2046	0.1827
13%	0.8850	0.7831	0.6931	0.6133	0.5428	0.4803	0.4251	0.3762	0.3329	0.2946	0.2607	0.2307	0.2042	0.1807	0.1599
14%	0.8772	0.7695	0.6750	0.5921	0.5194	0.4556	0.3996	0.3506	0.3075	0.2697	0.2366	0.2076	0.1821	0.1597	0.1401
15%	0.8696	0.7561	0.6575	0.5718	0.4972	0.4323	0.3759	0.3269	0.2843	0.2472	0.2149	0.1869	0.1625	0.1413	0.1229
16%	0.8621	0.7432	0.6407	0.5523	0.4761	0.4104	0.3538	0.3050	0.2630	0.2267	0.1954	0.1685	0.1452	0.1252	0.1079
17%	0.8547	0.7305	0.6244	0.5337	0.4561	0.3898	0.3332	0.2848	0.2434	0.2080	0.1778	0.1520	0.1299	0.1110	0.0949
18%	0.8475	0.7182	0.6086	0.5158	0.4371	0.3704	0.3139	0.2660	0.2255	0.1911	0.1619	0.1372	0.1163	0.0985	0.0835
19%	0.8403	0.7062	0.5934	0.4987	0.4190	0.3521	0.2959	0.2487	0.2090	0.1756	0.1476	0.1240	0.1042	0.0876	0.0736
20%	0.8333	0.6944	0.5787	0.4823	0.4019	0.3349	0.2791	0.2326	0.1938	0.1615	0.1346	0.1122	0.0935	0.0779	0.0649
21%	0.8264	0.6830	0.5645	0.4665	0.3855	0.3186	0.2633	0.2176	0.1799	0.1486	0.1228	0.1015	0.0839	0.0693	0.0573
22%	0.8197	0.6719	0.5507	0.4514	0.3700	0.3033	0.2486	0.2038	0.1670	0.1369	0.1122	0.0920	0.0754	0.0618	0.0507
23%	0.8130	0.6610	0.5374	0.4369	0.3552	0.2888	0.2348	0.1909	0.1552	0.1262	0.1026	0.0834	0.0678	0.0551	0.0448
24%	0.8065	0.6504	0.5245	0.4230	0.3411	0.2751	0.2218	0.1789	0.1443	0.1164	0.0938	0.0757	0.0610	0.0492	0.0397
25%	0.8000	0.6400	0.5120	0.4096	0.3277	0.2621	0.2097	0.1678	0.1342	0.1074	0.0859	0.0687	0.0550	0.0440	0.0352

TABLE - 2 : PRESENT VALUE OF AN ANNUITY OF RUPEE ONE

RATE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15
5%	0.9524	1.8594	2.7232	3.5460	4.3295	5.0757	5.7864	6.4632	7.1078	7.7217	8.3064	8.8633	9.3936	9.8986	10.3797
6%	0.9434	1.8334	2.6730	3.4651	4.2124	4.9173	5.5824	6.2098	6.8017	7.3601	7.8869	8.3838	8.8527	9.2950	9.7122
7%	0.9346	1.8080	2.6243	3.3872	4.1002	4.7665	5.3893	5.9713	6.5152	7.0236	7.4987	7.9427	8.3577	8.7455	9.1079
8%	0.9259	1.7833	2.5771	3.3121	3.9927	4.6229	5.2064	5.7466	6.2469	6.7101	7.1390	7.5361	7.9038	8.2442	8.5595
9%	0.9174	1.7591	2.5313	3.2397	3.8897	4.4859	5.0330	5.5348	5.9952	6.4177	6.8052	7.1607	7.4869	7.7862	8.0607
10%	0.9091	1.7355	2.4869	3.1699	3.7908	4.3553	4.8684	5.3349	5.7590	6.1446	6.4951	6.8137	7.1034	7.3667	7.6061
11%	0.9009	1.7125	2.4437	3.1024	3.6959	4.2305	4.7122	5.1461	5.5370	5.8892	6.2065	6.4924	6.7499	6.9819	7.1909
12%	0.8929	1.6901	2.4018	3.0373	3.6048	4.1114	4.5638	4.9676	5.3282	5.6502	5.9377	6.1944	6.4235	6.6282	6.8109
13%	0.8850	1.6681	2.3612	2.9745	3.5172	3.9975	4.4226	4.7988	5.1317	5.4262	5.6869	5.9176	6.1218	6.3025	6.4624
14%	0.8772	1.6467	2.3216	2.9137	3.4331	3.8887	4.2883	4.6389	4.9464	5.2161	5.4527	5.6603	5.8424	6.0021	6.1422
15%	0.8696	1.6257	2.2832	2.8550	3.3522	3.7845	4.1604	4.4873	4.7716	5.0188	5.2337	5.4206	5.5831	5.7245	5.8474
16%	0.8621	1.6052	2.2459	2.7982	3.2743	3.6847	4.0386	4.3436	4.6065	4.8332	5.0286	5.1971	5.3423	5.4675	5.5755
17%	0.8547	1.5852	2.2096	2.7432	3.1993	3.5892	3.9224	4.2072	4.4506	4.6586	4.8364	4.9884	5.1183	5.2293	5.3242
18%	0.8475	1.5656	2.1743	2.6901	3.1272	3.4976	3.8115	4.0776	4.3030	4.4941	4.6560	4.7932	4.9095	5.0081	5.0916
19%	0.8403	1.5465	2.1399	2.6386	3.0576	3.4098	3.7057	3.9544	4.1633	4.3389	4.4865	4.6105	4.7147	4.8023	4.8759
20%	0.8333	1.5278	2.1065	2.5887	2.9906	3.3255	3.6046	3.8372	4.0310	4.1925	4.3271	4.4392	4.5327	4.6106	4.6755
21%	0.8264	1.5095	2.0739	2.5404	2.9260	3.2446	3.5079	3.7256	3.9054	4.0541	4.1769	4.2784	4.3624	4.4317	4.4890
22%	0.8197	1.4915	2.0422	2.4936	2.8636	3.1669	3.4155	3.6193	3.7863	3.9232	4.0354	4.1274	4.2028	4.2646	4.3152
23%	0.8130	1.4740	2.0114	2.4483	2.8035	3.0923	3.3270	3.5179	3.6731	3.7993	3.9018	3.9852	4.0530	4.1082	4.1530
24%	0.8065	1.4568	1.9813	2.4043	2.7454	3.0205	3.2423	3.4212	3.5655	3.6819	3.7757	3.8514	3.9124	3.9616	4.0013
25%	0.8000	1.4400	1.9520	2.3616	2.6893	2.9514	3.1611	3.3289	3.4631	3.5705	3.6564	3.7251	3.7801	3.8241	3.8593