# GUIDELINE ANSWERS

## EXECUTIVE PROGRAMME

DECEMBER 2015

MODULE 2

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

## C O N T E N T S

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**MODULE 2**

EXECUTIVE PROGRAMME

**UPDATING SLIP**

# COMPANY ACCOUNTS AND AUDITING PRACTICES

MODULE – 2 – PAPER 1

| *Examination Session* | *Question No.* | *Updating required in the answer* |
|---|---|---|
| *(1)* | *(2)* | *(3)* |
| All Previous Sessions | — | The Questions and Answers of all previous sessions are to be updated/revised as per the notified provisions of Companies Act, 2013 and the provisions of Companies Act, 1956 which is still in force. |

**UPDATING SLIP**

## CAPITAL MARKETS AND SECURITIES LAWS

MODULE – 2 – PAPER 2

| *Examination Session* | *Question No.* | *Updating required in the answer* |
|---|---|---|
| *(1)* | *(2)* | *(3)* |
| All Previous Sessions | — | All answers are based on the notified provisions of Companies Act, 2013 and the provisions of Companies Act, 1956 which are still in force.<br><br>SEBI (ICDR) Regulations. All answers pertaining to Issue of securities to be updated according to amended Regulation. |

**EXECUTIVE PROGRAMME EXAMINATION**

DECEMBER 2015

# COMPANY ACCOUNTS AND AUDITING PRACTICES

*Time allowed : 3 hours* *Maximum marks : 100*

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

*2. All working notes should be shown distinctly.*

## PART A

### Question 1

(a) *A listed company intends to issue sweat equity shares to its directors and a class of employees. Advise the company about the conditions to be fulfilled for such an issue.*

(b) *What are the objectives of sound corporate financial reporting ?*

(c) *Zenith Ltd. has inadequacy or absence of profits in the financial year 2014-15 but it wants to declare dividend. What are the conditions to be fulfilled to declare dividend out of free reserves ?*

(d) *Fitness Ltd. is planning to raise funds by making rights issue of equity shares to part finance its expansion. The existing equity share capital of the company is ₹40 lakh and the market value is ₹45 per share. The company offered to its shareholders the right to buy 2 shares at ₹12 each for every 5 shares held. You are required to calculate —*

(i) *Theoretical market price per share after the rights issue;*

(ii) *The value of rights; and*

(iii) *Percentage increase in share capital.*

(e) *A company has its share capital divided into shares of ₹10 each. On 1st April, 2014, it granted 5,000 shares as employees stock options at ₹40 per share, when the market price was ₹130 per share. The options were to be exercised between 16th December, 2014 and 15th March, 2015. The employees exercised their options for 4,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show journal entries in the books of the company.* *(5 marks each)*

### Answer 1(a)

According to Section 54 of the Companies Act, 2013, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:—

(a) The issue is authorised by a special resolution passed by the company;

(b) The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(c) Not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and

(d) Where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed.

**Answer 1(b)**

The objectives of corporate financial reporting given by Financial Accounting Standard Board (FASB) are summarized as follows:

1. Financial reporting should provide information that is useful to investors and creditors and other users in making rational investment, credit and similar decisions. The information should be useful to both, the present and potential investors.

2. Financial reporting should provide information about the economic resources of an enterprise the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners equity) and the effects of transactions event, and circumstances that change resources and claims to those resources.

3. Financial reporting should provide information about the enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise.

4. Financial reporting should provide information about how management of an enterprise obtains and spends cash, its borrowing and repayment of borrowing, capital transactions including cash dividends and other distributions of enterprise resources to owners, and other factors that may affect an enterprise's liquidity or solvency.

5. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibilities to owners (shareholders) for the use of enterprise resource entrusted to it.

6. Financial reporting should provide information that is useful to management and directors in making decisions in the interest of owners.

**Answer 1(c)**

Zenith Ltd. will have to fulfil following conditions as per Second Proviso to Section 123 (1) of the Companies Act 2013 for payment of dividend:

In case of inadequacy or absence of profits in any financial year, any company proposes to declare dividend out of the accumulated profits earned by it in previous years and transferred by the company to the reserves, such declaration of dividend shall not be made except in accordance with the Companies (Declaration and Payment of Dividend) Rules, 2014. Rule 3 provides that in the event of inadequacy or absence of profits in any year, a company may declare dividend out of free reserves subject to the fulfilment of the following conditions, namely: –

The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year. However, this shall not apply to a company, which has not declared any dividend in each of the three preceding financial year.

— The total amount to be drawn from such accumulated profits shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

— The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

— The balance of reserves after such withdrawal shall not fall below fifteen per cent of its paid up share capital as appearing in the latest audited financial statement.

**Answer 1(d)**

| | | | | | Rs. |
|---|---|---|---|---|---|
| | Market Value of 5 shares already held by a shareholder @ Rs. 45 each | | | = | 225 |
| | *Add* : Price to be paid for 2 more shares@ Rs. 12 each | | | = | 24 |
| | Total price of 7 shares after rights issue | | | | 249 |
| (i) | Theoretical Market price after the rights issue | = | 249/7 | = | 35.57 |
| (ii) | Value of Rights = Market price- Theoretical Market Price | = | 45-35.57 | = | 9.43 |

(iii) Percentage increase in share capital:

Present capital = 40,00,000

Rights Issue = (40,00,000×2)/5 = 16,00,000

Percentage increase in share capital =16,00,000/40,00,000 x 100 = 40 %

**Answer 1(e)**

**Journal Entries**

| *Date* | *Particulars* | | *Amount in Rs. (Dr.)* | *Amount in Rs. (Cr.)* |
|---|---|---|---|---|
| April 01, 2014 | Employee Compensation Expenses A/c | Dr. | 4,50,000 | |
| | To Employee Stock Options Outstanding A/c | | | 4,50,000 |
| | (Being grant of 5000 stock options to employees at Rs. 40 when market price is Rs. 130) | | | |
| December 16, 2014 | Bank A/c (4,500 x 40) | Dr. | 1,80,000 | |
| | Employee Stock options Outstanding A/c (4,500 x 90) | Dr. | 4,05,000 | |

| | | | | |
|---|---|---|---|---|
| | To Equity share capital A/c (4500 x 10) | | | 45,000 |
| | To Securities premium A/c (4500 x 120) | | | 5,40,000 |
| | (Being allotment to employees of 4500 equity shares of Rs. 10 each at a premium of Rs. 120 per share in exercise of stock options by employees) | | | |
| March 16, 2015 | Employee stock option outstanding A/ c | Dr. | 45,000 | |
| | To Employee Compensation Expenses A/c | | | 45,000 |
| | (Being entry for lapse of stock options for 500 shares) | | | |
| March 31, 2015 | Profit & loss a/c | Dr. | 4,05,000 | |
| | To Employee Compensation expenses A/c | | | 4,05,000 |
| | (Being transfer of employee compensation expenses to profit and loss account) | | | |

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

**Question 2**

*(a) Base Ltd. is not satisfied with its economic value added and wants to improve it further. What corrective action should it take to improve the same ? (3 marks)*

*(b) State three salient features of 'pooling of interest' method of amalgamation. (3 marks)*

*(c) When dividend is declared and paid by a subsidiary company out of pre-acquisition and post-acquisition profits, how will the same be dealt with in the books of a holding company ? (3 marks)*

*(d) When are diluted earnings per share (EPS) calculated ? From the following information, calculate diluted earnings per share (EPS) of the company :*

| | |
|---|---|
| *Net profit for the current year (after tax)* | *₹83,00,000* |
| *Number of equity shares outstanding* | *20,00,000* |
| *Number of 10% convertible debentures of* | *₹100 each* |
| *(each debenture is convertible into 10 equity shares)* | *1,00,000* |
| *Interest expenses for the current year* | *₹10,00,000* |
| *Tax relating to interest expenses* | *30%* |

*(3 marks)*

*(e) Explain the method of valuation of equity shares based on price-earnings ratio. (3 marks)*

***OR (Alternate question to Q.No. 2)***

**Question 2A**

*(i) Explain with examples 'interest accrued and due' and 'interest accrued but not due'. How are these items shown in the balance sheet ? (5 marks)*

*(ii) Cheer Ltd. is interested in issuing 10,000, 12% debentures of ₹100 each. You are required to pass necessary journal entries in each of the following situations:*

*(a) Issued at 10% discount and redeemable at par*

*(b) Issued at 5% premium and redeemable at par*

*(c) Issued at par and redeemable at premium of 5%*

*(d) Issued at discount of 5% and redeemable at premium of 10%*

*(e) Issued at premium of 10% and redeemable at premium of 20%. (5 marks)*

*(iii) Excel Ltd. issued 1,00,000 equity shares and the entire issue was underwritten as follows :*

*Underwriter - X — 50%*

*Underwriter - Y — 30%*

*Underwriter - Z — 20%*

*Applications were received for 90,000 shares. Out of these, applications for*

*20,000 shares were marked with X; 10,000 marked with Y and 5,000 marked with Z. The remaining applications for 55,000 shares did not bear any stamp.*

*Determine the liability of each underwriter in relation to above. (5 marks)*

**Answer 2(a)**

The following corrective action should be taken by Base Ltd. to improve its economic value added:

First, operating performance with respect to operating profit margins or asset turnover ratios could be improved to generate more revenue without using more capital.

Second, the capital invested in the business might be reduced by selling under-utilized assets; this strategy will simultaneously improve operating performance through a higher asset turnover ratio, as well as a reduced capital charge against those earnings because of a reduced debt or equity capital investment.

Third, redeploy the capital invested to projects and activities that have higher operating performance than the current projects or investments are exhibiting.

And fourth, if the business is not highly leveraged, change the capital structure by substituting lower cost debt for higher cost equity. Although this last strategy will decrease net income because of the higher interest cost, it will improve the EVA of the business because the total cost of debt and equity is reduced, and EVA measures the value created after all costs of capital (debt and equity) have been taken into account.

**Answer 2(b)**

The 'Pooling of Interests' Method is for an amalgamation in the nature of merger. Following are the three salient features of this method:

— The assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts and in the same form as at the date of amalgamation.

— If, at the time of the amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation.

— The difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company should be adjusted in the reserves of the transferee company. Accordingly no goodwill or capital reserve will arise out of amalgamation by way of merger.

**Answer 2(c)**

Dividend received by the holding company out of pre-acquisition profits of the subsidiary company are credited to investment in shares of the subsidiary account thereby reducing the cost of control or increasing capital reserve.

Dividend received out of the post-acquisition profits are treated as income and credited to profit & loss Account by the holding company. If dividend declared partly out of pre-acquisition profits and partly out of post- acquisition profits, the dividend received is divided into two parts in proportion to its declaration. The dividend pertaining to the first (i.e. capital profit) is credited to Investment Account and dividend pertaining to second part (i.e., revenue profits) is credited to Profit and Loss Account.

**Answer 2(d)**

Diluted earnings per share is calculated when there are potential equity shares in the capital structure of the enterprise. Potential equity share are those financial instruments which entitle the holder to the right of equity shares like convertible debentures, convertible preference shares, options warrants etc.

| Calculation of Diluted earnings per share: | *Rs.* |
|---|---|
| Net profit for the current year | 83,00,000 |
| *Add* : Interest expense for the current year | 10,00,000 |
| *Less*: tax relating to Interest expense (30% of Rs. 10,00,000) | (3,00,000) |
| Adjusted net profit for the current year | 90,00,000 |

Number of equity shares resulting from conversion of debentures = 1,00,000 x 10= 10,00,000 equity shares .

Diluted earnings per share = 90,00,000/30,00,000 shares = Rs. 3 per Share

**Answer 2(e)**

Valuation based on price earnings ratio method is suitable for ascertaining the market value of shares which are quoted on a recognised stock exchange. According to this method, the shares are valued on the basis of earning per share multiplied by price earning ratio.

Thus, Market value of share = Price earning ratio x Earning per share

$$\text{Earning per share} = \frac{\text{Profit available for equity shareholders}}{\text{Number of equity shares}}$$

$$\text{Price earning ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

**Answer 2A(i)**

**Interest accrued and due**

Interest on debentures which has become payable but remain unpaid on due date of payment is known as interest accrued and due. For example, a company has issued 12% Debentures for Rs. 10,00,000 interest is payable on 30th September and 31st March. Suppose, the company closes its books on 31st March, the interest due on that date may be unpaid. Thus Rs. 60,000 (half year interest) will be recorded as interest accrued and due. The liability will be shown in the Balance Sheet along with debentures.

**Interest accrued but not due**

Interest on debentures which has accrued but remains unpaid because the due date for payment of interest has not yet come is known as interest accrued but not due. For example, a company has issued 12% Debentures for Rs. 10,00,000 and interest is payable on 30th June and 31st December. Suppose, the company closes its books on 31st March, the interest for the period from 1st January to 31st March has accrued but not paid because next due date for payment is 30th June. For proper accounting, interest expense for the full year must be recorded in the books of accounts. Thus, Rs 30,000 will be recorded as interest accrued but not due. Debenture Interest Accrued but not Due is shown in the balance sheet under Other Current Liabilities.

**Answer 2A(ii)**

**In the Books of XYZ Ltd.**

**Journal Entries**

| | *Particulars* | | *Dr. (Rs.)* | *Cr. (Rs.)* |
|---|---|---|---|---|
| (a) | Bank A/c | Dr. | 9,00,000 | |
| | Discount on issue of Debentures A/c | Dr. | 1,00,000 | |
| | To 12% Debentures A/c | | | 10,00,000 |
| | (Being the issue of debentures at discount of 10% and redeemable at par) | | | |

| | | | Dr. (Rs.) | Cr. (Rs.) |
|---|---|---|---|---|
| (b) | Bank A/c | Dr. | 10,50,000 | |
| | To 12% Debentures A/c | | | 10,00,000 |
| | To Securities Premium A/c | | | 50,000 |
| | (Being the issue of debenture at premium of 5% but repayable at par) | | | |
| (c) | Bank A/c | Dr. | 10,00,000 | |
| | Loss on issue of Debentures A/c | Dr. | 50,000 | |
| | To 12% Debentures A/c | | | 10,00,000 |
| | To Premium on redemption of Debentures A/c | | | 50,000 |
| | (Being the issue of debentures at par but repayable on premium of 5%) | | | |
| (d) | Bank A/c | Dr. | 9,50,000 | |
| | Loss on issue of Debentures A/c | Dr. | 1,50,000 | |
| | To 12% Debentures A/c | | | 10,00,000 |
| | To Premium on redemption of Debentures A/c | | | 1,00,000 |
| | (Being the issue of debentures at discount but repayable on premium of 10%) | | | |
| (e) | Bank A/c | Dr. | 11,00,000 | |
| | Loss on issue of Debentures | Dr. | 1,00,000 | |
| | To 12% Debentures A/c | | | 10,00,000 |
| | To Premium on redemption of Debentures A/c | | | 2,00,000 |
| | Being the issue of debentures at premium of 10% and redemption at premium of 20%) | | | |

**Answer 2A(iii)**

**Net liability of Underwriters**

| *Particulars* | *Total* | *X (50%)* | *Y (30%)* | *Z (20%)* |
|---|---|---|---|---|
| Liability agreed | 1,00,000 | 50,000 | 30,000 | 20,000 |
| *Less*: market application | 35,000 | 20,000 | 10,000 | 5,000 |
| Balance | 65,000 | 30,000 | 20,000 | 15,000 |
| *Less*: unmarked (5:3:2 ratio) | 55,000 | 27,500 | 16,500 | 11,000 |
| Net liability | 10,000 | 2,500 | 3,500 | 4,000 |

**Question 3**

(a) *The extracts of balance sheets of H Ltd. and S Ltd. as on 31st March, 2015 are given below :*

| | H Ltd. | S Ltd. |
|---|---|---|
| I. EQUITY AND LIABILITIES | (₹) | (₹) |
| (1) Shareholders' funds | | |
| (a) Share capital | | |
| Equity shares of ₹10 each | 5,00,000 | 2,00,000 |
| (b) Reserves and surplus | | |
| Securities premium | 50,000 | 10,000 |
| General reserve | 1,00,000 | 50,000 |
| Surplus | 75,000 | 20,000 |
| (2) Current liabilities | | |
| Trade payables | 80,000 | 40,000 |
| TOTAL | 8,05,000 | 3,20,000 |
| II. ASSETS | | |
| (1) Non-current assets | | |
| (a) Fixed assets | | |
| Tangible assets | 5,10,000 | 3,20,000 |
| (b) Long-term investment | | |
| (15,000 equity shares in S Ltd. at cost) | 2,95,000 | — |
| TOTAL | 8,05,000 | 3,20,000 |

*H Ltd. acquired shares in S Ltd. on 31st March, 2015.*

*You are required to calculate —*

*(a) Minority interest; and*

*(b) Goodwill/capital reserve.* *(5 marks)*

(b) *Nice Ltd. proposed to acquire the business of Kajal & Co. It was agreed to value goodwill at 3 years purchase of the weighted average profits of the past 4 years. Profits and weights are as under :*

| Year | Profit (₹) | Weight |
|---|---|---|
| 2011-12 | 50,500 | 1 |
| 2012-13 | 62,000 | 2 |
| 2013-14 | 50,000 | 3 |
| 2014-15 | 80,000 | 4 |

*Following further information is revealed :*

*(i) In the year 2012-13, closing stock was overvalued by ₹6,000.*

*(ii) On 1st December, 2013, a major part was added to the plant at the cost of ₹15,000 which was charged to revenue instead of capitalising the same. It was decided to charge depreciation at 10% per annum on reducing balance method.*

*(iii) Annual charges of ₹12,000 should be made towards management charges.*

*Calculate the value of goodwill. (5 marks)*

*(c) Liquidation of Weak Ltd. commenced on 2nd April, 2015. However, certain creditors failed to receive their dues out of realisation of assets and contribution from 'A' list contributories. Details of transfer of shares between 1st March, 2014 and before commencement of winding-up are given below :*

| *Shareholder* | *No. of shares transferred* | *Date of ceasing to be member* | *Creditors unpaid on date of transfer (₹)* |
|---|---|---|---|
| *A* | *4,000* | *01.03.2014* | *5,000* |
| *B* | *3,000* | *01.05.2014* | *6,600* |
| *C* | *2,000* | *01.10.2014* | *8,600* |
| *D* | *1,000* | *01.11.2014* | *9,200* |
| *E* | *600* | *01.02.2015* | *12,000* |

*Shares were of ₹10 each, ₹8 paid-up. Find out the amount to be realised from various shareholders listed above. (5 marks)*

**Answer 3(a)**

**(i) Calculation of Minority Interest**

| | |
|---|---|
| Paid up value of 5,000 (20,000 – 15,000) equity shares | 50,000 |
| *Add* : 1/4 share of Rs. 80,000 Pre acquisition profits and reserves of S Ltd. | 20,000 |
| Net amount due to Minority shareholders | 70,000 |

**(ii) Goodwill / Capital Reserve calculation**

**Intrinsic value of shares held in S Ltd.**

| | |
|---|---|
| Paid up value of 15,000 equity shares | 1,50,000 |
| *Add* : 3/4 share of Rs. 80,000 pre-acquisition profits and reserves of S Ltd. | 60,000 |
| Intrinsic value of 15,000 equity shares | 2,10,000 |
| Price paid for 15,000 equity shares | 2,95,000 |
| Cost of control or Goodwill (2,95,000 – 2,10,000) | 85,000 |

*Working Notes:*

Pre-acquisition profits and reserves of S Ltd.

(10,000 + 50,000+ 20,000) = Rs. 80,000

**Answer 3(b)**

**(i) Calculation of Adjusted profits**

| | *2011-12* | *2012-13* | *2013-14* | *2014-15* |
|---|---|---|---|---|
| Profits as given | 50,500 | 62,000 | 50,000 | 80,000 |
| *Less*: management expenses | (12,000) | (12,000) | (12,000) | (12,000) |
| *Less* : overvaluation of closing stock | | | (6,000) | |
| *Add* : overvaluation of opening stock | | | 6,000 | |
| *Add* : major repairs to be capitalised | | | 15,000 | |
| *Less* : Depreciation on capital expenditure for 4 months @ 10% | | | (500) | (1450) |
| | 38,500 | 44,000 | 58,500 | 66,550 |

**(ii) Calculation of Average profit**

| *Year* | *Adjusted profit* | *Weights* | *Weighted profit* |
|---|---|---|---|
| 2011-12 | 38,500 | 1 | 38,500 |
| 2012-13 | 44,000 | 2 | 88,000 |
| 2013-14 | 58,500 | 3 | 1,75,500 |
| 2014-15 | 66,550 | 4 | 2,66,200 |
| | Total profit | 10 | 5,68,200 |

Average profit = 5,68,200/10 = 56,820

Goodwill at 3 years purchase of average profit = 56,820 x 3 = Rs. 1,70,460

**Answer 3(c)**

A has ceased to be member for more than a year ago, hence he is not liable (the date of cease to be a member was 1.03.2014 and liquidation date of Weak Ltd. is 02.04.2015).

| *Share holders* | *No. of shares transferred* | *Maximum liability Rs. 2 per share* | *Division of liability* | | | | |
|---|---|---|---|---|---|---|---|
| | | | *1/5/14* | *1/10/14* | *1/11/14* | *1/2/15* | *Total* |
| B | 3,000 | 6,000 | 3,000 | | | | 3,000 |
| C | 2,000 | 4,000 | 2,000 | 1111 | | | 3,111 |
| D | 1,000 | 2,000 | 1,000 | 556 | 375 | | 1,931 |
| E | 600 | 1,200 | 600 | 333 | 225 | 42 | 1,200 |
| | | 13,200 | 6,600 | 2,000 | 600 | 42 | 9,242 |

*Working Notes:*

1. *Ratio of Liability*

| *Date* | *Cumulative liability* | *Increase in liabilities* | *Ratio of No. of shares B C D* |
|---|---|---|---|
| 1/5/14 | 6,600 | 6,600 | 30:20:10:6 |
| 1/10/14 | 8,600 | 2,000 | 20:10:6 |
| 1/11/14 | 9,200 | 600 | 10:6 |
| 1/2/15 | 12,000 | 2,800 | Only E |

2. Liability of E has been restricted to Rs. 1200, maximum amount payable by him. Hence amount payable by him on 1-2-14 is restricted to Rs. 42.

**Question 4**

(a) *The balance sheet of Magna Ltd. as on 31st March, 2015 is given below :*

| | ₹ |
|---|---|
| *I. Equity and liabilities* | |
| *(1) Shareholders' funds* | |
| *(a) Share capital* | |
| *Equity shares of ₹100 each* | *50,00,000* |
| *12% cumulative preference shares of ₹100 each* | *25,00,000* |
| *(b) Reserves and surplus* | |
| *Surplus* | *(2,00,000)* |
| *Preliminary expenses* | *(1,00,000)* |
| *(2) Non-current liabilities* | |
| *10% debentures of ₹100 each* | *20,00,000* |
| *(3) Current liabilities* | |
| *(a) Trade payables* | *25,00,000* |
| *(b) Tax provision* | *50,000* |
| *TOTAL* | *1,17,50,000* |
| *II. Assets* | |
| *(1) Non-current assets* | |
| *(a) Fixed assets* | *62,50,000* |
| *(b) Investments (market value ₹4,75,000)* | *5,00,000* |
| *(2) Current assets* | *50,00,000* |
| *TOTAL* | *1,17,50,000* |

*It was decided to reconstruct with the following scheme :*

*(i) All the existing equity shares are reduced to ₹40 each and preference shares to ₹60 each.*

*(ii)* *The debentureholders surrender their existing debentures and exchange the same with fresh 12% debentures of ₹70 each.*

*(iii)* *Creditor Prateek to whom the company owes ₹10,00,000 decided to reduce his claim by 40%. He is allotted 15,000 equity shares of ₹40 each in full satisfaction of the claim.*

*(iv)* *Tax liability is settled at ₹75,000.*

*(v)* *Fixed assets are written down by 30%.*

*(vi)* *Current assets are revalued at ₹22,50,000.*

*(vii)* *Investments be brought down to its market value.*

*(viii)* *All fictitious assets be written-off.*

*Pass journal entries in the books of the company and prepare capital reduction account.* *(8 marks)*

*(b)* *Following is the statement of profit and loss of Target Ltd. for the year ended 31st March, 2015 :*

| | | | ₹ |
|---|---|---|---|
| *I.* | *Revenue from operations* | | *40,25,360* |
| *II.* | *Other income* | | |
| | *— Subsidy received from government* | | *2,32,560* |
| | *— Interest on investments* | | *15,640* |
| | *— Transfer fees* | | *720* |
| | *— Profit on sale of machinery* | *25,000* | *2,73,920* |
| *III.* | *Total Revenue (I+II)* | | *42,99,280* |
| *IV.* | *Expenses* | | |
| | *— Administrative, selling and distribution expenses* | *8,22,540* | |
| | *— Donation to charitable funds* | *25,500* | |
| | *— Directors' fee* | *66,760* | |
| | *— Interest on debentures* | *31,240* | |
| | *— Compensation for breach of contract* | *42,530* | |
| | *— Managerial remuneration* | *2,85,350* | |
| | *— Depreciation on fixed assets* | *5,22,540* | |
| | *— Provision for taxation* | *12,42,500* | |
| | *— General reserve* | *4,00,000* | |
| | *— Investment revaluation reserve* | *12,500* | *34,51,460* |
| *V.* | *Profit for the period (III – IV)* | | *8,47,820* |
| *VI.* | *Profit brought forward from the last year's statement* | | *5,72,360* |
| *VII.* | *Profit carried forward (V + VI)* | | *14,20,180* |

*Additional information :*

— *Original cost of machinery sold was ₹55,000. The written down value as on the date of sale was ₹30,000.*

— *Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹4,75,340.*

*You are required to calculate and comment on managerial remuneration in the following cases in accordance with the provisions of the Companies Act, 2013 if:*

*(i) there is only one whole-time director;*

*(ii) there are two whole-time directors; and*

*(iii) there are two whole-time directors, a part-time director and a manager.*

*(7 marks)*

**Answer 4(a)**

**In the books of Magna Ltd.**
**Journal Entries**

| *Particulars* | | *Dr. (Rs.)* | *Cr.(Rs.)* |
|---|---|---|---|
| Equity share capital (Rs. 100) A/c | Dr. | 50,00,000 | |
| To Equity share capital (Rs. 40) | | | 20,00,000 |
| To capital Reduction A/c | | | 30,00,000 |
| (Being conversion of equity shares of Rs. 100 to Rs. 40 each as per scheme of reconstruction) | | | |
| 12% Cumulative Preference share capital (Rs. 100) | Dr. | 25,00,000 | |
| To 12% Cumulative Preference share capital A/c (Rs. 60) | | | 15,00,000 |
| To Capital Reduction | | | 10,00,000 |
| (Being conversion of 12% cumulative preference shares (Rs. 100) to 12% preference shares of Rs. 60 each as per scheme of reconstruction) | | | |
| 10 % Debenture A/c | Dr. | 20,00,000 | |
| To 12% Debenture | | | 14,00,000 |
| To Capital Reduction | | | 6,00,000 |
| (Being conversion of 10% Debentures (Rs. 100) to 12% debentures of Rs. 70 each as per the scheme of reconstruction) | | | |
| Sundry creditors A/c | Dr. | 10,00,000 | |
| To Equity share capital A/c | | | 6,00,000 |
| To Capital Reduction A/c | | | 4,00,000 |
| (Being one creditor agreed to reduce their claim by 40% and accepted 15,000 equity shares @ Rs. 40 each) | | | |

| | | | |
|---|---|---|---|
| Tax Provision A/c | Dr. | 50,000 | |
| Capital Reduction A/c | Dr. | 25,000 | |
| To Bank A/c (Current assets) | | | 75,000 |
| (Being settlement of Tax liability) | | | |
| Capital Reduction A/c | Dr. | 49,75,000 | |
| To P&L A/c | | | 2,00,000 |
| To Preliminary expenses A/c | | | 1,00,000 |
| To Fixed assets A/c | | | 18,75,000 |
| To Current assets A/c | | | 27,50,000 |
| To Investment A/c | | | 25,000 |
| To Capital Reserve A/c | | | 25,000 |
| (Being amount of Capital reduction utilised in writing off fictitious assets and bringing down of fixed assets, current assets and Investments and balance transferred to capital reserve) | | | |

**Capital Reduction A/c**

| *Particulars* | *Amount (Rs.)* | *Particulars* | *Amount (Rs.)* |
|---|---|---|---|
| To Bank A/c | 25,000 | By equity share capital A/c | 30,00,000 |
| To profit & loss A/c | 2,00,000 | By 12% Cum Preference shares A/c | 10,00,000 |
| To Preliminary Expense A/c | 1,00,000 | By 10% Debentures A/c | 6,00,000 |
| To Fixed assets A/c | 18,75,000 | By Sundry Creditors A/c | 4,00,000 |
| To Current assets A/c | 27,50,000 | | |
| To Investment A/c | 25,000 | | |
| To Capital Reserve A/c | 25,000 | | |
| | 50,00,000 | | 50,00,000 |

**Answer 4(b)**

Calculation of Net Profit u/s 198 of the Companies Act, 2013

| *Particulars* | *Rs.* | *Rs.* |
|---|---|---|
| Balance from trading account | | 40,25,360 |
| *Add* : subsidies received from Govt. | 2,32,560 | |
| Interest on Investment | 15,640 | |
| Transfer fees | 720 | |
| Profit on sale of machinery | 25,000 | 2,73,920 |
| | | 42,99,280 |

| | | |
|---|---|---|
| *Less* : Administrative, Selling and Distribution expenses | 8,22,540 | |
| Donation to charitable funds | 25,500 | |
| Director's fees | 66,760 | |
| Interest on Debentures | 31,240 | |
| Compensation for breach of contract | 42,530 | |
| Depreciation on Fixed assets as per Schedule II of the Companies Act, 2013 | 4,75,340 | 14,63,910 |
| Net profit | | 28,35,370 |

**Calculation of Managerial Remuneration**

i) When there is only one whole time director

When there is only one Whole time director, Managerial remuneration = 5% of Rs.28,35,370

= Rs. 1,41,768.50

ii) When there are two whole-time directors, Managerial remuneration = 10% of Rs. 28,35,370

= Rs. 2,83,537

iii) When there are two whole time directors, a part time director and a manager, Managerial remuneration = 11% of Rs. 28,35,370

= Rs. 311890.70

Since, the managerial remuneration as per profit and loss account is Rs. 2,85,350 which exceeds the maximum amount payable in situation (a) and (b) above, therefore the company should obtain the necessary approval.

**Alternate Answer for calculation of Net Profit u/s 198 of the Companies Act, 2013**

| | | |
|---|---|---|
| Net balance (1420180 – 572360) | | 8,47,820 |
| *Add* : Managerial remuneration | 2,85,350 | |
| Depreciation on Fixed assets | 5,22,540 | |
| Provision for taxation | 12,42,500 | |
| General reserve | 4,00,000 | |
| Investment Revaluation reserve | 12,500 | 24,62,890 |
| | | 33,10,710 |
| *Less* : Depreciation on Fixed assets as per Schedule II of the Companies Act, 2013 | | 4,75,340 |
| *Net profit* | | *28,35,370* |

*Note: calculation of Managerial Remuneration will be the same.*

## PART B

**Question 5**

*(a) What do you mean by 'efficiency audit' ? How does it help the management of an enterprise ?*

*(b) Distinguish between 'internal control' and 'internal audit'.*

*(c) An auditor appointed under Rule 3 of the Companies (Audit and Auditors) Rules, 2014 is required to submit a certificate and notice to the Registrar of Companies. State the matters to be covered in the certificate and name of the form of the notice required to be submitted. (5 marks each)*

**Answer 5(a)**

Efficiency audit refers to comparing the actual results with the desired/projected results. It is directed towards the measurement of whether plans have been effectively executed. It is concerned with the utilisation of the resources in economic and most remunerative manner to achieve the objectives of the concern. It comprises of studying the plans of organisation, comparing actual performance with plans and investigating the reasons for variances to take remedial action. More specifically, such audits can:

— help managers and staff to be more sensitive to their obligation of due regard to efficiency;

— underline the importance of measuring efficiency and of using that information for managing operations and providing accountability;

— identify means for improving efficiency, even in operations where efficiency is difficult to measure;

— demonstrate the scope for lowering the cost of delivering programs without reducing the quantity or quality of outputs or the level of service;

— increase the quantity or improve the quality of outputs and level of service without increasing spending; and

— identify needed improvements in existing controls, operational systems, and work processes for better use of resources.

**Answer 5(b)**

Internal control system is a broad concept and it includes internal audit system as well. Internal audit system is comparatively a narrow concept. Internal control system is necessary for every organisation while internal audit system is to be implemented as per the suitability of the organisation. The primary objective of internal control system is to prevent the occurrence of fraud while the internal audit is primarily a backward looking activity.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, on the other hand Internal control is the system of control established by the management in order to carry on business in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and completeness of records.

**Answer 5(c)**

An auditor appointed under Rule 3 of the Companies (Audit and Auditors) Rules, 2014 is required to submit a certificate that-

(a) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made thereunder;

(b) the proposed appointment is as per the term provided under the Act;

(c) the proposed appointment is within the limits laid down by or under the authority of the Act;

(d) the list of proceedings against the auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

The notice to Registrar about appointment of auditor under fourth proviso to sub-section (1) of section 139 shall be in Form ADT-1.

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

**Question 6**

*(a) What is the difference between 'inter-firm comparison' and 'intra-firm comparison'? Explain the usefulness of ratio analysis in inter-firm comparison.*

*(b) Draft an internal control questionnaire for review of goods receiving procedures and controls.*

*(c) Audit documentation is pivotal to auditing process. In this context, mention any ten documents and records which should be kept in permanent audit file.*

*(5 marks each)*

***OR (Alternate question to Q.No. 6)***

**Question 6A**

*(i) Following data is extracted from the books of Right Ltd., an unlisted company for the accounting year 2014-15 :*

| | | |
|---|---|---|
| *— Equity share capital* | *:* | *₹40 crore (80% of equity shares are held by the Central Government)* |
| *— Outstanding term loans from various banks on balance sheet date* | *:* | *₹85 crore (maximum outstanding balance during preceding accounting year was ₹118 crore)* |
| *— Turnover for the year* | *:* | *₹1,750 crore.* |

*Considering the above, answer the following questions with brief reasoning —*

*(a) Should the company be subject to CAG audit ?*

*(b) Is the company required to appoint internal auditor ?*

*(c) Is the company required to appoint secretarial auditor ?*

*(d) Can the company appoint statutory auditor ?*

*(e) Is it compulsory for the company to appoint cost auditor ? (5 marks)*

*(ii) Distinguish between 'vouching' and 'verification'. (5 marks)*

*(iii) In the course of audit of Growth Ltd. you want to review the internal control in the area of sales return. Mention the aspects which are to be specifically looked into to ascertain its soundness. (5 marks)*

**Answer 6(a)**

An inter-firm comparison indicates the efficiency of production and selling, adequacy of profits, weak spots in the organisation, etc. and thus demands from the firm's management an immediate suitable action. Intra-firm comparison means comparison among different units/products/strategic business unit (SBU) of a firm. This comparison is possible only when uniform costing methods and practices are being adopted by all units and SBUs.

Inter-firm comparison may enable the management to challenge the standards which it has set for itself and to improve upon them in the light of the current information gathered from more efficient units. Intra firm comparison helps the management in identifying the units/Strategic SBUs which have not been performing as per the internal benchmark or standards achieved by other units SBUs.

Ratio analysis is an accounting tool to present accounting variables in a simple, concise, intelligible and understandable form. A firm would like to compare its performance with that of other firms and of industry in general. The comparison is called inter-firm comparison. The accounting language simplified through ratios is the best tool to compare the firms and divisions of the firm.

**Answer 6(b)**

The following is the draft internal control questionnaire for review of goods receiving procedures and controls:

| | *Question* | *Yes* | *No* | *N/A* | *Comments* |
|---|---|---|---|---|---|
| 1. | Is the receipt of all goods documented with at least a signature and date? | | | | |
| 2. | Are claims filed against carriers or vendors for all shortages or damaged materials? | | | | |
| 3. | Are goods received accurately counted and examined to verify they meet quality standards? | | | | |
| 4. | Are copies of receiving reports sent directly to accounting, purchasing, and (if applicable) inventory record keeping? | | | | |

**Answer 6(c)**

The following documents and records should be kept in permanent audit file:

(i) Copy of initial appointment letter if the engagement is of recurring nature.

(ii) Record of communication with the retiring auditor, if any, before acceptance of the appointment as auditor.

(iii) NOC from previous auditor.

(iv) Information concerning the legal and organisational structure of the entity.

(v) In the case of a company, this includes the Memorandum and Articles of Association.

(vi) In the case of a statutory corporation, this includes the Act and Regulations under which the corporation functions, i.e.

(a) In case of partnerships- Partnership deed.

(b) In case of trusts- Trust deed.

(c) In case of societies- Certificate of registration/ Rules and Bye-laws.

(vii) Organisational structure of the client.

(viii) List of governing body including Name, Address and contact details. For instance, the list of directors in case of a company, list of partners in a partnership and list of trustees in a trust.

(ix) Extracts or copies of important legal documents, agreements and minutes relevant to the audit.

(x) A record of the study and evaluation of the internal controls related to the accounting system. This might be in the form of narrative descriptions, questionnaires or flow charts, or some combination thereof.

(xi) Copies of audited financial statements for previous years (j) Analysis of significant ratios and trends.

(xii) Copies of management letters issued by the auditor, if any. (l) Notes regarding significant accounting policies.

(xiii) Significant audit observations of earlier years.

(xiv) Assessment of risks and risk management.

(xv) Major policies related to Purchases and Sales.

(xvi) Details of sister concerns

(xvii) Details of Bankers, Registrars, Lawyers etc.

(xviii) Systems and Data Security policies.

(xix) Business Continuity Plans.

**Answer 6A(i)**

(a) Yes, the company is subject to CAG audit. Every company of which 51% or more of the equity is held by the Government are to be audited by CAG. In the current case 80% of the equity share is held by the Central Govt.

(b) Yes, the company is required to appoint internal auditor. As per section 138 of the companies Act, 2013 read with rule 13 of the Companies (Accounts) Rules, 2014, an unlisted public company having turnover of two hundred crores rupees or more during the preceding financial year shall be required to appoint internal auditor. In the present case turnover is Rs. 1750 crores.

(c) Yes, the company is required to appoint secretarial auditor. As per section 204 of companies Act, 2013 read with rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014' a public company having a turnover of rupees two hundred fifty crores or more is required to conduct secretarial audit. In the present case the turnover is Rs 1750 crores.

(d) No, since it is a Govt. Company, it can't appoint a statutory auditor of its own. The statutory auditory is to be only appointed by CAG.

(e) Yes, it is compulsory for the company to appoint cost auditor. As Per rule 4 of Companies (Cost Records and Audit) Rules, 2014, cost audit is applicable where the overall turnover of a company from regulated sector is Rs. 50 crores or more or of a company from non-regulated sector is Rs. 100 crores or more. Here the turnover is Rs 1750 Crores. (As the question is silent it is assumed that the operation of the company is covered under Companies (Cost Records and Audit) Rules, 2014.

**Answer 6A(ii)**

**Difference between Verification and Vouching**

Verification is made on the basis of vouching. So, verification is a part of vouching. Even though they have some differences which are as follows:

(a) *Meaning* : Verification is the act of checking title, possession and valuation of assets but vouching is the act of checking the records with the help of evidential documents.

(b) *Nature* : Verification is specially related to the assets and liabilities but vouching is related to all the accounting documents.

(c) *Person* : Generally, assistant staff or auditor performs the work of vouching but auditor himself performs the work of verification.

(d) *Time* : Vouching is made at the beginning of auditing but verification is made at the end of auditing or at the time of checking balance sheet.

**Answer 6A(iii)**

Review of sales and distribution function is very important from internal control point of view and it requires a detailed understanding of company business. The following aspects should be looked into to ascertain its soundness while reviewing sales return:

— Is the mechanism of schedule of authority exist for the sales return i.e. system relating to sale returns prescribe limits on the authority of managers at various levels to accept return of goods?

— Are sale return analyzed with reference to the reason & necessary actions taken viz- a- viz reasons identified?

— Are the returned goods inspected before acceptance? Are returned goods duly accounted in inventory records?

— Is an inward return note prepared promptly against each sale return, indicating the quantity and specifications of the goods received back?

— Whether credit note are issued on the basis of inward returned note. Whether a proper control over the issue of credit notes especially with regard to the authority for issuing the same. Whether credit notes are properly checked with reference to the relevant inward return note before it is approved and sent to the customer? Are appropriate entries made in the books of account promptly? Check whether the excise paid is reversed for the returned goods or not?

— Is the sale commission paid in respect of goods returned recovered through an appropriate debit note?

***

# CAPITAL MARKETS AND SECURITIES LAWS

*Time allowed* : 3 hours *Maximum marks* : 100

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

**PART A**

**Question 1**

(a) *Jai Ltd. announced issue of bonus shares in the ratio of 1:3 (i.e., one share for every three shares held). At present the face value of share is ₹10, current market price is ₹621. In addition, it announced split of shares by reducing the face value from ₹10 to ₹2. Calculate the share price if all other things remain constant. What would have been the situation if split would have been done before the issue of bonus shares ? (5 marks)*

(b) *Somnath Ltd. has a share capital of 50,000 equity shares of ₹100 each. Market value is ₹250 per share. The company decides to make a rights issue to the existing shareholders in proportion of one new rights share of ₹100 at a premium of ₹30 per share for every 5 shares held. Calculate the value of rights. (6 marks)*

(c) *What is SME exchange ? Explain the benefits of listing on SME exchange. (4 marks)*

**Answer 1(a)**

(i) *Stock split post Bonus Issue*

| | Rs. |
|---|---|
| Market value of 3 shares required to be held by shareholder (3 x 621) | 1,863 |
| *Add* : Issue price of Bonus share (1x0) | 0 |
| Total price of 4 shares | 1,863 |
| Stock split from Rs. 10/- to Rs. 2/- | |
| No. of shares post stock split (4 x 5) | 20 |
| Average price (1863/20) | 93.15 |

(ii) *Stock Split before Bonus Issue*

| | |
|---|---|
| Market value of 3 shares required to be held by shareholder (3 x 621) | 1,863 |
| No. of shares post stock split (3x5) | 15 |
| No. of Bonus shares to be received (15/3) | 5 |
| Total price of 20 shares | 1,863 |
| Average price (1863/20) | 93.15 |

Thus there would be no change in the situation if the stock split taken place before issue of bonus shares.

**Answer 1(b)**

| **Computation of value of Rights:** | *Rs.* |
|---|---|
| Market value of 5 shares required to be held by shareholder (5 x 250) | 1,250 |
| Add: Issue price of rights share (1 x 130) | 130 |
| Total price of 6 shares | 1,380 |
| Average price per share (1380/6) | 230 |

Value of Rights = Market value of the share- Average price of the share

= Rs. 250-230= Rs. 20

**Answer 1(c)**

SME exchange means a trading platform of a recognised stock exchange having nationwide trading terminals permitted by SEBI to list the specified securities issued in accordance with SEBI (ICDR) Regulation and includes a stock exchange granted recognition for this purpose but does not include the Main Board.

**Benefits of Listing on SME Exchange**

– Access to capital and future financing opportunities.

– Going public would provide the MSME's with equity financing opportunities to grow their business from expansion of operations to acquisitions.

– Companies in the growth phase tend to get over-leveraged at which point, banks are reluctant to provide further credit. Equity capital is then necessary to bring back strength to the balance sheet. The option of equity financing through the equity market allows the firm to not only raise long-term capital but also get further credit due through an additional equity infusion. The issuance of public shares expands the investor base, and this in turn will help set the stage for secondary equity financings, including private placements.

– In addition, Issuers often receive more favourable lending terms when borrowing from financial institutions. The mechanics of listing on a stock exchange (audited balance sheets, being subject to corporate governance norms etc) would address many of the transparency and informational asymmetry constraints that the financial institutions face in lending to the SME sector. In addition, equity financing lowers the debt burden leading to lower financing costs and healthier balance sheets for the firms. The continuing requirement for adhering to the stock market rules for the issuers lower the on-going information and monitoring costs for the banks.

– *Increased visibility and prestige*

Going public is likely to enhance the company's visibility. Greater public awareness gained through media coverage, publicly filed documents and coverage of stock by sector investment analysts can provide the SME with greater profile and credibility. This can result in a more diversified group of investors, which may increase the demand for that company's shares leading to an increase in the company's value.

– *Venture Capital (VC)*

It has been seen that there is greater vitality of venture capital in stock market centered systems. The underdeveloped equity culture has made it difficult for companies to both get into the VC phase as well as graduate from venture capital/startups phase to a scale of operations that would make them internationally competitive. A vibrant equity market would provide prove to be an added incentive for greater venture capital participation by providing an exit option leading to a reduction in their lock-in period.

– *Liquidity for shareholders*

Becoming a public company establishes a market for the company's shares, providing its investors with an efficient and regulated vehicle in which to trade their own shares. Greater liquidity in the public market can lead to better valuation for shares than would be seen through private transactions.

– *Create employee incentive mechanisms*

The employees of the SME enterprises can participate in the ownership of their own company and benefit from being a shareholder. This can serve to ensure stronger employee commitment to the company's performance and success. Share options in a public company have an immediate and tangible value to employees, especially as a recruitment incentive.

– *Facilitate growth through Mergers and Acquisitions*

As a public company, company's shares can be utilized as an acquisition currency to acquire target companies, instead of a direct cash offering. Using shares for an acquisition can be a tax efficient and cost effective vehicle to finance such a transaction.

– *Encourages Innovation & Entrepreneurial Spirit*

The ability of companies in their early stages of development to raise funds in the capital markets allows these companies to grow very quickly. This growth helps speed up the dissemination of new technologies throughout the economy. In addition, by raising the returns available from pursuing new ideas, technologies etc the capital markets facilitate entrepreneurial activities.

– *Efficient Risk Distribution*

The development of the capital markets has helped distribute risk more efficiently by transfer of risk to those best able to bear it. This ability to transfer risk facilitates greater risk- taking, but this increased risk-taking does not destabilize the economy. Thus the capital markets ensure that capital flows to its best uses and that riskier activity with higher payoffs are funded.

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

**Question 2**

*Explain the following :*

*(a) Primary market is of great significance to the economy of a country.*

*(b) Credit rating is useful to both investors and issuers.*

*(c) Stock market indices are the barometers of stock markets.*

*(d) Participants in the money market.*

*(e) Venture capital funds invest in all types of securities.* *(3 marks each)*

***OR (Alternate question to Q.No. 2)***

**Question 2A**

*(i) In capital market, a trustee is having a number of rights and obligations. Is it correct ? Describe the rights and obligations of a trustee.* *(6 marks)*

*(ii) Is there any advertisement code for mutual funds ? Comment.* *(6 marks)*

*(iii) What do you understand by alternative investment fund ? How they are different from mutual funds ?* *(3 marks)*

**Answer 2(a)**

The market wherein resources are mobilised by companies through issue of new securities is called the primary market. The issuer of securities sells the securities in the primary market to raise funds for investment and/or to discharge some obligation. The Primary Market (New Issues) is of great significance to the economy of a country. It is through the primary market that funds flow for productive purposes from investors to entrepreneurs. The latter use the funds for creating new products and rendering services to customers in India and abroad. The primary market creates and offers the merchandise for the secondary market.

**Answer 2(b)**

Credit rating is useful both to investors and issuers. The main purpose of credit rating is to communicate to the investors the relative ranking of the default loss probability for a given fixed income investment, in comparison with other rated instruments. Investors also use the industry reports, corporate reports, seminars and open access provided by the credit rating agencies. The market places immense faith in opinion of credit rating agencies, hence the issuers also depend on their critical analysis. This enables the issuers of highly rated instruments to access the market even during adverse market conditions.

**Answer 2(c)**

The stock exchanges play a cardinal role in promoting the level of capital formation through effective mobilisation of savings and ensuring investment safety. Government's policy is so moulded that creation of wealth through products and services is facilitated and surpluses and profits are channelised into productive uses through capital market operations. Higher new investments from public and institutions lead to higher liquidity and ultimately higher stock market indices. That is why, it is said that changes in the stock market index is indicative of the concurrent changes in the economy and hence, termed as "barometer" of an economy. Stock index is taken to be the benchmark both for investors as well as corporate entities. On one hand where movement in stock indices reflect investment avenues at the disposal of investors, on the other hand, indices also reflect the scope of business opportunities for the corporate players for their prospective ventures and business proposals. All and all, stock exchanges are upheld as the barometer of the economy.

**Answer 2(d)**

Though there are few types of players in money market, the role and the level of participation by each type of player differs largely. Government is an active player in the money market and in most of the economies; it constitutes the biggest borrower in this market. Another dominant player in the money market is the banking industry. Banks mobilize deposits of savers in lending to investors of the economy. Other institutional players like financial institutions, corporates, mutual funds (MFs), Foreign institutional investors (FIIs) etc. also transact in money market to fulfill their respective short term finance deficits and short falls.

**Answer 2(e)**

A venture capital funds primarily invest in unlisted securities of start ups, emerging or early stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property rights based activities or a new business model.

A venture capitalist is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. Venture capital fund may invest in securities of foreign companies subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and SEBI from time to time.

***OR (Alternate question to Q. No. 2)***

**Answer 2A(i)**

Yes, The statement is correct. The trustee has a right and also a number of obligations. Regulation 18 of SEBI (Mutual Funds) regulations, 1996 lays down the following rights and obligations for the trustees:

(1) The trustees and the AMC shall with the prior approval of SEBI enter into an investment management agreement.

(2) Such agreement shall contain all the clauses as prescribed in these Regulations or as well as other clauses necessary for the purpose of making investments; The fourth Schedule contains clauses which are to be included as contents of the investment management agreement.

(3) The trustees are entitled to obtain from the AMC all the information which the trustees consider necessary;

(4) The trustees shall ensure before the launch of any scheme that the asset management company has—

(a) systems in place for its back office, dealing room and accounting;

(b) appointed all key personnel including fund manager(s) for the scheme(s) and submitted their bio-data which shall contain the educational qualification, past experience in the securities market with the trustees, within 15 days of their appointment;

(c) appointed auditors to audit its accounts;

(d) appointed a compliance officer who shall responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the board or the Central Government and for redressal of investors grievances.

(e) appointed registrars and laid down parameters for their supervision;

(f) prepared a compliance manual and designed internal control mechanisms including internal audit systems;

(g) specified norms for empanelment of brokers and marketing agents;

(h) obtained, wherever required under these regulations, prior in-principle approval from the recognized stock exchange(s) where units are proposed to be listed.

(5) The compliance officer appointed under clause (d) of sub-regulation (4) shall in immediately and independently report to SEBI any non-compliance observed by him.

(6) The trustees shall ensure that the asset management company (AMC) has been diligent in empanelling the brokers, in monitoring the securities transactions with brokers and avoiding undue concentration of business with any broker;

(7) The trustees shall ensure the AMC has not given any undue or unfair advantage to any associate or dealt with any of the associates of the AMC in a manner detrimental to the interest of the unit holders;

(8) The trustees shall ensure that the transaction entered into by the AMC or in accordance with these regulations and the mutual fund scheme concerned;

(9) The trustees shall ensure that the AMC has been managing the mutual fund schemes independently of other activities and have taken adequate steps to ensure that the interest of the investors of one scheme are not being compromised with those of any other scheme or of other activities of the AMC;

(10) The trustees shall ensure that all the activities of the AMC are in accordance with the provisions of these regulations;

**Answer 2A(ii)**

Yes, Schedule Six of SEBI (Mutual Funds) Regulations, 1996 provides for advertisement code for mutual funds which are mentioned below:

(a) Advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise.

(b) Advertisements shall not contain statements which are false, misleading, biased or deceptive, based on assumption/projections and shall not contain any testimonials or any ranking based on any criteria.

(c) Advertisements shall not be so designed as likely to be misunderstood or likely to disguise the significance of any statement. Advertisements shall not contain statements which directly or by implication or by omission may mislead the investor.

(d) Advertisements shall not carry any slogan that is exaggerated or unwarranted or slogan that is inconsistent with or unrelated to the nature and risk and return profile of the product.

(e) No celebrities shall form part of the advertisement.

(f) Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors should be avoided.

(g) Advertisements shall contain information which is timely and consistent with the disclosures made in the Scheme Information Document, Statement of Additional Information and the Key Information Memorandum.

(h) No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons.

(i) Advertisements shall be accompanied by a standard warning in legible fonts which states 'Mutual Fund investments are subject to market risks, read all scheme related documents carefully.' No addition or deletion of words shall be made to the standard warning.

(j) In audio-visual media based advertisements, the standard warning in visual and accompanying voice over reiteration shall be audible in a clear and understandable manner. For example, in standard warning both the visual and the voice over reiteration containing 14 words running for at least 5 seconds may be considered as clear and understandable.

**Answer 2A(iii)**

SEBI(Alternative Investment Funds) Regulations, 2012 provides that an Alternative investment fund (AIF) means any fund established in India in the form of a trust, company, limited liability partnership or a body corporate which:-

(i) is a privately pooled investment vehicle that collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and

(ii) is not covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of SEBI, which aims to regulate fund management activities.

However, SEBI (Alternative Investment Funds) Regulations, 2012 provides the list of funds which are excluded from the definition subject to certain conditions.

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. Mutual Funds in India are governed by the SEBI (Mutual Fund) Regulations 1996 as amended from time to time.

**Question 3**

*(a) The debt market in India comprises mainly of two segments, i.e., the government securities market and corporate securities market. Discuss in brief. (5 marks)*

*(b) Explain briefly the roles and responsibilities of 'Registrar to an issue' in an initial public offer (IPO). (5 marks)*

*(c) Discuss the mechanism of securities lending and borrowing (SLB) schemes. (5 marks)*

**Answer 3(a)**

The debt market in India comprises mainly of two segments viz., the Government securities market consisting of Central and State Governments securities, Zero Coupon Bonds (ZCBs), Floating Rate Bonds (FRBs), T-Bills etc. and the corporate securities market consisting of fixed interest (FI) bonds, PSU bonds, and Debentures/Corporate bonds. Government securities form the major part of the market in terms of outstanding issues, market capitalization and trading value. The trading of government securities on the Stock exchanges is currently through Negotiated Dealing System using members of BSE Ltd. / NSE Ltd. and these trades are required to be reported to the exchange. The bulk of the corporate bonds, being privately placed, were, however, not listed on the stock exchanges. Two Depositories, National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) maintain records of holding of securities in a dematerialized form. Records of holding of government securities for wholesale dealers like banks/Primary Dealers (PDs) and other financial institutions are maintained by the RBI.

**Answer 3(b)**

The Registrars to an Issue and Share Transfer Agents constitute an important category of intermediaries in the primary market. They render very useful services in mobilising new capital and facilitating proper records of the details of the investors, so that the basis for allotment could be decided and allotment ensured as per SEBI Regulations.

They also render service to the existing companies in servicing the share capital contributed by the investors. The system of share transfers gives liquidity to the investment and helps the investors to easily acquire or dispose off shares in the secondary market. The share transfer agents who have the necessary expertise, trained staff, reliable infrastructure and SEBI licence to render services to the corporates by undertaking and executing the transfer and transmission work relating to the company's shares and securities. Thus, they have a role to play both in the primary and the secondary markets.

**Answer 3(c)**

Securities' Lending and Borrowing describes the market practice whereby securities are temporarily transferred by one party (the lender) to another (the borrower) via an approved intermediary. The Borrower is obliged to return them either on demand or at the end of an agreed term and also has an option to early return. Lender may recall securities at any time within normal market settlement cycle. The broad framework for Securities Lending and Borrowing mechanism is as follows:

- To begin with, the securities traded in F&O segment shall be eligible for lending & borrowing under the scheme.
- Any lender or borrower who wishes to extend an existing lent or borrow position shall be permitted to roll-over such positions i.e. a lender who is due to receive securities in the pay out of an SLB session, may extend the period of lending. Similarly, a borrower who has to return borrowed securities in the pay- in of an SLB session, may, through the same SLB session, extend the period of borrowing.
- The roll-over shall be conducted as part of the SLB session.
- Rollover shall not permit netting of counter positions, i.e. netting between the 'borrowed' and 'lent' positions of a client.

- Roll-over shall be available for a period of 3 months i.e. the original contract plus 2 rollover contracts.
- The tenure of lending/borrowing shall be fixed as standardised contracts. To start with, contracts with tenure of 30 trading days may be introduced.
- The settlement cycle for SLB transactions shall be on T+1 basis.
- The settlement of lending and borrowing transactions shall be independent of normal market settlement.
- The settlement of the lending and borrowing transactions shall be done on a gross basis at the level of the clients i.e. no netting of transactions at any level will be permitted.

**Question 4**

*(a) Distinguish between the following :*

*(i) 'Hybrid funds' and 'hybrid instruments'.*

*(ii) 'FCCB' and 'FCEB'.*

*(iii) 'Benchmarked instruments' and 'pure instruments'.* *(2 marks each)*

*(b) Explain briefly the following :*

*(i) Indian depository receipts*

*(ii) Share warrants*

*(iii) Futures and options.* *(3 marks each)*

**Answer 4(a)(i)**

**'Hybrid funds' and 'hybrid Instruments'**

Hybrid funds are a type of mutual funds that buys a combination of common stock, preferred stock, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk. Hybrid instruments are those which are created by combining the features of equity with bond, preference and equity etc. Examples of Hybrid instruments are: Convertible preference shares, Cumulative convertible preference shares, convertible debentures, non convertible debentures with equity warrants, partly convertible debentures etc.

**Answer 4(a)(ii)**

**'FCCB' and 'FCEB'**

Foreign Currency Convertible Bonds (FCCBs) are issued by a company to non-residents giving them the option to either convert them into shares of the same company at a predetermined price or have the bonds redeemed. On the other hand, Foreign Currency Exchangeable Bonds (FCEBs) are issued by the investment or holding company of a group to non-residents which are exchangeable for the shares of the specified company at a predetermined price. The key difference, therefore, is while FCCB involves just one company, FCEB involves at least two companies where the bonds are issued by a company while the shares are of ‘offered company’ whose shares should be listed on stock exchange.

**Answer 4(a)(iii)**

**‘Benchmarked instruments’ and ‘pure instruments’**

These are certain debt instruments wherein the fixed income earned is based on a benchmark. For instance the floating interest rate funds are benchmarked to either the LIBOR or MIBOR. Equity shares, preference shares and debentures/ bonds which were issued with their basic characteristics in tact without mixing features of other classes of instruments are called pure instruments.

**Answer 4(b)(i)**

**Indian Depository Receipts**

According to Section 2(48) of the Companies Act, 2013 "Indian Depository Receipt" means any instruction in the form of a depository receipt created by a domestic depository in India and authorised by a company incorporated outside India making an issue of such depository receipts. In other words,

An IDR is an instrument-

— denominated in Indian Rupees

— in the form of a depository receipt

— created by a Domestic Depository (custodian of securities registered with SEBI)

— against the underlying equity of issuing foreign company.

Section 390 of the Companies Act, 2013 and Rule 13 of Companies (Registration of Foreign Companies) Rules, 2014 lays down the procedure for issue of IDRs. Apart from this, a company has to comply with Chapter X and XA of SEBI (ICDR) Regulations, 2009 to issue IDRs or a rights issue of IDRs.

**Answer 4(b)(ii)**

**Share Warrants**

A warrant is like an option issued by a company that gives the holder the right to buy stock from the company at a specified price within a certain designated time period. Generally, warrants are issued by the company whose stock underlies the warrant and when an investor exercises a warrant, he or she buys stock from the company. A stock warrant is a way for a company to raise money through equity (stocks). A stock warrant is a smart way to own shares of a company because a warrant usually is offered at a price lower than that of a stock option.

**Answer 4(b)(iii)**

**Futures and options**

Futures is a contract between two parties to buy or sell a underlying asset of standardized quantity and quality for a price agreed upon specified day with delivery and payment occurring at a specified future date. Underlying assets for the purpose include equities, foreign exchange, interest bearing securities and commodities. An option contract conveys the right, but not the obligation, to buy or sell a specific security or commodity at specified price within a specified period of time. Options may be Put or Call options. The right to buy is referred to as a call option whereas the right to sell is known as a put option.

## PART B

### Question 5

(a) *"SCORES is an organisation to measure the performance of limited companies." Comment.* *(6 marks)*

(b) *Nikhil Ltd., a listed company is confused about the composition of Board of directors, seeks your advice regarding the composition of Board of directors as per clause 49(II)(A) of the Listing Agreement. As a Company Secretary of Nikhil Ltd., offer your suggestions by highlighting the clause.* *(6 marks)*

(c) *Whether fast track issue can be proceeded just like an IPO or, are there any other conditions to fast track issue ? Explain.* *(8 marks)*

### Answer 5(a)

The given statement is not correct. SCORES (SEBI Complaints Redress System) is a web based centralized grievance redress system of SEBI. SCORES enables investors to lodge and follow up their complaints and track the status of redressal of such complaints online from the above website from anywhere. This enables the market intermediaries and listed companies to receive the complaints online from investors, redress such complaints and report redressal online. All the activities starting from lodging of a complaint till its closure by SEBI would be online in an automated environment and the complainant can view the status of his complaint online. An investor, who is not familiar with SCORES or does not have access to SCORES, can lodge complaints in physical form at any of the offices of SEBI. Such complaints would be scanned and also uploaded in SCORES for processing.

### Answer 5(b)

As per clause 49 (II) (A) of the listing agreement, the following should be the composition of Nikhil Ltd.:

The Board of Directors of the company shall have an 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 comprising non-executive directors.

Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise independent directors and in case the company does not have a regular non-executive Chairman, at least half of the Board should comprise independent directors.

Provided that where the regular non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.

### Answer 5(c)

SEBI has prescribed certain specified requirements to make Fast Track Issues

(FTIs) by listed companies under Regulation 10 of SEBI (Issue of capital and Disclosure Requirements) Regulations, 2009 which are as follows:

— the equity shares of the issuer have been listed on any recognised stock exchange having nationwide trading terminals for a period of at least three years immediately preceding the reference date;

— the average market capitalisation of public shareholding of the issuer is at least one thousand crore rupees in case of public issue and two hundred and fifty crore rupees in case of rights issue;

— the annualised trading turnover of the equity shares of the issuer during six calendar months immediately preceding the month of the reference date has been at least two per cent of the weighted average number of equity shares listed during such six months' period.

However, for issuers, whose public shareholding is less than fifteen per cent of its issued equity capital, the annualised trading turnover of its equity shares has been at least two per cent of the weighted average number of equity shares available as free float during such six months period;

— the issuer has redressed at least ninety five per cent of the complaints received from the investors till the end of the quarter immediately preceding the month of the reference date;

— the issuer has been in compliance with the equity listing agreement for a period of at least three years immediately preceding the reference date:

  However, if the issuer has not complied with the provision of the equity listing agreement relating to composition of board of directors, for any quarter during the last three years immediately preceding the reference date, but is compliant with such provisions at the time of filing of offer document with the Registrar of Companies or designated stock exchange, as the case may be, and adequate disclosures are made in the offer document about such non-compliances during the three years immediately preceding the reference date, it shall be deemed as compliance with the condition.

  Further, imposition of only monetary fines by stock exchanges on the issuer shall not be a ground for ineligibility for undertaking issuances under this regulation;

— the impact of auditors' qualifications, if any, on the audited accounts of the issuer in respect of those financial years for which such accounts are disclosed in the offer document does not exceed five per cent of the net profit or loss after tax of the issuer for the respective years;

— no show-cause notices have been issued or prosecution proceedings initiated by SEBI or pending against the issuer or its promoters or whole time directors as on the reference date;the issuer or promoter or promoter group or director of the issuer has not settled any alleged violation of securities laws through the consent or settlement mechanism with SEBI during three years immediately preceding the reference date;

— the entire shareholding of the promoter group of the issuer is held in dematerialised form on the reference date;

— in case of a rights issue, promoters and promoter group shall mandatorily subscribe to their rights entitlement and shall not renounce their rights, except to the extent of renunciation within the promoter group or for the purpose of complying with minimum public shareholding norms prescribed under Rule 19A of the Securities Contracts (Regulation) Rules, 1957;

— the equity shares of the issuer have not been suspended from trading as a disciplinary measure during last three years immediately preceding the reference date;

— the annualized delivery-based trading turnover of the equity shares during six calendar months immediately preceding the month of the reference date has been at least ten per cent of the weighted average number of equity shares listed during such six months' period;

— there shall be no conflict of interest between the lead merchant banker(s) and the issuer or its group or associate company in accordance with applicable regulations.

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

**Question 6**

*Comment on the following :*

*(a) The Securities and Exchange Board of India Act, 1992 provides for prohibition of manipulative and deceptive devices, and insider trading.*

*(b) A company cannot offer its shares at different prices to different sets of people in a particular public issue.*

*(c) Book-building process of determining price of a public issue is preferred in case of initial public offer (IPO) while fixed price process is used for further public offer (FPO).*

*(d) Investor education and protection fund (IEPF) is set-up only for educating investors.*

*(5 marks each)*

***OR (Alternate question to Q.No. 6)***

**Question 6A**

*Write notes on the following :*

*(i) Internal audit of stock brokers*

*(ii) Investment adviser*

*(iii) Immobilisation and dematerialisation*

*(iv) Employee stock option scheme (ESOS)*

*(v) Escrow account.* *(4 marks each)*

**Answer 6(a)**

**The statement is correct.**

Section 12 A of SEBI Act, 1992 provides for prohibitions of manipulative and deceptive devices and insider trading. It states that no person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(d) engage in insider trading;

(e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(f) acquire control of any company or securities more than the percentage of equity share capital of a company whose securities are listed or proposed to be listed on a recognised stock exchange in contravention of the regulations made under this Act.

**Answer 6(b)**

**The statement is false.**

Regulation 29 of SEBI (Issue of capital and Disclosure Requirements) Regulations, 2009 provides that an issuer can offer specified securities at different prices, subject to the following:

(a) Retail individual investors or retail individual shareholders or employees entitled for reservation making an application for a value of not more than two lakh rupees, can be offered specified securities at a price lower than the price at which net offer is made to other categories of applicants. However, such difference shall not be more than 10% of the price at which specified securities are offered to other categories of applicants.

(b) In case of a book built issue, the price of the specified securities offered to an anchor investor should not be lower than the price offered to other applicants; If the issuer opts for alternate method of book building, the issuer can offer specified securities to its employees at a price, lower than floor price and the difference between such price and floor price shall not be more than 10%.

(c) In case of a composite issue, the price of the specified securities offered in the public issue can be different from the price offered in rights issue and justification for such price difference should be given in the offer document.

(d) In case the issuer opts for the alternate method of book building, the issuer may offer specified securities to its employees at a price lower than the floor price. However, the difference between the floor price and the price at which specified securities are offered to employees shall not be more than ten per cent of the floor price.

**Answer 6(c)**

**The statement is false.**

Fixed price process and Book Building process are pricing mechanisms in the issue of shares through public offer. When the issuer at the outset decides the issue price and mentions it in the Offer Document, it is commonly known as “Fixed price issue”. When the price of an issue is discovered on the basis of demand received from the prospective investors at various price levels, it is called “Book Built issue”. A company, whether issues shares through initial public offer (IPO) or Further Public Offer (FPO) has the option to choose the pricing mechanism, under Fixed Price Issue or Book Built issue, subject to conditions specified under SEBI(ICDR) Regulations 2009.

**Answer 6(d)**

**The Statement is false.**

Investor Education and Protection Fund (IEPF) has been established under Section 205C of the Companies Act, 1956 for promotion of investors’ awareness and promotions of the interest of investors. The Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001 stipulates the following activities related to investor education, awareness and protection for which the financial sanction can be provided under IEPF:

- Education programme through Media
- Organizing Seminars and Symposia
- Proposals for registration of Voluntary Associations or Institution or other organizations engaged in Investor Education and Protection activities
- Proposals for projects for Investors’ Education and Protection including research activities and proposals for financing such projects
- Coordinating with institutions engaged in Investor Education, awareness and protection activities.

**Answer 6A(i)**

**Internal audit of stock brokers**

SEBI has authorized the Practicing Company Secretary to carry out complete internal audit of stock brokers/ trading members/clearing members on a half yearly basis. The circular states that stock brokers/trading members/ clearing members shall carry out complete internal audit on a half yearly basis by chartered accountants, company secretaries or cost and management accountants who are in practice and who do not have any conflict of interest. The scope of such audit covers, inter alia, the existence, scope and efficiency of the internal control system, compliance with the provisions of the SEBI Act, 1992, Securities Contracts (Regulation) Act 1956, SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, circulars issued by SEBI, agreements, KYC requirements, Bye Laws of the Exchanges, data security and insurance in respect of the operations of stock brokers/clearing members.

**Answer 6A(ii)**

**Investment Adviser**

"Investment Adviser" means any person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser, by whatever name called. Investment advisers are those, who guide one about his or her financial dealings and investments. Investment advisers are governed by SEBI (Investment Advisers) Regulations, 2013.

**Answer 6A(iii)**

**Immobilisation and dematerialisation**

Immobilisation of securities occurs when physical security certificates are stored or lodged with depository for safe custody. All subsequent transaction in these securities takes place in book-entry form. The actual owner has the right to withdraw their physical securities as and when desired. The immobilization of fresh issue may be achieved by issuing a jumbo certificate representing the entire issue in the name of depository, as nominee of the beneficial owners. Dematerialisation is the process by which shares in the physical/ paper form are cancelled and credits in the form of electronic balances are maintained on highly secure systems at the depository.

This type of system is cost effective and simple and has been adopted in India.

**Answer 6A(iv)**

**Employee stock option scheme (ESOS)**

SEBI (Share Based Employee Benefits) Regulations, 2014 defines employee stock option scheme or ESOS which means a scheme under which a company grants employee stock option directly or through a trust. There shall be a minimum vesting period of one year in case of ESOS. Provided that in case where options are granted by a company under an ESOS in lieu of options held by a person under an ESOS in another company which has merged or amalgamated with that company, the period during which the options granted by the transferor company were held by him shall be adjusted against the minimum vesting period. The company may specify the lock-in period for the shares issued pursuant to exercise of option.

**Answer 6A(v)**

**Escrow account**

Escrow Account means an account in which money is held until a specified duty is performed. Escrow account is opened by the issuing company in case of public issue of securities, buy back of securities, take over etc. A sum prescribed under the Regulations/ Guidelines is transferred to the Escrow Account unless the said formalities regarding the event are over. The Escrow Account may consist of cash deposited with a schedule commercial bank, bank guarantee in favour of merchant banker, deposit of acceptable securities with appropriate margin with the merchant banker.

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## INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

*Time allowed : 3 hours* *Maximum marks : 100*

*Total number of Questions : 100*

**PART A**

**1.** According to the Industrial Employment (Standing Orders) Act, 1946, the subsistence allowance payable to a workman for the first 90 days when he has been suspended pending enquiry against him is —

(A) 28% of wages

(B) 50% of wages

(C) 65% of wages

(D) 75% of wages.

**2.** Who is empowered to fix minimum rates of wages in the manner prescribed under the Minimum Wages Act, 1948 —

(A) Competent authority

(B) Appropriate authority

(C) Appropriate government

(D) All of the above.

**3.** The appropriate government is empowered under section 7 of the Equal Remuneration Act, 1976 to appoint the authorities for hearing and deciding the claims and complaints not below the rank of —

(A) Labour Commissioner

(B) Labour Officer

(C) Labour Inspector

(D) Assistant Labour Commissioner.

**4.** Under section 74 of the Employees' State Insurance Act, 1948, who is empowered to constitute an Employees' Insurance Court —

(A) Central government

(B) State government

(C) Appropriate government

(D) All of the above.

**5.** Under the Payment of Bonus Act, 1965, who shall be entitled for bonus to be paid by the employer in an accounting year :

(1) Every employee

(2) Every employee who has worked for not less than thirty working days in that year

(3) Even a suspended employee, whose suspension is ultimately set aside later on

Which of the above is/are correct —

(A) Only (1)

(B) (1) and (2) only

(C) (2) and (3) only

(D) (1) and (3) only.

**6.** Under section 13 of the Payment of Gratuity Act, 1972, 'gratuity' is exempted from attachment in execution of any decree or order of any :

(1) Civil court

(2) Revenue court

(3) Criminal court

Which of the above is incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) None of the above.

**7.** The first aid facilities to be provided and maintained by the contractor at every place where contract labour is employed by him is made mandatory in the Contract Labour (Regulation and Abolition) Act, 1970 under —

(A) Section 19

(B) Section 18

(C) Section 17

(D) All of the above.

**8.** A general manager of Railway comes within the definition of 'managing agent' under section 2(1)(e) of the Employees' Compensation Act, 1923 and, therefore, he may be termed as an employer. This view has been expressed by the Allahabad High Court in —

(A) Baij Nath Singh *v.* O.T. Railway

(B) Soleman Bibi *v.* East India Company

(C) India General Navigation and Railway Company Ltd. *v.* Their Workmen

(D) None of the above.

**9.** Under section 5(3) of the Maternity Benefit Act, 1961 the maximum period for which any woman employee shall be entitled to maternity benefit is —

(A) Six weeks

(B) Eight weeks

(C) Twelve weeks

(D) Twenty four weeks.

**10.** Prohibition of employment of children under section 3 of the Child Labour (Prohibition and Regulation) Act, 1986 shall not be applicable to —

(A) Any workshop wherein any process is carried on by the occupier with the aid of his family

(B) Any school established by or receiving assistance or recognition from government

(C) Both (A) and (B) above

(D) Neither (A) nor (B).

**11.** Following are said to be 'Certifying Officer' under section 2(c) of the Industrial Employment (Standing Orders) Act, 1946 :

(1) Labour Inspector

(2) Labour Commissioner

(3) Regional Labour Commissioner

Which of the above is/are correct —

(A) Only (1) and (2)

(B) Only (2) and (3)

(C) Only (1) and (3)

(D) All of the above.

**12.** Under section 2(d) of the Factories Act, 1948, 'young person' means a person who —

(A) Is either an adult or an adolescent

(B) Has completed his eighteen years of age

(C) Is either a child or an adolescent

(D) All of the above.

**13.** Under the Apprentices Act, 1961 an 'apprentice' is a person who is —

(A) Learner and is undergoing apprentice-ship training in pursuance of a contract of apprenticeship

(B) An employee

(C) Both (A) and (B) above

(D) Neither (A) nor (B).

**14.** The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 does not apply in relation to vacancies in following employment :

(1) In agriculture and horticulture in any establishment in private sector

(2) Where the period of employment is less than six months

(3) In domestic services

Which of the above is/are correct —

(A) Only (1) and (2)

(B) Only (1) and (3)

(C) Only (2) and (3)

(D) All of the above.

**15.** The Supreme Court of India taking note of various previous judicial decisions and exhaustively considering the scope of 'industry', evolved a new concept of the term 'industry' in 1978 in the following case —

(A) State of Bombay *v.* Bombay Hospital Mazdoor Sabha

(B) Bangalore Water Supply and Sewerage Board *v.* A. Rajappa

(C) D.N. Banerji *v.* P.R. Mukherji

(D) University of Delhi *v.* Ram Nath.

**16.** Under the Trade Unions Act, 1926 a registered trade union shall be a body corporate by the name under which it is registered and it :

(1) Shall have imperpetual succession

(2) Shall have a common seal with power to acquire and hold the property

(3) Shall have power to contract.

Which of the above is incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) None of the above.

**17.** Under section 7B of the Industrial Disputes Act, 1947 one or more 'National Tribunals' may be constituted for adjudication of industrial disputes which are of such nature that industrial establishments situated in more than one states are likely to be interested in, or affected by, such disputes. National Tribunal may be constituted by —

(A) Central Government

(B) Affected parties

(C) Appropriate government

(D) All of the above.

**18.** According to the definition of 'factory' given in section 2(m) of the Factories Act, 1948, which of the following is not included in the term 'factory' —

(A) Mines

(B) Railway running sheds

(C) Hotels, restaurants and eating places

(D) All of the above.

**19.** Provision of penalty for employing any child or permitting any child to work in contravention of the provisions of section 3 of the Child Labour (Prohibition and Regulation) Act, 1986 is given in —

(A) Section 13

(B) Section 14

(C) Section 15

(D) Section 18.

**20.** In which of the following cases a Division Bench of the Supreme Court held that whether the strike is legal or illegal, the employees are not entitled for wages for the period of strike —

(A) Management of Churakulam Tea Estate (P) Ltd. *v.* The workmen

(B) Bank of India *v.* T.S. Kelawala

(C) Crompton Greaves Ltd. *v.* Its Workmen

(D) All of the above.

**21.** Under the Apprentices Act, 1961 every trade apprentice undergoing apprenticeship training shall have :

(1) To attend practical and instructional classes regularly

(2) To carry out all lawful orders of his employer and superiors in the establishment

(3) To carry out his obligations under the contract of apprenticeship.

Which of the above is/are correct —

(A) Only (1) and (2)

(B) Only (2) and (3)

(C) Only (1) and (3)

(D) (1), (2) and (3).

**22.** According to section 2(g) of the Trade Unions Act, 1926, trade dispute means any dispute between :

(1) Employer and workmen

(2) Workmen and workmen

(3) Employer and public servant

Which of the above is/are correct —

(A) Only (1) and (2)

(B) Only (2) and (3)

(C) Only (1) and (3)

(D) All of the above.

**23.** The word 'premises' under section 2(m) of the Factories Act, 1948 is a generic term meaning open land or land with buildings or buildings alone. The legislature had no intention to discriminate between workers engaged in manufacturing process in a building and those engaged in such a process on an open land. Thus, the salt works, in which the work done is of conversion of sea water into crystals of salt, come within the meaning of the word 'premises'. It was observed by the Supreme Court of India in the case of —

(A) Ardeshir H. Bhiwandiwala *v.* State of Bombay

(B) Bharati Udyog *v.* Regional Director E.S.I. Corporation

(C) Both (A) and (B) above

(D) Neither (A) nor (B).

**24.** Certified standing orders become part of the statutory and not contractual terms and conditions of service and are binding on both the employer and the employees. This view was expressed by the court in the matter of —

(A) Mohan Raj *v.* Regional Provident Fund Commissioner

(B) Bihar State Electricity Board *v.* Their Workmen

(C) Derby Textiles Ltd. *v.* Karmchari and Shramik Union

(D) All of the above.

**25.** As per section 5 of the Trade Unions Act, 1926, where a trade union has been in existence for more than one year before the making of an application for its registration, which of the following shall be delivered to the Registrar, together with the application —

(A) A general statement of the assets and liabilities of the trade union

(B) A general statement of the income and expenditure of the trade union

(C) A general statement of the profit and loss of the trade union

(D) A general statement of the balance sheet of the trade union.

**26.** One of the schemes of the Payment of Bonus Act, 1965 is to prescribe the maximum and minimum rates of bonus together with the scheme of 'set-off' and 'set-on'. It was set by Justice Shah of the Supreme Court in the matter of —

(A) Mumbai Kamgar Sabha *v.* Abdulbhai Faizullabhai

(B) Jalan Trading Co. (Pvt.) Ltd. *v.* Mill Mazdoor Sabha

(C) Both (A) and (B) above

(D) Neither (A) nor (B).

**27.** Factory is a premise where a manufacturing process in carried on. The process undertaken in zonal station, sub-stations and electricity generating stations, transforming and transmitting electricity generated at the power stations does not fall within the definition of manufacturing process as the workmen employed therein have no part in any manufacturing process. This view was expressed by the Supreme Court of India in —

(A) U.P. Electricity Supply Co. *v.* The workmen of U.P. Electricity Supply Co.

(B) Workmen of Delhi Electric Supply Undertaking *v.* Management of D.E.S.U.

(C) Agra Electric Supply Co. Ltd., Agra *v.* Workmen of Agra Electricity Co. Ltd.

(D) None of the above.

**28.** The legality of a strike is determined —

(A) With reference to the legal provisions enumerated in the Industrial Disputes Act, 1947

(B) With reference to the purpose for which the strike was declared

(C) On the basis of its justification, *i.e.*, fairness and reasonableness of demands made by workmen declaring strike

(D) None of the above.

**29.** According to the Payment of Bonus Act, 1965, 'bonus' should be paid to employees within —

(A) One month from the close of the accounting year

(B) Three months from the close of the accounting year

(C) Eleven months from the close of the accounting year

(D) Eight months from the close of the accounting year.

**30.** The provision relating to mode of registration of trade union is given in —

(A) Section 3 of the Trade Unions Act, 1926

(B) Section 4 of the Trade Unions Act, 1926

(C) Section 6 of the Trade Unions Act, 1926

(D) Section 7 of the Trade Unions Act, 1926.

**31.** Gratuity is payable to an employee engaged in factories, mines, oil fields, *etc*., if he has rendered continuous service for not less than five years on his —

(A) Superannuation

(B) Retirement

(C) Resignation

(D) All of the above.

**32.** Every occupier of factory shall ensure, so far as is reasonably practicable, the health, safety and welfare of all workers while they are at work in the factory. In which of the following sections of the Factories Act, 1948 has it been provided —

(A) Clause (1) of section 7A

(B) Clause (a) of section 7B

(C) Both (A) and (B) above

(D) Neither (A) nor (B).

**33.** Section 3 of the Employees' Compensation Act, 1923 deals with employer's liability for compensation. But employer's liability to pay compensation is limited and it depends on certain conditions :

(1) There must be a personal injury caused to an employee due to an accident

(2) The accident must have arisen 'out of' and 'in the course of' employment

(3) The injury which does not result in death of the employee or in his total or partial disablement for a period not exceeding three days.

Which of the above is incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) None of the above.

**34.** Which of the following is a 'Scheduled Act' as per First Schedule of the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 —

(A) The Trade Unions Act, 1926

(B) The Payment of Bonus Act, 1965

(C) The Minimum Wages Act, 1948

(D) The Maternity Benefit Act, 1961.

**35.** The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 provides for :

(1) Compulsory notification of vacancies by the employers to employment exchanges

(2) Submission of employment returns by the employers in prescribed manner to the employment exchanges

(3) Recruitment of persons through the employment exchanges only to fill any vacancy

Which of the above is/are correct —

(A) Only (1) and (2)

(B) Only (2) and (3)

(C) Only (1) and (3)

(D) All of the above.

**36.** Provision of penalty for permitting double employment of a child by parents or guardians has been stipulated in the Factories Act, 1948 under —

(A) Section 93

(B) Section 95

(C) Section 96

(D) Section 99.

**37.** According to the Industrial Disputes Act, 1947, no workman or employer or trade union shall commit any 'unfair labour practice'. Any person who commits any 'unfair labour practice' shall be punishable with imprisonment and fine as per provisions of —

(A) Section 25T

(B) Section 25U

(C) Section 26(1)

(D) Section 26(2).

**38.** According to section 3 of the Apprentices Act, 1961, a person shall be qualified for being engaged as an apprentice to undergo apprenticeship training in any designated trade if such person :

(1) Is not less than 18 years of age

(2) Satisfies prescribed standard or education

(3) Satisfies prescribed physical fitness

Which of the above is/are correct —

(A) Only (1) and (2)

(B) Only (2) and (3)

(C) Only (1) and (3)

(D) All of the above.

**39.** The Contract Labour (Regulation and Abolition) Act, 1970 applies to every establishment or contractor wherein 20 or more workmen are or were employed as contract labour on any day of the preceding —

(A) Fifteen months

(B) Fourteen months

(C) Sixteen months

(D) Twelve months.

**40.** The benefits of 'labour audit' to the labour are —

(A) It increases their social security

(B) It inculcates in workers a sense of belongingness towards their employer

(C) It secures timely payment of wages, bonus, overtime and compensation, *etc.*, of workers

(D) All of the above.

**41.** Under section 69 of the Factories Act, 1948 before employing a young person in the factory, a certificate has to be obtained from certifying surgeon that such young person is fit for that work in the factory. Who can apply for obtaining such fitness certificate :

(1) Young person himself

(2) His parent or guardian

(3) Manager of the factory

Which of the above is incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) None of the above.

**42.** According to section 3(h) of the Maternity Benefit Act, 1961, 'maternity benefit' means the payment referred under —

(A) Section 5(1)

(B) Section 5(2)

(C) Section 5(3)

(D) None of the above.

**43.** Who shall be the Chairman of Site Appraisal Committee constituted by the State Government under section 41A of the Factories Act, 1948 —

(A) Inspector General of Police

(B) Principal Secretary of Environment

(C) Chief Inspector of the State

(D) None of the above.

**44.** The Child Labour (Prohibition and Regulation) Act, 1986 seeks to achieve which of the following objectives :

(1) To ban the employment of children below 14 years of age in factories, mines and hazardous employments

(2) To regulate the conditions of work of children in employment where they are not prohibited from working

(3) To obtain uniformity in the definition of 'child' in the related laws.

Which of the above is/are correct —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) All of the above.

**45.** The provision that no adult worker shall be allowed to work in a factory for more than forty eight (48) hours in any week, is made under which of the following sections of the Factories Act, 1948 —

(A) Section 51

(B) Section 51A

(C) Section 52

(D) None of the above.

**46.** '*Malis*' looking after the garden attached to the bunglows provided by the employer to its officers and directors are workmen even though their work is not directly concerned with the main work or operation of the industry. This was held by the Supreme Court of India in the case of —

(A) Pipraich Sugar Mills Ltd. *v.* Pipraich Sugar Mills Mazdoor Union

(B) J.K. Cotton Spinning and Weaving Mills Co. Ltd. *v.* L.A.T.

(C) Both (A) and (B) above

(D) Neither (A) nor (B).

**47.** The Employees' State Insurance Act, 1948 provides for certain benefits to the employees in case of :

(1) Sickness

(2) Maternity

(3) Employment injury

Which of the above is/are correct —

(A) (1) and (3) only

(B) (2) and (3) only

(C) (1) only

(D) (1), (2) and (3).

**48.** The provision imposing obligation on the employer for not reducing wages of any employee either directly or indirectly to whom the scheme or insurance scheme applies is given in the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 under —

(A) Section 10

(B) Section 11

(C) Section 12

(D) Section 13.

**49.** The object of the Industrial Employment (Standing Orders) Act, 1946 is to have uniform standing orders in respect of matters enumerated in the schedule to the Act, applicable to all workers irrespective of their time of appointment. This has been observed by the Supreme Court of India in —

(A) Raj Ratna Sethi *v.* Ashok Bhasin

(B) Barauni Refinery Pragatisheel Parishad *v.* Indian Oil Corporation Ltd.

(C) State of Uttar Pradesh *v.* Arun Kumar Singh

(D) None of the above.

**50.** According to section 4 of the Minimum Wages Act, 1948, any minimum rate of wages fixed or revised may consist of the following :

(1) Basic rate of wages with or without the cost of living allowance

(2) Basic rate of wages and a special allowance

(3) All inclusive rate allowing for the basic rate

(4) Cost of living allowance.

Select the correct answer from the options given below —

(A) (1) only

(B) (1) and (2) only

(C) (1), (3) and (4) only

(D) (1), (2), (3) and (4).

**51.** Under the Industrial Disputes Act, 1947 the factors which may constitute the ground for 'lay-off' is refusal or inability to give employment due to following reasons :

(1) Shortage of coal, power, raw materials

(2) Breakdown of machinery

(3) Financial stringency.

Which of the above is incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) None of the above.

**52.** The Factories Act, 1948 is a social legislation and it provides for the health, safety, welfare and other aspects of the workers employed in the factories. This view has been expressed by the Rajasthan High Court in the case of —

(A) Sajjan Singh *v.* State of Rajasthan

(B) State of Rajasthan *v.* Union of India

(C) Ravi Shankar Sharma *v.* State of Rajasthan

(D) None of the above.

**53.** "The committee appointed under section 5 of the Minimum Wages Act, 1948 is only an advisory body and the government is, therefore, not bound to accept its recommendations." This view is taken by the Supreme Court of India in —

(A) Edward Mills Co. *v.* State of Ajmer

(B) Andhra Pradesh Hotels Association *v.* Government of Andhra Pradesh

(C) Both (A) and (B) above

(D) Neither (A) nor (B).

**54.** The Employees' State Insurance Corporation shall be a body corporate under section 3 of the Employees' State Insurance Act, 1948. The other main feature(s) of the Employees' State Insurance Corporation is/are —

(A) It shall have perpetual succession

(B) It shall have an uncommon seal

(C) It can sue but cannot be sued in its own name

(D) All of the above.

**55.** Travelling to and from the place of employment *prima facie* does not fall within the meaning of 'in the course of employment'. But, there may be a reasonable extension in both the time and place and an employee may be regarded as 'in the course of his employment' even though he had not reached or had left his employer's premises. This may be called under the Employees' Compensation Act, 1923 as —

(A) Valid extension of employment as well as employer's premises

(B) Reasonable extension of employment as well as employer's premises

(C) Notional extension of employment as well as employer's premises

(D) None of the above.

**56.** Under section 18 of the Minimum Wages Act, 1948 maintenance of registers and records by the employer is —

(A) Mandatory

(B) Optional

(C) Mandatory as well as optional as the circumstances require

(D) None of the above.

**57.** According to section 19 of the Employees' Compensation Act, 1923, in default of an agreement between the parties to arrive at a conclusion in respect of any claim to compensation, the Commissioner has jurisdiction to decide :

(1) The question as to whether a person injured is an employee

(2) The liability of any person to pay compensation along with amount and duration of compensation

(3) The nature and extent of disablement

Which of the above is incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) None of the above.

**58.** As per section 2(ib) of the Payment of Wages Act, 1936 'employer' includes —

(A) Wife of a deceased employer

(B) Sons and daughters of a deceased employer

(C) Legal representative of a deceased employer

(D) Only (A) and (B) above.

**59.** Which of the following is covered by the 1st category of dependent under the Employees' State Insurance Act, 1948 —

(A) A widow

(B) A legitimate as well as illegitimate son who has not attained the age of twenty five years

(C) An unmarried legitimate as well as illegitimate or adopted daughter

(D) None of the above.

**60.** The provisions of 'penalty' for contravening any of the provisions of the Payment of Bonus Act, 1965 or for not complying the directions given under this Act are given under —

(A) Section 27

(B) Section 28

(C) Section 29

(D) Section 30.

**61.** The principal objects of the Industrial Disputes Act, 1947 as analysed by the Supreme Court of India in Workmen of Dimakuchi Tea Estate *v.* Dimakuchi Tea Estate are :

(1) The promotion of measures for securing and preserving amity and good relations between the employer and workmen

(2) The prevention of illegal strikes and lock-outs

(3) The prevention of collective bargaining

Which of the above is/are incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) Only (1) and (2).

**62.** 'Wages' under section 2(vi) of the Payment of Wages Act, 1936 does not include:

(1) Any sum to which the person employed is entitled under any scheme framed under any law for the time being in force

(2) Any contribution paid by the employer to any pension or provident fund and the interest which may have accrued thereon

(3) Any travelling allowance or the value of any travelling concession

(4) Any additional remuneration payable under the terms of employment whether called bonus or by any other name.

Which of the above is/are correct —

(A) (1) and (2) only

(B) (2) and (3) only

(C) (3) and (4) only

(D) All of the above.

**63.** 'Triple Test' and 'Dominant Nature Test' for determination of industry were propounded by the —

(A) Government of India

(B) Parliament of India

(C) Supreme Court of India

(D) All of the above.

**64.** Which kind of and to what extent disablement would be considered if absolute deafness is caused to an employee due to an accident in the course of employment under the Employees' Compensation Act, 1923 —

(A) Temporary total disablement with 90 per cent loss of earning capacity

(B) Permanent total disablement with 90 per cent loss of earning capacity

(C) Permanent total disablement with 100 per cent loss of earning capacity

(D) None of the above.

**65.** For an employee to be insured under the Employees' State Insurance Act, 1948, it is mandatory that :

(1) He must be employed in a factory or establishment to which this Act applies

(2) Contribution must be paid by him towards 'insurance fund' through the employer

(3) Employer is not liable to pay any sum of amount in 'insurance fund'

Which of the above statement is incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) None of the above.

**66.** Section 7 of the Child Labour (Prohibition and Regulation) Act, 1986 stipulates that :

(1) No child shall be permitted to work between 7 p.m. and 8 a.m.

(2) No child shall be permitted to work overtime

(3) No child shall be required to work in any establishment on any day on which he has already been working in another establishment.

Which of the above is incorrect —

(A) Only (1)

(B) Only (2)

(C) Only (3)

(D) None of the above.

**67.** While making recruitment for the same work or work of a similar nature, no discrimination shall be made by the employer against women except where the employment of women in such work is prohibited or restricted under any law for the time being in force. This has been provided under the Equal Remuneration Act, 1976 in —

(A) Section 4

(B) Section 5

(C) Section 8

(D) None of the above.

**68.** The order making a reference under section 10(1) of the Industrial Disputes Act, 1947 is —

(A) An administrative act

(B) A judicial act

(C) A quasi-judicial act

(D) All of the above.

**69.** An employee, under section 9 of the Payment of Bonus Act, 1965 shall be disqualified from receiving bonus if he is dismissed from service for —

(A) Strike

(B) Riotous or violent behaviour while on the premises of the establishment

(C) Fast unto death in favour of his demand

(D) All of the above.

**70.** In an appeal against the order of the certifying officer under section 6 of the Industrial Employment (Standing Orders) Act, 1946, the appellate authority can—

(A) Set aside the orders of certifying officer

(B) Remand the matter to the certifying officer for fresh consideration

(C) Both (A) and (B) above

(D) Neither (A) nor (B).

## PART B

**71.** "Equality is a dynamic concept with many aspects and dimensions. From a positive point of view, equality is antithesis to arbitrariness. In fact, equality and arbitrariness are sworn enemies." This was observed by the Supreme Court of India in —

(A) E.P. Royyappa *v.* State of Tamil Nadu

(B) Maneka Gandhi *v.* Union of India

(C) R.D. Shetty *v.* International Airports Authority

(D) Suneel Jaitley *v.* State of Haryana.

**72.** Anticipatory bail under section 438 of the Code of Criminal Procedure, 1973 may be granted by —

(A) Chief Judicial Magistrate

(B) Sessions Judge

(C) High Court

(D) Either Sessions Judge or High Court.

**73.** A contract may not be specifically enforced where :

(1) Compensation in money for non-performance would not be an adequate relief

(2) Contract runs into minute or numerous details

(3) Contract depends upon personal qualification of the parties

(4) The contract is determinable.

Which of the above is/are correct —

(A) (1) and (4)

(B) (2) and (3)

(C) (2), (3) and (4)

(D) (1), (2), (3) and (4)

**74.** Statement under section 32(1) of the Indian Evidence Act, 1872 contemplates statements :

(1) By a person as to the cause of his death

(2) By a person as to any of the circumstance of the transaction which resulted in his death

(3) By a person under expectation of death

(4) By a person as to likelihood of his death.

Which of the above is/are correct —

(A) (1) only

(B) (2) and (3)

(C) (1) and (2)

(D) (4) only.

**75.** Which of the following statements regarding computing period of limitation is not correct under the Limitation Act, 1963 —

(A) For an appeal or an application for leave to appeal, the requisite time for obtaining a copy of decree to be appealed from, shall be excluded

(B) Where leave to sue or appeal as pauper is prosecuted, the time taken in disposing off such leave shall be excluded, to sue or appeal as pauper

(C) For an application to set aside an award, the time taken in obtaining the copy of award shall be excluded

(D) For appeal, time taken by the court to prepare a decree before application for obtaining the copy of decree to be appealed, shall be excluded.

**76.** A temporary injunction is granted under —

(A) Section 37(1) of the Specific Relief Act, 1963

(B) Order 39, Rule 1 and 2 of the Code of Civil Procedure, 1908

(C) Section 38(1) of the Specific Relief Act, 1963

(D) Section 39 of the Specific Relief Act, 1963.

**77.** The Central Information Commissioner shall be appointed by —

(A) The President of India on the recommendation of the Council of Ministers

(B) The President of India on the recommendation of a Committee consisting of the Prime Minister, Leader of Opposition in Lok Sabha, and one Union Minister nominated by the Prime Minister

(C) The Prime Minister on the recommendation of Union Home Minister, Union Law Minister and Leader of Opposition in Lok Shabha

(D) The Chief Justice of India on the recommendation of four senior Judges of the Supreme Court.

**78.** The very object of the interpretation of a statute or a document is —

(A) To be able to change the meaning according to solution

(B) To understand the statute according to one's own comprehension

(C) To ascertain what is the intention expressed by the words used

(D) To infer guess of what is written.

**79.** The State Information Commission shall consist of —

(A) One Chief Information Commissioner, one Additional Chief Information Commissioner and not more than eight Information Commissioners

(B) One Chief Information Commissioner, one Deputy Chief Information Commissioner and not more than ten Information Commissioners

(C) One Chief Information Commissioner and not more than ten Information Commissioners

(D) One Chief Information Commissioner and not more than six Information Commissioners.

**80.** The term 'warrant case' as defined in section 2(x) of the Code of Criminal Procedure, 1973 means an offence punishable with —

(A) Death, imprisonment for life or imprisonment for a term exceeding seven years.

(B) Death, imprisonment for life or imprisonment for a term not exceeding two years.

(C) Death, imprisonment for life or imprisonment for a term exceeding two years.

(D) Death, imprisonment for life or imprisonment for a term not exceeding three years.

**81.** Where there are general words followed by particular and specific words, the general words must be confined to things of the same kind as those specified, unless there is a clear manifestation of a contrary purpose or meaning. This is known as the Rule of —

(A) *Noscitur a Sociis*

(B) *Expressio Unis Est Exclusio Alterius*

(C) *Ejusdem Generis*

(D) *Ut Res Magis Valeat Quam Pareat*.

**82.** An appeal cannot lie from —

(A) An original decree passed *ex-parte*

(B) Decree passed by consent of parties

(C) Decree passed by Small Cause Court in a suit valued not exceeding ₹10,000

(D) Appellate decree passed *ex-parte*.

**83.** Read the following statements and choose the correct answer :

(1) Article 245 of the Constitution of India provides for extent of laws made by the Parliament and Legislature of a State.

(2) As per Article 245(2) of the Constitution of India, any law made by Parliament shall be deemed to be invalid on the ground that it would have extra-territorial operation.

Which of the above is/are correct —

(A) Both (1) and (2) are correct

(B) (1) is incorrect and (2) is correct

(C) (1) is correct (2) is incorrect

(D) Both (1) and (2) are incorrect.

**84.** The proclamation of the President of India under Article 356 is valid for a period of six months from the date of proclamation. A fresh proclamation can be issued to extend the life of it for a further period of six months but in no case such proclamation can remain in force beyond a consecutive period of —

(A) Six months

(B) One year

(C) Two years

(D) Three years.

**85.** The rule is that where once time of limitation has begun to run, no subsequent disability can stop it. The exception is —

(A) A person entitled to make an application for execution of a decree becomes insane.

(B) A person entitled to institute a suit is confined to bed.

(C) A person entitled to institute a suit dies and legal representative is minor.

(D) A suit is to be filed to recover a debt and letter of administration to the estate of the creditor is granted to his debtor.

**86.** Read the following and select the correct answer :

(1) Where the act agreed to be done is such that compensation in money for its non-performance would not afford adequate relief, specific performance of contract is enforceable

(2) The breach of a contract to transfer immoveable property cannot be adequately relieved by compensation in money

Select the correct answer from the options given below —

(A) (1) is correct, (2) is incorrect.

(B) (2) is correct, (1) is incorrect.

(C) Both (1) and (2) are correct.

(D) Neither (1) nor (2) is correct.

**87.** The term 'cognizable offence' means an offence for which —

(A) The punishment prescribed is imprisonment for a term of one year

(B) The punishment prescribed is imprisonment for a term exceeding two years

(C) A police officer may arrest the accused without warrant

(D) A police officer may arrest an accused with the permission of the court.

**88.** The Constitution makers recognised the right of the State to deprive a person of his life or personal liberty in accordance with fair, just and reasonable procedure established by law. This proposition was reiterated by the Supreme Court of India in —

(A) A.K. Gopalan *v.* State of Madras

(B) Maneka Gandhi *v.* Union of India

(C) Bachan Singh *v.* State of Punjab

(D) T.V. Vatheeswaran *v.* State of Tamil Nadu.

**89.** A resides at Simla, B at Calcutta and C at Delhi. A, B, and C are together at Banaras. B and C make a joint promissory note payable at demand and delivered it to A. A wants to file a suit against B and C to recover the money. A can file it in the court at —

(A) Banaras

(B) Calcutta

(C) Delhi

(D) Either at (A), (B), or (C) above.

**90.** A writ of *quo warranto* can be issued by the High Court to question —

(A) Why did a subordinate court not exercise its jurisdiction

(B) Why did a subordinate court exceed its jurisdiction

(C) The legality of an order of a public authority

(D) Under what authority a person holds a public office.

**91.** Right to receive information under the Right to Information Act, 2005 is derived from —

(A) Article 20 of the Constitution of India

(B) Article 19(1)(a) of the Constitution of India

(C) Article 21 of the Constitution of India

(D) Article 7 of the Constitution of India.

**92.** The latin doctrine *Ut Res Magis Valeat Quam Pareat* means —

(A) The words used in a statute have to be construed in their ordinary meaning

(B) To give a sensible or reasonable meaning to the words

(C) Statutes are to be construed according to their plain and grammatical meaning

(D) A statute must be read as a whole.

**93.** Article 131 of the Constitution of India deals with —

(A) Appellate jurisdiction of the Supreme Court of India

(B) Special leave to appeal by the Supreme Court of India

(C) Original jurisdiction of the Supreme Court of India

(D) Advisory jurisdiction of the Supreme Court of India.

**94.** The expression 'former suit' in section 11 of the Code of Civil Procedure, 1908 denotes a suit —

(A) Which has been instituted prior to the suit in question

(B) Which has been instituted and decided prior to the suit in question

(C) Which has been decided prior to the suit in question, whether or not it was instituted prior thereto

(D) Both (B) and (C) above.

**95.** The Indian Evidence Act, 1872, provides that when one fact is declared by this Act to be conclusive proof of another, the court shall —

(A) Allow evidence to be given for the purpose of disproving it

(B) On proof of one fact, regard the other as proved

(C) Not allow evidence to be given for the purpose of disproving it

(D) Both (B) and (C) above.

**96.** Where an instrument does not reflect the real intention of the parties because of fraud or mutual mistake, the remedy available to parties is to —

(A) Rectify the instrument

(B) Rescind the instrument

(C) Cancel the instrument

(D) Amend the instrument.

**97.** Explanations are inserted in the provisions with the object —

(1) To explain the meaning of a particular provision

(2) To remove doubts which might creep up in the absence of the explanation

(3) To expand the meaning of the provision to which it is added

(4) To understand the true meaning of the provision.

Which of the above is/are correct —

(A) (1), (2), (3) and (4)

(B) (1), (2) and (4)

(C) (1), (2) and (3)

(D) (1) and (2).

**98.** A search warrant shall not be issued by a Magistrate where —

(A) The court believes that a person summoned to produce any document or thing will not produce

(B) Such document or thing is not known to the court to be in the possession of any person

(C) Such a document or thing is in the custody of the postal authority

(D) Where a general search is necessary.

**99.** An Ordinance promulgated by the President of India or Governor of a State will automatically cease to have effect at the expiry of _______ if it is not laid before the Parliament or State Legislature when it reassembled.

(A) Two weeks

(B) Four weeks

(C) Eight weeks

(D) Six weeks.

**100.** A person dispossessed from immoveable property without due course of law can file a suit under section 6 of the Specific Relief Act, 1963 to recover the same on the basis of —

(A) Title by ownership

(B) On possessory title

(C) Previous possession

(D) Not entitled to file suit.

***

**ANSWER KEY**
**INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES**

| Qno | Ans | Qno | Ans | Qno | Ans |
|---|---|---|---|---|---|
| 1 | B | 35 | A | 69 | B |
| 2 | C | 36 | D | 70 | D |
| 3 | B | 37 | B | 71 | A |
| 4 | B | 38 | B | 72 | D |
| 5 | C | 39 | D | 73 | C |
| 6 | D | 40 | D | 74 | C |
| 7 | A | 41 | D | 75 | D |
| 8 | A | 42 | A | 76 | B |
| 9 | C | 43 | C | 77 | B |
| 10 | C | 44 | Either A or B or both | 78 | C |
| 11 | B | 45 | A | 79 | C |
| 12 | C | 46 | B | 80 | C |
| 13 | A | 47 | D | 81 | C |
| 14 | B | 48 | C | 82 | B |
| 15 | B | 49 | B | 83 | C |
| 16 | A | 50 | D | 84 | D |
| 17 | A | 51 | C | 85 | D |
| 18 | D | 52 | C | 86 | C |
| 19 | B | 53 | A | 87 | C |
| 20 | B | 54 | A | 88 | C |
| 21 | D | 55 | C | 89 | D |
| 22 | A | 56 | A | 90 | D |
| 23 | A | 57 | D | 91 | B |
| 24 | C | 58 | C | 92 | B |
| 25 | A | 59 | A | 93 | C |
| 26 | B | 60 | B | 94 | C |
| 27 | B | 61 | C | 95 | D |
| 28 | A | 62 | B | 96 | A |
| 29 | D | 63 | C | 97 | B |
| 30 | B | 64 | C | 98 | C |
| 31 | D | 65 | C | 99 | D |
| 32 | A | 66 | D | 100 | C |
| 33 | C | 67 | B | | |
| 34 | Either B or C or both | 68 | A | | |

Note :

Q 34 has two correct options (B & C).

Q 44 has two correct options (A & B).