GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

(New Syllabus)

DECEMBER 2019

MODULE 2

THE INSTITUTE OF
Company Secretaries of India
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
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MODULE 2

EXECUTIVE PROGRAMME EXAMINATION

DECEMBER 2019

CORPORATE & MANAGEMENT ACCOUNTING

Time allowed : 3 hours *Maximum marks : 100*

Total number of Questions : 100

PART I

1. Mines as asset is an example of :

   (A) Current Asset

   (B) Vesting Asset

   (C) Fictitious Asset

   (D) Intangible Asset

2. At the time of preparation of Balance Sheet, Capital Work-in-progress is shown in the head of :

   (A) Share Capital

   (B) Non-current Liabilities

   (C) Current Assets

   (D) Non-current Assets.

3. As per ICAI Guidance Note, at the end of the year, balance of Share Options Outstanding Account should be shown under the :

   (A) Current Liabilities

   (B) Reserve and Surplus

   (C) Current Assets

   (D) Non-current Liabilities

4. Shiva Ltd. forfeited 4,500 equity shares of ₹10 each (which are issued on 40% pro-rata (basis) for non-payment of allotment @ ₹6 (including premium of ₹2.50) and first and final call ₹3 per share. If the excess money received on application is used for receiving the amount due as securities premium, what amount should be credited to 'Shares Forfeited Account' ?

   (A) ₹15,750

   (B) ₹28,125

   (C) ₹39,375

   (D) ₹13,500

5. P Ltd. forfeited 5,000 equity shares of ₹10 each for non-payment of first and final call of ₹2.50 per share which were issued at a premium of ₹3 per share receivable at allotment. Out of these, 3,200 shares are re-issued at ₹8 per share as fully paid up. The amount transferred to Capital Reserve will be :

   (A) ₹37,500

   (B) ₹31,100

   (C) ₹24,000

   (D) ₹17,600

6. C Ltd. invited applications for the issue of 20 Lakh equity shares of ₹10 each payable ₹3 on application and ₹7 on allotment. Applications were received for 35 Lakh equity shares. Applications for 7 Lakh shares were rejected and pro-rata allotment was made to remaining applicants. Excess application money was adjusted on the sums due on allotment. Ravi could not pay allotment money on his 2500 allotted shares. The amount received on allotment will be :

   (A) ₹1,39,92,500

   (B) ₹1,15,92,500

   (C) ₹1,04,86,880

   (D) ₹1,15,85,500

7. Rule 17 of the Companies (Share Capital and Debenture) Rule, 2014, is related to :

   (A) Issue of right shares

   (B) Buy-back of shares or other securities

   (C) Issue of sweat equity shares

   (D) Employee stock option plan

8. In case of buy-back of shares, passing of the special resolution is not required if :

   (A) the buy-back is 10% or less of the total paid-up equity capital of the company

   (B) the buy-back is 25% or less of the total paid-up equity capital of the company

   (C) the buy-back is 10% or less of the total paid-up equity capital and free reserves of the company

   (D) the buy-back is 25% or less of the total paid-up equity capital and free reserves of the company

9. For the companies whose financial statements comply with the accounting standards as prescribed in Section 133 of the Companies Act, 2013, the premium payable on redemption of preference shares shall be provided out of :

   (A) the profits of the company only

(B) the securities premium only

(C) any of either profits of the company or securities premium

(D) none of the above

10. The Capital Redemption Reserve Account may be used by the company :

(A) In the issue of fully paid-up bonus shares

(B) In conversion of partly paid-up shares into fully paid-up

(C) In writing off the preliminary expenses of the company

(D) In distribution of dividend among shareholders

11. A company offered 2,50,000 equity shares to public for subscription. 70% of public issue was underwritten by G. Her firm underwritten was for 40,000 shares. Public subscribed for 1,30,000 shares. What is the net liabilities of G if as per underwriting agreement no credit is given to underwriter G for her firm underwritten shares ?

(A) 4,000 Shares

(B) 85,000 Shares

(C) 96,000 Shares

(D) 56,000 Shares

12. The entry—"Debentures Suspense A/c Dr., To Debentures A/c" can be passed/ done :

(A) On the issue of debentures for the consideration other than cash.

(B) On the issue of debentures as collateral security.

(C) For rectification of the error relating to balance of debentures account.

(D) On the issue of debentures at discount but redeemable at premium.

13. C Limited issued 8% Debentures of ₹65,00,000 at 5% discount which are redeemable at a premium of 10%. On recording the transaction "Loss on Issue of Debentures Account" will be :

(A) Debited by ₹3,25,000

(B) Debited by ₹6,50,000

(C) Debited by ₹9,75,000

(D) Credited by ₹3,25,000

14. M Ltd. issued 8% Debentures of ₹60 Lakh on 1st January, 2019 at a discount of 10%. The debentures are redeemable in three equal instalments of ₹20 Lakh each payable on 31st December every year. The amount of discount to be written at the end of the year on 31st March, 2021,will be :

(A) ₹2,00,000

(B) ₹1,00,000

(C) ₹1,50,000

(D) ₹1,75,000

15. S Ltd. had issued 80,000, 8% Debentures of ₹100 each redeemable on 31st December, 2019 at a premium of 20%. The company offered three options to debentureholders, out of which one is to convert their holdings into equity shares of ₹10 each at a premium of ₹3.50 per share. This offer was accepted by the holders of 49,275 debentures. For this, number of equity shares issued will be :

(A) 4,38,000

(B) 5,91,300

(C) 3,65,000

(D) 7,98,255

16. G Ltd. has 8,00,000, 12% Debentures of ₹100 each. During the year 2018-2019 the company purchased its own debentures from the open market for immediate cancellation are as follows :

(i) Aug. 1, 2018 : 15000 Debentures @ ₹95.50 (ex-interest)

(ii) Jan. 1, 2019 : 25000 Debentures @ ₹101.50 (cum-interest)

If debenture interest is payable on 30th September and 31st March every year, then the amount of profit or loss on cancellation of debentures will be :

(A) ₹30,000 (Profit)

(B) ₹70,000 (Profit)

(C) ₹67,500 (Profit)

(D) ₹1,05,000 (Profit)

17. The profit on cancellation of debentures should be transferred to :

(A) Securities Premium A/c

(B) Statement of profit and Loss

(C) General Reserve A/c

(D) Capital Reserve A/c

18. Every buy-back shall be completed within a period of .... from the date of the resolution or special resolution, as the case may be, passed by the Board.

(A) One month

(B) Three months

(C) Six months

(D) One year

19. Written down value of a machine as on 31st March 2019 is ₹6,65,558. Rate of depreciation on the basis of written down value method is 15%. What will be the cost of this machine purchased on 1st April, 2014 ?

(A) ₹15,00,000

(B) ₹12,00,000

(C) ₹10,00,000

(D) ₹8,00,000

20. In G Ltd., there is one whole-time director and three part-time directors. The maximum rate of remuneration payable to all directors will be :

(A) 11%

(B) 8%

(C) 6%

(D) 10%

21. When the effective capital of a company is ₹100 crore and above but less than ₹250 crore, the maximum remuneration payable as per Part-II of Schedule V of the Companies Act, 2013, by the company to its managerial personnel when the company has no profits or inadequate profits, will be :

(A) ₹42 Lakh

(B) ₹84 Lakh

(C) ₹120 Lakh

(D) ₹120 Lakh plus 0.01% of the effective capital in excess of ₹150 Lakh

22. Every company having turnover of ₹............ during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee.

(A) 500 crore and more

(B) 1,000 crore and more

(C) 250 crore and more

(D) 100 crore and more

23. Which of the following is not a type of segment as per AS-17 ?

(A) Geographical segment

(B) Business segment

(C) Industrial segment

(D) Reportable segment

24. Equity holder of a company who does not have the voting control of the company,

by virtue of his or her below fifty percent ownership of the company's equity capital, termed as :

(A) Small shareholder

(B) Minority shareholder

(C) (A) or (B) Both

(D) None of these options

25. H Ltd. is a holding company of S Ltd. During the year 2018-19, Bills Receivable amounted to ₹4,00,000, out of total bills receivable of ₹5,00,000 received from S Ltd., were discounted by H Ltd. and S Ltd. had endorsed to its creditors all the bills received from H Ltd. amounting to ₹3,00,000. At the end of the year the amount of mutual debtors will be :

(A) ₹8,00,000

(B) ₹3,00,000

(C) ₹2,00,000

(D) ₹1,00,000

26. On 1st April, 2019, H Ltd. purchased 16,00,000 equity shares out of 20,00,000 equity shares of S Ltd. Following information is provided as on 31st March, 2019, by S Ltd. :

	₹
Equity Share Capital	2,00,00,000
General Reserve	45,00,000
Statement of Profit & Loss	32,00,000

On 1st April, 2019, a machine of S Ltd. revalued by H Ltd. 25% above its book value of ₹12,50,000. The amount of minority interest will be :

(A) ₹40 Lakh

(B) ₹55 Lakh

(C) ₹54.775 Lakh

(D) ₹56.025 Lakh

27. Holding of H Ltd. was 75% in S Ltd. Other information obtained from the books of S Ltd. were as under :

	31st March, 2019 (₹ in Lakh)
Share Capital	150
General Reserve	25
Surplus : Statement of Profit and Loss	35
Capital Reserve	10

If the cost of investment in shares of S Ltd., for H Ltd. was ₹162 Lakh, the amount of cost of control would be :

(A) ₹12 Lakh (Goodwill)

(B) ₹3 Lakh (Goodwill)i

(C) ₹3 Lakh (Capital Reserve)

(D) ₹4.50 Lakh (Goodwill)

28. The main purpose of the preparation of consolidate statements is :

(A) the compliance of AS-21

(B) to satisfy the legal provision of the Companies Act, 2013

(C) to reflect a true and fair view of the position and the profit or loss of the holding company 'group'

(D) All the above

29. Company Auditor's Report Order, 2016, was issued by the :

(A) Institute of Chartered Accountants of India

(B) Ministry of Corporate Affairs of Government of India

(C) Comptroller and Auditor General of India

(D) Ministry of Finance of Government of India

30. Company Auditor's Report Order (CARO), 2016 is not applicable to :

(A) Insurance Company

(B) Company registered for charitable purpose

(C) One person company

(D) All of the above

31. As per Section 149(1) of the Companies Act, 2013, the paid-up share capital requirement for non-listed company, having at least one woman director is :

(A) ₹10 crore or more

(B) ₹100 crore or more

(C) ₹1,000 crore or more

(D) ₹500 crore or more

32. As per the concept of value added statement, "Gross value Added" is :

(A) Distributed to employees in the form of salaries and wages, to government in the form of taxes and duties, to financer in the form of interest.

(B) Distributed to government in the form of taxes and duties, to financer in the form of interest, to shareholders in the form of dividend.

(C) Distributed to employees in the form of salaries and wages, to government in the form of taxes and duties, to financer in the form of interest.

(D) Distributed to employees in the form of salaries and wages, to government in the form of taxes and duties, to financer in the form of interest, to shareholders in the form of dividend and the remaining balance in the form of retained earning.

33. The term 'Calls in Arrears' is shown in the company's balance sheet :

(A) Under current liabilities

(B) Under current assets, loans and advances

(C) As deducted from called up capital

(D) Non-current liabilities

34. At the time of forfeiture of shares the share capital account will be :

(A) Debited with paid up value of share forfeited

(B) Debited with called up value of shares forfeited

(C) Debited with face value of shares forfeited

(D) Debited with issue price of shares forfeited

35. The loss/discount on re-issue of forfeited shares may be :

(A) Equal or exceed the forfeited amount

(B) Not exceed the forfeited amount

(C) Equal to amount of premium which were received at the time of original issue

(D) Not exceed the called up value of shares

36. When the forfeited shares were originally issued at premium, the maximum permissible discount on re-issue shall be :

(A) The amount of premium at time of original issue

(B) The amount credited to forfeited shares account

(C) The face value of forfeited shares

(D) The called up value of forfeited shares

37. Z Ltd. issued 5,000 equity shares of ₹10 each at 10% premium which is payable on allotment. The company received application money @₹3 per share and allotment money received on only 4,500 shares @₹4 per share. The company forfeited 500 shares for non-payment of allotment money.

At the time of forfeiture, the Equity Shares Capital a/c will be :

(A) Debited with ₹5,000

(B) Debited with ₹3,500

(C) Debited with ₹3,000

(D) Credited with ₹3,500

38. The capital structure of KC Ltd. is :

Equity Share Capital	₹250 lakh
Long-term Debt	₹110 lakh
Bank Overdraft	₹40 lakh

The average rate of return on similar types of companies is 20%, while risk-free return is 10%. Rate of interest charged by bank is 18%. Weighted Average Cost of Capital (WACC) will be :

(A) 16%

(B) 13.55%

(C) 16.25%

(D) 17.05%

39. The difference between the Company's total market value and Capital invested is a :

(A) Economic Value Added (EVA)

(B) Shareholder Value Added

(C) Market Value Added

(D) Gross Value Added

40. Pooja Ltd. had the investment of ₹68 lakh as on 31st March, 2018 and that of ₹81lakh as on 31st March, 2019. During the year the company had sold 30% of its original investment at a profit of ₹9,60,000. The cash inflow and outflow from investment will be :

(A) ₹20.40 lakh and ₹33.40 lakh

(B) ₹33.40 lakh and ₹30 lakh

(C) ₹30 lakh and ₹43 lakh

(D) ₹30 lakh and ₹33.40 lakh

41. During the year 2018-19, a company redeemed its 10% debenture of ₹8,00,000 at 10% premium and after some time a fresh issue was made of new 10% debenture of ₹7,50,000 at a premium of 25%. The net cash flow from debenture would be :

(A) Net cash outflow of ₹50,000

(B) Net cash inflow of ₹50,000

(C) Net cash inflow of ₹57,500

(D) Net cash outflow ₹57,500

42. In the case of financial enterprises, cash flows arises from interest paid should be classified as cash flow from :

(A) Operating Activities

(B) Investing Activities

(C) Financing Activities

(D) Either (B) or (C)

43. Balance of Provision for Taxation as on 1-4-2018 and 31-3-2019 were ₹13,72,000 and ₹14,55,000 respectively. During the year ₹12,05,000 were paid towards income tax.

The amount of provision made for taxation will be :

(A) ₹12,05,000

(B) ₹12,88,000

(C) ₹11,22,000

(D) ₹2,50,000

44. Plant Original Costing ₹1,35,500 (accumulated depreciation ₹72,800) was sold at a profit of ₹15,900 during the year 2018-19. The amount of cash flow from the transaction would be :

(A) ₹1,51,400

(B) ₹62,700

(C) ₹2,24,200

(D) ₹78,600

45. Mithu Ltd. had the investment as on 31-3-18 and 31-3-19 were ₹10,95,000 and ₹10,82,000 respectively. During the year interest on investment received ₹77,000 which was used in writing down the book value of investments. If there were some purchases of investment, then the cash flow from investment and from interest would be :

(A) Cash inflow ₹1,300 only

(B) Cash inflow ₹9,000 only

(C) Cash inflow ₹77,000 and Cash outflow ₹64,000

(D) Cash inflow ₹9,000 and Cash outflow ₹77,000

46. Following information were provided by a trading company to you :

	₹
Net profit after tax for the year 2018-19	18,35,000
During the year 2018-19	
▪ Depreciation written off	1,08,000

▪ Goodwill written off	50,000
▪ Provision made for taxation	5,50,000
▪ Income tax paid	4,80,000
▪ Interest on Investment credited to Profit and Loss Account	25,000
▪ Interim dividend paid	2,10,000

Cash flow from Operating Activities would be :

(A) ₹22,73,000

(B) ₹20,38,000

(C) ₹17,23,000

(D) ₹20,63,000

47. The Accounting Standards Board was constituted by the Institute of Chartered Accountants of India in the year :

(A) 1975

(B) 1977

(C) 1976

(D) 1978

48. Which of following Section of Companies Act, 2013, is required that the auditor has to report whether in his opinion the financial statements comply with the Accounting Standards referred in Section 133 of the Companies Act, 2013 :

(A) Section 141(3)(e)

(B) Section 145(3)(b)

(C) Section 143(3)(e)

(D) Section 144(3)(e)

49. Which of the following is not included in the conditions satisfied by the small and medium companies (SMCS) with reference to applicability of Accounting Standards ?

(A) Company is not a holding company or subsidiary of a non-SMC.

(B) Company is not a bank or financial institution or insurance company.

(C) Company's turnover does not exceed ₹10 crores in the immediately preceding accounting year.

(D) Equity and debt securities of the company are not listed or are not in the process of listing in any stock exchange, whether in India or outside India.

50. Which of the following International Accounting Standard (IAS) is related to Earning per share' ?

    (A) IAS-20

    (B) IAS-24

    (C) IAS-33

    (D) IAS-38

51. Which of the following institute formerly was established as a registered company under the Companies Act ?

    (A) The Institute of Chartered Accountants of India (ICAI)

    (B) The Institute of Company Secretaries of India (ICSI)

    (C) The Institute of Cost and Works Accountants of India (ICWAI) {now it, The Institute of Cost Accountants of India}

    (D) None of the above

52. The Institute of Chartered Accounts of India is the...... professional body of Chartered Accountants in the world.

    (A) Largest

    (B) Second Largest

    (C) Third Largest

    (D) Fifth Largest

53. "The Association of International Certified Professional Accountants" launched by the :

    (A) American Association of Public Accountants (AAPA)

    (B) American Association of Chartered Public Accountants (AICPA)

    (C) Chartered Institute of Management Accountants (CIMA)

    (D) Both AICPA and CIMA

54. Mandatory applicability of Ind AS to all Banks, NBFCS (Non-Banking Finance Companies), and Insurance Companies is from :

    (A) 1st April, 2015

    (B) 1st April, 2016

    (C) 1st April, 2017

    (D) 1st April, 2018

55. Which of the following Ind AS is related to Consolidated Financial Statements ?

    (A) Ind AS-108

(B) Ind AS-110

(C) Ind AS-115

(D) Ind AS-7

56. A simplified financial statement that shows how much wealth has been created by a company is called ....

(A) Income statement

(B) Statement of profit and loss

(C) Value added statement

(D) Economic value added

57. The following is not an advantage of Double entry system :

(A) It prevents and minimizes frauds.

(B) Helps in decision making

(C) The trial balance doesn't disclose certain types of errors

(D) It becomes easy for the Government to calculate the tax.

58. As per Companies Act, 2013, the prescribed form of Balance Sheet of a Company is given in :

(A) Part II of Schedule III

(B) Part I of Schedule III

(C) Part I of Schedule II

(D) Part I of Schedule V

59. The Corporate Social Responsibility Committee shall consist of ....directors, out of which at least .... director(s) shall be independent director(s).

(A) two or more; one

(B) four or more; two

(C) three or more; two

(D) three or more; one

60. Financial Reporting Council is an organisation of which country ?

(A) United States of America (USA)

(B) Canada

(C) UK

(D) Japan

PART II

61. Companies (Cost Records and Audit) Rules, 2014, came into force on :

    (A) 1-04-2014

    (B) 30-04-2014

    (C) 30-06-2014

    (D) 30-09-2014

62. Which of the following Form is used for filing Cost Audit Report with the Central Government ?

    (A) CRA-1

    (B) CRA-2

    (C) CRA-3

    (D) CRA-4

63. Which of the following steps are required for Budgetary Control ?

    (A) Organisation for Budgeting; Budget Manual; Responsibility for Budgeting; and Budget Standard

    (B) Organisation for Budgeting; Budget Manual; Responsibility for Budgeting; and Budget Procedure

    (C) Objective for Budgeting; Budget Manual; Responsibility for Budgeting; and Budget Standard

    (D) Organisation for Budgeting; Budget Objective; Responsibility for Budgeting; and Budget Standard

64. A factor which will limit the activities of an undertaking and which is taken into account in preparing budgets, is termed as :

    (A) Limiting factor

    (B) Governing factor

    (C) Key factor

    (D) All the above

65. Which of the following is/are purpose(s) of "Time Recording" ?

    (A) Payroll

    (B) Time-keeping

    (C) Time-booking

    (D) Time-keeping and Time-booking

66. If the Capacity Ratio and Efficiency Ratio of a factory are 95% and 125% respectively, then Activity Ratio will be :

(A) 131.58%

(B) 76%

(C) 118.75%

(D) 152%

67. Following information estimated for the year 2020-21 :

- Normal loss in production will be 5% of input.
- Sales (in units) as per Sales Budget 38,350 units.
- Closing stock will be 6600 units which has been estimated 10% more than previous year's quantity.

The input for required production will be :

(A) 39,737 units

(B) 41,000 units

(C) 40,898 units

(D) 39,638 units

68. Puvi Ltd. provides the following information for the quarter ending 31st March, 2020 :

Expected Sales :

January, 2020	₹ 25 lakh
February, 2020	₹ 28 lakh
March, 2020	₹ 30 lakh

Roughly 40% of the sales are for cash, 80% of credit sales are collected in the month following the month of sales and the balance of credit sales one month after that. The amount collected from debtors in the month of March, 2020, will be :

(A) ₹10.96 Lakh

(B) ₹28.44 Lakh

(C) ₹22.96 Lakh

(D) ₹16.44 Lakh

69. .... is a method of budgeting whereby all activities are re-evaluated each time a budget is set. Discrete levels of each activity are valued and a combination is chosen to match funds available.

(A) Master Budget

(B) Zero-Based Budgeting

(C) Performance Budgeting

(D) Flexible Budget

70. N Ltd. has Net working capital of ₹119 Lakh, Total Liabilities ₹225 Lakh and Non-current liabilities are ₹140 Lakh. The Current Ratio will be :

(A) 2.4 : 1

(B) 1.85 : 1

(C) 2.46 : 1

(D) 1.15 : 1

71. A company's purchases are ₹385 Lakh, Sales ₹510 Lakh and closing stock ₹58 Lakh. If the rate of gross profit is 25% on cost, then Stock Turnover Ratio will be:

(A) 5.32 times

(B) 7.34 times

(C) 5.54 times

(D) 5.87 times

72. Mahi Ltd. has closing stock ₹648 Lakh and prepaid expenses ₹32 Lakh. Total liquid assets were ₹1,830 Lakh. If the liquid ratio is 1.5 : 1, then working capital will be :

(A) ₹836.67 Lakh

(B) ₹1,290 Lakh

(C) ₹1,258 Lakh

(D) ₹1,150 Lakh

73. Which of the following is not included in the activity ratios ?

(A) Sales to Capital Employed

(B) Debtors Turnover Ratio

(C) Proprietary Ratio

(D) Working Capital Turnover Ratio

74. The ideal norm preferred by Banks for current ratio is :

(A) 2 : 1

(B) 2.2 : 1

(C) 1.5 : 1

(D) 1.33 : 1

75. Which of the following set of report is classified according to their contents ?

(A) Descriptive reporting; tabular reports and Graphic reports

(B) Routine reports and Special reports

(C) Production reports; Sales reports; Cost reports and Finance reports

(D) Graphic presentation; Routine reports and Finance reports

76. Which of the following is not a step taken towards implementing an effective management reporting programme ?

(A) Discovery

(B) Access point

(C) Finance

(D) Feedback

77. A low margin of safety usually indicates :

(A) High profit

(B) High fixed overheads

(C) Low fixed overheads

(D) Operation on high level of activity

78. Which of the following is not a method of transfer pricing considered in normal course ?

(A) Full cost transfer pricing

(B) Negotiated transfer pricing

(C) Opportunity cost transfer pricing

(D) Standard cost transfer pricing

79. Following data provided by M Ltd. :

	First Six Months (₹)	Last Six Months (₹)
Profit	10,00,000	14,00,000
Cost of Sales	70,00,000	76,00,000

Fixed cost for the year will be :

(A) ₹22 Lakh

(B) ₹34.40 Lakh

(C) ₹73.33 Lakh

(D) ₹44 Lakh

80. Which of the following are examples of key factors ?

(1) Sales value/quantity

(2) Raw material quantity

(3) Raw material quality

(4) Labour hours availability

(5) Plant capacity

(6) No. of plants used in manufacturing process

(7) Cost of production

Select the correct answer from the options given below :

(A) 1, 3, 5 and 6

(B) 1, 2, 4 and 5

(C) 2, 3, 5 and 7

(D) 1, 2, 4 and 6

81. Match the following List-I with List-II :

List-I

(P) Profit earned

(Q) Classification of costs into fixed and variable costs

(R) Both fixed and variable costs are charged to product

(S) Sum of fixed cost and profit

List-II

(1) Contribution

(2) Margin of Safety × P/V Ratio

(3) Marginal Costing

(4) Absorption Costing

Select the correct answer from the options given below :

(A) (P)—(2), (Q)—(4), (R)—(1), (S)—(3)

(B) (P)—(2), (Q)—(3), (R)—(4), (S)—(1)

(C) (P)—(1), (Q)—(4), (R)—(3), (S)—(2)

(D) (P)—(1), (Q)—(3), (R)—(4), (S)—(2)

82. Information provided by S Ltd. are given below :

Fixed Cost	₹24 lakh
Profit	₹12 lakh
Break-even point	₹60 lakh

When sales are ₹120 Lakh, then calculate the profit :

(A) ₹66 Lakh

(B) ₹30 Lakh

(C) ₹24 Lakh

(D) ₹21 Lakh

83. In an Activity Based Costing System, the allocation basis that are used for applying costs to services or procedures are called :

(A) Profit centers

(B) Cost centers

(C) Cost units

(D) Cost drivers

84. Inspection of products is an example of :

(A) Unit level activities

(B) Batch level activities

(C) Product level activities

(D) Facility level activities

85. Which of the following is not a valuation approach ?

(A) Assets Approach

(B) Income Approach

(C) Expenditure Approach

(D) Market Approach

86. A deposit to be made on 1st January, 2020, into bank that will earn an interest of 7% compound annually. It is desired to withdraw ₹60,000 on 31st December, 2023 and ₹1,00,000, on 31st December, 2025. The amount to be deposited on 1st January, 2020, will be .... ($PVF_{7\% \text{ for 4 years}}$ = 0.7629; $PVF_{7\% \text{ for 6 years}}$ = 0.6663) :

(A) ₹1,30,608

(B) ₹1,12,404

(C) ₹1,22,063

(D) ₹1,09,582

87. Cost of Sales – Selling and Distribution Overhead + Closing Stock of Finished Goods – Opening Stock of Finished Goods = ...

(A) Cost of Goods Sold

(B) Works Cost

(C) Cost of Production

(D) Conversion Cost

88. Following information provided by B Ltd. :

- Last Earning Per Share (EPS) of the company = ₹75 per share
- Company's dividend pay-out ratio = 40%
- Required rate of return from equity investment = 18%

By using capitalization earning method, the value of equity will be (if dividend are expected to grow at a constant rate of 10% per annum) :

(A) ₹412.50

(B) ₹183.33

(C) ₹166.67

(D) ₹375

89. P Ltd. has 12% Debentures of ₹40 Lakh and 13% Debentures of ₹60 Lakh. If the corporate tax rate is 30%, then combined cost of debt after tax will be :

(A) 12.60%

(B) 8.75%

(C) 8.82%

(D) 12.50%

90. Which of the following Ind AS deals with "Financial Instruments : Presentation"?

(A) Ind AS-32

(B) Ind AS-33

(C) Ind AS-113

(D) Ind AS-109

91. Following information is provided by A Ltd. :

	₹ in lakh
2,00,000, 8% Preference Shares of 100 each fully paid-up	200
60,00,000 Equity Shares of ₹10 each fully paid-up	600
Reserves and Surplus	270
External Liabilities	480
Average profit after tax, earned every year by the company	169

The normal return earned on the market value of fully paid-up equity shares of the same type of the company is 15%. Assume that 2% of total assets are worthless. The intrinsic value per equity share will be :

(A) ₹14.50

(B) ₹13.98

(C) ₹17.32

(D) ₹17.83

92. Which of the following is not a method used for valuation of shares ?

(A) Net assets method

(B) Based on rate of dividend method

(C) Based on rate of earnings method

(D) Net realizable value method

93. Which of the following method of valuation of shares is/are suitable for ascertaining the market value of shares which are quoted on a recognized stock exchange ?

(A) Based on rate of dividend method

(B) Based on rate of earnings method

(C) Based on price earnings ratio method

(D) All the above

94. Average profit, Superprofit and Capital employed of a firm are ₹15,60,000; ₹4,80,000; and ₹90,00,000 respectively.Normal rate of return is 12%. The value of goodwill on the basis of capitalization of 'Average Profit' and of 'Superprofit' will be :

(A) ₹130 Lakh and ₹40 Lakh

(B) ₹1,87,200 and ₹57,600

(C) ₹130 Lakh and ₹11,37,600

(D) ₹40 Lakh and ₹40 Lakh

95. As per Section 247 of the Companies Act, 2013, the Registered Valuer shall be appointed by the :

(A) Company's Board of Directors

(B) Central Government

(C) Registrar of Companies

(D) Company's Audit Committee

96. The risk free rate is 8%, return on a broad market index is 15%. The actual return provided by the security is 18%. What must be its beta, by using CAPM if the security is correctly priced in the market ?

(A) 1.43

(B) 0.70

(C) 2.00

(D) 1.2

97. The relationship between risk and return established by the security market line is called :

(A) Earning Based Model

(B) Capital Assets Pricing Model

(C) Discounted Cash Flow Model

(D) Arbitrage Pricing Theory

98. Following are the details of Beta Limited :

	₹ in lakh
Equity Share Capital (Shares of ₹10)	1500
8% Preference Share Capital	400
12% Debentures	250
Profit before interest and tax	590
Dividend Payout Ratio = 70%	
Price-Earning (P/E) Ratio = 25	
Corporate tax rate = 30%	

Earnings Per Share (EPS) will be :

(A) ₹3.52

(B) ₹2.464

(C) ₹2.06

(D) ₹2.40

99. Match the following—I with II :

I

(a) Direct Cost

(b) Indirect Cost

II

(i) Raw material

(ii) Showroom expenses

(iii) Drawing Office Expenses

(iv) Carriage inwards

(v) Carriage outwards

(vi) Primary packing

(vii) Productive wages

(viii) Oil and grease

Select the correct answer from the options given below :

(A) (a)—(i)(iv)(vi)(vii); (b)— (ii)(iii)(v)(viii)

(B) (a)—(i)(v)(vii); (b)—(ii)(iii)(iv)(v)(viii)

(C) (a)—(i)(iii)(iv)(vi); (b)—(ii)(v)(vii)(viii)

(D) (a)—(i)(iii)(v)(vii); (b)—(ii)(iv)(vi)(viii)

100. According to Behavioural Analysis, the overheads may be classified as :

(A) Factory overhead, administration overhead, selling and distribution overhead

(B) Fixed overhead, variable overhead, semi-variable overhead

(C) Indirect material, indirect labour and indirect expenses

(D) Normal overhead & Abnormal overhead

ANSWER KEY
COST AND MANAGEMENT ACCOUNTING - SELECT SERIES

Q.no.	Ans	Q.no.	Ans	Q.no.	Ans
Part-I		34	B	67	B
1	*	35	B	68	D
2	D	36	B	69	B
3	B	37	C	70	A
4	B	38	D	71	D
5	D	39	C	72	B
6	D	40	D	73	C
7	B	41	C	74	D
8	C	42	A	75	C
9	A	43	B	76	C
10	A	44	D	77	B
11	D	45	C	78	D
12	B	46	B	79	D
13	C	47	B	80	B
14	D	48	C	81	B
15	A	49	C	82	C
16	D	50	C	83	D
17	D	51	C	84	B
18	D	52	B	85	C
19	A	53	D	86	B
20	C	54	D	87	C
21	C	55	B	88	A
22	B	56	C	89	C
23	C	57	C	90	A
24	B	58	B	91	B
25	D	59	D	92	D
26	D	60	C	93	C
27	C	**Part-II**		94	D
28	C	61	C	95	D
29	B	62	D	96	A
30	D	63	B	97	B
31	B	64	D	98	D
32	D	65	D	99	A
33	C	66	C	100	B

Notes

Q.No. 1 None of the given option is correct, the correct answer is 'wasting asset'

SECURITIES LAWS & CAPITAL MARKETS

Time allowed : 3 hours Maximum marks : 100

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

PART I

Question 1

(a) *A Mutual fund has shown Net Asset Value (NAV) of ₹11.60 at the commencement of the year. At the end of the year NAV increases to ₹12.50. Meanwhile, the Fund distributes ₹0.75 as dividend and ₹0.85 as capital gains.*

(i) *Calculate the fund's return during the year.*

(ii) *Had these distributions been re-invested at an average NAV of ₹12.20, what is the return for 400 units ?* *(5 marks)*

(b) *ST Ltd. applied for listing of instruments in a recognized stock exchange. However, permission was refused by the stock exchange. Can the company appeal to SAT against such refusal ? Explain.* *(5 marks)*

(c) *After the Initial Public Offer, the equity capital of promoters group holding in a listed company is ₹140 crore. The post issue equity capital of the company is ₹600 crore. The promoters group holding includes (acquired during previous year) :*

(i) *₹20 crore equity capital allotted in consideration of transfer of Technical knowhow by the promoters.*

(ii) *₹10 crore equity capital pledged with bank.*

Whether the promoters group is satisfying minimum promoters contribution requirement as per SEBI regulation ? Explain. *(5 marks)*

(d) *Yale is a nominee director on the Board of a listed company. On the proposal of ESOP in the Board meeting, he objected about his exclusion from this scheme. State the prior conditions to be fulfilled for a nominee directors under the SEBI regulations for ESOP eligibility.* *(5 marks)*

Answer 1(a)

Change in NAV price (₹12.50 - ₹11.60) = ₹0.90

Increase in price ₹0.90 + Dividend received ₹0.75 + Capital gain distributed ₹0.85 = ₹2.50

(i) Holding period return = ₹2.50/₹11.60 =21.55 %

(ii) When dividend and capital gains are reinvested into additional units of the Fund :

Return per unit : dividend + capital gain = ₹0.75 + ₹0.85 = ₹1.60

Hence, total return received for 400 units = ₹1.60 x 400 = ₹640

Additional units that can be purchased = ₹640/12.20 = 52.46 units

Answer 1(b)

ST Ltd. has right to appeal to Securities Appellate Tribunal (SAT) against refusal of stock exchanges to list securities of public companies. As per Regulation 22A of Securities Contracts (Regulation) Act, 1956, where a recognized stock exchange, acting in pursuance of any power given to it by its bye-laws, refuses to list the securities of any company, the company shall be entitled to be furnished with reasons for such refusal, it may

(a) Within 15 days from the date on which the reasons for such refusal are furnished to it, or

(b) Where the stock exchange has omitted or failed to dispose of, within the time specified in section 40 of the Companies Act, 2013, the application for permission for the shares or debentures to be dealt with on the stock exchange, within fifteen days from the date of expiry of the specified time or within such further period, not exceeding one month as the Securities Appellate Tribunal may, on sufficient cause being shown, allow appeal to the SAT having jurisdiction in the matter against such refusal, omission or failure, the Securities Appellate Tribunal may, after giving the stock exchange, an opportunity of being heard, -

(i) vary or set aside the decision of the stock exchange; or

(ii) where the stock exchange has omitted or failed to dispose of the application within the specified time, grant or refuse the permission,

and where the SAT sets aside the decision of the recognized stock exchange or grants the permission, the stock exchange shall act in conformity with the orders of the Securities Appellate Tribunal.

Every appeal shall be in such form and be accompanied by such fee as may be prescribed. The Securities Appellate Tribunal shall send a copy of every order made by it to the SEBI and parties to the appeal.

The appeal filed before the SAT shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.

Answer 1(c)

As per regulation 14 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the promoters of the issuer shall hold at least twenty per cent of the post-issue capital.

Further as per regulation 15 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, for the computation of minimum promoters' contribution, the following specified securities shall not be eligible:

(a) specified securities acquired during the preceding three years, if it is acquired for consideration other than cash and revaluation of assets or capitalization of' intangible assets is involved in such transaction;

(b) specified securities pledged with any creditor.

In the present case, ₹20 crore equity capital acquired in consideration of transfer of technical know-how will not be eligible for promoters contribution, further ₹10 crore equity capital was pledged with bank will also not eligible for promoters contribution.

The net promoters contribution after deduction of ₹30 crore (₹20 crore & ₹10 crore) will be ₹110 crore (₹140 crore - ₹30 crore), which is below then the prescribed limit i.e, 20% of post issued capital (₹600 x 20%= ₹120 crore), Therefore, promoters are not satisfying minimum promoters contribution requirements as per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Answer 1(d)

ESOP (Employees Stock Option Plan)

As per regulation 4 of SEBI (Share Based Employee Benefits) Regulations, 2014, an employee shall be eligible to participate in the schemes of the company and where such employee is a director nominated by an institution as its representative on the board of directors of the company;-

(i) The contract or agreement entered into between the institution nominating its employee as the director of a company, and the director so appointed shall, inter alia, specify the following:-

  (a) whether the grants by the company under its scheme(s) can be accepted by the said employee in his capacity as director of the company:

  (b) that grant if made to the director, shall not be renounced in favour of the nominating institution; and

  (c) the conditions subject to which fees, commission, other incentives, etc. can be accepted by the director from the company.

(ii) the institution nominating its employee as a director of a company shall file a copy of' the contract or agreement with the said company, which shall in turn file the copy with all the stock exchanges on which its shares are listed.

(iii) the director so appointed shall furnish a copy of the contract or agreement at the first board meeting of the company attended by him after his nomination.

In the current problem, if the above conditions have been satisfied, Yale is eligible for ESOP and company cannot exclude him on the proposal of ESOP.

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

Question 2

(a) Neo Engineering Ltd. is in the list of top 1000 listed entity on the basis of market capitalization. Based on the changes made in SEBI LODR, what would be the composition of the Board as on 1st April, 2019 and 1st April, 2020 ? Explain. *(4 marks)*

(b) "A recognized stock exchange may frame rules/amend rules made by it to provide for all or any of the matters specified therein." Describe them. *(4 marks)*

(c) Who can be a Compliance Officer under SEBI (PIT) Regulation, 2015 ? Will an

Engineering graduate from a top engineering college with 5 years of experience working as Chief Technical Officer (CTO) be a Compliance Officer ? Discuss. *(4 marks)*

(d) SEBI Complaints Redress System (SCORES) has been established to resolve the grievances of the Investors. What is the procedure for redressal of investor grievances using SCORES platform ? State the revised features. *(4 marks)*

(e) Lalji, aggrieved by an order passed by SEBI is desirous of making an appeal before SAT. He requested you as a consultant to prepare a note to know the appeal procedure. *(4 marks)*

OR (Alternate question to Q. No. 2)

Question 2A

(i) Explain the various risks involved in investing in mutual funds. *(4 marks)*

(ii) A company is planning for Initial Public Offer of its equity shares. It has decided differential pricing for retail individual investors (RII) and QIBs and Non-Institutional Investors (NIIs). The proposed price for RII is ₹250 and for QIB and NII is ₹300. Examine the validity of proposal of the company in light of SEBI regulations. What will be your answer if company is proposing ₹280 to anchor investors in book building issue ? Explain. *(4 marks)*

(iii) An IPO is made by Rakesh Steel Ltd., which is a listed company on the stock exchange. The Managing Director of the company directs the Company Secretary to prepare details of half yearly compliance requirements as per the listing agreement. Explain the same. *(4 marks)*

(iv) The Managing Director of AB Ltd., a listed company wishes to implement the procedure for voluntary delisting from a few stock exchanges subject to listing of at least one stock exchange having nation wide terminals. As a Company Secretary prepare a note on your Managing Director in the light of SEBI (Delisting of Equity Shares) Regulations, 2009. *(4 marks)*

(v) What are the matters that cannot be considered as complaints under SCORES? Specify details. *(4 marks)*

Answer 2(a)

As per the Regulation 17 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, the composition of board of directors of the listed entity shall have optimum combination of executive and non-executive directors with at least one woman director and not less than fifty percent of the board of directors shall comprise of non-executive directors, provided that;

– 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 or the top 1000 listed entities shall have at least one independent woman director by April 1, 2020.

– The board of directors of the top 1000 listed entities w.e.f. April 1. 2019 shall comprise of not less than six directors.

– With effect from April 1, 2020, the top 500 listed entities shall ensure that the Chairperson of the board of such listed entity shall -

  (a) be a non-executive director;

  (b) not be related to the Managing Director or the Chief Executive Officers as per the definition of the term "relative" defined under the Companies Act, 2013

However this requirement shall not be applicable to the listed companies which do not have identifiable promoters as per the shareholding pattern filed with the stock exchange.

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

However, the participation of directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum.

Answer 2(b)

Power of recognised stock exchanges to make/amend bye-laws

As per Section 9 of the Securities Contracts (Regulations) Act, 1956 any recognized stock exchange may, subject to the previous approval of SEBI, make bye-laws for the regulation and control of contracts. In particular, and without prejudice to the generality of the foregoing power, such bye-laws may provide for:

(a) the opening and closing of markets and the regulation of the hours of trade;

(b) a clearing house for the periodical settlement of contracts and differences thereunder, the delivery of and payment for securities, the passing on of delivery orders and the regulation and maintenance of such clearing house;

(c) the regulation or prohibition of blank transfers;

(d) the number and classes of contracts in respect of which settlements shall be made or differences paid through the clearing house;

(e) the regulation, or prohibition of budlas or carry-over facilities;

(f) the fixing, altering or postponing of days for settlements;

(g) the determination and declaration of market rates, including the opening, closing, highest and lowest rates for securities;

(h) the listing of securities on the stock exchange, the inclusion of any security for the purpose of dealings and the suspension or withdrawal of any such securities, and the suspension or prohibition of trading in any specified securities;

(i) the method and procedure for the settlement of claims or disputes, including settlement by arbitration;

(j) the levy and recovery of fees, fines and penalties;

(k) the regulation of the course of business between parties to contracts in any capacity;

(l) the fixing of a scale of brokerage and other charges;

(m) the emergencies in trade which may arise, whether as a result of pool or syndicated operations or concerning or otherwise, and the exercise of powers in such emergencies including the power to fix maximum and minimum prices for securities;

(n) the making, comparing, settling and closing of bargains;

(o) the regulation of dealings by members for their own account;

(p) the separation of the functions of jobbers and brokers;

(q) the limitations on the volume of trade done by any individual member in exceptional circumstances;

(r) the obligation of members to supply such information or explanation and to produce such documents relating to the business as the governing body may require.

Section 7A of the Securities Contracts (Regulation) Act, 1956, stipulates that a recognized stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely,

(a) the restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting;

(b) the regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange;

(c) the restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange; and

(d) such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in clauses (a) (b) and (c).

Powers have been delegated concurrently to SEBI also.

Answer 2(c)

According to the Regulation 2(c) of SEBI (Prohibition of Insider Trading) Regulations, 2015 "Compliance Officer'" means any senior officer, designated so and reporting to the board of directors or head of the organization in case board is not there, who is financially literate and is capable of appreciating requirements for legal and regulatory compliance under these regulations and who shall be responsible for compliance of policies, procedures, maintenance of records, monitoring adherence to the rules for the preservation of unpublished price sensitive information, monitoring of trades and the implementation of the codes specified in these regulations under the overall supervision of the board of directors of the listed company or the head of an organization, as the case may be.

Explanation - For the purpose of this regulation, "financially literate" shall mean a person who has the ability to read and understand basic financial statements i.e. balance sheet, profit and Loss account, and statement of cash flows

As per the explanations, a person can be compliance officer only if he understands the basic financial statement. An engineer graduate who has experience of working as Chief Technology Officer can neither understand the basic financial statement i.e. balance sheet, profit and loss account, and statement of cash flows nor capable of understanding legal and regulatory compliance. Hence he is not eligible for appointment as compliance officer.

Answer 2(d)

Revised procedure for redressal of investor grievances using SCORES platform is as under:

(a) Investors who wish to lodge a complaint on SCORES are requested to register themselves on www.scores.gov.in by clicking on “Register here” While filing the registration form, details like Name of the investor, PAN, Contact details, Email id, Aadhaar card number (optional), KYC ID (optional) etc. may be provided for effective communication and speedy redressal of the grievances. Upon successful registration, a unique user id and a password shall be communicated to the investor through an acknowledgement email / SMS.

(b) An investor shall use login credentials for lodging complaint on SCORES ("Login for registered user" section).

(c) The complainant may use SCORES to submit the grievance directly to companies/ intermediaries and the complaint shall be forwarded to the entity for resolution. The entity is required to redress the grievance within 30 days, failing which the complaint shall be registered in SCORES

(d) Presently, the limitation period for filing an arbitration reference with stock exchanges is three year. In line with the same and in order to enhance case, speed & accuracy in redressal of investor grievance, the investor may lodge a complaint on SCORES within three years from the date of cause of complaint, where;

  – Investor has approached the listed company or registered intermediary for redressal of the complaint and,

  – The concerned listed company or registered intermediary rejected the complaint or,

  – The complainant does not receive any communication from the listed company or intermediary concerned or,

  – The complainant is not satisfied with the reply given to him or redressal action taken by the listed company or an intermediary.

To enhance investor satisfaction on complaint redressal, SEBI has already put in place a ‘Complaint Review facility’ under SCORES wherein an investor if unsatisfied with the redressal may within 15 days from the date of closure of his complaint in SCORES opt for review of the complaint and the complaint shall be escalated.

Answer 2(e)

In order to afford proper appellate remedies, SEBI Act, 1992 provides for the establishment of the Securities Appellate Tribunals (SAT) to consider appeals against the SEBI's orders, or penalties.

Section 15T and 15U of SEBI Act, 1992 deal with the appeal procedure and powers of Securities Appellate Tribunal.

Every appeal shall be filed within a period of forty-five days from the date on which a copy of the order made by the SEBI or the Adjudicating Officer the Insurance Regulatory and Development Authority or the Pension Fund Regulatory and Development Authority, as the case may be, is received by him and it shall be in such form and be accompanied by such fee as prescribed.

The Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of forty-five days if it is satisfied that there was sufficient cause for not filing it within that period.

On receipt of an appeal the Securities Appellate Tribunal may, after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against.

The Securities Appellate Tribunal shall send a copy of every order made by it to the SEBI or the Insurance Regulatory and Development Authority or the Pension Fund Regulatory and Development Authority, as the case may be, the parties to the appeal and to the concerned Adjudicating Officer.

The appeal filed before the Securities Appellate Tribunal shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.

Section 15U of SEBI Act, 1992 lays down that the Securities Appellate Tribunal shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908, but shall be guided by the principles of natural justice and subject to the other provisions of this Act and of any rules, the Securities Appellate Tribunal shall have powers to regulate their own procedure including the places at which they shall have their sittings.

Alternatively, as per Section 29 read with sections 15T and 15U of SEBI Act, 1992, the Central Government has made the Securities Appellate Tribunal (Procedure), Rules, 2000 shall also be followed.

Answer 2A(i)

Risks Involved in Mutual Funds

The following events may result into non- satisfactory performance of Mutual Funds:

– Excessive diversifications of portfolio, losing focus on the securities of the key segments;

– Too much connection on blue-chip securities;

– Poor planning of investment returns;

– Un-researched forecast on income, profits and government policies;

– Fund managers being unaccountable for poor results;

– Failure to identify clearly the risk of the scheme as distinct from risk of the market;

– Under performance in comparison to peers;

– Necessity to effect high turnover through liquidation of portfolio resulting in large payments of brokerage and commission.

Answer 2A(ii)

As per the Regulation 30 of SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018, the issuer may offer its specified securities at different prices, subject to the following:

(a) retail individual investors or retail individual shareholders or employees entitled for reservation made under the regulation 33 of SEBI (ICDR) Regulations 2018, may be offered specified securities at a price not lower than by more than ten percent of the price at which net offer is made to other categories of applicants, excluding anchor investors:

(b) in case of a book built issue, the price of the specified securities offered to the anchor investors shall not be lower than the price offered to other applicants

The difference between the proposed price for Retail Individual Investor (RII) and Qualified Institutional Buyer (QIB) and Non-Institutional Investors (NIIs) is more than 10%, as envisages in the regulation, hence the company cannot issue securities to RII at ₹ 250 per share.

If the equity shares is proposing to anchor investors at ₹280, it is not as per the regulation 30 of SEBI (ICDR) Regulations, 2018 as the price is lower than the other applicants i,e., QIB and FII.(assuming QIB and FII are other applicants)

Answer 2A(iii)

Half Yearly Compliances as per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Regulation 7(3) : The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorized representative of the share transfer agent within one month of end of each half of the financial year.

Regulation 29(1) : The listed entity shall give prior intimation to stock exchange about the meeting of the board of directors in which the proposals is due to be considered for financial results viz. quarterly, half yearly, or annual, as the case may be.

Proviso to Regulation 31(1) : listed entities which have listed their specified securities on SME Exchange, the Holding of specified securities and shareholding pattern shall be submitted on a half yearly basis within twenty one days from the end of each half year.

Regulation 32 : The listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc.

a. indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;

b. indicating category wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds.

For the purpose of this regulation, reference to "quarterly/quarter" in case of listed entity which has listed their specified securities on SME Exchange shall respectively be read as "half yearly/half year".

Regulation 33(3)(f) : While preparing financial results, the listed entity shall also submit as part of its standalone or consolidated financial results for the half year, by way of a note, a statement of assets and liabilities as at the end of the half – year.

Regulation 33(3)(g) : The listed entity shall also submit as part of its standalone and consolidated financial results for the half year, by way of a note, statement of cash flows for the half-year.

Regulation 33(5) : For the purpose of 'Financial Results' (Regulation 33), any reference to "quarterly/quarter" in case of listed entity which has listed their specified securities on SME Exchange shall be respectively read as "half yearly/half year" and the requirement of submitting 'year-to-date' financial results shall not be applicable for a listed entity which has listed their specified securities on SME Exchange.

Regulation 40(9) : The listed entity shall ensure that the share transfer agent and/or the in-house share transfer facility, as the case may be, produces a certificate from a practising company secretary within one month of the end of each half of the financial year, certifying that all certificates have been issued within thirty days of the date of lodgement for transfer, sub-division, consolidation, renewal, exchange or endorsement of calls/allotment monies.

As per Regulation 40(10) of SEBI (LODR), the listed entity shall ensure that certificate mentioned at Regulation 40 (9), shall be filed with the stock exchange(s) simultaneously.

Answer 2A(iv)

Procedure for voluntary delisting from few stock exchanges subject to listing at atleast one stock exchange having nation-wide terminals

As per Regulations 6 of SEBI (Delisting of Equity Shares) Regulations 2018, A company may delist its equity shares from one or more recognised stock exchanges where they are listed and continue their listing on one or more other recognised stock exchanges, subject to the provisions of these regulations and subject to the following –

(a) If after the proposed delisting from anyone or more recognised stock exchanges, the equity shares would remain listed on any recognised stock exchange which has nationwide trading terminals, no exit opportunity needs to be given to the public shareholders.

As per Regulations 7 of SEBI (Delisting of Equity Shares) Regulations 2018, the procedure for delisting in the present situation is as follows:

– **Convene a Board Meeting** [Regulation 7(1)(a)] : The proposed delisting shall be approved by a resolution of the board of directors of the company in its meeting.

– **Public notice** [Regulation 7(1)(b)] The company to give a public notice of the proposed deli- sting in at least one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language newspaper of the region where the concerned recognized stock exchanges are located.

– **Details shall mention in Public notice** [Regulation 7(2)] (a) The names of the recognized stock exchanges from where the equity shares of the company are intended to be delisted. (b) The reasons for such delisting. (c) The fact of continuation of listing of equity shares on recognized stock exchange having nation wide trading terminals.

– **Application to the concerned recognized stock exchange**. [Regulation 7 (1)(c)] The company shall make an application to the concerned recognized stock exchange for delisting its equity shares.

– **Delisting order by the Exchange** [Regulation 7(3)] The recognized stock exchange shall dispose of the Application of the delisting complete in all respects within a period not exceeding thirty working days from the date of receipt of such application.

– **Disclosure in the Annual report** [Regulation 7(1)(d)] In the first Annual report which will be prepared after the delisting, include the names of the recognised stock exchanges from where the company got voluntary delisted during that year and the reason of the delisting there from.

Answer 2A(v)

Presently, the following types of complaints are not dealt through SCORES:

(i) Complaints against the companies which are unlisted/delisted, in dissemination board of Stock Exchanges,

(ii) Complaints those are sub-judice i.e. relating to cases which are under consideration by court of law, quasi-judicial proceedings etc.

(iii) Complaints falling under the purview of other regulatory bodies viz. RBI, IRDAI, PFRDA, CCI, etc., or under the purview of other ministries viz., MCA, etc.

(iv) Complaints against a sick company or a company where a moratorium order is passed in winding up / insolvency proceedings.

(v) Complaints against the companies where the name of company is struck off from ROC or a vanishing company as per list published by MCA. vi. Suspended companies, companies under liquidation / BIFR / etc

Alternate Answer

The matters that cannot be considered as complaints in SCORES:

a. Complaint not pertaining to investment in securities market

b. Anonymous Complaints (except whistle-blower complaints)

c. Incomplete or un-specific complaints

d. Allegations without supporting documents

e. Suggestions or s eeking guidance/explanation

f. Not satisfied with trading price of the shares of the companies.

g. Non-listing of shares of private offer

h. Disputes arising out of private agreement with companies/intermediaries

i Matter involving fake/forged documents

j. Complaints on matters not in SEBI purview

k. Complaints about any unregistered/un-regulated activity.

Question 3

(a) TechNoGrow Ltd. approved buy back proposal of 200000 Equity share capital in its Board meeting on 25th April, 2019. The record date was fixed on 25th June, 2019. The closing market price on NSE as on 25th April, 2019 and 25th June, 2019 was ₹2640.40 and ₹2514.05 respectively. Determine the number of equity shares which is eligible to be tendered by Small Shareholder Category (rounded off to lower whole number). (5 marks)

(b) Nalin Estates Ltd. ("Target Company") is a listed company. The promoter group shareholding in the target company is 47%. It proposes to transfer of 2% shares held by one promoter group to another promoter group.

The target company sought your advise as a practicing Company Secretary on the applicability of exemption provided under SEBI (SAST) Regulations for making compulsory open offer. (5 marks)

(c) A company has implemented Employee Stock Option Scheme to retain the best talent in the company. After one year of implementation of the scheme, the company desires to increase the vesting period from 2 year to 3 year. Is it possible for the company to vary the terms and condition of the option after implementation of the scheme under SEBI regulation. (5 marks)

Answer 3(a)

In terms of proviso to the Regulation 6 of the SEBI (Buyback of Securities) Regulations, 2018, fifteen percent of the number of securities which the company proposes to buy back or number of securities entitled as per their shareholding, whichever is higher, shall be reserved for small shareholders. Hence the total shares reserved for buyback under the offer will be:

200,000 x 15% = 30,000 shares

Further, as per regulation 2(n) of the SEBI (Buy back of Securities) Regulations, 2018 'small shareholder' means a shareholder of a company, who holds shares or other specified securities whose market value, on the basis of closing price or shares or other specified securities, on the recognized stock exchange in which highest trading volume in respect of such securities, as on record date is not more than two lakh rupee.

The closing price on record date is ₹2514.05. The number of shares eligible for buy back under small shareholders category will be:

$$₹\frac{200000}{2514.05} = 79.55 \text{ shares}$$

79.55 shares rounded off to lower whole number i.e 79 shares.

Hence, equity shareholders holding not more than 79 shares of TechNoGrow Ltd. shall be classified as Small Shareholders.

Answer 3(b)

As per Regulation 10(a)(ii) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the following acquisitions shall be exempt from the obligation to make an open offer under regulation 3 and regulation 4 of the of SEBI(Substantial Acquisition of Shares and Takeovers) Regulations, 2011 subject to fulfillment of the conditions stipulated .

(a) acquisition pursuant to inter se transfer of shares amongst qualifying persons, being, persons named as promoters in the shareholding pattern filed by the target company in terms of the listing agreement or these regulations for not less than three years prior to the proposed acquisition.

Answer 3(c)

According to the Regulation 7 of the SEBI (Share Based Employee Benefits) Regulation, 2014 the company shall not vary the terms of the schemes in any manner which may be detrimental to the interests of the employees, provided that the company shall be entitled to vary the term of the schemes to meet any regulatory requirements.

Subject to the above, the company may by special resolution in a general meeting vary the terms of the schemes offered pursuant to an earlier resolution of the general body but not yet exercised by the employee provided such variation is not prejudicial to the interests of the employees.

The company desires to increase the vesting period from 2 years to 3 years. This will get shares after 3 years instead of earlier 2 years and it is prejudicial to the interests of the employees.

Hence, the company cannot change the vesting period as per SEBI regulations.

Question 4

(a) Visualsight Ltd. is a listed company. The promoters hold 61.50% paid up equity share capital as on 31st March, 2018. On November 2, 2018, some of the promoters who hold convertible warrants in the company converted 1500000 warrants into shares, as result of which the holding of promoters increased by 4.10%. Vihaan ("Transferor"), one of the promoters holds 18.50% of equity share capital in the company proposed to gift 1.20% equity shares of the company to

immediate relative by way of Transferor. Taking into account SEBI (SAST) regulations, answer the following questions in detail :

(i) Whether the proposed transfer trigger an obligation upon the Transferor for open offer ?

(ii) Will the transaction covered under creeping acquisition ?

(iii) Would the promoters be permitted to avail any exemption under the regulation? (4+2+2=8 marks)

(b) RN Ltd., has equity share capital of 20,00,000 of face value of ₹10 each, listed in Bombay Stock Exchange. The company has proposed for buy-back of its shares up to 25%. As a Company Secretary explain the conditions for buy-back of shares. (7 marks)

Answer 4(a)

(i) In terms of Regulation 3(2) and 3(3) or the SEBI (SAST) Regulations, 2011, an obligation to make an open offer would arise if the acquirer (along with persons acting in concert) is already entitled to exercise 25% or more of the voting rights in an Indian listed company, and acquires additional shares or voting rights entitling it to exercise more than 5% voting rights in an Indian listed company, in a financial year. By virtue of conversion of warrants into shares, the promoter shareholding in the Company has already increased by 4.10%. Therefore. a further transfer (by way of gift) of shares constituting 1.2% of the equity share capital of the Company to an immediate relative in the same financial year would increase the gross acquisition of shares by the promoter group in excess of the 5% threshold under Regulation 3(2) of SEBI (SAST) Regulations, 2011, hence triggering the requirement to make an open offer.

(ii) In terms of the explanation to Regulation 3(2) of the SAST Regulations, while calculating the limit of 5% of shares, the gross acquisition alone is to be taken into account regardless of an intermittent fall in shareholding or voting rights. Therefore, the proposed Transfer would be considered for the purpose of calculating the creeping acquisition limit of 5% under Regulation 3(2) of the SAST Regulations.

(iii) The Transfer would qualify as an inter-se transfer between immediate relatives under Regulation 10(1)(a)(i) of the SAST Regulation subject to fulfillment of pre conditions specified therein and hence exempted from the requirement to make an open offer under the SAST Regulations. In addition the disclosure requirements have been complied with.

Answer 4(b)

Conditions for buy-back of securities

As per regulation (4) of SEBI (Buyback of Securities), Regulations, 2018

(i) The maximum limit of any buy-back of shares shall be twenty five percent or less of the aggregate of paid-up capital and free reserves of the company.

(ii) The ratio of the aggregate of secured and unsecured debts owed by the company after buy-back shall not be more than twice the paid-up capital and free reserves.

If a higher ratio of the debt to capital and free reserves for the company has all shares or other specified securities for buy-back shall be fully paid-up been notified under the Companies Act, 2013, the same shall prevail.

(iii) All shares or other specified securities for buy-back shall be fully paid up. In respect of the buy-back of equity shares in any financial year, the reference to 25% in this regulation shall be construed with respect to its total paid-up equity capital in that financial year.

(iv) A company may buy-back its shares or other specified securities by any one of the following methods:

(a) from the existing share holders or other specified securities holders on a proportionate basis through the tender offer;

(b) from the open market through—

(i) book-building process,

(ii) stock exchange;

(c) from odd-lot holders:

Provided that no offer of buy-back for fifteen per cent or more of the paid up capital and free reserves of the company shall be made from the open market.

(v) A company shall not buy-back its shares or other specified securities so as to delist its shares or other specified securities from the stock exchange.

(vi) A company shall not buy-back its shares or other specified securities from any person through negotiated deals, whether on or off the stock exchange or through spot transactions or through any private arrangement.

(vii) A company shall not make any offer of buy-back within a period of one year reckoned from the date of expiry of buyback period of the preceding offer of buy-back, if any.

(viii) A company shall not allow buy-back of its shares unless the consequent reduction of its share capital is effected.

(ix) A company may undertake a buy-back of its own shares or other specified securities out of—

(a) its free reserves;

(b) the securities premium account; or

(c) the proceeds of the issue of any shares or other specified securities:

Provided that no such buy-back shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

Additional/ General Conditions for Buyback of Shares or Other Securities

(i) The company shall not authorise any buy-back unless:

(a) The buy-back is authorised by the company's articles;

(b) A special resolution has been passed at a general meeting of the company authorising the buy-back:

Provided that nothing contained in this clause shall apply to a case where the buy-back is, ten per cent or less of the total paid-up equity capital and free reserves of the company; and such buy-back has been authorised by the board of directors by means of a resolution passed at its meeting.

(ii) Every buy-back shall be completed within a period of one year from the date of passing of the special resolution at general meeting, or the resolution passed by the board of directors of the company, as the case may be.

(iii) The company shall, after expiry of the buy-back period, file with the Registrar of Companies and the SEBI, a return containing such particulars relating to the buy-back within thirty days of such expiry, in the format as specified in the Companies (Share Capital and Debentures) Rules, 2014.

(iv) A copy of the resolution passed at the general meeting under sub-section (2) of section 68 of the Companies Act, 2013 shall be filed with the Board and the stock exchanges where the shares or other specified securities of the company are listed, within seven days from the date of passing of the resolution.

PART II

Question 5

(a) The stock market of a developing countries is normally attractive for the foreign investors.

A foreign endowments fund is planning to invest in equity shares of Indian companies. State the category under which this Foreign Portfolio Investor (FPI) be covered. Will your answer be different if it is a central bank of a foreign country ?

(b) What is Unified Payments Interface (UPI) ? How is public issue application using UPI different from public isssue application using ASBA submitted with intermediaries ? Explain.

(c) Z holding equity shares in PQR Ltd. made a request to the company to issue shares with differential voting rights. Enumerate the conditions if any to be satisfied by the PQR Ltd. for issue of shares with differential voting rights to Z.

(5 marks each)

Answer 5(a)

As per Regulation 5 of the SEBI (Foreign Portfolio Investors), Regulations, 2014, an applicant shall seek registration as a foreign portfolio investor in one of the categories mentioned under the regulations or any other category as may be specified by the SEBI from time to time.

The foreign endowments fund will be covered under category III. This category includes foreign portfolio investor which shall include all others not eligible under Category I and II foreign portfolio investors such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices.

Yes, if it is central bank of a foreign country, this will include in Category – I. The Category – I includes foreign portfolio investor which includes Government and Government related investors such as central banks, Governmental agencies, sovereign wealth funds and international or multilateral organizations or agencies.

Answer 5(b)

Unified Payments Interface (UPI)

UPI is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI regulated entity. UPI is built over the IMPS (Immediate Payment Service) infrastructure and allows you to instantly transfer money between any two parties' bank accounts. UPI as a payment mechanism is available for all public issues for which Red Herring Prospectus is filed after January 01, 2019.

Public issue application using UPI is a step towards digitizing the offline processes involved in the application process by moving the same online. This requires you to have to create a UPI ID and PIN using any of the UPI enabled mobile application. The UPI ID can be used for blocking of funds and making payment in the public issue process. One can accept the request to block the funds for the amount they have bid by entering their UPI PIN in the mobile application. The money shall be blocked and shall be automatically remitted to the Escrow Bank, in case of allotment. UPI in public issue process shall essentially bring in comfort, ease of use and reduce the listing time for public issues.

The limit for Initial Public Offer (IPO) application is 2 Lakhs per transaction on UPI.

Only retail individual investors are allowed to use UPI for payment in public issues. Qualified Institutional Buyers and High Net-worth Individuals shall continue to apply as per the existing process.

Answer 5(c)

Share Capital with Differential Voting Rights (DVRs)

Section 43(a)(ii) of the Companies Act, 2013, authorized equity share capital with differential rights as to dividend, voting or otherwise in accordance with rule 4 of Companies (Share Capital and Debentures) Rules, 2014 which prescribes the following conditions for issue of DVRs:

(a) the articles of association of the company authorizes the issue of shares with differential rights;

(b) the issue of shares is authorized by ordinary resolution passed at a general meeting of the shareholders. Where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot at a general meeting;

(c) the shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;

(d) the company having consistent track record of distributable profit for the last three years;

(e) the company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;

(f) the company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;

(g) the company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or state level financial institution or scheduled bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government.

However, a company may issue equity shares with differential rights upon expiry of five years from the end of the financial year in which such default was made good.

(h) the company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, Securities and Exchange Board of India Act, 1992, Securities Contracts (Regulation) Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act under which such companies being regulated by sectoral regulators.

(i) The explanatory statement to be annexed to the notice of the general meeting in pursuance of section 102 or of a postal ballot in pursuance of section 110 of the Companies Act, 2013 shall contain the disclosures as mentioned in the rules.

(j) The company shall not convert its existing share capital with voting rights into equity share capital carrying differential voting rights and vice-versa.

(k) The Board of Directors shall disclose in the Board's Report for the financial year in which the issue of equity shares with differential rights was completed, the details as mentioned in the rules.

(l) The holders of the equity shares with differential rights shall enjoy all other rights such as bonus shares, rights shares etc., which the holders of equity shares are entitled to, subject to the differential rights with which such shares have been issued.

(m) The register of members maintained under section 88 of the Companies Act, 2013, shall contain all the relevant particulars of the shares so issued along with details of the shareholders.

Note: Following amendment has come in place of point (c) above.

"The voting power in respect of shares with differential rights of the company shall not exceed seventy four percent of total voting power including voting power in respect of equity shares with differential rights issued at any point of time."

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

Question 6

Write short notes on the following :

(a) Optionally Fully Convertible Debenture

(b) Role of Portfolio Manager

(c) Nifty

(d) Angel Fund

(e) Research Analysts. *(3 marks each)*

OR (Alternate question to Q. No. 6)

Question 6A

(i) How does market surveillance try to ensure market integrity in the securities market ? Explain.

(ii) What are the key risk management measures initiated by SEBI in the secondary market ? Describe.

(iii) What is Pension Fund and Government Pension ? State the legislations governing pension in India. *(5 marks each)*

Answer 6(a)

Optionally Fully Convertible Debenture (OFCD)

As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the "convertible security" means a security which is convertible into or exchangeable with equity shares of the issuer at a later date, with or without the option of the holder of such security and includes convertible debt instrument and convertible preference shares.

The Optionally Fully Convertible Debenture is a kind of debenture which can be converted into shares at the expiry of a certain period at a predetermined price, if the debt holder (investor) wishes to do so. The "securities" as defined u/s 2(81) of Companies Act, 2013 means securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956, and includes hybrids. Hence after analysing the above definitions of "OFCD", "hybrid" and "securities" it could be rightly concluded that an OFCD being a hybrid security falls under the definition of "securities" as defined u/s 2 (h) of Securities Contract (Regulation) Act, 1956 and u/s 2(81) of Companies Act, 2013 as it inherits the characteristics of debentures initially and also that of the shares at a later stage if the option to convert the securities into shares being exercised by the security holder.

Answer 6(b)

Meaning of Portfolio Manager

Portfolio manager means any person who pursuant to a contract or arrangement with the client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the clients as the case may be.

Role of Portfolio Manager

A portfolio manager plays a pivotal role in deciding the best investment plan for an individual as per his income, age as well as ability to undertake risks. A portfolio manager is responsible for making an individual aware of the various investment tools available in the market and benefits associated with each plan. Make an individual realize why he actually needs to invest and which plan would be the best for him. A portfolio manager is responsible for designing customized investment solutions for the clients according to their financial needs.

Answer 6(c)

Nifty

National Stock Exchange's Fifty or Nifty is the market indicator of NSE. It is a collection of 50 stocks. It is also referred to as Nifty 50. It is owned and managed by India Index Services and Products Ltd. (IISL). Nifty is calculated through the free-float market capitalization weighted method. It multiples the Equity capital (expressed in terms of number of shares outstanding) with a price to derive the market capitalization. To determine the Free-float market capitalization, equity capital (as stated earlier) is multiplied by a price which is further multiplied with Investable Weight Factor (IWF) which is the factor for determining the number of shares available for trading freely in the market. The Index is determined on a daily basis by taking into consideration the current market value (free float market capitalization) divided by base market capital and then multiplied by the Base Index Value of 1000.

Answer 6(d)

Angel Fund

An angel investor or angel (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an affluent individual who provides capital for a start-up business, usually in exchange for convertible debt or equity ownership. A small but increasing number of angel investors invest online through equity crowd funding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

Angel investments are typically the earliest equity investments made in start-up companies. They commonly band together in investor networks. Often these networks are based on regional, industry in investor or academic affiliation. Angel Investors are often former entrepreneurs themselves, and typically enjoy working with companies at the earliest stages of business formation. As per the SEBI (Alternative Investment Fund) Regulations, 2012, angel fund is a sub-category of venture capital. Procurement of funds from angel investors of their further investment has to be conducted as per these regulations.

The effective Angels help entrepreneurs to shape business models, create business plans and assist in arranging resources - but without stepping into a controlling or operating role. Often Angels are entrepreneurs who have successfully built companies, or have spent a part of their career in coaching young companies.

Answer 6(e)

Research Analysts

As per SEBI (Research Analysts) Regulations, 2014, "Research analyst" means a person who is primarily responsible for,-

(i) preparation or publication of the content of the research report; or

(ii) providing research report; or

(iii) making 'buy/sell/hold' recommendation; or

(iv) giving price target; or

(v) offering an opinion concerning public offer,

with respect to securities that are listed or to be listed in a stock exchange, whether or not any such person has the job title of 'research analyst' and includes any other entities engaged in issuance of research report or research analysis.

They study Companies and industries, analyse raw data, and make forecasts or recommendations about whether to buy, hold or sell securities. They analyse information to provide recommendations about investments in securities to their clients. Investors often view analysts as experts and important sources of information about the securities they review and often rely on their advice.

There are basically three broad types of analysts, viz. sell-side analysts, buy-side analysts and independent analysts.

The net worth requirements of Research Analysts are:

- Body corporate or limited liability partnership firm – not less than ₹25 Lakh.
- Individual or partnership firm shall have net tangible assets of value not less than ₹1 Lakh.

Answer 6A(i)

Market surveillance plays a vital role in ensuring market integrity which is the core objective of regulators. Market integrity is achieved through combination of surveillance, inspection, investigation and enforcement of relevant laws and rules. In India, the primary responsibility of market surveillance has been entrusted to Stock exchanges and is being closely monitored by SEBI. Millions of Orders are transmitted electronically every minute and therefore surveillance mechanisms to detect any irregularities must also be equally developed. Exchanges adopt automated surveillance tools that analyse trading patterns. Market Surveillance is broadly categorised in two parts as under:

A. Preventive Surveillance

– *Stringent on boarding norms for Trading Members* - Stringent net worth, back ground, viability etc. checks while on boarding Trading Members.

– *Index circuit filters* - It brings coordinated trading halt in all equity and equity derivative markets at 3 stages of the index movement, either way viz., at 10%, 15% and 20% based on previous day closing index value.

– *Trade Execution Range* - Orders are matched and trades take place only if the trade price is within the reference price and execution range.
– *Order Value Limitation* - Maximum Order Value limit allowed per order.
– *Cancel on logout* - All outstanding orders are cancelled, if the enabled user logs out.
– *Kill switch* - All outstanding orders of that trading member are cancelled if trading member executes kill switch.
– *Risk reduction mode* - Limits beyond which orders level risk management shall be initiated instead of trade level.
– *Compulsory close out* - Incoming order, if it results in member crossing the margins available with the exchange, such order will be partially or fully cancelled, as the case may be, and further disallow the trading member to create fresh positions.
– *Capital adequacy check* - Refers to monitoring of trading member's performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached
– *Fixed Price Band / Dynamic Price band* - Limits applied within which securities shall move; so that volatility is curbed orderliness is bought about. For non-derivative securities price band is 5%, 10% & 20%. For Derivative products an operating range of 10% is set and subsequently flexed based on market conditions.
– *Trade for Trade Settlement* - The settlement of scrip's available in this segment is done on a trade for trade basis and no netting off is allowed.
– *Periodic call auction* - Shifting the security form continuous to call auction method
– *Rumour Verification* - Any unannounced news about listed companies is tracked on online basis and letter seeking clarification is sent to the companies and the reply received is disseminated

B. Post trade surveillance

– *End of day alert* – Alerts generated using statistical tools. The tool highlights stocks which have behaved abnormally form its past behavior.
– *Pattern recognition model* – Models designed using high end tools and trading patterns which itself identifies suspects involving in unfair trading practice.
– *Transaction alerts for member* - As part of surveillance obligation of members the alerts are downloaded to members under 14 different heads.

Answer 6A(ii)

Some of the key risk management measures initiated by SEBI in the Secondary Market are as under:

(a) Categorization of securities into groups 1, 2 and 3 for imposition of margins based on their liquidity and volatility.

(b) VaR based margining system.

(c) Specification of mark to Market margins.

(d) Specification of Intra-day trading limits and Gross Exposure Limits.

(e) Real time monitoring of the Intra-day trading limits and Gross Exposure Limits by the Stock Exchanges.

(f) Specification of time limits of payment of margins.

(g) Collection of margins on upfront basis.

(h) Index based market wide circuit breakers.

(i) Automatic de-activation of trading terminals in case of breach of exposure limits.

(j) VaR based margining system has been put in place based on the categorization of stocks based on the liquidity of stocks depending on its impact cost and volatility. It addresses 99% of the risks in the market. • Additional margins have also been specified to address the balance 1% cases.

(k) Collection of margins from institutional clients on T+1 basis.

Answer 6A(iii)

Pension Fund

Pension Fund means a fund established by an employer to facilitate and organize the investment of employees' retirement funds which is contributed by the employer and employees. 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 years and commence retirement. Pension funds are commonly run by some sort of financial intermediary for the company and its employees like N.P.S. scheme is managed by UTIAMC (Retirement Solutions), although or some larger corporations operate their pension funds in-house. Pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations. Pension funds play a huge role in development of the economy and it play active role in the Indian equity market. This pension fund ensures a change in their investment attitudes and in the regulatory climate, encouraging them to increase their investment levels in equities and would have a massive impact on capital market and on the economy as a whole.

Pensions broadly divided into two sectors:

A. Formal sector Pensions

B. Informal sector Pensions

Pensions in India can be divided into three categories such as pensions under an Act or Statute, Government pensions and voluntary pensions.

Government Pension

Government pensions in India are referred under the Directive Principles of State Policy and are therefore not covered under a Statute. The Government amended the regulations to put in place the new pension system. The old scheme continues for the existing employees (i.e. those who joined service prior to January 1, 2004). Pensions for government employees would include employees of the central as well as the state governments. (A) Central Government Pensions like Civil servants pensions, Defences, Railways and Posts (B) State Government Pensions, Bank pensions like Reserve Bank of India (RBI), Public Sector Banks, National Bank for Agriculture and Rural Development (NABARD) and other banks pensions.

Legislations governing pension in India

There are following three Acts for pensions in India.

1. *Pensions under the Employees Provident Fund & Miscellaneous Provisions Act 1952 (EPF&MP)* : These include the Employees Provident Fund, Employees Pension Scheme, and Employees Deposit Linked Insurance Scheme.
2. *Pensions under the Coal mines Provident Fund & Miscellaneous Provisions Act 1948* : These include Coal mines provident fund, Coal mines pension scheme & Coal mines linked insurance scheme.
3. *Gratuity under the Payment of Gratuity Act, 1972* : There are other provident funds in India like Assam Tea Plantations Provident Fund, J&K Provident Fund, and Seamens Provident Fund etc.

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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) Explain the powers of the Reserve Bank of India to issue directions to an authorised person under the Foreign Exchange Management Act, 1999.

(b) Enumerate the powers of the Central Government to prohibit receipt of foreign contribution under the Foreign Contribution (Regulation) Act, 2010.

(c) Dr. Gupta, an Indian national, residing in Thailand and wanted to avail foreign exchange facility upto USD 2,00,000 only. Whether he can do so ? Explain the relevant provisions of the Foreign Exchange Management Act, 1999 in this respect.

(d) State the prime functions of the Development Commissioner as incorporated in the Special Economic Zones Act, 2005. *(5 marks each)*

Answer 1(a)

Section 11 of the Foreign Exchange Management Act, 1999 empowers the Reserve Bank of India (RBI) to issue directions to the authorised person in regard to making of payment or doing or desist from doing any act relating to foreign exchange or foreign security. Reserve Bank of India has also been empowered to issue directions to the authorised persons to furnish such information in such manner as it deems fit. If any authorised person contravenes any direction given by the RBI or fails to file the return as directed by RBI, he may be liable to a fine not exceeding Rs. 10,000/- and in the case of continuing contravention, with an additional penalty which may extend to Rs. 2,000 for every day during which such contravention continues.

Answer 1(b)

Section 9 of the Foreign Contribution (Regulation) Act, 2010 deals with power of Central Government to prohibit receipt of foreign contribution, etc., in certain cases. Accordingly, the Central Government has been empowered to –

(a) prohibit any person or organisation not specified in section 3 of the Act, from accepting any foreign contribution;

(b) require any person or class of persons, not specified in section 6 of the Act , to obtain prior permission of the Central Government before accepting any foreign hospitality;

(c) require any person or class of persons not specified in section 11, to furnish intimation within such time and in such manner as may be prescribed as to the amount of any foreign contribution received by such person or class of persons as the case may be, and the source from which and the manner in which such contribution was received and the purpose for which and the manner in which such foreign contribution was utilised;

(d) without prejudice to the provisions of section 11(1), require any person or class of persons specified in section 11(1) to obtain prior permission of the Central Government before accepting any foreign contribution;

(e) require any person or class of persons, not specified in section 6, to furnish intimation, within such time and in such manner as may be prescribed, as to the receipt of any foreign hospitality, the source from which and the manner in which such hospitality was received.

Answer 1(c)

Remittances of USD 2,50,000 per Financial Year (FY) for permitted Current Account Transactions such as private visit; gift/donation; going abroad on employment; emigration; maintenance of close relatives abroad; business trip; medical treatment abroad; studies abroad are available to resident individuals under Schedule III to Foreign Exchange Management (Current Account Transactions) Amendment Rules, 2015 read with Foreign Exchange Management Act, 1999 are subsumed under the Liberalised Remittance Scheme (LRS).Release of foreign exchange exceeding USD 2,50,000, requires prior permission from the Reserve Bank of India.

In view of the above, Dr. Gupta can freely avail foreign exchange facilities upto USD 2,00,000.

Answer 1(d)

Section 12 of the Special Economic Zones Act, 2005 deals with the functions of the Development Commissioner. The functions of the Development Commissioner include:

(a) guide the entrepreneurs for setting up of Units in the Special Economic Zone;

(b) ensure and take suitable steps for effective promotion of exports from the Special Economic Zone;

(c) ensure proper coordination with the Central Government or State Government Departments concerned or agencies with respect to, or for above purposes;

(d) monitor the performance of the Developer and the Units in SEZ;

(e) discharge such other functions as may be assigned to him by the Central Government under this Act or any other law for the time being in force; and

(f) any other functions as may be delegated to him by the Board of approval.

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

Question 2

(a) What are the privileges of "Status Holders' under the Foreign Trade Policy andProcedure of India enumerated under the Foreign Trade Policy 2015-20 ?
(4 marks)

(b) What are the regulations relating to acceptance of deposits by non-banking

financial companies conferred under chapter III B of the Reserve Bank of India Act, 1934 ? *(4 marks)*

(c) *What is the eligibility criteria for overseas investment by proprietorship concerns and registered trust.* *(4 marks)*

(d) *Point out the prohibited transactions under the Liberalised Remittane Scheme.* *(4 marks)*

(e) *How is the Monetary Policy Committee constituted under the Reserve Bank of India Act, 1934 ? What are its functions ? Explain.* *(4 marks)*

OR (Alternate question to Q. No. 2)

Question 2A

(i) *Discuss the establishment and jurisdiction of Appellate Tribunal constituted under the Foreign Exchange Management Act, 1999.*

(ii) *Enumerate the sectors/activities where foreign direct investment is prohibited under the Foreign Direct Investment Policy in India.*

(iii) *Explain the functions and powers of Approval Committee under the Special Economic Zone Act, 2005.*

(iv) *State the requirements for registration of Non-Banking Finance Company with Reserve Bank of India under the Reserve Bank of India Act, 1934.*

(v) *State the provisions regarding the penalties and punishment provided under the Foreign Contribution (Regulation) Act, 2010.* *(4 marks each)*

Answer 2(a)

Privileges of "Status Holders" under Foreign Trade Policy and Procedure 2015-20 are as under:

(a) Authorisation and Customs Clearances for both imports and exports may be granted on self-declaration basis;

(b) Input-Output norms may be fixed on priority within 60 days by the Norms Committee; '

(c) Exemption from furnishing of Bank Guarantee for Schemes under FTP, unless specified otherwise anywhere in FTP or Hand Book of Procedure (HBP);

(d) Exemption from compulsory negotiation of documents through banks. Remittance/receipts, however, would be received through banking channels;

(e) Two star and above Export houses shall be permitted to establish Export Warehouses as per Department of Revenue guidelines.

(f) Three Star and above Export House shall be entitled to get benefit of Accredited Clients Programme (ACP) as per the guidelines of Central Board of Excise and Customs (CBEC).

(g) The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.

(h) Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under different preferential trading agreements, free trade agreements, partnership or cooperation agreements .

(i) Manufacturer exporters who are also Status Holders shall be eligible to self - certify their goods as originating from India as per Hand Book of Procedures.

(j) Status holders shall be entitled to export freely exportable items on free of cost basis for export promotion.

Answer 2(b)

Chapter III B of Reserve Bank of India Act, 1934 deals inte-alia with the regulation and supervision of non-banking financial institutions and with the provisions relating to institutions receiving deposits. Some of the important regulations relating to acceptance of deposits by Non-Banking Financial Companies (NBFCs) are as under:

– The NBFCs are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months. They cannot accept deposits repayable on demand.

– NBFCs cannot offer interest rates higher than the ceiling rate prescribed by Reserve Bank of India from time to time.

– NBFCs cannot offer gifts/incentives or any other additional benefit to the depositors.

– NBFCs should have minimum investment grade credit rating.

– The deposits with NBFCs are not insured.

– The repayment of deposits by NBFCs is not guaranteed by Reserve Bank of India.

– Certain mandatory disclosures are to be made about the NBFC in the Application form issued by the NBFC soliciting deposits.

– The said NBFC's are also required to submit various returns from time to time in relation to the said deposits.

Answer 2(c)

Eligibility Criteria for overseas investment by proprietorship concern are as under:

(a) The proprietorship concern is classified as " Status Holder" as per the Foreign Trade Policy issued by the Ministry of Commerce and Industry, Government of India from time to time;

(b) The proprietorship concern has a proven track record, i.e., the export outstanding does not exceed 10% of the average export realisation of preceding three years and a consistently high export performance;

(c) The proprietorship concern is KYC (Know Your Customer) compliant.

(d) The proprietorship concern has not come under the adverse notice of any

Government agency like the Directorate of Enforcement, Central Bureau of Investigation, Income Tax Department, etc. and does not appear in the exporters' caution list of the Reserve Bank or in the list of defaulters to the banking system in India; and

(e) The amount of proposed investment (or financial commitment) outside India does not exceed the export realisation or net owned funds of the proprietorship concern as specified by the Reserve Bank of India.

Eligibility Criteria for overseas investment by Trust are as under:

(i) The Trust should be registered under the Indian Trust Act, 1882;

(ii) The Trust deed permits the proposed investment overseas;

(iii) The proposed investment should be approved by the trustee/s;

(iv) Trust is KYC (Know Your Customer) compliant and is engaged in a bonafide activity;

(v) The Trust has been in existence at least for a period of three years;

(vi) The Trust has not come under the adverse notice of any Regulatory / Enforcement agency like the Directorate of Enforcement, Central Bureau of Investigation (CBI), etc.

Answer 2(d)

Prohibited Transactions under Liberalised Remittance Scheme are as under:

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

Answer 2(e)

Section 45ZB of the Reserve Bank of India Act, 1934 empowers the Central Government to constitute the Monetary Policy Committee of the Reserve Bank of India. The Monetary Policy Committee shall consist of the following Members, namely:—

(a) the Governor of the Bank—Chairperson, ex officio;

(b) Deputy Governor of the Bank, in charge of Monetary Policy—Member, ex officio;

(c) one officer of the Bank to be nominated by the Central Board—Member, ex officio; and

(d) three persons to be appointed by the Central Government—Members.

The Monetary Policy Committee shall determine the Policy Rate required to achieve the inflation target. The decision of the Monetary Policy Committee shall be binding on the Reserve Bank of India and the RBI is required to publish a document explaining the steps to be taken to implement the decisions of the Monetary Policy Committee.

Answer 2A(i)

Section 18 of the Foreign Exchange Management Act, 1999 empowers the Central Government to establish an Appellate Tribunal, to hear appeals against the certain orders of Adjudication Authorities and the orders of the Special Director (Appeals).

The Central Government or any person aggrieved by the orders of Adjudicating Authority or Special Director (Appeals) may prefer an appeal to the Appellate Tribunal under Section 19 of the Act.

The procedure, powers, time period for disposal of the Appeals by the Appellate Tribunal etc. are specified under Section 19 and Section 28 of the Act.

Any person aggrieved by any decision or order of the Appellate Tribunal may file an appeal to the High Court within the stipulated time on any question of law arising out of such order.

Answer 2A(ii)

Sector or activities where Foreign Direct Investment is prohibited are as under:

- Lottery Business including Government/private lottery, online lotteries, etc.
- Gambling and Betting including casinos etc.
- Chit funds
- Nidhi company
- Trading in Transferable Development Rights (TDRs)
- Real Estate Business or Construction of Farm Houses
- Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
- Activities/sectors not open to private sector investment e.g. (I) Atomic Energy and (II) Railway operations(other than permitted activities).

Answer 2A(iii)

Section 14 of the Special Economic Zones Act, 2005 empowers every Approval Committee to discharge the functions and exercise the powers in respect of the following matters:

(a) approve, the import or procurement of goods from the Domestic Tariff Area, for carrying on the authorised operations by a Developer in the Special Economic Zone;

(b) approve providing of services by a service provider from outside India or from the Domestic Tariff Area for carrying on the authorised operations by the Developer, in the Special Economic Zone;

(c) monitor th2e utilisation of goods or services or warehousing or trading in the Special Economic Zone;

(d) approve, modify or reject proposals for setting up Units for manufacturing or rendering of services or warehousing or trading in SEZ in accordance with the provisions of Section 15(8) of the Act;

(e) allow on receipt of approval foreign collaborations and foreign direct investments, including investments by a person outside India for setting up a Unit;

(f) monitor and supervise compliance of conditions subject to which the letter of approval or permission, if any, is granted to the Developer or entrepreneur; and

(g) perform any other functions as may be entrusted to it by the Central Government or the State Government concerned, as the case may be.

Answer 2A(iv)

In terms of Section 45-IA of the RBI Act, 1934, no Non-banking Financial Company can commence or carry on business of a non-banking financial institution without obtaining a certificate of registration from the Reserve Bank of India. There are various broad categories of NBFC's which can apply to and be registered with the RBI. However, for applying for registration, the NBFC should comply with the following:

i. It should be a company registered under the Companies Act, and

ii. It should have a minimum net owned fund.

Answer 2A(v)

Section 34 of the Foreign Contribution (Regulation) Act, 2010 prescribes for penalty on any person, on whom any prohibitory order has been served under Section 10 of the Act, pays, delivers, transfers or otherwise deals with, in any manner whatsoever, any article or currency or security, whether Indian or foreign, in contravention of such prohibitory order, he shall be punished with imprisonment for a term which may extend to three years, or with fine, or with both.

The Court trying such contravention may also impose on the person convicted an additional fine equivalent to the market value of the article or the amount of the currency or security in respect of which the prohibitory order has been contravened by him or such part thereof as the court may deem fit.

Section 35 of the Foreign Contribution (Regulation) Act, 2010 on the other hand provides for punishment with imprisonment for a term which may extend to five years, or with fine, or with both for accepting, or assisting any person, political party or organisation in accepting, any foreign contribution or any currency or security from a foreign source, in contravention of any provision of this Act or any rule or order made thereunder.

Section 39 deals with offences by companies and Section 41 provides for composition of certain offences.

PART–II

Question 3

(a) In which circumstances collusive bidding or bid rigging may occur as per the Competition Act, 2002 ?

(b) *What penalties are prescribed by the Competition Act, 2002 for contravention of orders of the Competition Commission.*

(c) *What do you mean by the term 'person' as given under the Competition Act, 2002 ?*

(d) *Who can appear before the Competition Commission of India ? Explain.*

(e) *State the conditions which are conducive to cartelization under the Competition Act, 2002.* *(3 marks each)*

Answer 3(a)

Circumstances in which collusive bidding or bid rigging may occur are:

– agreements to submit identical bids

– agreements as to who shall submit the lowest bid,agreements for the submission of cover bids (voluntarily inflated bids)

– agreements not to bid against each other,

– agreements on common norms to calculate prices or terms of bids

– agreements to squeeze out outside bidders

– agreements designating bid winners in advance on a rotational basis, or on a geographical or customer allocation basis.

Answer 3(b)

The Competition Act, 2002 prescribes penalties for contravention of orders of the Competition Commission of India.

As per Section 42, the Competition Commission of India may cause an inquiry to be made into compliance of its orders or directions made in exercise of its powers under the Act.

If any person, without reasonable clause, fails to comply with the orders or directions of the Commission issued under sections 27, 28, 31, 32, 33, 42A and 43A of the Competition Act, he shall be punishable with fine which may extend to rupees one lakh for each day during which such non-compliance occurs, subject to a maximum of rupees ten crore, as the Commission may determine.

If any person does not comply with the orders or directions issued, or fails to pay the fine imposed above, he shall, without prejudice to any proceeding under section 39, be punishable with imprisonment for a term which may extend to three years, or with fine which may extend to rupees twenty-five crore, or with both, as the Chief Metropolitan Magistrate, Delhi may deem fit.

Answer 3(c)

In terms of Section 2(l) of the Competition Act, 2002 "person" includes— (i) an individual; (ii) a Hindu undivided family; (iii) a company; (iv) a firm; (v) an association of persons or a body of individuals, whether incorporated or not, in India or outside India; (vi) any corporation established by or under any Central, State or Provincial Act or a

Government company as defined in section the Companies Act; (vii) any body corporate incorporated by or under the laws of a country outside India; (viii) a co-operative society registered under any law relating to co-operative societies; (ix) a local authority; (x) every artificial juridical person, not falling within any of the preceding sub-clauses.

Answer 3(d)

As per Section 35 of the Competition Act, 2002, following persons are entitled to appear before the Competition Commission of India:

(i) a complainant; or (ii) a defendant; or (iii) the Director General.

They may either appear in person or authorise any of the following:

(a) a chartered accountant as defined in Section 2(1)(b) of Chartered Accountants Act, 1949 who has obtained a certificate of practice; or

(b) a company secretary as defined in Section 2(1)(c) of the Company Secretaries Act, 1980 and who has obtained a certificate of practice;

(c) a cost accountant as defined in Section 2(1)(b) of the Cost and Works Accountants Act, 1959 and who has obtained a certificate of practice;

(d) a legal practitioner that is an advocate, vakil or an attorney of any High Court including a pleader in practice.

Answer 3(e)

Conditions that are conducive to cartelization under the Competition Act, 2002 are:

– high concentration - few competitors

– high entry and exit barriers

– homogeneity of the products (similar products)

– similar production costs

– excess capacity

– high dependence of the consumers on the product

– history of collusion.

Question 4

(a) Explain the term ‘Competition Advocacy’. State, whether the Central/State Government may make a reference to the Competition Commission for its opinion on possible effects of such policy on the competition under the Competition Act, 2002 ?

(b) Explain the procedure for investigation of combination under the Competition Act, 2002. *(5 marks each)*

Answer 4(a)

Section 49 of the Competition Act, 2002 deals with Competition Advocacy. Under

Section 49 the Central Government/State Government may seek the opinion of the Competition Commission on the possible effects of the policy on competition or any other matter. In this context, Section 49 envisages that while formulating a policy on the competition, the Central/State Government may make a reference to the Commission for its opinion on possible effect of such a policy on the competition, or any other matter.

On receipt of such a reference, the Commission shall, give its opinion on it to the Central Government/State Government, within sixty days of making such a reference and the latter may formulate the policy as it deems fit. The role of the Commission is advisory and the opinion given by the Commission shall not be binding upon the Central Government/State Government in formulating such a policy. The Commission is also empowered to take suitable measures for the (a) promotion of competition advocacy; (b) creating awareness about the competition; and (c) imparting training about competition issues.

Creating awareness about benefits of competition and imparting training in competition issues is expected to generate conducive environment to promote and foster competition, which is sine-qua non for accelerating economic growth.

Answer 4(b)

The procedure for investigation of combination by the Commission has been stipulated under Section 29 of the Competition Act, 2002. It involves following stages-

(i) The Commission first has to form a *prima facie* opinion that a combination is likely to cause, or has caused an appreciable adverse effect on competition within the relevant market in India. Further, when the Commission has come to such a conclusion then it shall proceed to issue a notice to the parties to the combination, calling upon them to show cause why an investigation in respect of such combination should not be conducted;

(ii) After receipt of the response of the parties to the combination may call for the report of the Director General.

(iii) When pursuant to response of parties or on receipt of report of the Director General whichever is later, the Commission prima-facie is of the opinion that the Combination is likely to cause an appreciable adverse effect on competition in relevant market, it shall direct the parties to the combination to publish within ten working days, the details of the combination, in such manner as it thinks appropriate so as, to bring to the information of public and persons likely to be affected by such combination.

(iv) The Commission may invite any person affected or likely to be affected by the said combination, to file his written objections within fifteen working days of the publishing of the public notice, with the Commission for its consideration.

(v) The Commission may, within fifteen working days of the filing of written objections, call for such additional or other information as it deem fit from the parties to the said combination and the information shall be furnished by the parties above referred within fifteen days from the expiry of the period notified by the Commission.

(vi) After receipt of all the information and within forty-five days from expiry of period for filing further information, the Commission shall proceed to deal with the case, in accordance with provisions contained in Section 31 of the Act.

PART–III

Question 5

(a) *A advertises in the newspaper that he will pay ₹ 1,000 to any one who brings to him his lost son. B without knowing of this reward finds A's lost son and restore him to A. Can B claim for the reward under the provisions of the Indian Contract Act, 1872 ? (4 marks)*

(b) *X draws a cheque in favour of Y, a minor, Y endorses the same in favour of Z.*

The cheque is dishonoured by bank on grounds of inadequate funds. What legal remedy is available to Z under the provisions of the Negotiable Instruments Act, 1881 ? (4 marks)

(c) *A and B are litigating in a count of law over property X and during the pendency of the suit, A transfers the property X to C. The suit ends in B's favour. Decide, who shall be entitled for property X under the provisions of the Transfer of Property Act, 1882 ? (4 marks)*

(d) *A doctor purchased woollen undergarments from S, a retailer shopkeeper whose business was to sell goods of the description. But after wearing the undergarments, the doctor got developed some skin disease. Can the doctor claim damages from S under the Sale of Goods Act, 1930 ? Decide. (4 marks)*

(e) *Avanti, took out motor car insurance from Healthy Trip Insurance Company. A cheque was issued under a contract of insurance of motorcar by the insured for the payment of premium of the policy. However, the cheque was dishonoured for want of funds in the account. Meanwhile the car met with an accident and badly damaged, killing the insured owner. The claim for insured amount was repudiated by the company.*

Decide :

(i) *Whether the contract of insurance has been performed ? Analyse the provisions of the Indian Contract Act, 1872 in this respect ?*

(ii) *Whether the claim of the insured amount may be recovered from Healthy Trip Insurance Company ? (4 marks)*

Answer 5(a)

According to Indian Contract Act, 1872, for a valid contract an acceptance never precedes an offer. There can be no acceptance of an offer which is not communicated. Similarly, performance of conditions of an offer without the knowledge of the specific offer, is no acceptance and therefore does not result in a contract.

Thus, as held in the case of *Lalman Shukla* v.*Gauri Dutt (1913)*, where a servant brought the boy without knowing of the reward, he was held not entitled to reward because he did not know about the offer and therefore could not have accepted it.

In this given case since B did not know of the reward, he cannot claim it from A even though he finds A's lost son and brings him to A.

Answer 5(b)

Capacity to incur liability as a party to a negotiable instrument is co-extensive with capacity to contract. According to Section 26 of the Negotiable Instruments Act, 1881, every person capable of contracting according to law to which he is subject, may bind himself and be bound by making, drawing, acceptance, endorsement, delivery and negotiation of a promissory note, bill of exchange or cheque.

Negatively, minors, lunatics, idiots, drunken person and persons otherwise disqualified by their personal law, do not incur any liability as parties to negotiable instruments. But incapacity of one or more of the parties to a negotiable instrument in no way, diminishes the liabilities of the competent parties to the said instrument. Therefore, where a minor is the endorser or payee of an instrument which has been endorsed all the parties excepting the minor are liable in the event of its dishonour.

In the given case Z can recover the amount of cheque from X who delivers the cheque in favour of Y, a minor by resorting to the provisions of the Negotiable Instruments Act, 1881,

Answer 5(c)

Section 52 of the Transfer of Property Act, 1882 incorporates the doctrine of *Lis pendens*. It states that during the pendency of a suit in a Court of Law, property which is subject to the suit/ litigation cannot be transferred. When it is said that the property cannot be transferred what is meant in this context is that property may be transferred but this transfer is subject to the rights that are created by a Court?s decree.

In the given case, A and B are litigating in a Court of law over property X and during the pendency of the suit A transfers the property X to C. The suit ends in B?s favour. Here C who obtained the property during the time of litigation cannot claim the property. He is bound by the decree of the Court wherein B has been given the property.

Answer 5(d)

According to the Sale of Goods Act, 1930 in a contract of sale, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied.

But there is an implied condition that the goods are reasonably fit for the purpose for which they are required if:

(i) the buyer expressly or by implication makes known to the seller the particular purpose for which the goods are required, so as to show that he relies on the seller's skill and judgement, and

(ii) the goods are of a description which it is in the course of the seller's business to supply (whether he is the manufacturer or producer or not). There is no such condition if the goods are bought under a patent or trade name.

In the case of *Grant* v. *Australian Knitting Mills (1936) 70 MLJ 513*, G a doctor purchased woollen underpants from M, a retailer whose business was to sell goods of that description. After wearing the underpants G developed some skin diseases. The

Court held that the goods were not fit for their only use and G was entitled to avoid the contract and claim damages.

In view of the above Doctor can claim damages from S under Sale of Goods Act, 1930.

Answer 5(e)

The fact in given case are similar to the case of *National Insurance Co. Ltd.* vs. *Seema Malhotra [2001(2) SCALE 140]*. In this case the Supreme Court held that applying the principles envisaged under Section 51, 52 and 54 of Indian Contract Act, 1872 relating to reciprocal promises, insurer need not to perform his part of promise when the other party fails to perform his part and thus not liable to pay the insured amount.

When the insured fails to pay the premium promised, or when the cheque issued by him towards the premium is returned dishonoured by the bank concerned the insurer need not perform his part of the promise. The corollary is that the insured cannot claim performance from the insurer in such a situation. The contract of insurance therefore cannot be said to have been performed.

Therefore, the claim of the insured amount from the Healthy Trip Insurance Company can not be recovered.

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

Question 6

Distinguish between the following :

(a) Vested and contingent interest

(b) Void and illegal agreements

(c) Bearer and order instrument

(d) Co-ownership and partnership

(e) Sale and Bailment. *(3 marks each)*

OR (Alternate question to Q. No. 6)

Question 6A

(i) Explain the rights and duties of allotees under Real Estate (Regulation and Development) Act, 2016.

(ii) State the provisions regarding punishment for Benami Transactions incorporated under the Benami Transaction (Prohibition) Act, 1988.

(iii) What are the contracts which cannot be specifically enforced under the Specific Relief Act, 1963 ?

(iv) What do you mean by the KYC guidelines as given under the Prevention of Money Laundering Act, 2002 ?

(v) State the penalty provisions for use of non-standard weight and measures under the Legal Metrology Act, 2009. *(3 marks each)*

Answer 6(a)

The following are the principal points of distinction between a vested and a contingent interest:

1. When an interest is vested the transfer is complete. It creates an immediate proprietary interest in the property though the enjoyment may be postponed to a future date. A contingent interest on the other hand is dependent upon the fulfilment of some conditions which may or may not happen. In other words, in case of vested interest, the owner's title is already prefect; in case of a contingent interest, the title is as yet imperfect but may become perfect on the fulfilment of a stipulated condition.

2. A vested interest takes effect from the date of transfer. A contingent interest in order to become vested is conditioned by a contingency which may not occur.

3. A vested interest cannot be defeated by the death of the transferee before he obtains possession. A contingent interest may fail in case of the death of transferee before the fulfilment of condition.

4. Since vested interest is not circumscribed by any limitation which derogates from the completeness of the grant, it logically follows that a vested interest is transferable as well as heritable. If, therefore, a transferee of the vested interest dies before actual enjoyment, it will devolve on his legal heirs. A contingent interest, on the other hand, cannot be inherited though it may be transferred coupled with limitation regarding fulfilment of a condition.

Answer 6(b)

A void agreement is one which is destitute of all legal effects. It cannot be enforced and confers no rights on either party. It is really not a contract at all, it is non-existent. The expression provides a useful label for describing the situation that arises when a contract is claimed but in fact does not exist. For example, a minor's contract is void.

An illegal agreement is one which, like the void agreement has no legal effects as between the immediate parties. Further, transactions collateral to it also become tainted with illegality and are, therefore, not enforceable. Parties to an unlawful agreement cannot get any help from a Court of law. On the other hand, a collateral transaction can be supported by a void agreement. Therefore, it may be said that all illegal agreements are void but all void agreements are not necessarily illegal.

Answer 6(c)

Bearer Instrument : A promissory note, bill of exchange or cheque is payable to bearer when (i) it is expressed to be so payable, or (ii) the only or last endorsement on the instrument is an endorsement in blank. A person who is a holder of a bearer instrument can obtain the payment of the instrument.

Order Instruments : A promissory note, bill of exchange or cheque is payable to order (i) which is expressed to be so payable; or (ii) which is expressed to be payable to a particular person, and does not contain any words prohibiting transfer or indicating an intention that it shall not be transferable.

Answer 6(d)

Coownership is not always the result of an agreement: it may arise by the operation of law or from status, e.g., co-heirs of a property. Partnership is between two persons. Partnership must arise from an agreement. A partner is the agent of the other partners, but a co-owner is not the agent of the other co-owner(s). Co-ownership does not necessarily involve community of profits and loss, partnership does. A co-owner can without the consent of the others transfer his rights and interests to strangers, a partner cannot do so without the consent of all the other partners so as to make the transferee a partner in the firm. A co-owner can ask for division of property in specie, but no partner can ask for this. His only right is to have a share of the profits out of the properties. Partnerships end at death or insolvency; co-ownerships end at death. A co-owner has no lien on the property while a partner has a lien on the firm property.

Answer 6(e)

"Sale", is a contract by which property in goods passes from the seller to the buyer for a price. A "bailment" is a transaction under which goods are delivered by one person (the bailor) to another (the bailee) for some purpose, upon a contract that they be returned or disposed of as directed after the purpose is accomplished (Section 148 of the Indian Contact Act, 1872).

The property in the goods is not intended to and does not pass on delivery though it may sometimes be the intention of the parties that it should pass in due course. But where goods are delivered to another on terms which indicate that the property is to pass at once the contract must be one of sale and not bailment.

Answer 6A(i)

Section 19 of the Real Estate (Regulation & Development) Act, 2016 provides for the various rights and duties of the allottees. It states that:

(1) The allottee shall be entitled to obtain the information relating to sanctioned plans, layout plans along with the specifications, approved by the competent authority and such other information as provided in the Act or the rules and regulations made thereunder or the agreement for sale signed with the promoter.

(2) The allottee shall be entitled to know stage-wise time schedule of completion of the project, including the provisions for water, sanitation, electricity and other amenities and services as agreed to between the promoter and the allottee in accordance with the terms and conditions of the agreement for sale.

(3) The allottee shall be entitled to claim the possession of apartment, plot or building, as the case may be, and the association of allottees shall be entitled to claim the possession of the common areas, as per the declaration given by the promoter.

(4) The allottee shall be entitled to claim the refund of amount paid along with interest at such rate as may be prescribed and compensation in the manner as provided under the Act, from the promoter, if the promoter fails to comply or is unable to give possession of the apartment, plot or building, as the case may be, in accordance with the terms of agreement for sale or due to discontinuance of his business as a developer on account of suspension or revocation of his registration under the provisions of the Act or the rules or regulations made thereunder.

(5) The allottee shall be entitled to have the necessary documents and plans, including that of common areas, after handing over the physical possession of the apartment or plot or building as the case may be, by the promoter.

(6) Every allottee, who ha entered into an agreement for sale to take an apartment, plot or building as the case may be, shall be responsible to make necessary payments in the manner and within the time as specified in the said agreement for sale and shall pay at the proper time and place, the share of the registration charges, municipal taxes, water and electricity charges, maintenance charges, ground rent, and other charges, if any.

(7) The allottee shall be liable to pay interest, at such rate as may be prescribed, for any delay in payment towards any amount or charges to be paid under sub-section (6).

(8) The obligations of the allottee under sub-section (6) and the liability towards interest under sub-section (7) may be reduced when mutually agreed to between the promoter and such allottee.

(9) Every allottee of the apartment, plot or building as the case may be, shall participate towards the formation of an association or society or cooperative society of the allottees, or a federation of the same.

(10) Every allottee shall take physical possession of the apartment, plot or building as the case may be,within a period of two months of the occupancy certificate issued for the said apartment, plot or building, as the case may be.

(11) Every allottee shall participate towards registration of the conveyance deed of the apartment, plot or building, as the case may be,

Answer 6A(ii)

According to Benami Transactions (Prohibition) Act, 1988 where any person enters into any benami transaction in order to defeat the provisions of any law or to avoid payment of statutory dues or to avoid payment to creditors, the beneficial owner, benamidar and any other person who abets or induces any person to enter into the benami transaction, shall be guilty of the offence of benami transaction, he shall be punishable in accordance with the provisions contained in Chapter VII of the Act.

Chapter VII of the Benami Transactions (Prohibition) Act, 1988 deals with offences and prosecution. Section 53 provides that if a person is found guilty of offence of benami transaction by the competent court, he shall be punishable with rigorous imprisonment for a term not less than one year but which may extend to 7 years and shall also be liable to fine which may extend to 25% of the fair market value of the property.

Section 54 relates to penalty for false information whereas Section 62 relates to consequences in case of offences by Company.

Answer 6A(iii)

According to Section 14 Specific Relief Act, 1963 the following contracts cannot be specifically enforced, namely:—

(a) where a party to the contract has obtained substituted performance of contract in accordance with the provisions of section 20 of the Act;

(b) a contract, the performance of which involves the performance of a continuous duty which the court cannot supervise;

(c) a contract which is so dependent on the personal qualifications of the parties that the court cannot enforce specific performance of its material terms; and

(d) a contract which is in its nature determinable.

Answer 6A(iv)

Reserve Bank of India issued Master Circular on Know Your Customer(KYC) Guidelines under Prevention of Money Laundering Act, (PMLA), 2002 and Banks were advised to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority. The objective of Know Your Customer (KYC) Norms/Anti-Money Laundering (AML) Measures/Combating of Financing of Terrorism (CFT) guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. KYC procedures also enable banks to know/ understand their customers and financial dealings better which in turn help banks manages their risks prudently. The 4 key elements of the KYC Policy include Customer Acceptance Policy, Customer Identification Procedures, Monitoring of Transactions and Risk Management.

Answer 6A(v)

Section 25 of the Legal Metrology Act, 2009 provides for penalty for use of non-standard weight or measure. The section stipulates that whoever uses or keeps for use any weight or measure or makes use of any numeration otherwise than in accordance with the standards of weight or measure or the standard of numeration, as the case may be, specified by or under the Act, shall be punished with fine which may extend to twenty-five thousand rupees and for the second or subsequent offence, with imprisonment for a term which may extend to six months and also with fine.

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FINANCIAL AND STRATEGIC MANAGEMENT

Time allowed : 3 hours *Maximum marks : 100*

PART I

1. Which of the followin is true regarding financial decisions of a firm ?

   (A) Investment Decisions are dependent on Financing Decisions.

   (B) Financing Decisions are dependent on Dividend Decisions.

   (C) Dividend Decisions are dependent on Investment Decisions.

   (D) All the three decisions are inter-related.

2. What will be the maturity value of a sum of ₹18,000 invested today at the rate of 5% p.a. for 10 years ?

   (A) ₹29,360

   (B) ₹28,320

   (C) ₹29,320

   (D) ₹35,220

3. The competing objectives of financial management have been :

   (A) Profit Maximization and Wealth Maximization

   (B) Profit Maximization and Economic Value Maximization

   (C) Economic Value Maximization and Wealth Maximization

   (D) EPS Maximization and Economic Value Maximization

4. Which of the following is an example of systematic risk in stocks ?

   (A) Company strike

   (B) Industrial recession

   (C) Unexpected entry of a new competitor in the market

   (D) Bankruptcy of a major supplier

5. Treasury Bills are issued by :

   (A) Public limited companies.

   (B) Blue chip companies.

   (C) Banks and selected all-India Financial Institutions only.

   (D) Central government.

6. Given that the effective rate of interest is 9.31% p.a., what is the nominal rate of interest p.a., if compounding is carried out quarterly ?

   (A) 9.25%

   (B) 8.5%

   (C) 9%

   (D) 9.20%

7. Decisions related to the mix of debt and equity in the balance sheet best relates to which of the following ?

   (A) Capital budget

   (B) Capital structure

   (C) Capital expenditure

   (D) Operating leverage

8. Which of the following are not applicable in the case of Payback period calculation of investment appraisal ?

   (A) It is simple in concept and application.

   (B) It favours only those projects that generate substantial inflows in the earlier years.

   (C) The cut-off period is chosen arbitrarily.

   (D) It considers the time value of money.

9. The Security Market Line shows the relationship between :

   (A) Expected rate of return and beta

   (B) Expected rate of return and diversifiable risk

   (C) Required rate of return and unsystematic risk

   (D) Realized rate of return and beta

10. The cost of retained earnings is equal to :

    (A) Dividend pay-out ratio

    (B) Rate of return expected on the Equity Share

    (C) Risk-free rate of return

    (D) Dividend yield ratio

11. Decision rules based on Benefit Cost Ratio (BCR) and Net Benefit Cost Ratio (NBCR) criteria implies :

    (A) If BCR < 1, accept the project

    (B) If NBCR < 0, accept the project

(C) If NBCR > 0, reject the project

(D) If BCR < 1, reject the project

12. An equity share with beta greater than unity would be called :

(A) A defensive stock, because it is expected to decrease more than the market increase

(B) An aggressive stock, because it is expected to increase more than the market increase

(C) A defensive stock, because it is expected to increase more than the market decrease

(D) An aggressive stock, because it is expected to decrease more than the market increase

13. An interest rate that has been annualized using compound interest is termed as:

(A) Annual interest rate.

(B) Discounted interest rate.

(C) Effective annual interest rate.

(D) Simple interest rate.

14. The risk aversion of investors can be measured by :

(A) Risk-free rate of return.

(B) Market rate of return.

(C) Variance of the return from a security.

(D) The difference between the market rate of return and the risk-free rate of return.

15. If a firm declared 25% dividend on share of Face Value of ₹10, its growth rate is 5%, and if the rate of capitalization is 12%, its expected price would be ₹........................ .

(A) 31.25

(B) 33.50

(C) 36.00

(D) 37.50

16. Capital Budgeting Decisions are part and parcel of :

(A) Financing and Investing Decisions

(B) Investing and Dividend Decisions

(C) Financing and Dividend Decisions

(D) Only Investing Decisions.

17. Diversification can eliminate risk, if the securities of a portfolio are :

(A) perfectly positively correlated

(B) perfectly negatively correlated

(C) weakly positively correlated

(D) weakly negatively correlated

18. .... is the present value of an asset, if the annual cash inflow is ₹1,000 per year for next 5 years and the discount rate is 15%.

(A) ₹2,500

(B) ₹3,500

(C) ₹3,352

(D) ₹2,481

19. An investor purchases an 8% bond having a face value of ₹1,000 and maturity of 5 years for ₹900. A year later he sells it for ₹960 in the market. The holding period gain of the investor is :

(A) 8.88%

(B) 14.00%

(C) 14.58%

(D) 15.55%

20. The effective rate of interest for a sum of money compounded quarterly is 12.55%. What is its nominal yield ?

(A) 12.05%

(B) 12.25%

(C) 12.15%

(D) 12%

21. The price of a share is ₹100 today. It grows to ₹125 at the end of the 1st year, ₹187.5 at the end of the 2nd year and ₹243.75 at the end of the 3rd year. What is the average rate of return ?

(A) 35.5%

(B) 35%

(C) 34.5%

(D) 34%

22. What is the present value of an annuity of ₹15,000 starting immediately (t = 0) and paying another 5 annual instalments ? Assume a discounting rate of 12%.

(A) ₹85,460

(B) ₹82,500

(C) ₹75,120

(D) ₹88,120

23. Which of the following does not contribute to systematic risk ?

(A) Change in the interest rates.

(B) Change in the level of government spending.

(C) Emergence of a new competitor.

(D) Change in the industrial policy.

24. Varun Ltd. is issuing 1 Lakh 12% Irredeemable preference shares of the face value of ₹100 each. If the floatation cost is ₹2 per share, what is the cost of these Preference Shares ?

(A) 12.00%

(B) 12.14%

(C) 12.24%

(D) 12.34%

25. If an investment of ₹3,00,000 pays ₹25,000 p.a. in perpetuity, what is the Net Present Value, if the interest rate is 9% ?

(A) ₹ –22222

(B) ₹ +22222

(C) ₹ +24736

(D) ₹ +27250

26. Which approach in capital structure argues that the overall capitalization rate and the cost of debt remains constant for all degrees of leverage, as the same is offset by an increase in the equity capitalization rate ?

(A) NI Approach

(B) NOI Approach

(C) Walter's Approach

(D) Gordon's Approach

27. An arrangement where a bank allows a borrower to overdraw up to a certain limit for working capital financing is known as :

(A) Bridge Loan

(B) Cash Credit

(C) Term Loan

(D) Leverage Buy Out

28. Funds represented by cheques which have been issued, but which have not been debited from bank is technically referred to as :

(A) Indenture

(B) Forward Cover

(C) Float

(D) Proxy

29. The Net Working Capital (NWC) of a firm is ₹14 Lakhs. It purchased ₹30 Lakhs worth of raw materials on credit, issued 7% debentures for ₹20 Lakhs, and purchased a machine for ₹18 Lakhs for cash. The new NWC of the firm will be:

(A) ₹12 Lakhs

(B) ₹16 Lakhs

(C) ₹15 Lakhs

(D) ₹10 Lakhs

30. A firm has a Degree of Operating Leverage (DOL) of 5 and Degree of Financial Leverage (DFL) of 4. The interest burden is ₹300 Lakhs, variable cost as a % to sales is 75%, and the effective tax rate is 45%. Its fixed cost is :

(A) ₹1600 Lakhs

(B) ₹1450 Lakhs

(C) ₹1500 Lakhs

(D) ₹1700 Lakhs

31. ABC analysis is useful for :

(A) analyzing inventory based on their usage and movement

(B) reduction of total investment in material

(C) determining the optimal level of safety stock

(D) analyzing inventory based on their availability

32. Consider the following factors — Gross operating cycle – 80 days; Net operating cycle – 55 days; Raw material holding period – 40 days, Conversion period – 2 days; Finished goods holding period – 20 days; Average collection period will be:

(A) 87 days

(B) 37 days

(C) 18 days

(D) 62 days

33. MNC expects its sales to increase by 10% from the current year level of ₹5 million. With a Net Profit Margin of 8% and a payout ratio of 30%, what financing for the next year will be available from internal sources ?

(A) ₹4,40,000

(B) ₹3,08,000

(C) ₹0.4 million

(D) ₹0.404 million

34. If a company acquired a helicopter for its top management for a certain period on a fixed payment, which of the following will be true regarding leverage ?

(A) DOL will increase

(B) DFL will increase

(C) DOL will decrease

(D) DCL will remain unchanged

35. Which of the following is not a valid assumption of MM approach to capital structure ?

(A) Securities are infinitely divisible

(B) Lack of free flow of information

(C) Transactions costs are zero

(D) No taxation

36. Which of the following will not have an impact on a firm's treasury position ?

(A) Dividend payment

(B) Tax payment

(C) Buying fixed assets

(D) Issuing bonus shares

37. A firm has a DOL of 6 at a certain production level. If Sales of the firm rise by 1%, it implies that :

(A) EBIT will also rise by 1%

(B) EBIT will rise by 1/6%

(C) EBIT will rise by 6%

(D) Change in EBIT is undecided

38. Determination of "safety stock" requires a trade-off between :

(A) Carrying costs and stock-out cost

(B) Ordering cost and carrying cost

(C) Ordering cost and stock-out cost

(D) Lead time and order point

39. Which of the following is not a valid assumption of EOQ model ?

(A) Demand forecast is available

(B) Inventory can be replenished immediately

(C) Cost per order is variable

(D) Carrying cost is a fixed percentage

40. Which of the following investment decisions is required to be taken for a stock, if its intrinsic value is greater than its market value ?

(A) Sell

(B) Hold

(C) Buy

(D) Indifferent

41. Monthly demand for a raw material is 150 units. Ordering cost per order is ₹8 and annual carrying cost per unit is ₹2. Economic Order Quantity (EOQ) under the above circumstances will be :

(A) 90

(B) 120

(C) 150

(D) 180

42. Earnings per share (EPS) is equal to :

(A) Profit after tax/no. of shares in authorized capital

(B) Profit after tax/no. of shares in issued capital

(C) Profit after tax/net worth

(D) Profit before tax/net worth

43. Interest coverage ratio of 6 indicates :

(A) Sales are 6 times of interest.

(B) Profit after tax is 6 times of interest.

(C) EBIT is 6 times of interest.

(D) Interest is 6 times profit after tax.

44. Debtors turnover ratio reflects :
    (A) Collection period
    (B) Debtors in relation to credit sales
    (C) Debtors in relation to total sales
    (D) Aging of the debtors

45. Consider the following data and compute the total sales amount :
    (i) Closing balance of receivables : ₹30 lakhs
    (ii) Opening balance of receivables : ₹20 lakhs
    (iii) Average collection period : 25 days
    (iv) Credit sales are 73% of sales (assume 365 days in a year)
    (A) ₹365 lakhs
    (B) ₹500 lakhs
    (C) ₹550 lakhs
    (D) ₹730 lakhs

46. If the expected dividend is less than the actual dividend paid, the rational expectation approach suggests that the :
    (A) Share price will increase.
    (B) Share prices will go down.
    (C) Value of the firm will go up.
    (D) Both (A) and (C) above.

47. The EOQ for a firm is 7200 units. The minimum order size stipulated by the supplier is 9000 units for utilizing a cash discount on the purchase price. The annual usage of the material in units is 80,000 and the cost per order is ₹100. If the company decides to utilize cash discount, savings in the total ordering cost will be :
    (A) ₹400
    (B) ₹500
    (C) ₹600
    (D) ₹700

48. Walter model can be applied only to those companies which :
    (A) Earn high profits.
    (B) Make investment by resorting to high level of debts.
    (C) Make investments without borrowing or raising external equity.
    (D) Do not make any investment.

49. Cash Management Model has been propounded by :

(A) Lintner

(B) Walter

(C) Baumol

(D) Gordon

50. The Weighted Average Cost of Capital computations :

(A) Assign more weight to Equity.

(B) Assign more weight to Debentures.

(C) Excludes Retained Earnings.

(D) Assigns weights based on Market Value or Book Value.

51. The liability side of Shivanee Ltd.'s Balance Sheet shows Equity capital ₹25 Lakhs and Retained Earnings ₹50 Lakhs. Face value of its share is ₹100 each and market value is ₹300 each. If the investors expect a Rate of Return of 18%, and if the cost of floatation of issuing fresh Equity is 5%, what is the Cost of Retained Earnings ?

(A) 17.50%

(B) 18.00%

(C) 9.00%

(D) 8.75%

52. The Capital Structure of Neel Ltd. is as under :

Equity + Reserves & Surplus	₹200 Lakhs
10% Preference Shares	₹50 Lakhs
12% Term Loans	₹150 Lakhs

What should be the approx. Earnings Before Interest and Taxes (EBIT) so that Earnings Per Share (EPS) is 0 (Nil) ? Assume Tax Rate 35%.

(A) ₹23.00 Lakhs

(B) ₹24.75 Lakhs

(C) ₹25.69 Lakhs

(D) ₹29.30 Lakhs

53. ABC Limited books of accounts show profit from operation (EBDIT) at ₹500 Lakhs, it paid 12% on a debt of ₹1,000 Lakhs, Depreciation is ₹100 Lakhs and Tax 35%. Profit after Tax will be :

(A) ₹184 Lakhs

(B) ₹182 Lakhs

(C) ₹178 Lakhs

(D) ₹180 Lakhs

54. As you increase the number of stocks in a portfolio, the systematic risk is likely to :

(A) remain constant

(B) increase at a decreasing rate

(C) decrease at a decreasing rate

(D) decrease at an increasing rate

55. Current ratio is 4 : 1. Net Working Capital is ₹30,000. Find the amount of Liquid assets if value of stock is ₹8,000.

(A) ₹10,000

(B) ₹40,000

(C) ₹32,000

(D) ₹2,000

56. A sum of ₹50,000 is invested @ 12% p.a. for 6 years. What will be the present value of its maturity value, assuming a required rate of return of 10% ?

(A) ₹86,000

(B) ₹98.700

(C) ₹55,667

(D) ₹56,504

57. The cost of capital of a firm is 12% and its expected Earning Per Share at the end of the year is ₹20. Its existing payout ratio is 25%. The company is planning to increase its payout ratio to 50%. What will be the effect of this change on the market price of equity shares (MPS) of the company as per Gordon's model, if the reinvestment rate of the company is 15% ?

(A) It will increase by ₹444

(B) It will decrease by ₹444

(C) It will increase by ₹222

(D) It will decrease by ₹222

58. Mr. A is planning to buy a security and is in a dilemma regarding price to be paid. For this he is relying on the required rate of return on the security. Help him out to calculate the aforesaid rate (%), if you are informed that security's standard deviation is 6%, correlation coefficient of the security with the market is 0.6, and market standard deviation is 5%. You may assume that return from riskfree security in the market is 8% and return on market portfolio is 12%.

(A) 10.68%

(B) 10.88%

(C) 10.58%

(D) 10.78%

59. Firm A is considering a project A. The project involves cash outlay of ₹50,000 (t = 0), working capital outlay of ₹20,000 (t = 2), and is expected to generate Cash Flow After Tax (CFAT) of ₹12,000 per annum for 5 years excluding working capital release back and terminal value of 20%. What would be your advice to the company using Net Present Value approach, if its cost of capital is 10% ?

(A) Accept the project.

(B) Either Accept or Reject it as NPV is zero.

(C) Reject the project.

(D) Information incomplete.

60. Economic Order Quantity (EOQ) determines :

(A) The order size that minimize the total inventory cost.

(B) The order size where ordering cost is the lowest.

(C) The order size where the carrying cost is minimum.

(D) The order size which will earn discounts on purchase.

PART II

61. A corporate strategy can be defined as :

(A) A list of actions about operational planning and statement of organisation structure and control system

(B) A statement of how to compete, direction of growth and method of assessing environment

(C) Abatement of organisation's activities and allocation of resources

(D) A course of action or choice of alternatives, specifying the resources required to achieve certain stated objectives

62. A Strategic Business Unit (SBU) is defined as a division of an organisation :

(A) that help in the marketing operations.

(B) that enable managers to have better control over the resources.

(C) that help in the choice of technology.

(D) that help in the allocation of scarce resources.

63. Total Quality Management was initially applied in :

(A) South Korea

(B) Japan

(C) United Kingdom

(D) United State of America

64. How often should strategic management activities be performed ?

(A) Annually

(B) Quarterly

(C) Monthly

(D) Continuously

65. What is six-sigma risk/return level ?

(A) High-Low

(B) Medium-High

(C) Low-Low

(D) High-High

66. Which “S” is not part of McKinseys 7-S Framework ?

(A) Shared value

(B) System

(C) Staff

(D) Synergy

67. Under the BCG growth-share matrix, low share, high-growth businesses or products are called :

(A) Stars

(B) Cash cows

(C) Question marks

(D) Dogs

68. Ansoff’s matrix is useful for :

(A) joining a business’s marketing strategy with general strategic direction

(B) establishing an editorial calendar for staff to follow

(C) understanding buyer personas and buyer behaviours

(D) hiring new staff and training them on marketing tactics

69. Which category of benchmarking involves multi-site comparison of process and performance ?

(A) Internal

(B) Generic

(C) Competitive

(D) Functional

70. Which of the following answers to the question :

    'Where does the organisation aspire to be in the future ?'

    (A) Mission Statement

    (B) Vision Statement

    (C) Objectives

    (D) Core Values

71. Which of the following is a force in the Porter's five forces model of industry attractiveness ?

    (A) Bargaining power of suppliers

    (B) Competitive market

    (C) Low cost for customers

    (D) Opportunity for substitutes

72. The principles of the business process re-engineering (BPR) approach do not include :

    (A) Rethinking business processes crossfunctionally to organise work around natural information flows.

    (B) Striving for improvements in performance by radical rethinking and redesigning the process.

    (C) Checking that all internal customers act as their own suppliers to identify problems

    (D) Scrapping any process line over two years old and starting again from scratch

73. What does Cash Cow symbolize in BCG matrix ?

    (A) Volatility

    (B) Unattractive Investment

    (C) Profitability

    (D) Cash Drain

74. What are focus strategies ?

    (A) When a company focuses on supplying differential products which appeal to different market segments

    (B) Where a company chooses to concentrate on only one market segment or a limited range of segments

    (C) Where a company focuses on achieving lower costs than its rivals so as to compete across a broad range of market segments

    (D) When a company conducts market research through focus groups to determine how their strategy should be shaped

75. The BCG matrix is based on :

(A) Industry attractiveness and business strength

(B) Industry growth rate and business strength

(C) Industry attractiveness and relative market share

(D) Industry growth and market share

76. Which of these are characteristics of matrix structure ?

(A) Decentralisation and co-ordination

(B) Centralisation and control

(C) Centralisation and co-ordination

(D) Decentralisation and control

77. Which is the term used in Ansoff's matrix for increasing market share with existing products in existing markets ?

(A) Market Development

(B) Market Penetration

(C) Product Development

(D) Diversification

78. Successful differentiation strategy allows the company to :

(A) gain buyer loyalty to its brands

(B) charge too high a price premium

(C) depend only on intrinsic product attributes

(D) have product quality that exceeds buyers' needs

79. What are enduring statements of purpose that distinguish one business from other similar firms ?

(A) Policies

(B) Mission statements

(C) Objectives

(D) Rules

80. Typically profits are highest in which stage of industry life-cycle ?

(A) Introduction

(B) Growth

(C) Maturity

(D) Decline

81. Blue Ocean Strategy is concerned with :

(A) Moving into new markets with new products

(B) Creating new market places where there is no competition

(C) Developments of products and markets in order to ensure survival

(D) Making the product unique in terms of attributes

82. The product-market matrix comprising strategies of penetration, market development, product development and diversification was first formulated by :

(A) Ansoff

(B) Drucker

(C) Porter

(D) Prahlad

83. Which of the following market structures would be commonly identified with FMCG products ?

(A) Monopoly

(B) Monopolistic competition

(C) Oligopoly

(D) Perfect competition

84. Directional Policy Matrix is same as :

(A) the BCG Model

(B) the 9-cell GE Matrix

(C) the Life-cycle Portfolio analysis

(D) the 3×3 competitive positioning matrix

85. Outsourcing is the :

(A) pinning off of a value-creating activity to create a new firm

(B) Selling of a value-creating activity to other firms

(C) Purchase of a value-creating activity from an external supplier

(D) Use of computers to obtain valuecreating data from the Internet

86. The existence of price-wars in the airline industry in India indicates that :

(A) Customers are relatively weak because of the high switching costs created by frequent flyer programs

(B) The industry is moving towards differentiation of services

(C) The competitive rivalry in the industry is severe

(D) The economic segment of the external environment has shifted, but the airline strategies have not changed

87. What type of organisational structure do most small businesses follow ?

(A) Divisional Structure

(B) Functional Structure

(C) Hour Glass Structure

(D) Matrix Structure

88. Which section of the SWOT Matrix involves matching internal strengths with external opportunities ?

(A) The WT cell

(B) The SW cell

(C) The SO cell

(D) The ST cell

89. What can be defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organisation to achieve its objectives ?

(A) Strategy Formulation

(B) Strategy Evaluation

(C) Strategy Implementation

(D) Strategic Management

90. The emphasis on product design is very high, the intensity of competition is low, and the market growth rate is low in the .... stage of the industry life-cycle.

(A) Maturity

(B) Introduction

(C) Growth

(D) Decline

91. The most probable time to pursue a harvest strategy is in a situation of ....

(A) High growth

(B) Decline in the market life-cycle

(C) Strong competitive advantage

(D) Mergers and acquisitions

92. Vertical integration may be beneficial when :

(A) Lower transaction costs and improved co-ordination are vital and achievable

(B) Flexibility is reduced, providing a more stationary position in the competitive environment

(C) Various segregated specialisations will be combined

(D) The minimum efficient scales of two corporations are different

93. Conglomerate diversification is another name for which of the following ?

(A) Related diversification

(B) Unrelated diversification

(C) Portfolio diversification

(D) Acquisition diversification

94. When two organizations combine to increase their strengths and financial gains, it is called :

(A) Hostile takeover

(B) Liquidation

(C) Merger

(D) Acquisition

95. Financial objectives involve all of the following, except :

(A) growth in revenues.

(B) larger market share.

(C) higher dividends.

(D) greater return on investment.

96. Which of these basic questions should a vision statement answer ?

(A) What is our business ?

(B) Who are our competitors ?

(C) Where we are to go ?

(D) Why do we exist ?

97. A firm successfully implementing a differentiation strategy would expect :

(A) Customers to be sensitive to price increases

(B) To charge premium prices

(C) Customers to perceive the product as standard

(D) To automatically have high levels of power over suppliers

98. The concept of 'Core Competence' has been advocated by :

(A) Gary Hamel and Peter Drucker

(B) C.K. Prahlad and Gary Hamel

(C) C.K. Prahlad and Michael Porter

(D) C.K. Prahlad and Peter Drucker

99. Which of the following can be said to bethe strategy followed in TOWS approach?

(A) Defensive Strategy

(B) Offensive Strategy

(C) Attack Strategy

(D) Functional Strategy

100. Porter's Generic strategies include :

(A) Cost Differentiation, Product Focus, Leadership

(B) Price Leadership, Cost Focus, Product Differentiation

(C) Price Differentiation, Leadership, Cost Focus

(D) Cost Leadership, Differentiation and Focus

ANSWER KEY

FINANCIAL AND STRATEGIC MANAGEMENT - SELECT SERIES

PART A		Qno	Ans	Qno	Ans
Qno	**Ans**	Q34	A	Q67	C
Q1	D	Q35	B	Q68	A
Q2	C	Q36	D	Q69	A/B*
Q3	A	Q37	C	Q70	B
Q4	B	Q38	A	Q71	A
Q5	D	Q39	C	Q72	D
Q6	C	Q40	C	Q73	C
Q7	B	Q41	B	Q74	B
Q8	D	Q42	B	Q75	D
Q9	A	Q43	C	Q76	A
Q10	B	Q44	B	Q77	B
Q11	D	Q45	B	Q78	A
Q12	B	Q46	D	Q79	B
Q13	C	Q47	*	Q80	B
Q14	D	Q48	C	Q81	B
Q15	D	Q49	C	Q82	A
Q16	D	Q50	D	Q83	B
Q17	B	Q51	B	Q84	B
Q18	C	Q52	C	Q85	C
Q19	D	Q53	B	Q86	C
Q20	D	Q54	A	Q87	D
Q21	B	Q55	C	Q88	C
Q22	X	Q56	C	Q89	D
Q23	C	Q57	B	Q90	B
Q24	C	Q58	B	Q91	B
Q25	A	Q59	C	Q92	A
Q26	B	Q60	A	Q93	B
Q27	B	**PART B**		Q94	C
Q28	C	Q61	D	Q95	B
Q29	B	Q62	B	Q96	C
Q30	A	Q63	B	Q97	B
Q31	A	Q64	D	Q98	B
Q32	C	Q65	B	Q99	A
Q33	B	Q66	D	Q100	D

Notes

Q. No. 22 None of the option is correct. The correct answer is ₹69072. [15000 + 15000 x (PVAF12%,5) or (15000 + 15000 x 3.6048)].

Q. No. 47 None of the option is correct. The correct answer is ₹222.22 or ₹300 [if we break the number of orders in fraction then in initial case it is 11.11 orders and ordering cost is ₹1111.11 but in later case it is 8.89 orders and ordering cost is ₹888.89. The difference of both is ₹222.22. Alternatively, if we ignore the fractions then in iniital case it is 12 orders and ordering cost is ₹1200 but in later case it is 9 orders and ₹900 is the ordering cost. Hence, the difference of the two is ₹300].

Q. No. 69 Internal benchmarking is used to compare the work of such teams, units or divisions to identify the ones that are best performing and share the knowledge throughout the company to other teams to achieve higher performance.

General benchmarking refers to comparisons which “focus on excellent work processes rather than on the business practices of a particular organization.

Here in this question, it is no where mentioned that multi-site comparison of similar processes or unrelated processes. Hence, both options A and B may be correct.

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