GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

DECEMBER 2017

MODULE 2

THE INSTITUTE OF
Company Secretaries of India
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
ICSI House, 22, Institutional Area, Lodi Road, New Delhi 110 003
Phones : 41504444, 45341000; *Fax* : 011-24626727
E-mail : info@icsi.edu; *Website* : www.icsi.edu

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The Guideline Answers contain the information based on the Laws/Rules applicable at the time of preparation. However, students are expected to be well versed with the amendments in the Laws/Rules made upto **six** months prior to the date of examination.

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MODULE 2

EXECUTIVE PROGRAMME

UPDATING SLIP

COMPANY ACCOUNTS AND AUDITING PRACTICES

MODULE – 2 – PAPER 1

Examination Session	*Question No.*	*Updations required in the answers*
(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.*	*Updations required in the answers*
(1)	*(2)*	*(3)*
All Previous Sessions	—	All answers are based on the provisions of Companies Act, 2013. SEBI (ICDR) Regulations. All answers pertaining to Issue of securities to be updated according to amended Regulation. SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015. All answers pertaining to listing of securities and corporate governance to be updated accordingly. SEBI (Prohibition of Insider Trading) Regulations, 2015. All answers pertaining to price sensitive information, insider trading to be updated accordingly.

EXECUTIVE PROGRAMME EXAMINATION

DECEMBER 2017

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) What do you mean by accounting standards ? Discuss its objectives.

(b) Explain the minimum disclosure of notes and explanatory statement that should be made in interim financial report as per AS-25.

(c) Explain the objectives and different kinds of corporate restructuring.

(d) What do you mean by Security Premium Accounts ? How it can be utilized as per Section 52 (2) of Companies Act, 2013 and presentation in financial statement.

(e) Explain the issue of Sweet Equtiy Shares and their limitation and restrictions.

(5 marks each)

Answer 1(a)

Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or any other regulatory body. Accounting Standards covers the aspects of recognition, measurements, treatment, presentation and disclosure of accounting transactions in the financial statements. Thus, accounting standards are guidelines for financial accounting, as how firms prepare and present its business income and expense, assets and liabilities.

According to section 2(2) of the Companies Act 2013 "accounting standards" means the standards of accounting or any addendum thereto for companies or class of companies referred to in section 133.

The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

Objective of Accounting Standards

- To harmonise different accounting policies and used in a country.
- To reduce the accounting alternatives in the preparation of financial statements
- To ensure comparability of financial statements of different enterprises
- To call for disclosures beyond that required by the law.

Answer 1(b)

The following minimum disclosure of notes and explanatory statements should be made in the interim financial report as per AS 25

i. A statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, if those policies have been changed, a description of the nature and effect of the change.

ii. Explanatory comments about the seasonality of interim operations.

iii. Unusual factors that affected assets, liabilities, equity, net income and cash flows.

iv. The effects of changes in estimates.

v. Change in debt and equity through issuance, buy-back and repayments.

vi. Details of dividend payment.

vii. Segment revenue, segment capital employed and segment result for business segments or geographical segments, whichever is the primary basis of segment reporting.

viii. The effect of changes in the composition of the enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

ix. Material changes in contingent liabilities since the last annual balance sheet date.

Answer 1(c)

Corporate Restructuring is concerned with arranging the business activities of the corporate as a whole so as to achieve certain predetermined objectives at corporate level. Such objectives include the following:

- orderly redirection of the firm's activities;
- deploying surplus cash from one business to finance profitable growth in another;
- exploiting inter-dependence among present or prospective businesses within the corporate portfolio;
- risk reduction; and
- development of core competencies.

Corporate Restructuring may be of the following kinds:

(1) **Financial restructuring** which deals with the restructuring of capital base and raising finance for new projects. This involves decisions relating to acquisitions, mergers, joint ventures and strategic alliances.

(2) **Technological restructuring** which involves, inter alia, alliances with other companies to exploit technological expertise.

(3) **Market restructuring** which involves decisions with respect to the product market segments, where the company plans to operate based on its core competencies.

(4) **Organizational restructuring** which involves establishing internal structures and procedures for improving the capability of the personnel in the organization to respond to changes. This kind of restructuring is required in order to facilitate and implement the above three kinds of restructuring. These changes need to have the Co-operation of all levels of employees to ensure that the restructuring is successful. The most commonly applied tools of corporate restructuring are amalgamation, merger, demerger, slump sale, acquisition, joint venture, disinvestment, strategic alliances and franchises.

The most commonly applied tools of corporate restructuring are amalgamation, merger, demerger, slump sale, acquisition, joint venture, disinvestment, strategic alliances and franchises.

Answer 1(d)

When shares are issued at a price higher than the face value, they are said to be issued at a premium. Thus, the excess of issue price over the face value is the amount of premium. For example, if a share of Rs.10 is issued at Rs. 12, Rs. (12 – 10) = Rs. 2 is the premium.

The premium on issue of shares must not be treated as revenue profits. On the contrary, it must be regarded as capital receipt. The Companies Act requires that when a company issues shares at a premium whether for cash or otherwise, a sum equal to the aggregate amount of the premium collected on shares must be credited to a separate account called "Securities Premium Account".

There are no restrictions in the Companies Act on the issue of shares at a premium, but there are restrictions on its disposal. Under Section 52(2) of the Companies Act 2013, the Securities Premium Account may be applied by the company –

(a) towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares;

(b) in writing off the preliminary expenses of the company;

(c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;

(d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or

(e) for the purchase of its own shares or other securities under section 68.

The Securities Premium Account must be shown as "Securities premium reserves" separately in the liabilities side of the balance sheet under the head "Reserves & Surplus".

Answer 1(e)

Notwithstanding anything contained in section 53, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled:

(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 of India (SEBI) 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.

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank pari passu with other equity shareholders.

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

Question 2

(a) What is Employee Stock Option plan ? Explain the importance of such plans in the modern time.

(b) Explain the disclosure requirements as per Schedule III of the Companeis Act 2013 with regard to "Share Capital".

(c) Vanities Ltd. has an issue 1,000, 12% Redeemable Preference Shares of ₹100 each, repayable at a premium of 10%. These shares are to be redeemed out of the accumulated reserves, which are more than the necessary sum required for redemption. Show the necessary entries in the books of the company, assuming that the premium on redemption of shares has to be written off against the company's Securities Premium Reserves.

(d) X Ltd. made an issue of 10,000 12% debentures of ₹100 each, payable as follows :

₹25 on Application

₹25 on Application

₹50 on First and Final Call.

Applications were received for 12,000 debentures and the directors allotted 10,000 debentures rejecting an application for 2,000 debentures. The money received on application for 2,000 debentures rejected was duly refunded. All the calls were made and the moneys duly received.

Show the necessary Cash Book and Journal Entries to record the above transactions.

(e) Explain the rules of revenue recognition as per AS-9. *(3 marks each)*

OR (Alternative question to Q. No. 2)

Question 2A

(i) A liquidator of a company is entitled to a remuneration at 2% on assets realised

and 3% on amount distributed to Preferential Creditors and 3% on payment made to unsecured creditors. The assets were realised for ₹25,00,000 against which payment was made as follows :

Liquidation Expenses ₹25,000

Secured Creditors ₹10,00,000

Preferential Credidotrs ₹75,000

The amount due to unsecured creditors was ₹15,00,000. You are asked to calculate the total remuneration payable to liquidator. *(5 marks)*

(ii) From the following figures calculate the value of a share of ₹10 on (1) dividend basis, and (2) return on capital employed basis. The market expectation is 12%:

Year Ended 31st March	*Capital Employed (₹)*	*Profit (₹)*	*Dividend (%)*
2014	*5,00,000*	*80,000*	*12*
2015	*8,00,000*	*1,60,000*	*15*
2016	*10,00,000*	*2,20,000*	*18*
2017	*15,00,000*	*3,75,000*	*20*

(5 marks)

(iii) What informations are included in the note related to non-current investment as per schedule VI of Companies Act, 2013. *(5 marks)*

Answer 2(a)

As per section 2(37) of the Companies Act, 2013 “employee’s stock option” means the option given to the directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers or employees, the benefit or right to purchase, or to subscribe for, the shares of the company at a future date at a pre-determined price.

ESOP or employee stock option plan refers to a basket of instruments and incentive schemes that find favour with the new upward mobile salary class and which are used to motivate, reward, remunerate and hold on to achievers.

(a) It provides an opportunity to employees to participate and contribute in the growth of the company.

(b) It creates long term wealth in the hands of the employer.

(c) It attracts, retain, and motivate the best available talent in the Company.

(d) It creates a sense of ownership between the company and its employees.

Answer 2(b)

Disclosure Requirements with regard to 'Share Capital' as per Schedule III of the Companies Act, 2013

For each class of share capital (different classes of preference shares to be treated separately):

(a) the number and amount of shares authorized;

(b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;

(c) par value per share;

(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(e) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(f) shares in the company held by its holding company or its ultimate holding company or by its subsidiaries or associates;

(g) shares in the company held by any shareholder holding more than 5 percent shares;

(h) shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;

(i) Separate particulars for a period of five years following the year in which the shares have been allotted/ bought back, in respect of:

   i. Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.

   ii. Aggregate number and class of shares allotted as fully paid up by way of bonus shares (Specify the source from which bonus shares are issued).

   iii. Aggregate number and class of shares bought back.

(j) Terms of any security issued along with the earliest date of conversion in descending order starting from the farthest such date.

Answer 2(c)

Journal Entries in the Books of Vanities Limited

Date	*Particulars*		*L.F.*	*Amount(Dr.)*	*Amount (Cr.)*
–	General Reserve A/c	Dr.		1,00,000	
	To Capital Redemption Reserve A/c				1,00,000
	(Being transfer of reserve to capital redemption reserve account on redemption of redeemable preference shares.)				

Date	*Particulars*		*L.F.*	*Amount(Dr.)*	*Amount (Cr.)*
–	12% Redeemable Preference Share Capital A/c	Dr.		1,00,000	
	Premium on redemption of preference share A/c	Dr.		10,000	
	To 12% Preference Shareholders A/c				1,10,000
	(Being amount payable to 12% preference shareholders on redemption of 12% preference shares at premium of 10%)				
–	Securities Premium Reserve A/c	Dr.		10,000	
	To Premium on redemption of preference shares A/c				10,000
	(Being application of securities premium account write off on premium on redemption of preference share)				
–	12% Preference Shareholders A/c	Dr.		1,10,000	
	To Bank A/c				1,10,000
	(Being amount due to 12% preference shareholder on redemption paid.)				

Answer 2(d)

Cash Book (Bank Coloum)

Particular	*Amount*	*Particular*	*Amount*
To 12% Debenture Application	300000	By Debenture Application	50000
To 12% Debenture Allotment	250000	By Balance c/d	1000000
To 12% Debenture First and Final Call	500000		
Total	1050000	Total	1050000

Journal Entries in the Books of X Ltd.

Date	*Particulars*		*L.F.*	*Amount(Dr.)*	*Amount (Cr.)*
–	12% Debenture Application A/c	Dr.		250000	
	12% Debenture Allotment A/c	Dr.		250000	
	To 12% Debenture A/c				500000
	(Being Allotment of 10,000 12% Debenture of Rs. 100/- each and allotment money due @ Rs. 25 for debenture as per board's resolution dated ______)				
–	12% Debenture First and Final Call A/c	Dr.		500000	
	To 12% Debenture A/c				500000
	(Being 12% Debenture First and Final Call money due on 10000 12% Debenture @ Rs. 50 per debenture as per board resolution dated _______)				

Alternate Answer 2(d)

Cash Book (Bank Coloum)

Particular	*Amount*	*Particular*	*Amount*
To 12% Debenture Application	300000	By Debenture Application	50000
To 12% Debenture Allotment	250000	By Balance c/d	1000000
To 12% Debenture First and Final Call	500000		
Total	1050000	Total	1050000

Journal Entries in the Books of X Ltd.

Date	*Particulars*		*L.F.*	*Amount(Dr.)*	*Amount (Cr.)*
–	12% Debenture Application A/c	Dr.		250000	
	To 12% Debenture A/c				250000
	(Being application of 10,000 12% Debenture of Rs. 100/- each due @ Rs. 25 for debenture as per board's resolution dated ______)				

Date	Particulars		L.F.	Amount(Dr.)	Amount (Cr.)
–	12% Debenture Allotment A/c	Dr.		250000	
	To 12% Debenture A/c				250000
	(Being Allotment of 10,000 12% Debenture of Rs. 100/- each and allotment money due @ Rs. 25 for debenture as per board's resolution dated ______)				
–	12% Debenture First and Final Call A/c	Dr.		500000	
	To 12% Debenture A/c				500000
	(Being 12% Debenture First and Final Call money due on 10000 12% Debenture @ Rs. 50 per debenture as per board resolution dated ______)				

Answer 2(e)

Revenue should be recognised for sale of goods or services only when the collection is reasonably assured and (i) the property in goods is transferred from seller to buyer (ii) there is no uncertainty regarding the amount of consideration that will be realised from sale of goods.

- In the case of services rendered either completed service contract method or proportionate service contract method may be adopted for revenue recognition.
- In the case of revenue by way of interest, the credit is taken on a time proportion basis taking into account the amount outstanding and the rate applicable.
- In the case of royalties, revenue is recognized on approval basis in accordance with the terms of the relevant agreement.
- In case of dividend, once the right to receive dividend is established.

Answer 2A(i)

Calculation of Total Remuneration Payable to Liquidator

i. 2% on assets realized of Rs. 25,00,000 = 50,000
ii. 3% on payment to preferential Creditors Rs. 75,000 = 2,250
iii. 3% on payment to unsecured creditors Rs. Rs. 39,255 (Note 1)

Total (i) + (ii) + (iii) = Rs. 91,505

Working notes 1:

Cash available for unsecured creditors after all payments including liquidator's

Rs. 25,00,000 – [Rs. 25,000 + Rs. 10,00,000 + Rs. 75,000 + Rs. 50,000 + Rs. 2,250] = Rs. 13,47,750

Liquidator's remuneration on payment to unsecured creditors = 3/103* 13,47,750 = Rs. 39,255

Answer 2A(ii)

Valuation of Shares on dividend basis

The dividend rate on simple average as 65/4 = 16.25 %. But since the dividend has been missing, it would be better to take the weighted average which comes to 17.60% as mentioned below:

Year	Dividend %	Weight	Product
2014	12	1	12
2015	15	2	30
2016	18	3	54
2017	20	4	80
		10	176

Weighted average dividend rate = 176/10 = 17.60 %

Value of Shares on dividend basis = 17.6 /12* Rs. 10 = Rs. 14.67

Valuation of Shares on Return on Capital employed basis

The return on capital employed for each year and its weighted average is as follows:

Year	*Return on capital employed %*	*Weight*	*Product*
2014	16	1	16
2015	20	2	40
2016	22	3	66
2017	25	4	100
		10	222

Weighted average = 222/10 = 22.20 %

Value of Shares = 22.20 /12* Rs. 10 = Rs. 18.50

Answer 2A(iii)

(i) Non-current investments shall be classified as trade investments and other investments and further classified as:

(a) Investment property;

(b) Investments in Equity Instruments;

(c) Investments in Preference shares;

(d) Investments in Government or trust securities;

(e) Investments in units, debentures or bonds;

(f) Investments in Mutual Funds;

(g) Investments in partnership firm;

(h) Other non-current investments (specify nature)

Under each classification, details shall be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof.

(iii) The following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments;

(c) Aggregate provision for diminution in value of investments;

(d) Aggregate amount of partly paid-up investments;

(e) The names of bodies corporate (indicating separately the names of subsidiaries, associates and other business ventures) in whose securities, investments have been made and the nature and extent of the investments so made in each such body corporate.

Question 3

(a) The following particulars are available of ABC Ltd. :

(i) Capital :

45,000, 6% preference shares of ₹10 each, fully paid; 45,000, equtiy shares of ₹10 each fully paid up.

(ii) External liabilities ₹75,000.

(iii) Reserves and surplus ₹35,000.

(iv) Average profit after taxation, earned every year by the company ₹85,050.

(v) The normal profit earned on the market value of equity shares, fully paid, on the same type of company is 9%.

(vi) Company transfers every year ₹10,000 to reserves.

Calculate the fair value of share assuming that out of the total assets, assets worth ₹3,500 are fictious. *(5 marks)*

(b) W Ltd., registered with a capital of ₹10,00,000 in equity shares of ₹10 each, acquired the business of M/s A and B, the Balance Sheet of whom at the date of acquisition was as follows :

Liabilities	Amount ₹	Assets	Amount ₹
Capital		Land & Building	50,000
A—70000		Plant & Machinery	40,000
B—70000	1,40,000	Furniture & Fixture	2,000
Reserves	14,000	Sundry Debtors	48,000
Sundry Creditors	30,000	Bill Receivable	13,000
Bill Payable	16,000	Stock	18,000
		Cash at Bank	29,000
	2,00,000		2,00,000

The assets and liabilities were subject to the following revaluation :

Plant and Machinery to be depreciated by 10%

Furniture and Fittings to be depreciated by 15%

Land and Buildings to be appreciated by 20%

A provision to be made for bad debts on debtors @ 2-1/2%

Goodwill of the firm was valued at ₹24,000.

The consideration was to be discharged as follows :

(i) Allotment of 10,000 equtiy shares of ₹10 each at ₹12 each.

(ii) Allotment of 500, 14% Debentures of ₹100 each at a discount of 10%.

(iii) Balance in cash.

The cost of acquisition of the business amounted to ₹5,000.

You are required to show the journal entries in the books of the company W Ltd.

(5 marks)

(c) From the following particulars of R Ltd. calculate the managerial remuneration in the following cases :

(a) There's only one whole time director.

(b) There are two whole time directors.

(c) There are two whole time directors, one part time director and manager.

	₹
Net profit before provision for income tax and managerial remuneration but after depreciation and provision for repair	85,00,000
Depreciation provided in the books	30,00,000
Provision for repair of machinery during the year	2,50,000
Depreciation allowable under Schedule II of Companies Act, 2013	24,00,000
Actual Expenditure incurred on repair during the year	1,50,000

(5 marks)

Answer 3(a)

Calculation of intrinsic value of shares:

Net Assets will be equal to Capital, Reserve and Surplus

Gross Assets :	Preference Share Capital	=	Rs. 4,50,000
	Equity Share Capital	=	Rs. 4,50,000
	Reserve and Surplus	=	Rs. 35,000
Total			Rs. 9,35,000
Less :	Fictitious Assets		Rs. 3,500
Shareholder's Assets			Rs. 9,31,500
Less : Preference Share Capital			Rs. 4,50,000
Net Assets available to equity share holder		=	Rs. 4,81,500
Intrinsic Value of Shares = 481500 / 45000		=	Rs. 10.70

Yield Value

Average Profit after tax		=	Rs. 85,050
Less :	Transfer to reserve	=	Rs. 10,000
	Preference Dividend	=	Rs. 27,000
Profits available to Equity Share Holder		=	Rs. 48,050

Expected rate of return on Equity Capital = 48,050 /4,50,000 * 100 = 10.68%

Value of Shares = 10.68/9*10 = Rs. 11.87

Fair Value of Shares = (Intrinsic Value + Yield Value) / 2
(Rs. 10.70 + Rs. 11.87) /2
Rs. 11.28

Answer 3(b)

Calculation of Purchase Consideration

Assets taken over :	*Amount (Rs.)*
Cash at Bank	29,000
Bills Receivable	13,000
Sundry debtors book value Rs. 48000	
Less: Provision @ 2.5% Rs. 1200	46,800
Stock	18,000
Furniture and Fixture Rs. 2000	

Assets taken over :	*Amount (Rs.)*
Less: Depreciation @ 15% Rs. 300	1,700
Plant and Machinery Rs. 40,000	
Less : Depreciation @ 10 % Rs. 4000	36,000
Land and Building Rs. 50000	
Add Appreciation @ 20 % Rs. 10000	60,000
Goodwill	24,000
Gross assets taken over	**2,28,500**
Less : Liabilities taken over	
Bills payable	16,000
Sundry Creditors	30,000
Net Assets acquired or purchase consideration	**1,82,500**

Journal Entries in the Books of W Ltd.

Date	*Particulars*		*L.F.*	*Amount(Dr.)*	*Amount (Cr.)*
–	Business Purchase A/c	Dr.		1,82,500	
	To M/s A & B A/c				1,82,500
	(Being consideration due to vendor on purchase of the business as per agreement date _______)				
---	Bank A/c	Dr.		29,000	
	Bills Receivable A/c Dr.			13,000	
	Sundry Debtor A/c Dr.			48,000	
	Stock A/c Dr.			18,000	
	Furniture and Fixture A/c Dr.			1,700	
	Plant and Machinery A/c Dr.			36,000	
	Land and Building A/c Dr.			60,000	
	Goodwill A/c Dr.			24,000	
	To Provision for Bad Debts				1,200
	To Bills Payable				16,000
	To Sundry Creditors				30,000
	To Business Purchase				1,82,500
	(Being take over the assets and liabilities of vendor)				

Date	Particulars		L.F.	Amount(Dr.)	Amount (Cr.)
---	M/s A & B	Dr.		182500	
	Discount on issue of Debenture	Dr.		5000	
	To Equity Share Capital				100000
	To Securities Premium				20000
	To 14% Debenture				50000
	To Bank				17500
	(Being Allotment of 10000 equity shares of Rs. 10 each at a premium of Rs. 2 per share and 500 debenture of Rs. 100 each at a discount of 10 % to vendor for consideration other than cash and the balance of Rs. 17500 paid in cash as per board resolution dated ______)				
---	Goodwill A/c	Dr.		5000	
	To Bank A/c				5000
	(Being cost of acquisition paid and debited to goodwill a/c)				
---	Securities Premium A/c	Dr.		5000	
	To Discount on issue on Debenture A/c				5000
	(Being writing off discount on issue of debentures A/c)				

Answer 3(c)

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

Net Profit before provision for income tax and managerial remuneration but after depreciation and provision for repair	8500000
Add : Depreciation provided in the books	30,00,000
Add : Provision for repairs of Machinery	2,50,000
	1,17,50,000
Less:	
Depreciation as per Schedule II	24,00,000
Actual expenditure incurred on repair	1,50,000
Net Profits u/s 198	92,00,000

Calculation of Managerial Remuneration

(a) If there is only one whole time director: 5 % of Net Profits = Rs. 4,60,000

(b) If there are two whole time directors: 10 % of Net Profits = Rs. 9,20,000

(c) If there are two whole time director's a part time director and a manager = 11% of Net Profits = Rs. 10,12,000

Question 4

(a) The following are the Profit & Loss Account of H Ltd. and S Ltd. for the year ended 31st March, 2017 :

	H Ltd. ₹	S Ltd. ₹		H Ltd. ₹	S Ltd. ₹
To Opening Stock	1,00,000	—	By Sales	8,00,000	6,50,000
To Purchases	5,00,000	4,00,000	By closing stock (₹ 1,50,000 + ₹1,00,000)	1,50,000	1,00,000
To Productive Wages	1,50,000	1,00,000			
To Gross Profit c/d	2,00,000	2,50,000			
	9,50,000	7,50,000		9,50,000	7,50,000
To Sundry Expenses	75,000	1,00,000	By Gross Profit b/d	2,00,000	2,50,000
To Debenture Interest	—	6,000	By Debenture Interest	3,000	—
To Provision for Taxation	60,000	70,000			
To Profit c/d	68,000	74,000			
	2,03,000	2,50,000		2,03,000	2,50,000
To Preference Dividend	—	3,000	By Profit b/d	68,000	74,000
To Proposed Dividend	20,000	20,000			
To Tax on distributed Profit @ 15%	3,000	3,450			
To Balance c/d	45,000	47,550			
	68,000	74,000		68,000	74,000

You are also given the following additional information :

(1) H Ltd. holds 1500 equity shares of ₹100 each in S Ltd. whose capital consists of 2,000 equity shares of ₹ 100 each and 6% 500 cumulative preferences shares of ₹ 100 each. S Ltd. has also issued 6% Debentures of ₹ 1,00,000 out of which H Ltd. holds ₹ 50,000.

(2) The shares in S Ltd. were acquired by H Ltd. on 1st July 2016 but the debentures were acquired on 1st April 2016. S Ltd. was incorporated on 1st April, 2016.

(3) During the year S Ltd. sold to H Ltd. goods costing ₹ 50,000 at the selling price of ₹ 75,000. One fourth of the goods manufactured remained unsold on 31st March, 2017. The goods were valued at cost to the holding company for closing stock purposes.

Prepare a consolidated profit and Loss Account, showing separately the working notes. *(7 marks)*

(b) U Ltd. suffered continuous losses. Its balance sheet as on 31-3-2016 was as follows :

Particulars	Amounts (₹)
I. Equity and Liabilities :	
(1) Shareholder Fund	
(a) Share Captial	
Authorised, issued and subcribed capital : 30,000 equity shares of ₹10 each fully paid up	3,00,000
2000, 8% cumulative preference shars of ₹100 each fully paid	2,00,000
(b) Reserve and Surplus :	
(i) P & L Account	(2,00,000)
(ii) Securities Premium	90,000
(2) Non-current liabilities :	
(a) Long-term borrowings unsecured loan (from director)	50,000
(3) Current Liabilities :	
(a) Trade Payables	
Sundry Creditors	3,00,000
Outstanding Exps. (including directors remuneration of ₹20,000)	70,000
Total	8,10,000

II. Assets :	
(1) Non-current assets :	
(a) Fixed Assets	
(i) Tangible	
Plant	*3,00,000*
Loose Tools	*10,000*
(ii) Intangible Assets Goodwill	*50,000*
(b) Other non-current assets preliminary expenses	*5,000*
(2) Current Assets :	
(a) Inventories	*1,50,000*
(b) Trade Receivable : Debtors	*2,50,000*
(c) Cash and cash equivalents :	
Cash	*10,000*
Bank	*35,000*
Total	*8,10,000*

Note :— Dividends on preference shares are in arrears for three years.

The following scheme of reconstruction has been agreed upon and duly approved by the court on April 1, 2016.

(A) Equity shares to be converted into 1,50,000 shares of ₹ 2 each.

(B) Equity shareholders to surrender 90% of their holding to the company.

(C) Preference shareholders forego arrears of dividend and in lieu thereof the rate of 8% to be increased to 9% in future.

(D) Sundry creditors agree to reduce their claims by one-fifth in consideration of their getting shares of ₹ 35,000 of the surrendered equity shares.

(E) Directors forego their loan and remuneration.

(F) Assets are worth : Plant ₹ 2,60,000, loose tools ₹ 2,000, debtors ₹ 2,35,000 and stock ₹ 1,30,000.

(G) Expenses of reconstruction amounted ₹ 10,000.

(H) Any surplus remaining after meeting the losses and expenses should be utilised in further reducing the value of plant.

(I) To provide working capital, all existing members to subscribe 50,000 equity shares.

Give journal entries to implement the above scheme. *(8 marks)*

Answer 4(a)

Consolidated Profits and Loss Account of H Ltd. and its subsidiary S Ltd. for the year ended 31st March, 2017

Particular	*Amount*	*Particular*	*Amount*
To Opening Stock	1,00,000	By Sales (Note 2)	13,75,000
To Purchase (Note 1)	8,25,000	By Closing Stock (150000+100000)	2,50,000
To Productive Wages (150000+100000)	2,50,000		
To Gross Profit	4,50,000		
Total	16,25,000	Total	16,25,000
To Sundry Expenses (75000+100000)	1,75,000	By Gross Profit b/d	4,50,000
To Debenture Interest (6000-3000)	3,000	By Debenture Interest (Note 3)	-
To Provision for Taxation (60000+70000)	1,30,000		
To Stock Reserve (Note 4)	6,250		
To Net Profit c/d	1,35,750		
Total	4,50,000	Total	4,50,000
		By Profit b/d	1,35,750
To Proposed dividend (Note 5)	25,000		
To Preference Dividend	3,000		
To Tax on Distributed profit	6,450		
To Capital Reserve (Note 6)	13,229		
To Minority Share (Note 7)	11,888		
To Balance c/d	76,183		
Total	1,35,750	Total	1,35,750

Working note

Note 1:

Purchase

H Ltd Rs. 5,00,000

S Ltd Rs. 4,00,000

Total Rs. 9,00,000

Less : Inter Co. Purchase (75,000)

Net Purchase Rs. 8,25,000

Note 2:

Sales

H Ltd Rs. 8,00,000

S Ltd Rs. 6,50,000

Total Rs. 14,50,000

Less : Inter Co. Sales (75,000)

Net Sales Rs. 13,75,000

Note 3:

Debenture Interest

H Ltd. Rs. 3,000

Less : Inter Co. transaction

Paid by S Ltd. 3,000

NIL

Note 4 : Stock Reserve

Total Profit made by S Ltd. on goods sold to H Ltd. (Rs. 75,000- Rs. 50,000) = Rs. 25,000

¼ of goods remained unsold. Hence profit on ¼ of the goods Rs. 6,250

Note 5 : Proposed Dividend

Out of proposed dividend of S Ltd. (3/4 of Rs. 20,000) Rs. 15,000 belong to H Ltd. and as such the same has been eliminated.

H Ltd Rs. 20,000

S Ltd. Rs. 20,000

Total Rs. 40,000

Less : Dividend of S Ltd. due to H Ltd. Rs. 15,000

Net Proposed dividend Rs. 25,000

Note 6 : Capital Reserve

Profit of S Ltd. after preference dividend and tax thereon Rs. 74,000 – Rs. 3,000 – Rs. 450 = Rs. 70,550

Pre-acquisition profit upto 1st July, 2016 i.e. ¼ of Rs. 70,550 = Rs. 17,638

H Ltd. share’s of pre-acquisition profit = ¾ of Rs. 17638 = Rs. 13,229

Note 7: Minority Share

Net Profit after all appropriation of S Ltd. = 47,550

¼ share of minority (1/4 * 47,550) = Rs. 11,888

Alternate Answer 4(a)

Consolidated Profits and Loss Account of H Ltd. and its subsidiary S Ltd. for the year ended 31st March, 2017

	Particulars	*Note No.*	*Amount (Rs.)*
I.	Revenue from operations	1	13,75,000
II.	Total Revenue		13,75,000
III.	Expenses		
	Cost of Material Purchased / consumed	2	8,25,000
	Changes in Inventories of finished goods	3	(1,50,000)
	Employee Benefit Expenses (Rs. 1,50,000+Rs.1,00,000)		2,50,000
	Finance Cost (Rs. 6,000- Rs. 3,000)		3,000
	Other Expenses (Rs. 75,000 + Rs. 1,00,000)		1,75,000
	Total Expenses		11,03,000
IV.	Profit after Tax (II-III)		272000
V.	Tax Expenses (Provision for taxation) Rs. 70,000 + Rs. 60,000)		(1,30,000)
VI.	Profit after Tax (IV – V)		1,42,000
	Preference Dividend		(3,000)
	Proposed Equity dividend	4	(25,000)
	Tax on distributed profits @ 15% (Rs.3,000+Rs. 3,450)		(6,450)
	Stock Reserve	5	(6,250)]
	Capital Reserve	6	(13,229)
	Minority Interest / share	7	(11,888)
	Profit to be transferred to consolidated balance sheet		76,183

Notes to Accounts

Sr. No.	Particulars	*Amount (Rs.)*	*Amount (Rs.)*
1.	Revenue from operation		
	H Ltd.	8,00,000	
	S Ltd.	6,50,000	
	Total	14,50,000	
	Less: Intra group sales	(75,000)	13,75,000
2.	Cost of material purchase / consumed		
	H Ltd.	5,00,000	
	S Ltd.	4,00,000	
	Total	9,00,000	
	Less: Intra group Purchase	(75,000)	8,25,000
3.	Changes in inventory		
	Opening stock H Ltd.	1,00,000	
	S Ltd.	-	
	Less : Closing Stock		
	H Ltd.	(1,50,000)	
	S Ltd.	(1,00,000)	(1,50,000)
4.	Proposed Equity Dividend		
	H Ltd.	20,000	
	S Ltd.	20,000	
	Total	40,000	
	Less: Dividend of S Ltd. due to H Ltd. (20000*3/4)	(15,000)	25,000
5.	Stock Reserve (Goods sold by S Ltd. to H Ltd.)		
	(Profits *1/4 = 75000-50000 = 25000*1/4)		6,250
6.	Capital Reserve		
	S Ltd. Profit	74,000	
	Less : Preference dividend and tax thereon (3,000+450)	(3,450)	
		70,550	
	Pre-acquisition profits from 1.4.2016 to 30.06.2016 = 70550*1/4)	17,638	
	H Ltd. Share (Capital Reserve) = 17638*3/4		13,229
7.	Minority Interest (Share)		
	Net Profit after all appropriation of S Ltd.	47,550	
	¼ share of minority (47550*1/4)		11,888

Answer 4(b)

Journal Entries in the books of U Ltd.

Date	*Particulars*		*J.F.*	*Amount (Dr.)*	*Amount (Cr.)*
April 1, 2016	Equity Share Capital (Rs. 10) A/c	Dr.		3,00,000	
	To Equity Share Capital (Rs. 2) A/c				3,00,000
	(Being equity shares of 30000 of Rs. 10 each converted into 1,50,000 equity shares of Rs. 2 each)				
"	Equity Share Capital (Rs. 2) A/c	Dr.		2,70,000	
	To Share Surrendered A/c				2,70,000
	(Being 90% of equity shares holder surrendered)				
"	8% Pref. Share Capital A/c	Dr.		2,00,000	
	To 9% Pref. Share Capital A/c				2,00,000
	(Being 8% Preference share capital converted to 9% Preference share capital)				
"	Share Surrendered A/c	Dr.		35,000	
	To Equity Share Capital (Rs. 2) A/c				35,000
	(Being equity share capital issued to sundry creditor in lieu of 1/5 of their claims)				
"	Share Surrendered A/c	Dr.		2,35,000	
	Creditors A/c	Dr.		60,000	
	Unsecured Loan A/c	Dr.		50,000	
	Outstanding expenses A/c	Dr.		20,000	
	Securities Premium A/c	Dr.		90,000	
	To Capital Reduction A/c				4,55,000
	(Being Liabilities write off.)				
"	Reconstruction Expenses A/c	Dr.		10,000	
	To Bank A/c				10,000
	(Being reconstruction expenses paid)				
"	Capital Reduction A/c	Dr.		3,48,000	
	To Plant A/c				40,000
	To Goodwill A/c				50,000
	To Loose Tools A/c				8,000
	To Debtors A/c				15,000
	To Stock A/c				20,000
	To Preliminary Expenses A/c				5,000

Date	Particulars	J.F.	Amount (Dr.)	Amount (Cr.)
	To Profit and Loss A/c			2,00,000
	To Reconstruction Expenses A/c (Being Assets write off)			10,000
"	Bank A/c	Dr.	1,00,000	
	To Equity Share Application and Allotment A/c			1,00,000
	(Being equity shares issued)			
"	Equity Share Application and Allotment A/c	Dr.	1,00,000	
	To Equity Share Capital			1,00,000
	(Being 50000 equity shares issued @ Rs. 2 each)			
"	Capital Reduction A/c	Dr.	1,07,000	
	To Plant A/c			1,07,000
	(Being capital reduction balance write off by reducing the value of plant)			

PART – B

Question 5

(a) *What is the importance of having the accounts audited by an independent auditor.*

(b) *What is the propriety audit ? What are the objectives and scope of propriety audit.*

(c) *What services are prohibited to be rendered by an auditor appointed under Companies Act, 2013.* *(5 marks each)*

Answer 5(a)

- It safeguards the financial interest of persons who are not associated with the management of the entity, whether they are partners or shareholders.
- It acts as a moral check on the employees from committing defalcations or embezzlement.
- Audited statements of account are helpful in setting liability for taxes, negotiating loans and for determining the purchase consideration for a business.
- This are also use for settling trade disputes or higher wages or bonus as well as claims in respect of damage suffered by property, by fire or some other calamity.
- An audit can also help in the detection of wastage and losses to show the different ways by which these might be checked, especially those that occur due to the absence of inadequacy of internal checks or internal control measures.
- Audit ascertains whether the necessary books of accounts and allied records have been properly kept and helps the client in making good deficiencies or inadequacies in this respects. As an appraisal function, audit reviews the

existence and operations of various controls in the organizations and reports weakness, inadequacy, etc., in them.

- Audited accounts are of great help in the settlement of accounts at the time of admission or death of partner.
- Government may require audited and certified statement before it gives assistance or issues a licence for a particular trade.

Answer 5(b)

Propriety Audit : Kohler has defined propriety as that which meets the test of public interest, commonly accepted customs and standard of conduct and particularly as applied to professional performance, requirements of Government regulations and professional codes. Propriety Audit carried out to check, whether the transactions have been done in conformity with established rules, principles and established standard.

Objective of Propriety Audit

The Propriety Audit means the verification of following main aspects to find out whether:

(a) Proper recording has been done in appropriate books of accounts.

(b) The assets have not been misused and have been properly safeguarded.

(c) The business funds have been utilized properly.

(d) The concern is yielding the expected results.

Scope of Propriety Audit

The system of Propriety Audit is applied in respect to Government companies, Government Department because public money and public interest are involved therein and therefore it brings in light the cases of clear irregularity as well as improper expenditure or waste of public money or stores.

Answer 5(c)

Section 144 provides that an auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services rendered directly or indirectly to the company or its holding company or subsidiary company, namely:–

(a) accounting and book keeping services;

(b) internal audit;

(c) design and implementation of any financial information system;

(d) actuarial services;

(e) investment advisory services;

(f) investment banking services;

(g) rendering of outsourced financial services;

(h) management services; and

(i) any other kind of services as may be prescribed:

This is a new provision and there was no restriction of this type in the Companies Act 1956. Therefore, an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of commencement of the Act i.e within 31st March 2015.

It is also provided in this section that the prohibited non-audit services cannot be rendered by the following associates of the auditor.

(i) *If the auditor is an Individual* : The Individual himself, his relative any person connected or associated with him, or any entity in which the Individual has significant influence or control or whose name or trade mark/brand is used by the Individual.

(ii) *If the auditor is a firm or LLP* : Such firm/LLP either itself or through its partner or through its parent, subsidiary or associate or through any entity in which the firm/LLP or its partner has significant influence or control or whose name, trade mark or brand is used by the firm/LLP or any of its partners.

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

Question 6

(a) Write a short note on compliance audit.

(b) What are the importance matters which an auditor should ensure to ascertain and establish true and fair view.

(c) Explain the term "Secretarial Audit". In what circumstances secretarial audit is done ? (5 marks each)

OR (Alternative question to Q. No. 6)

Question 6A

(i) What are the points to be considered while carrying out the internal control review of recruitment function. (5 marks)

(ii) Write short notes on responsibilities of Joint Auditor. (5 marks)

(iii) Managing Director of Alpha Ltd. himself wants to appoint Mr. R a practicing chartered accountant, as first auditor of the company. Comment on the proposed action of the managing director. (5 marks)

Answer 6(a)

A compliance audit is a comprehensive review of an organization's adherence to regulatory guidelines. It is a process to check compliance with the provisions of various laws and rules/regulations/procedures, maintenance of books, records by an independent professional to ensure that the company has complied with the legal and procedural requirements and also followed the due processes.

Objective of Compliance Audit

The objective of a compliance audit is to determine whether the auditee is following prescribed laws, regulations, policies, or procedures. These audits can be performed within a business organization for internal purposes or in response to requirements by outside groups, particularly government. The multiplicity of laws, rules, regulations etc has necessitated introduction of compliance management system to ensure compliance of laws applicable to a company. This has a twofold objective

(a) to protect the interest of all stakeholders

(b) to avoid any legal action against the company and its management

Compliance audit reports must be made in the format that is relevant to the auditee or sponsoring entity i.e. government. Reports usually describe the objectives of the compliance audit, the number of conditions examined during the time period considered, the frequency of events conforming to conditions, and the number of exceptions.

Answer 6(b)

In order to show a true and fair view the auditor should ensure that:

(1) The final accounts (Trading and Profit and loss Account and Balance Sheet) agree with the books of accounts.

(2) The closing stock is physically verified and valued properly.

(3) Intangible assets like goodwill, patents, preliminary expenses or other deferred revenue expenses are valued and written off properly.

(4) Expenses/income of Capital nature is not treated as revenue and vice versa.

(5) Contingent liabilities are not treated as actual liabilities and vice versa.

(6) Provision is made for all known losses and liabilities.

(7) Transactions are recorded on accrual basis, i.e. outstanding expenses, prepaid expenses, income accrued and advance income is recorded properly.

(8) The exceptional or non-recurring transactions are disclosed separately in the accounts.

Answer 6(c)

The Companies Act 2013 has introduced a new requirement of Secretarial Audit for bigger companies, which has been prescribed under Section 204 of the Act. A Secretarial Audit has to be conducted by a Practising Company Secretary in respect of the secretarial and other records of the company. A secretarial audit report shall be annexed with the Board's report of the company. The Board of Directors, in their report made in terms of sub-section (3) of section 134, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report under sub-section (1).

Circumstances in which secretarial audit required:

(1) Every listed company and

(2) Company belonging to other class of companies: The other class of companies are

i. every public company having a paid-up share capital of fifty crore rupees or more; or

ii. every public company having a turnover of two hundred fifty crore rupees or more.

Answer 6(A)(i)

Judgment - the effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information available at hand.

Breakdowns - Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

Management Override - high level personnel may be able to override prescribed policies or procedures for personal gains or advantages. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes.

Collusion - control system can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems.

A well designed process with appropriate internal controls should meet most if not all of these control objectives.

Answer 6(A)(ii)

Responsibilities of Joint Auditor

In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared as separate report on the work performed by him. On the other hand, all the joint auditors are jointly and severally responsible:

(a) In respect of the audit work which is not divided among the joint auditors and is carried out by all of them;

(b) In respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. It may, however, be clarified that all the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature, timing or extent of the audit procedures agreed upon among them; proper execution of these audit procedures is the separate and specific responsibility of the joint auditor concerned;

(c) In respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;

(d) For examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and

(e) For ensuring that the audit report complies with the requirements of the relevant statute.

Answer 6(A)(iii)

According to section 139(6), the first auditor of a company, other than a Government company, shall be appointed by the Board of Director within thirty days from the date of registration of the company. In the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall within ninety days at an extraordinary general meeting appoint such auditor and such auditor shall hold office till the conclusion of the first annual general meeting.

Wherever a decision is to be taken by the board of directors, such a decision can only be taken in a properly convened board meeting by passing a board resolution. Managing director himself is not authorized to take such decision himself on behalf of board of directors.

In the present case, the appointment of M. R a practicing chartered accountant as first auditors by the Managing Director of Alpha Ltd. by himself, if made, will be in contravention of section 139(6) of the Companies Act, 2013.

Therefore, the action of the Managing Director of Alpha Limited with respect to appointment of the first auditor of the company is not valid.

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CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours　　　　Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

Attempt the following questions :

(A) ABC Ltd. a company whose equity shares are listed at BSE and NSE is seeking delisting of its equity shares from both the recognised stock exchanges. It provides an exit opportunity to all public shareholders in accordance with SEBI (Delisting of Equity Shares) Regulations, 2009. Calculate the minimum number of equity shares to be acquired for the delisting offer to be successful. Also determine the final offer price from the details given hereunder :

(i)

	Number of shares	Percentage holding
Promoter	75,00,000	75
Public	25,00,000	25
	1,00,00,000	100

(ii) The floor price in terms of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 is ₹550 per share.

(iii) Assume that all the public shareholders holding shares in the demat mode had participated in the book building process as follows :

Bid Price (₹)	Number of Investors	Demand (Number of Shares)
550	5	2,50,000
565	8	4,00,000
575	10	2,00,000
585	4	4,00,000
595	6	1,20,000
600	5	1,30,000
605	3	2,10,000
610	3	1,40,000
615	3	1,50,000
620	1	5,00,000
	48	**25,00,000**

(5 marks)

(B) XYZ Ltd. is proposing to make a public issue of 400 crore equity shares through the book building mechanism where 50% of the issue size is required to be allotted to Qualified Institutional Buyers. Determine the following :

(i) The quantum available for allocation to anchor investors.

(ii) The quantum reserved for domestic mutual funds in the anchor investor portion, if any.

(iii) The amount, if any, required to be brought in by the anchor investors given:

(a) The price at which allocation is made to anchor investors is ₹855 per share, and

(b) The price fixed as a result of book building is ₹858 per share. (5 marks)

(C) Describe various schemes of mutual funds according to investment objective. (5 marks)

Answer 1

(A) Calculation of minimum Numbers of Equity Shares & Final offer price

Bid Price (Rs.)	*Number of Investors*	*Demand (No.of Shares)*	*Cumulative Demand (No. of Shares)*
550	5	2,50,000	2,50,000
565	8	4,00,000	6,50,000
575	10	2,00,000	8,50,000
585	4	4,00,000	12,50,000
595	6	1,20,000	13,70,000
600	5	1,30,000	15,00,000
605	3	2,10,000	17,10,000
610	3	1,40,000	18,50,000
615	3	1,50,000	20,00,000
620	1	5,00,000	25,00,000
	48	25,00,000	

As per SEBI(Delisting of Equity Shares) Regulations, 2009 a delisting offer made shall be deemed to be successful only if the post offer promoter shareholding taken together with the shares accepted through eligible bids at the final price determined reaches ninety percent of the total issued shares of that class.

Let the minimum number of equity shares to be acquired be x :

x+75% = 90% of total issued shares

x = 15% of total issued shares

x = 15,00,000 shares

Final offer price = Price at which post offer promoter shareholding reaches the threshold of 90% i.e., Rs.600/- per share.

(B) (i) *Computation of the quantum available for allocation to anchor investors*

Issue Size = 400 crore equity shares

Portion available to QIBs	=	50%
	=	200 crore equity shares
Anchor Investor Portion	=	Upto 60% of the portion available to QIBs
	=	120 crore equity shares.

(ii) *Computation of the quantum reserved for domestic Mutual Funds in the anchor investor portion*

= One-third of the Anchor Investor portion

= 40 crore equity shares.

(iii) *Computation of the amount required to be brought in by anchor investors given*

Book building price = Rs. 858/- per equity share

Anchor Investor allocation price = Rs.855/- per equity share

Since the price fixed as a result of book building is higher than the price at which allocation is made to anchor investor, hence the anchor investor shall be required to bring in the additional amount i.e., Rs.3/- per equity share allocated.

(C) Schemes According To Investment Objective

A scheme can be classified as growth scheme, income scheme or balanced scheme considering its investment objective. Such schemes may be open-ended or close-ended schemes. Such schemes may be classified mainly as follows:

Growth/Equity Oriented Scheme

The aim of growth funds is to provide capital appreciation over the medium to long-term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, growth, etc. and the investors may choose an option depending on their preferences. Growth schemes are good for investors having a long-term outlook seeking appreciation over a period of time.

Income/Debt Oriented Scheme

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes.

However, opportunities of capital appreciation are also limited in such funds. The NAVs of such funds are affected because of change in interest rates in the country.

If the interest rates fall, NAVs of such funds are likely to increase in the short run and *vice versa*. However, long term investors may not bother about these fluctuations.

Balanced/Hybrid Scheme

The aim of balanced schemes is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. These are appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments. These funds are also affected because of fluctuations in share prices in the stock markets. However, NAVs of such funds are likely to be less volatile compared to pure equity funds.

Money Market or Liquid Schemes

These schemes are also income schemes and their aim is to provide easy liquidity, preservation of capital and moderate income.

These schemes invest exclusively in short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared with other funds. These funds are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

Gilt Funds

These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors as is the case with income or debt oriented schemes.

Index Funds

Index Funds replicate the portfolio of a particular index such as the BSE Sensitive index (Sensex), NSE 50 index (Nifty), etc. These schemes invest in the securities in the same weightage comprising of an index. NAVs of such schemes would rise or fall in accordance with the rise or fall in the index, though not exactly by the same percentage due to some factors known as “tracking error” in technical terms. Necessary disclosures in this regard are made in the offer document of the mutual fund scheme.

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

Question 2

Explain the following :

(a) Sweat Equity Shares

(b) Capital Indexed Bonds

(c) Domestic and Offshore Hedge Fund

(d) Exchange Trades Funds

(e) Foreign Currency Convertible Bond (FCCB). *(3 marks each)*

OR (Alternate question to Q. No. 2)

Question 2A

(i) The partly convertible debt instruments of ABC Ltd. are listed on BSE and NSE. ABC Ltd. is contemplating the roll over of the non convertible portion of the partly convertible debt instruments. As a company secretary of ABC Ltd. prepare a board note highlighting the conditions to be complied with by ABC Ltd. in terms of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. (5 marks)

(ii) Write a note on the Straight Through Processing Mechanism. (5 marks)

(iii) What is the eligibility criteria for securing the different categories of membership within IOSCO ? Describe. (5 marks)

Answer 2(a)

Sweat Equity Shares

As per Section 2 (88) of the Companies Act, 2013, “sweat equity shares” means such equity shares that are issued by a company to its directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

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:

(a) The issue is authorized by a special resolution passed by the company in the general meeting;

(b) The resolution specifies the number of shares, 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 elapsed at the date of the issue, since the date on which the company was entitled to commence business;

(d) The sweat equity shares of a company whose equity shares are listed on a recognised stock exchange are issued in accordance with the regulations made by SEBI in this regard and if they are not listed the sweat equity shares are to be issued in accordance with the rule 8 of Companies (Share Capital and Debenture) Rules, 2014.

Answer 2(b)

Capital Indexed Bonds

Capital indexed bonds are inflation-protection securities. Such bonds, therefore, provide good hedge against inflation risk. The benefits do extend beyond hedging. Capital index bonds can be used as a market indicator for inflation expectation. This will help investors take a more intelligent decision on their current consumption. Finally, the spot yield curve can be better constructed based on the real yields. A capital indexed bonds lowers the interest rate risk by neutralizing the inflation risk.

Answer 2(c)

Domestic and Offshore Hedge Fund

Domestic Hedge Fund

Domestic hedge funds are those funds that are organised within the boundaries of United States of America (USA) and valued as account balances. The fund's sponsor typically is the general partner and investment adviser. Hedge funds may also take the form of limited liability companies (LLC) or business trusts. LLPs, LLCs and business trusts are generally not separately taxed and, as a result, income is taxed only at the level of the individual investors. Each of three firms also limits investors liability; LLCs offer the additional benefit of limited liability for fund advisors (general partners).

Offshore Hedge Fund

Offshore hedge funds are typically organized as corporations in countries such as the Cayman Islands, British Virgin Islands, the Bahamas, Panama, The Netherlands Antilles or Bermuda. Offshore funds generally attract investments of U.S. tax exempt entities, such as pension funds, charitable trusts, foundations and endowments, as well as non-U.S. residents. U.S. tax-exempt investors favour investments in offshore hedge funds because they may be subject to taxation if they invest in domestic limited partnership hedge funds.

Answer 2(d)

Exchange Trades Funds

Exchange traded funds (ETFs) was first introduced in 1993. ETFs are sometimes described as more "tax efficient" than traditional equity mutual funds. In short, they are similar to index mutual funds but are traded more like a stock. As their name implies, Exchange Traded Funds represent a basket of securities that are traded on an exchange. Gold ETFs are most popular among other ETFs, physical gold is kept as underlying security.

Answer 2(e)

Foreign Currency Convertible Bond (FCCB)

FCCBs represent equity linked debt security which can be converted into shares or into depository receipts. The investors of FCCBs have the option to convert it into equity normally in accordance with pre-determined formula and sometimes also at a pre-determined exchange rate. The investor also has the option to retain the bond. The FCCBs by virtue of convertibility offers to issuer a privilege of lower interest cost than that of similar non-convertible debt instrument. However, it must be kept in mind that FCCB issue proceeds need to conform to ECB end use requirements.

In addition, 25% of the FCCB proceeds can be used for general corporate restructuring.

The major drawbacks of FCCBs are that the issuing company cannot plan its capital structure as it is not assured of conversion of FCCBs. Moreover, the projections for cash outflow at the time of maturity cannot be made.

Answer 2A(i)

To
The Board of Directors
ABC Ltd.

Note: Conditions for roll over of the non-convertible portion of partly convertible debt instruments issued by ABC Ltd.

ABC Ltd. can roll over the non-convertible portion of partly convertible debt instruments under regulation 21 of SEBI (ICDR) Regulations, 2009, the value of which exceeds 50 lakh rupees, without change in the interest rate, subject to the following conditions:

(a) 75% of the holders of the convertible debt instruments of the issuer have, through a resolution through postal ballot, approved the rollover.

(b) The issuer has along with the notice for passing the resolution, sent to all holders of the convertible debt instruments, an auditors' certificate on the cash flow of the issuer and with comments on the liquidity position of the issuer.

(c) The issuer has undertaken to redeem the non-convertible portion of the partly convertible debt instruments of all the holders of the convertible debt instruments who have not agreed to the resolution.

(d) Credit rating has been obtained from at least one credit rating agency registered with the SEBI within a period of six months prior to the due date of redemption and has been communicated to the holders of the convertible debt instruments, before the roll over.

Mr. X
Company Secretary
ABC Ltd.

Answer 2A(ii)

Straight Through Processing

Straight Through Processing (STP) is generally understood to be a mechanism that automates the end to end processing of transactions of financial instruments. It involves use of a system to process or control all elements of the work flow of a financial transaction, what are commonly known as the Front, Middle, Back office and General Ledger. In other words, STP allows electronic capturing and processing of transactions in one pass from the point of order origination to final settlement.

STP thus streamlines the process of trade execution and settlement and avoids manual entry and re-entry of the details of the same trade by different market intermediaries and participants. Usage of STP enables orders to be processed, confirmed, settled in a shorter time period and in a more cost effective manner with fewer errors.

Straight Through Processing (STP) aims to bring in non-duplication of work, efficiency and automation of the manual procedures right from trade initiation to settlement processes.

Answer 2A(iii)

There are three categories of membership within IOSCO which are designed to the different approaches to securities markets regulation while also ensuring that those with an interest in the regulation of securities markets are also involved in the debate on securities market issues.

The three categories are:

(i) *Ordinary* - This category is open to a securities commission, or a similar government or statutory regulatory body that has primary responsibility for securities regulation in its jurisdiction. If there is no governmental, or statutory, regulatory body in a jurisdiction then a self-regulatory body, such as a stock exchange, in that jurisdiction is eligible for ordinary membership of IOSCO.

(ii) *Associate* - This category is open to a public regulatory body with jurisdiction in the subdivisions of a jurisdiction if the national regulatory body is already an ordinary member; and any other eligible body with an appropriate responsibility for securities regulation.

(iii) *Affiliate* - A self-regulatory body (SRO), or an international body, with an appropriate interest in securities regulation is eligible for this category of membership.

Question 3

(a) "Financial instruments that are used for raising capital resources are affected by the preference factors for choosing and it is different for issuers and for investor." Explain briefly and also classify the instruments. (5 marks)

(b) "The rating methodology for non-banking financial services companies and rating of manufacturing companies are based on different model and factors." Explain. (5 marks)

(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". Enumerate. (5 marks)

Answer 3(a)

Financial instruments are usually used by the Government, Corporations and Companies. The instruments used by the corporate sector to raise funds are selected on the basis of – (i) investor preference for a given instrument, (ii) the regulatory framework, which regulate the issue of security.

Factors affecting the preferences for choosing any instruments:

For issuers	*For investor*
Cost	Return
Post Tax Cost of Capital	Tax on return received
Servicing	Yield

Debt-equity ratio and debt service capabilities	Risk reward ratio
Ceding the control in case of equity	Gaining the control in case of equity
Company Law, SEBI Regulations etc.	Marketability and liquidity

Classification of Instruments

Hybrid Instruments

Hybrid instruments are those that combine two or more different financial instruments. Hybrid securities often referred to as hybrid 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, partly convertible debentures with Khokha (buy-back arrangement), Optionally convertible debenture, warrants convertible into debentures or shares, secured premium notes with warrants etc.

Pure Instruments

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.

Derivatives Instruments

Derivatives are contracts which derive their values from the value of one or more of other assets (known as underlying assets). The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Some of the most commonly traded derivatives are futures, forward, options and swaps.

Answer 3(b)

Rating Methodologies

Rating of Manufacturing Companies

The factors generally considered for rating of manufacturing companies are as under:

- Industry Risk
- Company's industry and market position
- Operating efficiencies
- Accounting Quality
- Financial flexibility
- Earnings protection

- Financial leverage.
- Cash flow adequacy
- Management evaluation

Rating of Financial Services Companies

The rating methodology for non-banking financial services companies is based on CAMELS model encompassing following six parameters

(i) Capital Adequacy

(ii) Asset Quality

(iii) Management

(iv) Earnings

(v) Liquidity

(iv) Systems and Control

Answer 3(c)

Securities' Lending and Borrowing ('SLB')

Securities' Lending and Borrowing ('SLB') 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. SLB is a major and growing activity which provides significant benefits for issuers, investors and traders alike. SLB helps in improving market liquidity, more efficient settlement, tighter dealer prices and perhaps a reduction in the cost of capital.

Benefit of participation in Securities Lending & Borrowing:

- Lender's Motivation
- It provides lender incremental return on an idle portfolio
- Borrower's Motivation
- To cover a short position
- Avoidance of settlement failure
- Hedging of futures & options positions
- Borrow and lend to reap benefits of the market sentiment.

Question 4

(a) The Surveillance department of the recognised stock exchange uses various tools to detect potential market abuses at a nascent stage in order to promote

market integrity. In the light of this statement define the term market abuse. Also, list down the various surveillance actions initiated by the department to control market abuse. *(8 marks)*

(b) Who is the sponsor of a Real Estate Investment Trust ? What are the provisions with respect to the holding of units by the sponsor in the REIT ? Describe. *(7 marks)*

Answer 4(a)

Market abuse is a broad term which includes abnormal price/ volume movement, artificial transactions, false or misleading impressions, insider trading, etc. The department uses various tools to determine normal and abnormal market behaviour.The necessary actions are initiated like imposition of special margin, reduction of circuit filters, trade to trade settlement, suspensions, de-activation of terminals, etc. to control abnormal market behaviour. The department carries out investigation, if necessary, based on the preliminary examination/analysis and suitable actions are taken against members involved based on the investigation.

The detailed explanation of the various Surveillance activities are as follows:

(a) Price Monitoring

The functioning of the Price Monitoring is broadly divided into following activities:

(i) On-Line Surveillance

(ii) Off-Line Surveillance

(iii) Derivative Market Surveillance

(iv) Investigations

(v) Surveillance Actions

(vi) Rumour Verification

(vii) Pro-active Measures

(b) Position Monitoring

(i) Statement of Top 100 Purchasers/Sellers

(ii) Concentrated Purchases/Sales

(iii) Purchases/Sales of Scrips having Thin Trading

(iv) Trading in B1, B2 and Z group Scrips

(v) Pay-in liabilities above a Threshold Limit

(vi) Verification of Institutional Trades

(vii) Snap Investigation

(viii) Market Intelligence

Answer 4(b)

Sponsor means any person who sets up the Real Estate Investment Trust (REIT). The sponsor appoints the trustee of the REIT in accordance with the SEBI ((Real Estate Investment Trust) Regulations, 2014.

- There should not be more than three sponsors each holding at least five percent of the number of units of the REIT on post –initial offer basis;
- The sponsor(s), on a collective basis, should have a net worth of not less than one hundred crore rupees and each Sponsor has a net worth of not less than twenty crore rupees; and
- The sponsor or its associate(s) should have not less than five years' experience in development of real estate or fund management in the real estate industry;
- Where the sponsor is a developer, at least two projects of the sponsor have been completed.

With respect to holding of units in the REIT, the sponsor(s) shall-

- Hold the minimum 25% of the total units of the REIT after initial offer on a post-issue basis and this holding shall be held for a period of three years from the date of listing of such units;
- Any holding of the sponsor exceeding the minimum holding shall be held for a period of at least one year from the date of listing of such units;
- Together hold not less than fifteen percent of the outstanding units of the REIT at all times;
- Individually, hold not less than five percent of the outstanding units of the listed REIT at all times.

PART B

Question 5

Answer the following :

(a) SEBI in exercise of the powers conferred by Section 31 read with Section 21A of the Securities Contracts (Regulation) Act, 1956, Section 30, Sub-section (1) of Section 11 and Sub-section (2) of Section 11A of SEBI Act, 1992 made the SEBI (Delisting of Equity Shares) Regulations 2009. Explain the framework and complete process of delisting as per regulations. (8 marks)

(b) XYZ Ltd. made a public issue of equity shares in September, 2014 and sought listing of BSE and NSE. Soon, thereafter, the promoters of the company started contemplating a change in the objects clause mentioned in the prospectus. To give effect to the same the company convened an extra-ordinary general meeting of shareholders in November 2015. Though the resolution was passed by the company there were nevertheless, the dissenting shareholders too. The promoters decide to provide an exit opportunity to the dissenting shareholders. In the light of the above, answer the following questions :

(i) Is this act of the promoters justified ? Highlight the relevant regulatory legal framework for the same ?

(ii) Who are the dissenting shareholders ?

(iii) Enumerate the conditions required to be complied with to give effect to this recourse which was availed by the promoters. (6 marks)

(c) Trading plan is an exception to the general rule that an insider should not trade when in possession of unpublished price sensitive information. However, trading plan once made cannot be revoked. Do you agree ? If yes, give reasons for the same. (6 marks)

Answer 5(a)

The term "delisting" of securities means permanent removal of securities of a listed company from a stock exchange. As a consequence of delisting, the securities of that company would no longer be traded at that stock exchange. Delisting can be Voluntary or Compulsory.

Compulsory delisting refers to permanent removal of securities of a listed company from a stock exchange as a penalizing measure at the behest of the stock exchange for not making submissions/comply with various requirements set out in the Listing agreement within the time frames prescribed.

Voluntary delisting means where a listed company decides on its own to permanently remove its securities from a stock exchange. It has two part Delisting from all Stock Exchange where exit opportunity is given or delisting from few exchanges but remain listed on one Stock exchanges where no exit opportunity is given.

SEBI (Delisting of Equity Shares) Regulations, 2009, are applicable to delisting of equity shares of a company from all or any of the recognised stock exchanges where such shares are listed. However, all public shareholders holding equity shares of the class which are sought to be delisted are given an exit opportunity in accordance with these regulations.

DELISTING FROM ALL RECOGNISED STOCK EXCHANGES

A company may delist its equity shares from all or from the only recognised stock exchange where they are listed. However, all public shareholders holding equity shares of the class which are sought to be delisted are given an exit opportunity in accordance with these regulations.

DELISTING FROM ONLY SOME OF THE RECOGNISED STOCK EXCHANGES

A company may delist its equity shares from one or more recognised stock exchanges where they are listed and continue their listing on one or more other recognised stock exchanges, if after the proposed delisting the equity shares would –

- remain listed on any recognised stock exchange which has nationwide trading terminals, no exit opportunity needs to be given to the public shareholders; and,
- not remain listed on any recognised stock exchange having nation wide trading terminals, exit opportunity shall be given to all the public shareholders holding the equity shares sought to be delisted.

PROCEDURE FOR DELISTING

In case of no exit opportunity

1. It shall be approved by a resolution of the board of directors of the company in its meeting;
2. The company shall give a public notice of the proposed delisting in at least one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language newspaper of the region where the concerned recognised stock exchanges are located.
3. The company shall make an application to the concerned recognised stock exchange regarding this.
4. The fact of delisting shall be disclosed in the first annual report of the company prepared after the delisting.
5. The public notice shall mention the names of the recognised stock exchanges from which the equity shares of the company are intended to be delisted, the reasons for such delisting and the fact of continuation of listing of equity shares on recognised stock exchange having nationwide trading terminals.

An application shall be disposed off by the recognised stock exchange within a period not exceeding thirty working days from the date of receipt of such application complete in all respects.

In case of exit opportunity

Except where the equity shares would remain listed on any recognised stock exchange which has nationwide trading terminals and no exit opportunity needs to be given to the public shareholders, any company desirous of delisting its equity shares –

1. Obtain the prior approval of the board of directors of the company in its meeting;
2. Obtain the prior approval of shareholders of the company by special resolution passed through postal ballot, after disclosure of all material facts in the explanatory statement sent to the shareholders in relation to such resolution. However, the special resolution shall be acted upon if and only if the votes cast by public shareholders in favour of the proposal amount to at least two times the number of votes cast by public shareholders against it.
3. Make an application to the concerned recognised stock exchange for in-principle approval of the proposed delisting.
4. An application shall be disposed off by the recognised stock exchange within a period not exceeding five working days from the date of receipt of such application complete in all respects within one year of passing the special resolution, make the final application to the concerned recognised stock exchange in the form specified by the recognised stock exchange.

   However, in pursuance of special resolution, passed before the commencement of these regulations, final application shall be made within a period of one year from the date of passing of special resolution or six months from the commencement of these regulations, whichever is later.

5. Prior to granting approval, the board of directors of the company shall,-
   (i) make a disclosure to the recognized stock exchanges on which the equity shares of the company are listed that the promoters/acquirers have proposed to delist the company;
   (ii) appoint a merchant banker to carry out due-diligence and make a disclosure to this effect to the recognized stock exchanges on which the equity shares of the company are listed;
   (iii) obtain details of trading in shares of the company for a period of two years prior to the date of board meeting by top twenty five shareholders as on the date of the board meeting convened to consider the proposal for delisting, from the stock exchanges and details of off-market transactions of such shareholders for a period of two years and furnish the information to the merchant banker for carrying out due-diligence;
   (iv) obtain further details and furnish the information to the merchant banker.
6. The board of directors of the company while approving the proposal for delisting shall certify that :
   (i) the company is in compliance with the applicable provisions of securities laws;
   (ii) the acquirer or promoter or promoter group or their related entities, are in compliance with sub-regulation (5) of regulation 4;
   (iii) the delisting is in the interest of the shareholders.
7. For certification as mentioned above, the board of directors of the company shall take into account the report of the merchant banker.
8. The merchant banker appointed by the board of directors of the company shall carry out due diligence upon obtaining details from the board of directors of the company.

   However, if the merchant banker is of the opinion that details referred above are not sufficient for certification, he shall obtain additional details from the board of directors of the company for such longer period as he may deem fit.
9. Upon carrying out due-diligence as specified in these regulations, the merchant banker shall submit a report to the board of directors of the company certifying the following:
   (a) the trading carried out by the entities belonging to acquirer or promoter or promoter group or their related entities was in compliance or not, with the applicable provisions of the securities laws; and
   (b) entities belonging to acquirer or promoter or promoter group or their related entities have carried out or not, any transaction to facilitate the success of the delisting offer which is not in compliance with the provisions of sub-regulation (5) of regulation 4.

10. An application seeking in-principle approval for delisting shall be accompanied by an audit report as required under regulation 55A of SEBI (Depositories and Participants) Regulations, 1996 in respect of the equity shares sought to be delisted, covering a period of six months prior to the date of the application.

11. The recognised stock exchange shall not unfairly withhold such application, but may require the company to satisfy it as to –

    (a) Compliance with these regulations;

    (b) The resolution of investor grievances by the company;

    (c) Payment of listing fees to that recognised stock exchange;

    (d) The compliance with any condition of the listing agreement with that recognised stock exchange having a material bearing on the interests of its equity shareholders;

    (e) Any litigation or action pending against the company pertaining to its activities in the securities market or any other matter having a material bearing on the interests of its equity shareholders;

    (f) Any other relevant matter as the recognised stock exchange may deem fit to verify.

12. Within one year of passing the special resolution, make the final application to the concerned recognised stock exchange in the form specified by the recognised stock exchange and shall be accompanied with such proof of having given the exit opportunity in accordance with these regulations as the recognised stock exchange may require.

PROCESS FOR COMPULSORY DELISTING

- Constitution of Panel by Recognised stock exchange to take decision regarding the compulsory delisting by the exchange. **[Regulation 22(2)]**
- Public notice of compulsory delisting by recognized stock exchange in one English and one regional language newspaper of the region where the concerned recognized stock exchange is located. **[Regulation 22(3)]**
- Representation by any person who may be aggrieved by the proposed delisting (to be received within 15 days of public notice). **[Regulation 22(3)]**
- Delisting order by the recognized stock exchange. **[Regulation 22(4)]**
- Public notice after delisting order by recognized stock exchange in one English and regional language newspaper of the region where the concerned recognized stock exchanges is located and information to all the stock exchanges where the shares of the company listed and also on its trading systems and website. **[Regulation 22(6)]**
- Appointment of independent Valuer.
- Determination of the fair value of shares by the independent valuers appointed by the recognized stock exchange.

- Acquisition of shares by the promoters at determined fair value.
- Company Promoters/PAC/ Directors can neither access securities market nor seek listing for a period of 10 years.

Answer 5(b)

(i) Yes, the promoters Act is justified in accordance with Chapter VI-A namely 'Conditions and Manner of Providing Exit Opportunity to Dissenting Shareholders' of SEBI (Issue of Capital and disclosure Requirements) Regulations, 2009. The provisions of this Chapter shall apply to an exit offer made by the promoters or shareholders in control of an issuer to the dissenting shareholders in terms of section 13(8) and section 27(2) of the Companies Act, 2013, in case of change in objects or variation in the terms of contract referred to in the prospectus.

(ii) Dissenting Shareholders" mean those shareholders who have voted against the resolution for change in objects or variation in terms of a contract, referred to in the prospectus of the issuer.

(iii) The promoters or shareholders in control shall make the exit offer in accordance with the provisions of this Chapter, to the dissenting shareholders, if:

– the public issue has opened after April 1, 2014; and

– the proposal for change in objects or variation in terms of a contract, referred to in the prospectus is dissented by at least 10 per cent of the shareholders who voted in the general meeting; and

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

Answer 5(c)

Yes, Regulation 5 of SEBI (Prohibition of Insider Trading) Regulations, 2015 given an option to an insider who may be perpetually in possession of unpublished price sensitive information to trade in securities in a compliant manner through formulation of a trading plan. An insider would be required to submit trading plan in advance to the compliance officer for his approval.Such trading plan on approval will also be disclosed to the stock Exchanges, where the securities of the company are listed.

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

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

It is intended that since the trading plan is an exception to the general rule that an insider should not trade when in possession of unpublished price sensitive information, changing the plan or trading outside the same would negate the intent behind the exception. Other investors in the market, too, would factor the impact of trading plan on their own trading decisions and in price discovery. Therefore, it is not fair or desirable to permit the insider to deviate from the trading plan based on which others in the market have assessed their views on the securities.

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

Question 6

Critically examine the following :

(a) An open offer for acquiring shares in the target company once made cannot be withdrawn.

(b) ETFs are a rapidly growing class of financial products.

(c) A listed entity shall not be allowed to change its name more than once.

(d) Warrant cannot be issued along with public issue or right issue of specified securities. *(5 marks each)*

OR (Alternate question to Q. No. 6)

Question 6A

Write notes on the following :

(i) Offshore Derivative Instruments

(ii) Nominated Investor

(iii) Institutional Placement Programme

(iv) Designated Depository Participant (DDP)

(v) Syndicate Member. *(4 marks each)*

Answer 6(a)

False.

Regulation 23 of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 enumerates the circumstances under which an open offer for acquiring shares once made may be allowed to be withdrawn. Accordingly, an open offer made may be withdrawn if:

(a) statutory approvals required for the open offer or for effecting the acquisitions attracting the obligation to make an open offer under these regulations having been finally refused, subject to such requirements for approval having been specifically disclosed in the detailed public statement and the letter of offer;

(b) the acquirer, being a natural person, has died;

(c) any condition stipulated in the agreement for acquisition attracting the obligation to make the open offer is not met for reasons outside the reasonable control of the acquirer, and such agreement is rescinded, subject to such conditions having been specifically disclosed in the detailed public statement and the letter of offer; or

(d) such circumstances as in the opinion of the SEBI, merit withdrawal.

Answer 6(b)

True.

ETFs as a variety of mutual fund first became available in 1993. It represents a basket of securities that are traded on the exchange. ETFs select a market index and make investments in the basket of stocks drawn from the constituents of that index. The fund may invest in any or all of the stocks constituting that index but not necessarily in the same proportion. It is similar to index mutual funds but they are traded more like a stock and have more flexibility than index mutual fund. It is very popular because it can be bought and sold throughout the trading day. Hence, it allows intraday trading which is rare with mutual funds. Traders have the ability to short or buy ETFs on margin. Low annual expenses hence cheapest mutual fund and it is more tax efficient.

Answer 6(c)

False.

As per regulation 45 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, listed entity is allowed to change its names more than once in its life time but listed entity cannot change where a time period of at least 1 year has elapsed from the last name change;

Listed entity has to comply with following additional conditions:

– at least fifty percent of the total revenue in the preceding one year period has been accounted for by the new activity suggested by the new name; or

– the amount invested in the new activity/project is atleast fifty percent of the assets of the listed entity.

Provided that if any listed entity has changed its activities which are not reflected in its name, it shall change its name in line with its activities within a period of six months from the change of activities in compliance of provisions as applicable to change of name prescribed under Companies Act, 2013.

Answer 6(d)

False.

As per Regulation 4 (3) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, warrants may be issued along with public issue or rights issue of specified securities subject to the following:

(a) the tenure of such warrants shall not exceed eighteen months from their date of allotment in the public/rights issue;

(b) not more than one warrant shall be attached to one specified security;

(c) the price or conversion formula of the warrants shall be determined upfront and at least 25% of the consideration amount shall also be received upfront;

(d) in case the warrant holder does not exercise the option to take equity shares against any of the warrants held by him, the consideration paid in respect of such warrant shall be forfeited by the issuer.

Answer 6A(i)

"Offshore Derivative Instrument" (ODI) : ODI means any instrument, by whatever name called, which is issued overseas by a foreign portfolio investor against securities held by it that are listed or proposed to be listed on any recognized stock exchange in India, as its underlying.

Conditions for Issuance of Offshore Derivative Instruments (ODIs) :

– FPIs can issue, subscribe to or otherwise deal in ODIs, directly or indirectly, only if such ODIs are issued to persons who are regulated by an appropriate foreign regulatory authority, and the ODIs are issued after compliance with 'Know Your Client' (KYC) norms. Such offshore derivative instruments shall not be issued to or transferred to persons who are resident Indians or non-resident Indians and to entities that are beneficially owned by resident Indians or non-resident Indians.

– Unregulated broad based funds which are classified as Category II FPIs by virtue of their investment manager being appropriately regulated shall not deal in ODIs.

– Category III FPIs also cannot deal in ODIs.

– FPIs shall ensure that further issue or transfer of any ODIs issued by or on behalf of it is made only to persons who are regulated by an appropriate foreign regulatory authority.

– Foreign portfolio investors shall fully disclose to SEBI any information concerning the terms of and parties to off-shore derivative instruments such as participatory notes, equity linked notes or any other such instruments, by whatever names they are called, entered into by it relating to any securities listed or proposed to be listed in any stock exchange in India.

– Outstanding ODIs shall be deemed to have been issued under the corresponding provision of the FPI Regulations.

Answer 6A(ii)

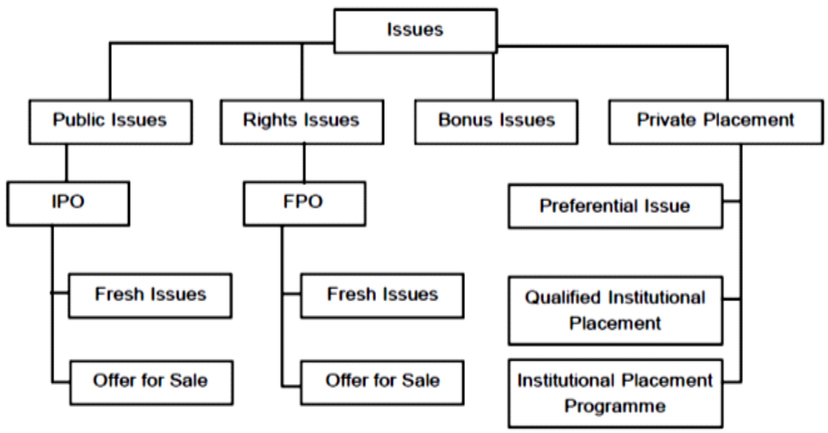
Nominated Investor : Nominated investor plays an import role in the listing of specified securities issued on SME Exchange. Nominated investor means a qualified institutional buyer or private equity fund, who enters into an agreement with the merchant banker :

- to subscribe to the issue in case of under-subscription or to receive or deliver the specified securities in the market making process.

- to receive or deliver the specified securities in the mandatory market making process required to be done for 3 years in case of SME listing or migration of specified securities from Main Board to SME exchange.

Answer 6A(iii)

"Institutional Placement Programme" (IPP) : IPP means a further public offer of eligible securities by an eligible seller, in which the offer, allocation and allotment of such securities is made only to qualified institutional buyers in terms of Chapter VIII-A of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.



Answer 6A(iv)

Designated Depository Participant (DDP) : DDP means a person who has been approved by SEBI under Chapter III of SEBI (Foreign Portfolio Investors) Regulations, 2014. A person shall not act as designated depository participant unless it has obtained the approval of SEBI. SEBI notified the SEBI (Foreign Portfolio Investors) Regulations, 2014 (FPI Regulations).Subsequently, the SEBI had also issued operating guidelines for Designated Depository Participants (DDP) who would grant registration to Foreign Portfolio Investors (FPI). Designated Depository Participants (DDPs) are authorised to grant registration to FPIs on behalf of the SEBI. The application for grant of registration is to be made to the DDP in a prescribed form along with the specified fees.

Answer 6A(v)

Syndicate Member : Syndicate Member means an intermediary registered with SEBI and who is permitted to carry on the activity as an underwriter. The Book Runner(s) may appoint those intermediaries who are registered with the SEBI and who are permitted to carry on activity as an 'Underwriter' as syndicate members. The syndicate members are mainly appointed to collect the entire bid forms in a book built issue.

The Syndicate Member / Broker receive the bid and upload the same on to the electronic book of the stock exchange. The Syndicate Member/Broker, then submits the bid with cheque to the bankers.

In case of online application, the Syndicate Member/Broker generates the electronic application form and submits the same to the registrar with proof of having paid the bid amount.

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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. Which one of the following has been covered under the definition of employee by the Payment of Gratuity (Amendment) Act, 2009, retrospectively with effect from 3rd April, 1997 ?

(A) Employees engaged in mines

(B) Teachers in educational institutions

(C) Employees engaged in ports

(D) Employees engaged in factories

2. Which one of the following emoluments is included in the definition of 'wages' under the Payment of Gratuity Act, 1972 ?

(A) Dearness Allowance

(B) Overtime Wages

(C) House Rent Allowance

(D) Bonus paid in cash

3. In case of dispute relating to admissibility of claim of gratuity under Payment of Gratuity Act, 1972 the employer shall issue a notice specifying reasons that why the claim for gratuity is not considered admissible to the :

(A) Applicant employee

(B) Nominee of the employee

(C) Legal heir of the employee

(D) All of the above

4. Which one of the following statements is true under the Payment of Gratuity Act, 1972 ?

(A) Where the services of an employee has been terminated for riotous and disorderly conduct owing to wilful omission or negligence, the gratuity will not be forfeited

(B) The important functionaries in the operation of the Payment of gratuity are the Controlling Authority and Appellate Authority

(C) In case of the death of the employee the gratuity will not be paid to his nominee

(D) The provisions of the Gratuity Act, 1972 shall extend to the whole of India except the State of Jammu and Kashmir

5. Which one of the following statements is false under the Payment of Gratuity Act, 1972 ?

(A) The minimum number of employees required in an establishment for it to came under the purview of the Payment of Gratuity Act is 10

(B) When the large establishments have branches in more than one state in such case the Appropriate Government is the Central Government

(C) 'Retirement' means termination of the services of an employee otherwise than on superannuation

(D) In case of the payment of gratuity the completion of continuous service of five years is necessary where the termination of the employment of any employee is due to death or disablement

6. In an injury the workman, who was a carpenter, had ampulated his left arm from elbow. It was held by the Supreme Court in Pratap Narain Singh Deo Vs. Sriniwas Sabata that the carpenter cannot carry his work with one hand, it is a ....

(A) total disablement

(B) partial permanent disablement

(C) temporary partial disablement

(D) partial disablement

7. Who of the following will not be treated as an employee under section 2(dd) of the Employees Compensation Act, 1923 ?

(A) A railway servant not permanently employed in any sub-divisional office of a railway

(B) A captain or other member of the crew of an aircraft

(C) A person recruited for work abroad by a company

(D) A person working in the capacity of a member of the Armed Forces of the Union

8. As per section 23 of the Employees Compensation Act, 1923, the Commissioner shall have the powers of Civil Court under the Code of Civil Procedure, 1908 :

(A) Taking evidence on oath

(B) Enforcing the attendance of witnesses

(C) Compelling the production of documents

(D) All of the above

9. Which one of the following will be included in the definition of 'wages' as given in section 2(1) of the Employees Compensation Act, 1923 ?

(A) Travelling allowance

(B) Bonus

(C) Contribution paid by the employer towards provident fund

(D) Contribution paid by the employer towards pension fund.

10. As per section 18A no prosecution shall be instituted except by or with the previous sanction of the Commissioner and no court shall take cognisance of any offence under this section unless complaint is made .... of the date on which the alleged commission of offence comes to the knowledge of commission.

    (A) Within 1 month

    (B) Within 3 months

    (C) Within 6 months

    (D) Within 12 months

11. Section 25A of the Employees Compensation Act, 1923 provides for the time limit for disposal of cases relating to compensation. Accordingly, the commissioner shall dispose of the matter relating to compensation within a period of .... from the date of reference and intimate the decision in respect thereof within the said period to the employee.

    (A) Within three months

    (B) Within six months

    (C) Within twelve months

    (D) Within fifteen months

12. Which one of the following statements is false under the Employees Compensation Act, 1923 ?

    (A) This Act does not define the word 'disablement'

    (B) To make the employer liable under this Act, it is necessary that the injury is caused by an accident which must be raised out of and in the course of business

    (C) The employer shall not be liable of the injury caused to an employee does not result in disablement for a period exceeding three days

    (D) The Civil Court shall have the jurisdiction to settle, decide or deal with any question which is by or under this Act required to be settled, decided or dealt with by a Commissioner or to enforce any liability incurred under the Employees Compensation Act, 1923

13. As per section 2(c) of the Factories Act, 1948 'child' means a person who has not completed his :

    (A) 14 years of age

    (B) 15 years of age

    (C) 16 years of age

    (D) 18 years of age

14. Section 2(cb) of the Factories Act, 1948 defines the term 'Hazardous Process' as specified in First Schedule of the Act. This definition also provides that the State Government by notification in the Official Gazette may amend the First Schedule by way of :

(A) Addition of any industry specified in the First Schedule

(B) Omission of any industry specified in the First Schedule

(C) Variation of any industry specified in the First Schedule

(D) Addition, omission and variation of any industry specified in the First Schedule

15. Under section 82 of the Factories Act, 1948 any unpaid wages due to the workers can be recovered as delayed wages under the provisions of the :

(A) Minimum Wages Act, 1948

(B) Payment of Wages Act, 1936

(C) Industrial Disputes Act, 1947

(D) None of the above

16. The State Governments carryout the administration of the Factories Act, 1948 through :

(A) Certifying surgeons

(B) Inspecting staff

(C) Safety officers

(D) All of the above

17. Consider the following statements under the provisions of Factories Act, 1948 :

(i) As per section 9 an Inspector can enter any place which is used or which he has reasons to believe, is used as a factory.

(ii) Section 49 imposes statutory obligation upon the occupier of the factory to appoint Welfare Officer wherein 100 or more workers are ordinarily employed.

(iii) The minimum number of workers, required in a factory for the mandatory appointment of a Safety Officer should be more than 1000.

(iv) If any worker does not avail any earned leave entitled to him during the calender year, it can be carried forward to the next calender year subject to the maximum of 30 days for a child worker and 40 days for an adult worker. Select the correct answer from the options given below :

(A) (i) and (ii)

(B) (i) and (iv)

(C) (ii) and (iv)

(D) (i) and (iii)

18. Section 97 of the Factories Act, 1948 lays down that if any worker employed in the factory contravenes the provisious of this Act or any rules or orders made thereunder imposing any duty or liability on workers, he shall be punishable with fine which may extend to Rs. ....

(A) Rs. 500

(B) Rs. 1,000

(C) Rs. 5,000

(D) Rs. 7,500

19. In case of employment of young persons under section 69 of the Factories Act, 1948 any fee payable for Certificate of Fitness shall be paid by ....

(A) the person himself

(B) the person's parents or guardian

(C) the occupier of the factory

(D) the trade union

20. Under the Factories Act, 1948 which one of the following part of the judgements was given by the Supreme Court in the case of Kanpur Suraksha Karmchari Union Vs. Union of India :

(A) Every factory should have sufficient number of spitoons situated at convenient places.

(B) Employees working in canteens in industrial establishment run by Managing Committee are not employees of the Managing Committee, but are employees of occupier.

(C) In every factory wherein more than 30 workers are ordinarily employed, the facility of suitable room or rooms should be provided and maintained for the use of children under the age of six years of such women.

(D) The first-aid facilities should be provided in the factories and they should be properly maintained and readily accessible during all working hours.

21. If a Question arises whether work performed in an establishment, under Contract Labour (Regulation and Abolition) Act, 1970, is of intermittent or casual nature, it will be decided by :

(A) Appropriate Government

(B) Principal Employer

(C) Trade Union

(D) Contractor

22. The license issued to the contractor by the Licensing Officer under section 13 of the Contract Labour (Regulation and Abolition) Act, 1970, is valid for .... under the Central Rules.

(A) One month

(B) Three months

(C) Six months

(D) Twelve months

23. Consider the following statements relating to liability of the principal employer as stated under section 20 of the Contract Labour (Regulation and Abolition) Act, 1970 :

(i) If the prescribed amenities are not provided by the contractor within the prescribed time, then such amenities shall be provided by the principal employer.

(ii) If the prescribed amenities are not provided by the contractor than principal employer is not bound to provide such facilities.

(iii) If principal employer has provided the amenities it may be recovered from the contractor by deduction from any amount payable to the contractor under the contract.

(iv) If principal employer has provided the amenities it may be recovered as a debt payable by the contractor.

Select the correct statements from the options given below :

(A) (i), (ii) and (iii)

(B) (i), (iii) and (iv)

(C) (i), (ii) and (iv)

(D) (ii), (iii) and (iv)

24. In case of the revocation of registration of establishment under Contract Labour (Regulation and Abolition) Act, 1970 the Registering Officer shall require the approval of :

(A) Central Government

(B) State Government

(C) Appropriate Government

(D) Labour Commissioner

25. Consider the following statements under the Maternity Benefit Act, 1961 :

(i) The object of this legislation correspond with the provisions contained in Article 39(e) and (f) of the Constitution of India.

(ii) Every employer shall prepare and maintain such register, records and muster-rolls in prescribed manner under the Act.

(iii) Section 5 of this Act is not related to the right of payment of the maternity benefit.

(iv) Employer shall not knowingly employ a woman in any establishment during the six weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy.

Select the correct answer from the options given below :

(A) (i) and (iii)

(B) (ii) and (iii)

(C) (iii) and (iv)

(D) (i) and (ii)

26. Which one of the following statements is incorrect as per the provisions of the Child Labour (Prohibition and Regulation) Act, 1986 ?

(A) The objectives of the Act are in consonance with the provisions of Article 24 and 39 of the Constitution of India

(B) The Act extends to whole of India

(C) Child Labour is the violation of the right of children as given under the Constitution of India

(D) The Act prohibits the engagement of children below the age of fourteen years in factories and regulate their conditions of work in certain other employment

27. Section 7 of the Child Labour (Prohibition and Regulation) Act, 1986 provides that :

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

(B) No child shall be required or permitted to work overtime

(C) No child shall be required or permitted to work, in any establishment on any day on which he has already been working in another establishment

(D) All of the above

28. Section 8 of the Child Labour (Prohibition and Regulation) Act, 1986 provides that every child employed in an establishment is entitled a holiday of one whole day in each week which will be specified in a notice permanently exhibited in a conspicuous place in the establishment. Such specified day shall not be altered by the occupier more than once in ....

(A) One month

(B) Two months

(C) Three months

(D) Six months

29. Where any workmen is suspended by the employer pending investigation or inquiry into complaints or charges or misconduct against him, the employer shall pay to such a workman the subsistence allowance for the first 90 days :

(A) 25% of the wages

(B) 50% of the wages

(C) 75% of the wages

(D) No wages to be paid

30. Any employer or workman can challenge an order given by the Certifying Officer and may file an appeal before the appellate authority :

(A) Within 10 days from the date on which copies are sent to the employer and worker's representatives

(B) Within 15 days from the date on which copies are sent to the employer and worker's representatives

(C) Within 20 days from the date on which copies are sent to the employer and worker's representatives

(D) Within 30 days from the date on which copies are sent to the employer and worker's representatives

31. Which one of the following is a workman under Industrial Disputes Act, 1947 ?

(A) A temple priest

(B) A medical representative

(C) A salesman who performs clerical work

(D) A Jailor of a prison

32. Out of the following which is not an industrial dispute under Industrial Disputes Act, 1947 :

(A) Employer and Employer

(B) Employer and Workmen

(C) Workmen and Workmen

(D) Employer and Appropriate Government

33. Out of the following who is not a workman under the provisions of Industrial Disputes Act, 1947 :

(A) Unskilled worker

(B) Skilled worker

(C) Cleaner in Air Force

(D) Supervisor

34. Which one of the following does not amount to strike but it is a serious case of misconduct under Industrial Disputes Act, 1947 ?

(A) Stay-in

(B) Tool-down

(C) Pen-down

(D) Go-slow

35. Which of the following is not a designated authority for investigation and settlement of industrial disputes ?

(A) Works Committee

(B) Dispute Tribunal

(C) Concilliation Officer

(D) Labour Court

36. Any workman who commences, continues or otherwise acts in furtherance of a strike which is illegal under Industrial Disputes Act, 1947 shall be punishable with imprisonment for a term which may extend to ...., or with fine which may extend to .... or with both.

(A) one month; fifty rupees

(B) one month; one hundred rupees

(C) three months; two hundred rupees

(D) three months; three hundred rupees

37. Workers are entitled of wages for strike period only when :

(A) The strike is legal and justified

(B) The strike is legal and unjustified

(C) The strike is justified or unjustified

(D) The strike is unjustified

38. As per section 30-A of the Industrial Disputes Act, 1947 any employer who closes down any undertaking without complying with the provisions of section 25-FFA shall be punishable with imprisonment for a term which may extend to .... or with fine which may extend to .... rupees or with both.

(A) six months; five hundred

(B) six months; one thousand

(C) six months; five thousand

(D) six months; ten thousand

39. Under Section 2(g) of the Trade Union Act, 1926 a 'Trade Dispute' means any dispute between :

(A) Employer and Workmen

(B) Workmen and Workmen

(C) Employers and Employers

(D) All of the above

40. Consider the following statements under the Trade Unions Act, 1926 :

(i) The Certificate of Registration issued by the Registrar to a trade union shall be conclusive evidence.

(ii) Every registered trade union shall not be a body corporate.

(iii) Every registered trade union shall have perpetual succession and a common seal.

(iv) Every registered trade union can not sue but may be sued.

Select the false statement from the options given below :

(A) (i) and (ii)

(B) (ii) and (iii)

(C) (ii) and (iv)

(D) (i) and (iv)

41. To register a Trade Union, section 4 of the Trade Union Act, 1926 requires that the application for the registration of the Trade Union should be made by any :

(A) Five or more members of a Trade Union

(B) Seven or more members of a Trade Union

(C) Eleven or more members of a Trade Union

(D) Fifteen or more members of a Trade Union

42. Apprentice, as defined under section 2(aa) of the Apprentices Act, 1961 means:

(A) A person who is undergoing the training of male nurse

(B) A person who is learning the technical work under an expert technician

(C) A person who is undergoing apprenticeship training in pursuance of a contract of apprenticeship

(D) A person who is doing articleship/working with a firm of company secretary

43. Which one of the following statements is incorrect under the Apprentices Act, 1961 ?

(A) An apprentice to undergo apprenticeship training in a designated trade should enter into a contract of apprenticeship with the employer

(B) The apprenticeship training shall be deemed to have commenced on the date on which the contract of apprenticeship has been made

(C) The terms and conditions involved in the contract of apprenticeship should not be inconsistent with the provisions of this Act

(D) An Apprenticeship Adviser shall register the contract of apprenticeship within sixty days from the date of its receipt

44. Every apprentice undergoing apprenticeship training in a designated trade in an establishment under Apprentices Act, 1961 shall be :

(A) a part time worker

(B) a full time worker

(C) a permanent worker

(D) a trainee

45. No apprentice shall be required to allow to work overtime except with the approval of the .... who shall not grant such approval unless he is statisfied that such overtime is in the interest of the training of the apprentice or in the public interest.

(A) Employer

(B) Apprenticeship Adviser

(C) Supervisor of the Trade

(D) Manager

46. Small establishment as defined under section 2(e) of the Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988, means an establishment in which number of persons employed or were employed on any day of the preceding twelve months is :

(A) Not less than eight and not more than twenty persons

(B) Not less than nine and not more than twenty persons

(C) Not less than ten and not more than forty persons

(D) Not less than twenty and not more than fifty persons

47. Which one of the following acts have been specified in First Schedule under section 2(d) of the Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 ?

(A) Payment of Wages Act, 1936

(B) Factories Act, 1948

(C) Payment of Bonus Act, 1965

(D) All of the above

48. The Employees Provident Funds and Miscellaneous Provisions Act, 1952, a social welfare legislation for employees working in factories and other establishments, provides for the institution of :

(A) Provident Fund and Pension Fund

(B) Pension Fund and Deposit Linked Insurance Fund

(C) Provident Fund and Deposit Linked Insurance Fund

(D) Provident Fund, Pension Fund and Deposit Linked Insurance Fund

49. The contribution which shall be paid by the employer to the Employees Provident Fund under Employees Provident Funds and Miscellaneous Provisions Act, 1952 shall be :

(A) 8% of the basic wages

(B) 10% of the basic wages

(C) 12% of the basic wages

(D) 13% of the basic wages

50. The authorised officer under Employees Provident Funds and Miscellaneous Provisions Act, 1952 shall issue a certificate for recovery of amount due from the employer to the Recovery Officer. For effecting recovery, the Recovery Officer has got the powers :

(A) To attach the property of the employer

(B) To sell the property of the employer

(C) Employer may be called for arrest and detention

(D) All of the above

51. Section 17 of the Employees Provident Funds and Miscellaneous Provisions Act, 1952 authorises the Appropriate Government to grant exemption to certain establishments or persons from the operation of all or any of the provisions of the scheme, such exemption may be granted :

(A) By notification in the Official Gazette

(B) By the appropriate authority

(C) By employer of the establishment

(D) By notification in the Official Gazette subject to such conditions as may be specified therein

52. Which one of the following is the correct answer regarding the schemes signifying the social security benefits on workers and their dependants under the Employees Provident Funds and Miscellaneous Provisions Act, 1952 ?

(A) The Employees Provident Fund Scheme, 1952

(B) The Employees Pension Scheme, 1995

(C) The Employees Deposit-Linked Insurance Scheme, 1976

(D) All of the above

53. Which one of the following will not be included in the definition of "employee" under Employees Provident Funds and Miscellaneous Provisions Act, 1952 ?

(A) a part time employee

(B) a night watchman

(C) working partners drawing salaries or other allowances

(D) a sweeper working twice or thrice in a week

54. Which of the following is the correct answer regarding inclusion of an employee for the entitlement of bonus under the Payment of Bonus Act, 1965 ?

(A) Any employee in any industry employed to do any unskilled work

(B) Any part time permanent employee working on fixed hours

(C) Any employee other than an apprentice

(D) All of the above

55. As per section 11 of the Maternity Benefit Act, 1961 every woman delivered a child who returns to duty after such delivery shall, in addition to the interval for rest allowed to her, be allowed in the course of her delivery work two breaks of the prescribed duration for nursing the child until the child attains the age of :

(A) 6 months

(B) 9 months

(C) 12 months

(D) 15 months

56. 'Establishment in Public Sector' under Payment of Bonus Act, 1965 means and includes a corporation in which not less than forty percent of its capital is held by:

(A) The Government

(B) The Reserve Bank of India

(C) A corporation owned by the Government or the Reserve Bank of India

(D) All of the above

57. In which of the following cases the Supreme Court held that an employee suspended but subsequently reinstated with full back wages cannot be treated to be ineligible for bonus for the period of suspension under section 8 of the Payment of Bonus Act, 1965 ?

    (A) Project Manager Ahmedabad Project O.N.G.C. Vs. Sham Kumar Sahegal

    (B) Pandian Roadways Corporation Ltd. Vs. Presiding Officer, Principal Labour Court

    (C) State Vs. Sardar Singh Majithia

    (D) H.P. State Electricity Board Vs. Ranjeet Singh

58. If any person contravenes any of the provisions of Payment of Bonus Act, 1965 or any rule made thereunder, he shall be punishable with imprisonment for a term which may extend to .... or with fine which may extend to .... or with both.

    (A) One month; 500 rupees

    (B) Two months; 500 rupees

    (C) Six months; 1,000 rupees

    (D) Nine months; 1,000 rupees

59. Which one of the following statements is not correct as regards to the benefits of Labour audit ?

    (A) Compulsory Labour Audit will not ensure compliance of past defaults

    (B) Labour Audit increases the social security to the Labour

    (C) It will secure timely payment of wages to the Labour

    (D) Timely payment of entitlements will reduce absenteeism in the organisation

60. Which one of the following is the correct part of the Constitution upon which the provisions of Equal Remuneration Act, 1976 are based ?

    (A) Fundamental Rights

    (B) Directive Principles of State Policy

    (C) Preamble

    (D) Fundamental Duties

61. Which one of the following will not be included in the definition of “Appropriate Government” under Minimum Wages Act, 1948 ?

    (A) The Central Government

    (B) The Municipal Administration

    (C) The Railway Administration

    (D) The State Government

62. Which one of the following will be included in the term 'wages' as defined under section 2(h) of the Minimum Wages Act, 1948 ?

(A) House rent allowance

(B) Contribution by the employer to any pension fund

(C) Travelling allowance

(D) Gratuity payable on discharge

63. Where any employee is engaged in work on piece work for which minimum time rate and not a minimum piece rate has been fixed, wages shall be paid in terms of section 17 of the Minimum Wages Act, 1948 at :

(A) Minimum time rate

(B) Guaranteed time rate

(C) Minimum piece rate

(D) Overtime rate

64. Which one of the following statements is incorrect as regards to Minimum Wages Act, 1948 ?

(A) This Act extends to whole of India except the State of Jammu and Kashmir

(B) As per section 11 of the Act minimum wages shall be paid in cash

(C) In fixing minimum rates of wages in respect of any scheduled employment, the Appropriate Government can follow either of Committee Method or Notification Method

(D) Under section 12, payment of wages less than the minimum rates of wages notified by the Appropriate Government is an offence

65. As per section 2(11) industrial or other establishment means any :

(A) Inland vessel mechanically propelled

(B) Plantation

(C) Oilfield

(D) All of the above

66. As per section 4 of the Payment of Wages Act, 1936 every person responsible for the payment of wages shall fix wage-periods in respect of which such wages shall be payable. No wage period shall exceed :

(A) 21 days

(B) 1 month

(C) 2 months

(D) 3 months

67. Under section 25 of the Employees State Insurance Act, 1948 Employees State Insurance Corporation is empowered to appoint authorities well equipped with powers and functions. Which of the following are such authorities ?

(A) Regional Boards

(B) Local Committees

(C) Regional and Local Medical Benefit Councils

(D) All of the above

68. Which one of the following is the false, statement under the provisions of Employees State Insurance Act, 1948 ?

(A) Under section 46 of the Employees State Insurance Act, 1948, the insured person and their dependants are entitled to medical treatment

(B) No Civil Court has power to decide the matter falling within the purview of Employees Insurance Court

(C) An insured person is entitled to receive all the benefits for the same period at a time

(D) This Act ensures and protect the interest of workers in contingencies such as sickness, maternity, temporary or permanent physical disablement etc.

69. If the allocable surplus exceeds the amount of minimum bonus payable to the employees, the employer shall, in lieu of such minimum bonus, be bound to pay to every employee subject to a maximum of .... of such salary or wage.

(A) 15%

(B) 20%

(C) 25%

(D) 30%

70. Which one of the following is not included in the definition of "Industrial Establishment" under Industrial Employment (Standing Order) Act, 1946 ?

(A) An industrial establishment defined by section 2(11) of the Payment of Wages Act, 1936 or

(B) A factory as defined by section 2(m) of the Factories Act, 1948 or

(C) An institution established as statutory body under an Act of Parliament

(D) A railway as defined by section 2(4) of the Indian Railways Act, 1890

PART B

71. By which Amendment the words "Secular and Socialist" were included in the preamble of the Constitution of India ?

(A) 1st Amendment

(B) 6th Amendment

(C) 42nd Amendment

(D) 44th Amendment

72. Which of the following Articles of the Constitution of India prohibits to make criminal law having its retrospective effect ?

(A) Article 20(1)

(B) Article 20(2)

(C) Article 21(1)

(D) Article 22

73. While interpreting the phrase "equality before law" contained in Art. 14 of the Constitution of India, the Supreme Court constantly maintained that equality means :

(A) Absolute equality among human beings

(B) Equal treatment to all persons

(C) Equality of status in the preamble of the constitution

(D) Among equals, the law should be equal and should be equally administered

74. Which of the following statements is not correct ?

(A) There shall be a Council of Ministers headed by the Prime Minister to aid and advise the President who shall act in accordance with such advice

(B) The President may require the Council of Ministers to reconsider such advice

(C) The President need not act in accordance with the advice tendered after such reconsideration

(D) The President shall act in accordance with the advice tendered after such reconsideration

75. Which of the following may be included in the term subordinate legislation ?

(A) Executive Legislation

(B) Judicial Legislation

(C) Autonomous Legislation

(D) All of the above

76. Which one of the following rights recently has been included and declared as Fundamental Right under the Constitution of India by the Supreme Court ?

(A) Right to equality

(B) Right against exploitation

(C) Right of privacy

(D) Right to constitutional remedies

77. Which one of the following is not included in the definition of 'Judgement Debtor' under section 2(10) of the Civil Procedure Code, 1908 ?

(A) Any person against whom a decree has been passed

(B) Any person against whom an order capable of execution has been passed

(C) Any person against whom decree or order capable of execution has been passed

(D) Any legal representative of a deceased judgement debtor

78. Original and Appellate jurisdiction under the provisions of the Civil Procedure Code, 1908 have been provided to :

(A) Supreme Court

(B) High Courts

(C) District Courts

(D) All of the above

79. In the case of .... it was held by the Supreme Court that the principle of 'Res Judicata' applies where an issue which has been raised in a subsequent suit was directly or substantially in issue in a former suit between the same parties and was heard and decided finally. Findings incidentally recorded do not operate as res judicata :

(A) Gouri Naidu Vs. Thandrothu Bodemma

(B) Madhvi Amma Bhawani Amma Vs. Kurjikutty P.M. Pillai

(C) Mysore State E. Board Vs. Bangalore W.C. and S. Mills

(D) Lonakutty Vs. Thomman

80. Which of the following is the correct answer as regards to the essentials of a decree passed under Civil Procedure Code, 1908 ?

(A) There must be a formal expression of adjudication

(B) There must be a conclusive determination of the right of parties

(C) The adjudication should have been given in the suit

(D) All of the above

81. Which one of the following remedies is not available to a defendant if an ex-parte decree is passed against him ? Such defendant may :

(A) File an appeal against ex-parte decree

(B) File a suit for non-service of summons

(C) Apply for setting aside the ex-parte decree

(D) File an application for review of judgement

82. The main essentials of the suit under Code of Civil Procedure, 1908 are :

(A) The opposing parties and cause of action

(B) The subject matter of the suit

(C) The relief claimed

(D) All of the above

83. In case of suits by or against minor under Code of Civil Procedure, 1908, a person can act as a next friend if he is :

(A) Major

(B) Of sound mind

(C) Not having any interest adverse to that of a minor residing in India

(D) Fulfilling all the above requirements

84. Under section 59 of Criminal Procedure Code, 1973 a person arrested by a police officer shall be discharged :

(A) On his own hand

(B) On bail

(C) Under the special order of the Magistrate

(D) On the basis of all or any one of them

85. As per section 43 of the Criminal Procedure Code, 1973 a private person may arrest or cause to be arrested by person who in his prescence commits :

(A) A non-bailable offence

(B) A cognizable offence

(C) A proclaimed offender

(D) All of the above

86. Consider the following statements : Mens rea is not an essential ingredient in :

(i) Cases not criminal in any real sense but which in the public interest are prohibited under a penalty.

(ii) Public nuisance.

(iii) Cases criminal in form but which are really a summary mode of enforcing a civil right.

(iv) Cases relating to statutory offence unless the statute expressly or by necessary implication excludes mens rea.

Which of the statements given above are correct out of the following ?

(A) (i), (ii) and (iii)

(B) (i), (ii) and (iv)

(C) (ii), (iii) and (iv)

(D) (i), (iii) and (iv)

87. Under which section of Criminal Procedure Code, 1973, a Magistrate can order to arrest a person ?

(A) Section 38

(B) Section 40

(C) Section 41

(D) Section 44

88. For a suit to recover compensation for libel under clause 75 of Part VII — Suits relating to Tort — of the Schedule to the Limitation Act, 1963 the period of limitation is :

(A) Three months

(B) Six months

(C) One year

(D) Three years

89. Which one of the following statements is not correct as regards to oral evidence?

(A) It must be direct in all cases

(B) All facts except the contents of documents may be proved by oral evidence

(C) The contents of documents must be stated orally

(D) Oral evidence must be direct as well as it should be related to facts

90. Facts forming part of the same transaction are known as :

(A) Plea of Alibi

(B) Res Gestae

(C) Dying declaration

(D) Admission

91. Which of the following may be taken into account as internal aids to interpretation while interpreting a statute ?

(A) Preamble

(B) Title

(C) Marginal notes

(D) All of the above

92. In which of the following cases the Supreme Court pointed out that the preamble may be legitimately consulted in case of any ambiguity arises in the construction of an Act and it may be useful to fix the meaning of the words used so as to keep the effect of the statute within its real scope ?

(A) Kamalpura Kochunni Vs. State of Madras

(B) Powell Vs. Kempton Park Race Course Co.

(C) Burrakur Coal Co. Vs. Union of India

(D) Bishanbar Singh Vs. State of Orissa

93. Maxim "Damnum Sine injuria" means :

(A) Damage without infringement of legal right

(B) Damage with infringement of legal right

(C) Infringement of legal right without damage

(D) Infringement of legal right with damage

94. In case of malicious prosecution, the plaintiff may claim damages for :

(A) Injury caused to his reputation

(B) Injury caused to his person

(C) Injury caused to his property

(D) All of the above

95. A suit for recovery of possession under section 6 of Specific Relief Act, 1963 cannot be filed against :

(A) Private Individual

(B) Company

(C) Government

(D) Firm

96. Which of the following sections deal with the recovery of possession of movable property ?

(A) Sections 1 and 2

(B) Sections 3 and 4

(C) Sections 7 and 8

(D) Sections 9 and 10

97. Under section 10 of the Specific Relief Act, 1963 the specific performance of the contract cannot be granted :

(A) If there is no concluded contract

(B) If there is concluded contract

(C) If the compensation in money is not an adequate relief

(D) If there exist no standard for ascertaining the actual damages

98. Which of the following is the preventive relief under the provisions of Specific Relief Act, 1963 ?

(A) Injunctions

(B) Rescission of contracts

(C) Specific performance of contracts

(D) Declaratory decrees

99. Where the information requested concerning the life or liberty of a person, the same shall be provided within :

(A) 48 hours

(B) 72 hours

(C) Three days

(D) Seven days

100. Public authority means and includes any authority or body or institution of selfgovernment established or constituted :

(A) By or under the Constitution

(B) By any other law made by Parliament or state legislature

(C) By notification issued or order made by the appropriate Government

(D) All of the above

ANSWER KEY
INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

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

Note

10 Sec18A of which Act is not mentioned in question-Assuming it to be Employee Compensation Act (going by series of questions)

25 There is no correct option given in paper as (i),(ii), (iv) are correct. Out of given choices, D is best option.