

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

DECEMBER 2016

MODULE 2



**THE INSTITUTE OF
Company Secretaries of India**

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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(i)

EXECUTIVE PROGRAMME

UPDATING SLIP

COMPANY ACCOUNTS AND AUDITING PRACTICES

MODULE – 2 – PAPER 1

<i>Examination Session</i>	<i>Question No.</i>	<i>Updatons required in the answers</i>
(1)	(2)	(3)
All Previous Sessions	—	The Questions and Answers of all previous sessions are to be updated/revise as per the notified provisions of Companies Act, 2013 and the provisions of Companies Act, 1956 which is still in force.

(ii)

UPDATING SLIP

CAPITAL MARKETS AND SECURITIES LAWS

MODULE – 2 – PAPER 2

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

EXECUTIVE PROGRAMME EXAMINATION

DECEMBER 2016

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) Enumerate disclosure requirements in the financial statements in respect of impairment of assets.
- (b) On 1st January, 2016, Tulip Ltd. offered 100 shares of ₹10 each to each of its 500 employees at ₹30 per share. The employees were given time up to 31st March, 2016 to accept the offer. The shares issued under ESOP shall be subject to lock-in-period of two years from the grant date. Other details provided are as under :
- (i) The market price of shares of the company on the grant date is ₹50 per share.
- (ii) Due to post vesting restriction on transfer of shares, the fair market value of shares is estimated at ₹40 per share.
- (iii) On 31st March, 2016, 400 employees accepted the offer and paid ₹30 per share. You are required to pass necessary journal entries to record the allotment of shares in the books of the company.
- (c) State the conditions to be fulfilled for issue of bonus shares by a company.
- (d) Mars Ltd. obtained an overdraft of ₹5,00,000 on 31st March, 2016 from a bank by issuing and securing 6,000, 12% debentures of ₹100 each as collateral security. Show necessary journal entries and the entry in the balance sheet as on 31st March, 2016.
- (e) From the following information in respect of Sun Ltd., prepare value added statement and its distribution for the period ended 31st March, 2016 :

	₹ (in lakh)
Gross sales	1,250
Discount allowed	50
Depreciation on plant and machinery	70
Dividend to equity shareholders	40
Raw material consumed	780
Salary and wages	160
Interest on term loan	60
Retained profit for the year	30
Office expenses	30
Rate of income-tax be assumed @ 30%.	(5 marks each)

Answer 1 (a)

As per Accounting Standard-28 on Impairment of assets, for each class of assets, the financial statements should disclose:

- (i) the amount of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;
- (ii) the amount of reversals of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed;
- (iii) the amount of impairment losses recognised directly against revaluation surplus during the period; and
- (iv) the amount of reversals of impairment losses recognised directly in revaluation surplus during the period.

Answer 1(b)**Journal entries in the books of Tuip Ltd.**

<i>Date</i>	<i>Particulars</i>	<i>Dr.(Rs.)</i>	<i>Cr.(Rs.)</i>
31/03/2016	Bank A/C Dr.	12,00,000	
	Employee Compensation Exp. A/c Dr.	4,00,000	
	To Share Capital A/c		4,00,000
	To Security Premium A/c		12,00,000

(Being offer accepted for 40,000 shares @ 30 per share and difference as premium)

Working Note

- (i) No. of Shares allotted: $400 \times 100 = 40,000$ shares
- (ii) Option allotment price: Rs. 30 per share ; Cash Received/ Bank credited = $40,000 \times 30 = \text{Rs. } 12,00,000$
- (iii) Discount offered: Fair value – Offered value = $40 - 30 = \text{Rs. } 10$ per share
- (iv) Expenses to be recognised: $40,000 \times 10 = \text{Rs. } 4,00,000$
(Discount offered per share x No. of shares)
- (v) Security Premium = (Amount received + Employees Compensation) – Face value of Issue
= $(1,200,000 + 4,00,000) - 4,00,000 = 1,200,000$

Answer 1(c)

No company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares under unless –

- (a) it is authorised by its articles;

- (b) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
- (c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
- (e) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
- (f) The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

Answer 1(d)
Journal entries in the books of Mars Ltd.

<i>Date</i>	<i>Particulars</i>	<i>Dr.(Rs.)</i>	<i>Cr.(Rs.)</i>
31/03/2016	Debenture Suspense A/c Dr. To 12% Debenture A/c	6,00,000	6,00,000

(Issue of 6000, 12 % debenture of Rs.100 each as collateral security for overdraft of Rs. 5,00,000)

Balance Sheet of Mars Ltd. as at 31st March, 2016

(i) Equity and Liabilites	<i>Note</i>	<i>Amount (Rs.)</i>
Non-Current Liabilites		
Long Term Borrowings	1	6,00,000
Current Liabilities		
Short term loan	2	5,00,000
(ii) Assets		
Non-Current Assets		
Other non-current Assets	3	6,00,000

Notes:

- Long term borrowings
6000, 12% Debentures of Rs.100 each 600,000
(Issued as collateral security as per contra)
- Short term borrowings
Bank Overdraft 500,000
(Secured by the issue of 6000, 12% Debentures of Rs.100 each as collateral security)
- Other non-current assets
Debentures Suspense Account 600,000
(Issued as collateral security as per contra)

Answer 1(e)**Sun Ltd.**

Value Added Statement

For the year ended 31st of March, 2016

<i>Particulars</i>	<i>Amount (Rs.) in lacs</i>	
Gross Sales	1250	
Less : Discount	50	1200
Less : Raw Material	780	
Office Expenses	30	810
Value added by Manufacturing & Trading		390
Distribution of Value Added		160
- Employees Salary & Wages		
- Government		
Income Tax		30
- Stake holders (Provider of capital)		
Interest on Term loan	60	
Dividend	40	100
- Maintenance and Expansion of Company		
Depreciation	70	
Retained Profit	30	100
Total Value Distributed		390

Working Notes:

Calculation of Income Tax

Taxable Profit = 1250-50-70-780-160-60-30 =Rs. 100 lacs

Income Tax at 30 % = 30 lacs

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

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

- (b) Josh Ltd. issued 2,000, 10% debentures of ₹100 each at a discount of 10%. These debentures are redeemable at a premium of 10% after 8 years.

You are required to —

- (i) Show journal entries on issue of debentures.
(ii) Compute the loss on issue of debentures to be accounted over the period.
- (c) What is meant by 'B-List Contributories' ? State their liability in the case of winding-up of a company.
- (d) Distinguish between 'equity shares' and 'preference shares'.
- (e) Compute the amount of goodwill based on 3 years' purchase of super profit from the following :

Future maintainable profit after tax	:	₹15,00,000	
Normal pre-tax rate of return	:	20%	
Capital employed	:	₹60,00,000	
Tax rate	:	30%	(3 marks each)

OR (Alternate question to Q.No. 2)

Question 2A

- (i) Beta Ltd. has following balances as on 1st April, 2015 :

	₹
15% Debentures	8,00,000
Sinking fund (represented by 10% bonds, face value : ₹7,20,000)	6,00,000
Bank balance	3,28,000

Other information —

- Annual contribution to sinking fund ₹1,28,000 and interest on investments are credited on 31st March each year.
- On 31st March, 2016, the company paid-off the debentures by selling the investment at 80%.
- Debentures were redeemed at 10% premium.

Prepare necessary ledger accounts for the year 2015-16. Payment of interest on debentures shall be ignored. (5 marks)

- (ii) Orchid Ltd. holds 80% shares in its subsidiary Tulip Ltd. From the following information calculate minority interest at the end of each year :
- Share capital of Tulip Ltd. was ₹10,00,000 (₹10 each) and reserves ₹2,00,000 on the date of acquisition on 31st March, 2012.

— Fully paid bonus shares were issued by Tulip Ltd. on 31st March, 2013 in the ratio of 2 bonus shares for every 5 shares held.

— Profit and loss of Tulip Ltd. for the various years are :

	Profit/Loss (₹)
31st March, 2013 :	3,00,000
31st March, 2014 :	(1,00,000) (loss)
31st March, 2015 :	2,00,000
31st March, 2016 :	2,50,000 (including profit of ₹150,000 on revaluation of assets) (5 marks)

(iii) Lily Ltd., having sufficient balance to the credit of general reserve and ₹1,00,000 balance in securities premium account, decides to :

— Redeem 5,000, 10% redeemable preference shares of ₹100 each fully paid-up at a premium of 5%; and

— Capital redemption reserve arising as a result of redemption be utilised in allotting the un-issued shares of the company as fully paid equity shares of ₹10 each by way of bonus to its members.

Show journal entries for redemption of preference shares and issue of bonus shares. (5 marks)

Answer 2(a)

Jupiter Ltd.

Notes to Accounts	Rs.
(i) Share Capital Issued and Paid up Capital 30,000 equity shares of Rs. 10 each fully paid up (Out of which 20,000 equity shares of Rs. 10 each Were allotted for consideration other than cash)	3,00,000
(ii) Reserve and Surplus Security Premium (Working Note -1)	3,50,000
Computation of Security Premium	
(a) For Cash Issue : 10,000 shares x 10	1,00,000
(b) For other than Cash :	
Value of Plant & Machinery 4,50,000	
No. of Shares issued 20,000	4,50,000
Value per share = 4,50,000/20,000 = Rs. 22.50	20,000
Premium per share = Rs. 12.50	
Total Premium	2,50,000
Total Security Premium	<u>3,50,000</u>

Answer 2(b)i) **Journal Entries**

<i>Particulars</i>		<i>Dr. (Rs.)</i>	<i>Cr. (Rs.)</i>
Bank	Dr.	1,80,000	
Loss on issue of Debenture A/c	Dr.	40,000	
To 10 % Debenture A/c			2,00,000
To Premium on redemption of Deb. A/c			20,000
(Issue of 2,000 numbers of 10% Debenture of Rs.100 each issued at discount of 10 % and redeemable at premium of 10%)			
Working Note:			
Loss on issue of debenture = Discount on issue + Premium on redemption = 20,000 + 20,000 = 40,000			

(ii) Loss of issue of debenture (Rs.40,000) is to written of over a period of 8 years .

Therefore, 1/8th of 40,000 i.e Rs.5,000 is to written off each year.

Answer 2(c)**B- list Contributories**

On the appointment of Liquidator, director's position will stand automatically vacated and the shareholders will be referred to as contributories. Shareholders who have transferred that partly paid shares within one year earlier to date of winding up will be placed in "B" List. Such contributories will be referred to as "B" List of contributories.

In case the disposal of assets was not sufficient to discharge the liabilities, then the liquidator can claim from "A" List of contributories towards their unpaid capital. If "A" list of contributories are not meeting the liabilities, then liquidator can fall upon "B" List of contributories to recover money towards unpaid portion of the capital. If there were to be more than one such contributories, then the liability will be fixed against that many contributories in the ratio in which they are expected to contribute towards the capital. In no case, such fixation of liabilities can exceed the statutory liability (towards unpaid capital).

Answer 2(d)

<i>Basis</i>	<i>Equity Shares</i>	<i>Preference Shares</i>
Type of issue	Only one type	It can be cumulative and non-cumulative
Voting Rights	Available	Generally no voting. Only on default in payment of dividend may get voting right.
Right to dividend	No preferential right to get dividend. It may or	Right to receive dividend in preference to equity shares. Company is liable to pay

<i>Basis</i>	<i>Equity Shares</i>	<i>Preference Shares</i>
	may not be declared. Company non liable to pay dividend.	dividend in case of cumulative preference shares.
Rate of dividend	Cannot be fixed	Can be fixed
Refund of capital	Refundable only on liquidation of company, if any surplus left after meeting all liabilities.	They are redeemable and capital is refunded on expiry of fixed term.
Preference in refund of capital	No preference	Priority over equity.

Answer 2(e)**Calculation of Goodwill**

- (i) Profit after tax = 150,00,00
- (ii) Normal Profit = (Capital employed x pre tax return) – (tax rate) = (60,00,000 x 20/100) – (30/100) = 8,40,000
- (iii) Super Profit = Actual Profit – Normal Profit = 6,60,000
- (iv) Goodwill = No. of years of purchase x Super Profits = 3 x 6,60,000 = Rs. 19.8 lacs

Answer 2A(i)**15% Debenture A/c**

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
31/3/16	To Deb. Holders A/c	8,00,000	1/4/15	By Balance b/d	8,00,000
		8,00,000			8,00,000

Sinking Fund A/c

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
31/3/16	To 10% bond (loss)	24,000	1/4/15	By Balance b/d	6,00,000
			31/3/16	By Profit & Loss	1,28,000
	To General Reserve (Balancing fig.)	7,76,000	31/3/16	By Bank (Interest on SF investment)	72,000
		8,00,000			8,00,000

Sinking Fund Investment A/c

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
1/4/15	To Balance b/d	6,00,000	31/3/16	By Bank	5,76,000
			31/3/16	By Sinking Fund	24,000
		6,00,000			6,00,000

Bank A/c

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
1/4/15	To Balance b/d	3,28,000	31/3/16	By Debenture holders	8,80,000
31/3/16	To sinking Fund (Int.)	72,000	31/3/15	By Balance c/d	96,000
31/3/16	To 10% Bond	5,76,000			
		9,76,000			9,76,000

Premium on Redemption of Debenture A/c

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
31/3/16	To Debenture Holders	80,000	31/3/16	By General Reserve	80,000

Debenture holders A/c

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
31/3/16	To Bank	8,80,000	31/3/16	By 15% Debentures	8,00,000
			31/3/16	By Premium on redemption	80,000

Answer 2A(ii)**Calculation of Minority Interest**

<i>Year Ending</i>		<i>Rs.</i>
31/3/12	Minority interest on the date of Acquisition (20%) Share Capital 2,00,000 Reserve 40,000	2,40,000
31/3/2013	Share in share capital including Bonus Shares: 14,00,000 x 20% 280,000 Add: Share in Reserve and Profits Reserve on 31/3/12 200,000 Profit for 2012-13 300,000 <u>500,000</u>	

	<i>Less :</i>		
	Capitalisation through bonus shares	400000	
		100000	
	Net Balance of Profits 100000 x 20%	20000	3,00,000
31/3/2014	Opening Balance	3,00,000	
	<i>Less :</i> Share in Loss for the year	20,000	2,80,000
31/3/2015	Opening Balance	2,80,000	
	<i>Add :</i> Share in Profit for the year	40,000	3,20,000
31/3/2016	Opening Balance	3,20,000	
	<i>Add :</i> Share in Profit for the year	50,000	3,70,000

Answer 2A(iii)**Journal entries in the books of Lily Ltd.**

<i>Particulars</i>		<i>Dr. (Rs.)</i>	<i>Cr. (Rs.)</i>
(i) 10% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
Premium on redemption A/c	Dr.	25,000	
To Preference Shareholders			5,25,000
(Amount due to redeemable preference share holders on redemption at 5% premium)			
(ii) Security Premium A/c	Dr.	25,000	
To Premium on redemption A/c			25,000
(Premium on redemption provided)			
(iii) General Reserve A/c	Dr.	5,00,000	
To Capital Redemption Reserve A/c			5,00,000
(Amount of redemption transferred)			
(iv) Preference Shareholders A/c	Dr.	5,25,000	
To Bank			5,25,000
(Amount paid to preference shareholders)			
(v) Capital Redemption Reserve A/c		5,00,000	
To Equity Shareholders			5,00,000
(Issue of 50,000 equity shares as fully paid up Bonus shares to existing equity shareholders)			

Question 3

(a) Metal Ltd. issued 1,25,000 shares of ₹10 each to public. The issue was underwritten by Gold, Silver, Bronze and Copper as under :

Gold 30%, Silver 25%, Bronze 25% and Copper 20%.

The issue was firm underwritten by the underwriters as under :

Gold : 4,000 shares; Silver : 6,000 shares; Bronze : Nil; Copper : 15,000 shares.

Public subscription excluding firm underwriting but including marked applications were 90,000 shares. The applications were marked as under

Gold : 24,000 shares

Silver : 20,000 shares

Bronze : 12,000 shares

Copper : 24,000 shares

Ascertain the liability of each underwriter, assuming firm underwriting shares be treated as un-marked applications. (5 marks)

(b) Following are the details of various balances relating to Strong Ltd. which went into liquidation on 31st March, 2016 :

- Liquidator realised ₹5,25,000 from sale of assets and paid-off ₹ 1,50,000 to secured creditors leaving a balance of ₹3,75,000 with him
- Preferential creditors ? 17,500
- Unsecured creditors ? 1,15,000
- 2,500, 10% Preference shares of ?100 each fully paid
- 3,500 Equity shares of ?100 each, ?60 paid-up
- 1,500 Equity Shares of ? 100 each, ?75 paid-up

Liquidator is entitled to 2.5% remuneration on payments to preferential and other unsecured creditors.

Prepare liquidator's final statement of account. (5 marks)

(c) Corporate restructuring is carried out to make a company more effective. Discuss. (5 marks)

Answer 3(a)

Under-Writer's Liability

Particulars	Gold (30%)	Silver (25%)	Bronze (25%)	Copper (20%)	Total (100%)
Gross Liability	37,500	31,250	31,250	25,000	1,25,000
Less : Marked Application	(24,000)	(20,000)	(12,000)	(24,000)	80,000
Less : Unmarked in gross liability ratio	(10,500)	(8,750)	(8,750)	(7,000)	35,000
Balance	3,000	2,500	10,500	(6,000)	10,000
Credit of Copper's gross liability ratio	(2,250)	(1,875)	(1,875)	6000	NIL
Balance	750	625	8,625	NIL	10,000
Add : Firm Underwriting	4,000	6,000	NIL	15,000	25,000
Net Liability	4,750	6,625	8,625	15,000	35,000

Working Note

- (i) Total unmarked (including Firm) = 90,000 – 80,000 + 25,000 = 35,000

Answer 3(b)**Liquidator's Statement of Account**

<i>Receipt</i>	<i>Amount (Rs.)</i>	<i>Payment</i>	<i>Amount (Rs.)</i>
To Cash (Sale of Assets less S.Creditors)	3,75,000	By Liquidator's remuneration By Preferential Creditors	3312 17,500
To Equity Share holders (Call) (3,500 x 6.6624)	23,318	By Unsecured Creditors By Preference Share Capital By Equity Share holders (1500 x 8.34)	1,15,000 2,50,000 12,506
	3,98,318		3,98,318

Working Note:

(i) Remuneration to Liquidator: 2.5 % of (17,500 + 1,15,000) = 3,312

(ii) Amount loss to be borne by Equity Shareholders

Total Cash available with liquidator 3,75,000

Less : Total payment to be made

(3312+17500+115000+250000) 3,85,812

Shortfall 10,812

Total Paid-up Equity Capital

2,10,000 + 1,12,500 =3,22,500

Add : Shortfall

Loss to be borne by equity shareholders

Loss per share

$33312/5000=66.6624$

Call to be made from 3500 shares

= $66.66-60=6.66$

Refund to be made on 1500 shares =

$75 - 66.66 = 8.34$

Answer 3(c)

The various needs for undertaking a Corporate Restructuring exercise are as follows:

- (i) To focus on core strengths, operational synergy and efficient allocation of managerial capabilities and infrastructure.
- (ii) Consolidation and economies of scale by expansion and diversion to exploit extended domestic and global markets.
- (iii) Revival and rehabilitation of a sick unit by adjusting losses of the sick unit with profits of a healthy company.
- (iv) Acquiring constant supply of raw materials and access to scientific research and technological developments.
- (v) Capital restructuring by appropriate mix of loan and equity funds to reduce the cost of servicing and improve return on capital employed.
- (vi) Improve corporate performance to bring it at par with competitors by adopting the radical changes brought out by information technology.

Question 4

- (a) *Tanu Ltd. and Manu Ltd. carrying on business of similar nature agreed to amalgamate.*

A new company TM Ltd. is to be formed to which assets and liabilities of the existing companies, with certain exceptions, are to be transferred. On 31st March, 2016, the balance sheets of the two companies were as under :

<i>Particulars</i>	<i>Tanu Ltd.</i>	<i>Manu Ltd.</i>
	(₹)	(₹)
I. EQUITY AND LIABILITIES		
<i>(1) Shareholders' funds</i>		
<i>(a) Share capital</i>	3,00,000	1,60,000
<i>(b) Reserves and surplus</i>	2,00,000	40,000
<i>(2) Non-current liabilities</i>		
<i>(a) 6% Debentures</i>	—	1,20,000
<i>(3) Current liabilities</i>		
<i>(a) Trade payables</i>	1,50,000	64,000
TOTAL	<u>6,50,000</u>	<u>3,84,000</u>
II. ASSETS		
<i>(1) Non-current assets</i>		
<i>(a) Fixed assets</i>		
<i>Freehold property</i>	2,10,000	1,20,000
<i>Plant and machinery</i>	50,000	30,000

(2) Current assets

(a) Inventories	1,40,000	1,56,000
(b) Trade receivables	1,64,000	42,000
(c) Cash and cash equivalents	86,000	36,000
TOTAL	<u>6,50,000</u>	<u>3,84,000</u>

Assets and liabilities are to be taken at book value with the following exceptions:

- Goodwill of Tanu Ltd. and Manu Ltd. is to be valued at ₹1,60,000 and ₹60,000 respectively.
- Value of freehold property is to be taken at 120% of the book value in case of both the companies.
- Debentures of Manu Ltd. are to be discharged by issue of 5% debentures of TM Ltd. of such value that earnings of debentureholders are maintained at same level after amalgamation.
- Trade receivables of Manu Ltd. were realised fully and the trade payables of Manu Ltd. were paid ₹60,000 in full and final settlement of their claims.

You are required to —

- (i) Compute the basis on which shares in TM Ltd. will be issued to the shareholders of existing companies, assuming nominal value of each share in TM Ltd. is ₹10.
 - (ii) Prepare balance sheet of TM Ltd. as on 1st April, 2016. (8 marks)
- (b) From the following details related to Best Ltd., compute the value of each equity share on the basis of productivity :

Year ended 31st March	Average net worth (₹)	Adjusted taxed profit (₹)
2013	16,60,000	1,60,000
2014	22,20,000	2,20,000
2015	22,44,000	2,40,000

Best Ltd. has ₹10,00,000 equity share capital of the face value of ₹100 per share and ₹3,00,000, 10% preference share capital with face value of ₹100 per share. The company has investments worth ₹3,00,000 (market value) on the valuation date, the yield in respect of which has been excluded in arriving at adjusted taxed profit. It is usual in similar type of companies to set aside 25% of the taxed profit for rehabilitation and replacement purposes.

On the valuation date, the net worth (excluding investments) amounts to ₹24,00,000. The normal rate of return expected is 10%. The company paid dividend consistently within a range of 10% to 12% on equity shares over the previous five years and expects to maintain it. (7 marks)

Answer 4(a)**(i) Calculation of Purchase Consideration**

	<i>Tanu Ltd.</i> Rs.	<i>Manu Ltd.</i> Rs.
Goodwill	1,60,000	60,000
Freehold Property	2,52,000	1,44,000
Plant & Machinery	50,000	30,000
Inventory	1,40,000	1,56,000
Trade Receivables	1,64,000	
Cash at Bank	86,000	18,000*
	<u>8,52,000</u>	<u>4,08,000</u>
<i>Less</i> : Debentures (1,20,000 x 6/5)		1,44,000
Trade Payable	1,50,000	
Net Assets Taken over	<u>7,02,000</u>	<u>2,64,000</u>
To be satisfied by issue of shares of Rs.10 each in TM Ltd.	70,200	26,400

* Cash at Bank as shown in its B/S	Rs. 36000
Add : Collection (Realisation) from Trade Receivables	<u>Rs. 42000</u>
	Rs. 78000
<i>Less</i> : Payment to Trade Payables	<u>Rs. 60000</u>
Net Cash at Bank of Manu Ltd.	Rs. 18000

(ii) Balance Sheet of TM Limited as on 1st April, 2016

<i>Particulars</i>	<i>Note</i>	<i>Amount (Rs.)</i>
I. Equity and Liabilities		
1. Share holders Fund		
(a) Share Capital	1	9,66,000
2. Non Current Liabilities		
(a) Long Term borrowings	2	1,44,000
3. Current Liabilities		
Trade Payable		<u>1,50,000</u>
		<u>12,60,000</u>
II. Assets		
1. Non Current Assets		
(a) Fixed Assets		
(i) Tangible	3	4,76,000
(ii) Intangible	4	2,20,000

2. Current Assets		
(a) Inventory		2,96,000
(b) Trade Receivable		1,64,000
(c) Cash & Cash equivalent		1,04,000
		<u>12,60,000</u>

Notes to Accounts

1. Share Capital		
Equity Share Capital 96,600 shares of Rs. 10 each		9,66,000
2. Long Term Borrowings		
Secured 5% Debentures		1,44,000
3. Tangible Fixed Assets		
Free hold property (2,52,000 + 1,44,000)		3,96,000
Plant & Machinery (50,000+ 30,000)		80,000
4. Intangible Assets		
Goodwill (1,60,000+60,000)		2,20,000

Answer 4(b)

Since both profit and net worth of the company is showing a steady growth, it would be reasonable to attach weight to them for valuation.

Year Ended	Average Net Worth	Adjusted Taxed Profit	Weight Factor	Weighted Net worth	Profit	Profit
2013	16,60,000	1,60,000	1	16,60,000	1,60,000	1,60,000
2014	20,20,000	2,20,000	2	40,40,000	4,40,000	4,40,000
2015	22,44,000	2,40,000	3	67,32,000	7,20,000	7,20,000

Weighted Average 21,38,667 2,20,000

Productivity factor = $(2,20,000/20,72,000) \times 100 = 10.2868\%$

Net Worth on valuation date = Rs. 24,00,000

Projected future maintainable profit = 10.62% of 24,00,000 = 2,46,883

Less : Rehabilitation and replacement 25 % = 61,721
1,85,162

Less : Preference dividend 30,000
1,55,162

Rate of Return = Rs. 1,61,60 x 10 15,51,620

Add : Value of Investment 3,00,000
18,51,620

Therefore, the value of each equity shares would be:

$18,51,620/10,000 = \text{Rs. } 185.162$

PART -B**Question 5**

- (a) *"Audit is advantageous even to those enterprises and organisations where it is not compulsory." Discuss.*
- (b) *As an auditor of a company, how will you instruct and guide your assistants about special considerations to be borne in mind in the course of vouching ?*
- (c) *Directors of Secure Ltd. are of the opinion that section 138 of the Companies Act, 2013 regarding appointment of internal auditor is not applicable to them. State the provisions of the section regarding requirement for appointment of internal auditor. (5 marks each)*

Answer 5(a)**Advantages of Independent Audit**

1. It safeguards the financial interest of persons who are not associated with the management of the entity, whether they are partners or shareholders.
2. It acts as a moral check on the employees from committing defalcations or embezzlement.
3. Audited statements of account are helpful in setting liability for taxes, negotiating loans and for determining the purchase consideration for a business.
4. 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.
5. 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.
6. 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.
7. Audited accounts are of great help in the settlement of accounts at the time of admission or death of partner.
8. Government may require audited and certificated statement before it gives assistance or issues a licence for a particular trade.

Answer 5(b)**Special Considerations in course of vouching**

- The date of the voucher falls within the accounting period;
- The name as recorded and as contained in voucher is same;
- Voucher/transactions therein are duly and properly authorized by the relevant signatory;

- The transaction for which payment have been made or amount have been received relates to business;
- The transactions being examined belongs to the entity and took place during the relevant period;
- Whether any alteration has been done in the voucher, if so whether it has been duly recorded and authorized;
- Whether any control number maintained on voucher or not. Whether there is any missing number or voucher;
- The transaction is recorded in the proper account and revenue or expenses is properly allocated to the accounting period;
- All transactions which have actually occurred have been recorded;
- The posting from the voucher of the amount needs to be correctly taken in the final accounts, disclosed in accordance with recognized accounting policies and procedures.

Answer 5(c)

Section 138 recommends that following class of companies shall be required to appoint an internal auditor:

- (i) every listed company;
- (ii) every unlisted public company having-
 - paid up share capital of fifty crore rupees or more during the preceding financial year; or
 - turnover of two hundred crore rupees or more during the preceding financial year; or
 - outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
- (iii) every private company having-
 - turnover of two hundred crore rupees or more during the preceding financial year; or
 - outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

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

Question 6

- (a) *You are the auditor of a company covered under the Companies (Auditor's Report) Order, 2015. Describe the matters you will cover in your report in respect of :*
 - (i) *Inventory*
 - (ii) *Maintenance of cost records.*

- (b) *What do you mean by 'materiality' in auditing ? As an auditor of a company, how will you comply with materiality concept in auditing ?*
- (c) *An auditor is required to maintain audit working papers in shape of permanent audit file and current audit file. List out any ten documents finding place in the current audit file. (5 marks each)*

OR (Alternate question to Q.No. 6)

Question 6A

- (i) *Distinguish between 'internal check' and 'internal audit'. (5 marks)*
- (ii) *List out five factors that influence the reliability of audit evidence as per SA 500. (5 marks)*
- (iii) *An auditor appointed under the Companies Act, 2013 shall provide only such other services as are approved by the Board of directors or audit committee but shall not include some services. Specify the services which cannot be rendered by an auditor of a company. (5 marks)*

Answer 6(a)

The Companies (Auditor's report) order 2015 recommends that an auditor should include a statement as under:

- (i) *Inventory*
- (a) Whether physical verification of inventory has been conducted at reasonable intervals by the management?
- (b) Are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business? If not, the inadequacies in such procedures should be reported.
- (c) Whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account?
- (ii) *Maintenance of cost records*
- (a) Where maintenance of cost records has been specified by the Central Government under section 148(1) of the 2013 Act?
- (b) Whether such accounts and records have been made and maintained?

Answer 6(b)

Materiality can be defined as the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

SA 320 "Materiality in Planning and Performing an Audit", establishes standards on the concept of materiality and the relationship with audit risk while conducting an audit. Hence, the auditor requires more reliable evidence in support of material items. SA 320

defines material items as relatively important and relevant items, i.e., items the knowledge of which would influence the decision of the user of financial statements.

Further, the auditor has to ensure that material items are properly and distinctly disclosed in the financial statements. It is very important for the auditor who has constantly to judge whether a particular item is material or not. There is an inverse relationship between materiality and the degree of audit risk. The higher the materiality level, the lower the audit risk and vice versa.

Answer 6(c)

- (a) Correspondence relating to acceptance of annual reappointment.
- (b) Extracts of important matters in the minutes of Board Meetings and General Meetings, as are relevant to the audit.
- (c) Evidence of the planning process of the audit and audit programme.
- (d) Analysis of transactions and balances.
- (e) A record of the nature, timing and extent of auditing procedures performed, and the results of such procedures.
- (f) Evidence that the work performed by assistants was supervised and reviewed.
- (g) Copies of communications with other auditors, experts and other third parties.
- (h) Copies of letters or notes concerning audit matters communicated to or discussed with the client, including the terms of the engagement and material weaknesses in relevant internal controls.
- (i) Letters of representation or confirmation received from the client.
- (j) Conclusions reached by the auditor concerning significant aspects of the audit, including the manner in which exceptions and unusual matters, if any, disclosed by the auditor’s procedures were resolved or treated.
- (k) Copies of the financial information being reported on and the related audit reports.

Answer 6(A)(i)

Difference between Internal Check and Internal Audit

<i>Items</i>	<i>Internal Check</i>	<i>Internal Audit</i>
1. Way of Checking	Work of one person is automatically checked by another	Work is checked by specially appointed/designated person
2. Cost Involvement	No additional cost since work is checked automatically by next level	Internal auditor are specially appointed and hence additional cost is involved
3. Thrust of checking	Early detection of errors	Detect errors and fraud
4. Time of checking	Check is done when work is being done	Checking is done after work is done
5. Reporting	No report is prepared as it is a routine process	Report is prepared and submitted to Board or audit committee for corrective action.

Answer 6(A)(ii)

As per SA 500 on audit evidence, following are the factors that influences reliability of audit evidence:

- (a) Audit evidence obtained from independent source outside the entity is more reliable.
- (b) Audit evidence that is generated internally is more reliable when the related internal controls are effective.
- (c) Audit evidence obtained directly by auditor is more reliable than evidence obtained indirectly or by inference.
- (d) Audit evidence is more reliable when it exists in documentary form.
- (e) Audit evidence of original document is more reliable than photo or scanned copies.

Answer 6(A)(iii)

An auditor appointed under the Companies Act,2013 shall provide only such other services as are approved by the Board of directors or audit committee but shall not include the following services :

- (a) Accounting and book keeping services;
- (b) Internal and management 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

CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

- (a) Distinguish between 'open ended mutual fund' and 'close ended mutual fund'.
(4 marks)
- (b) As on 1st April, 2016, Russel Ltd. has surplus cash for six months. It has following two options under consideration for investing the surplus cash :
- (i) To invest in fixed deposit at an interest rate of 8% per annum payable quarterly; or
- (ii) To buy treasury bills of the face value of ₹100 at ₹98.019 maturing after six months.

Presuming that the risk involved in both the options is identical, state with reasons as to which option should be selected by the company for investing its surplus funds.
(4 marks)

- (c) Compute NAV and rate of return for a unit holder who bought a unit at ₹17.60 and received a dividend of ₹2 per unit during the period. Face value of the unit is ₹10. Other details are as under :

	₹ (in crore)
Market value of funds portfolio	4,200
Size of the scheme	2,000
Accrued income	100
Receivables	100
Accrued expenses	275
Liabilities	150
Number of outstanding units : 200 crore.	(4 marks)

- (d) Following information has been collected regarding Share-X trading at NSE on 2nd September, 2016 :

Date	Time	Price	No. of shares traded
2nd September, 2016	14:42:10	265.60	550
2nd September, 2016	14:53:35	262.78	1,575
2nd September, 2016	15:00:20	260.99	1,514
2nd September, 2016	15:03:30	261.79	1,625
2nd September, 2016	15:05:40	260.38	1,025
2nd September, 2016	15:12:20	261.51	1,390

2nd September, 2016	15:27:25	261.42	800
2nd September, 2016	15:22:20	264.07	600
2nd September, 2016	15:26:55	263.74	1,200

You are required to determine the closing price and last traded price for Share-X for 2nd September, 2016. (3 marks)

Answer 1(a)

'Open Ended Mutual Fund and 'Close Ended Mutual Fund'

Sl.No.	Points of differences	Close ended Mutual Fund	Open ended Mutual Fund
1.	Corpus	Fixed corpus: no new units can be offered beyond the limit.	Variable corpus due to ongoing purchase and redemption.
2.	Listing on Stock Exchanges	Listed on the stock exchange for buying and selling.	No listing on exchange transactions done directly with the fund.
3.	Values	Two values available namely NAV and the Market Trading Price.	Only one price namely NAV.
4.	Liquidity	Mostly liquid	Highly Liquid
5.	Redemption	Either through sale on the Stock Exchanges or through repurchase by the mutual fund.	Only through repurchase by Mutual Fund.
6.	NAV	NAV is calculated on weekly basis.	NAV is calculated every day.

Answer 1(b)

(i) Computation of Effective rate of interest

Rate of interest = 8% per annum

Quarterly rate of interest = 2%

Effective rate of interest = $[(1.02)^2 - 1] \times 100 = 4.04\%$ (considering 6 months)

(ii) Computation of yield of a Treasury bill

$$Y = \frac{(100 - P) \times 365 \times 100}{P \times D}$$

Wherein Y = Discounted yield

P = Price

D = Days to maturity. The days to maturity of Treasury bill are (April- 30 days, May-31 days, June- 30 days, July-31 days, August-31 days, September -30 days)

$$= \frac{(100 - 98.019) \times 365 \times 100}{98.019 \times 183}$$

$$= 4.03\%$$

Since the effective rate of interest on fixed deposit is more than the yield from T bill, it shall be advantageous to invest the money in fixed deposits.

Answer 1(c)

Compute of Net asset value (NAV) and Rate of return

$$\text{NAV} = (\text{Market value} + \text{Current Asset} - \text{Current Liabilities}) / \text{No. of units outstanding}$$

$$= (4200 + 100 + 100 - 150 - 275) / 200 \text{ units}$$

$$= 3975 / 200$$

$$= \text{Rs. } 19.875$$

$$\text{Rate of Return} = \frac{\text{income earned} - \text{amount expended}}{\text{initial investment}} \times 100$$

$$= \frac{19.875 + 2 - 17.60}{17.60} \times 100$$

$$= \frac{4.275}{17.60}$$

$$= 24.29\%$$

Answer 1(d)

Closing price is calculated by taking the weighted- average of prices of a stock during the last half an hour i.e. from 3:00 pm to 3:30 pm for every trading session. However, if there is no trade recorded during last 30 minutes, then the last traded price of a stock is taken as the closing price. Last Trading Price is the price at which the last transaction of a stock is recorded on a trading day. Accordingly the prices are calculated as thus:

Share A

<i>Date</i>	<i>Time</i>	<i>Price</i>	<i>No. of shares traded</i>	<i>Price x shares traded</i>
2-Sep-16	15:00:20	Rs. 260.99	1,514	Rs. 3,95,138.86
2-Sep-16	15:03:30	Rs. 261.79	1,625	Rs. 4,25,408.75
2-Sep-16	15:05:40	Rs. 260.38	1,025	Rs. 2,66,889.50
2-Sep-16	15:12:20	Rs. 261.51	1,390	Rs. 3,63,498.90
2-Sep-16	15:21:25	Rs. 261.42	800	Rs. 2,09,136.00
2-Sep-16	15:22:20	Rs. 264.07	600	Rs. 1,58,442.00
2-Sep-16	15:26:55	Rs. 263.74	1,200	Rs. 3,16,488.00
Total			8,154	Rs. 21,35,002.01

Closing price = Rs. 21,35,002.01/ 8154 = Rs. 261.83

Last Trading Price for Share X = Rs. 263.74

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

Question 2

- (a) "Not only Indian companies are going abroad to raise funds, foreign companies are also coming to India to raise funds." Name the instrument(s) through which a foreign company can raise funds in India by issuing its own equity shares. Also, state the eligibility and conditions for the issue of such instrument(s) in India. (8 marks)
- (b) "High speed of algorithmic trading may damage the structure and health of a stock market. Therefore, it is to be controlled and monitored." In the light of this statement, describe the SEBI guidelines for algorithmic trading. (7 marks)

OR (Alternate question to Q.No. 2)

Question 2A

- (i) "It is not ethical for an issuer of a security to charge different prices for same security from different bidders in a competitive bid." Do you agree? In the light of this statement, distinguish between 'Dutch auction' and 'French auction'. (5 marks)
- (ii) What do you mean by foreign currency convertible bonds (FCCBs)? State the benefits of FCCBs to investors and the issuer. (5 marks)
- (iii) "Trends in the stock market get strength from the volume." Comment on the statement highlighting relation between trends and volume in a stock market. (5 marks)

Answer 2(a)

A foreign company can raise funds in India by issuing its own equity shares through Indian Depository Receipts (IDRs). According to Section 2(48) of the Companies Act, 2013 "Indian Depository Receipt" means any instrument in the form of a depository receipt created by a domestic depository in India and authorised by a company incorporated outside India making an issue of such depository receipts.

Alternate Answer I

Section 390 of the Companies Act, 2013 and rule 13 of Companies (Registration of Foreign Companies) Rules, 2014 lays down the eligibility criteria and conditions for issue of Indian Depository Receipts.

Eligibility for Issue of IDRs

Sub-rule 2 of Rule 13 of the Companies (Registration of Foreign Companies) Rules, 2014 stipulates that the issuing company shall not issue IDRs unless –

- (a) its pre-issue paid-up capital and free reserves are at least US\$ 50 million and it has a minimum average market capitalization (during the last three years) in its parent country of at least US\$ 100 million;

- (b) it has been continuously trading on a stock exchange in its parent or home country (the country of incorporation of such company) for at least three immediately preceding years;
- (c) it has a track record of distributable profits in terms of Section 123 of the Act, for at least three out of immediately preceding five years;
- (d) it fulfills such other eligibility criteria as may be laid down by the SEBI from time to time in this behalf.

Conditions

Sub-rule 5 deals with conditions required to be fulfilled for issue of prospectus which is as under:

- (a) No application form for the securities of the issuing company shall be issued unless the form is accompanied by a memorandum containing the salient features of prospectus in the specified form.
- (b) An application form can be issued without the memorandum as specified in clause (a), if it is issued in connection with an invitation to enter into an underwriting agreement with respect to the IDRs.
- (c) The prospectus for subscription of IDRs of the Issuing company which includes a statement purporting to be made by an expert shall not be circulated, issued or distributed in India or abroad unless a statement that the expert has given his written consent to the issue thereof and has not withdrawn such consent before the delivery of a copy of the prospectus to SEBI and the Registrar of Companies, New Delhi, appears on the prospectus.
- (d) The provisions of the Act shall apply for all liabilities for mis-statements in prospectus or punishment for fraudulently inducing persons to invest money in IDRs.
- (e) The person(s) responsible for issue of the prospectus shall not incur any liability by reason of any non-compliance with or contravention of any provision of this rule, if –
 - (i) as regards any matter not disclosed, he proves that he had no knowledge thereof; or
 - (ii) the contravention arose in respect of such matters which in the opinion of the Central Government or SEBI were not material.

Or

Alternate Answer II

A company has to comply with Chapter X and XA of SEBI (ICDR) Regulations, 2009 to issue IDRs or a rights issue of IDRs.

Eligibility

An issuing company making an issue of IDR shall satisfy the following:

- (a) the issuing company is listed in its home country;
- (b) the issuing company is not prohibited to issue securities by any regulatory body;

- (c) the issuing company has track record of compliance with securities market regulations in its home country.

Conditions for Issue of IDR

An issue of IDR shall be subject to the following conditions:

- (a) issue size shall not be less than fifty crore rupees;
- (b) procedure to be followed by each class of applicant for applying shall be mentioned in the prospectus;
- (c) minimum application amount shall be twenty thousand rupees;
- (d) at least fifty per cent of the IDR issued shall be allotted to qualified institutional buyers on proportionate basis;
- (e) the balance fifty per cent may be allocated among the categories of non-institutional investors and retail individual investors including employees at the discretion of the issuer and the manner of allocation shall be disclosed in the prospectus. Allotment to investors within a category shall be on proportionate basis;

However, at least thirty percent of IDRs being offered in the public issue shall be available for allocation to retail individual investors and in case of under subscription in retail individual investor category.

Spill over to the other categories to the extent of under subscription may be permitted.

- (f) at any given time, there shall be only one denomination of IDR of the issuing company;
- (g) the underlying equity shares against which IDR, are issued have been or will be listed in its home country before listing of IDRs in stock exchange(s);
- (h) the underlying shares of IDRs shall rank pari-passu with the existing shares of the same class.

Answer 2(b)

Algorithmic trading (automated trading, black-box trading, or simply algo-trading) is the process of using computers programmed to follow a defined set of instructions for placing a trade in order to generate profits at a speed and frequency that is impossible for a human trader. With the increasing trend amongst capital market players of generating orders through automated execution logic called Algorithmic Trading. SEBI have formulated broad guidelines to be followed by both Stock Exchanges and Stock Brokers for Algorithmic Trading. These guidelines permits secure systems for algorithmic trading and help to keep pace with the speed of trade and volume of data that may arise through it.

Broadly the Guidelines provide the following directions:

- The stock brokers/trading members that provide the facility of algorithmic trading shall subject to their algorithmic trading system to a system audit every six

months in order to ensure that the requirements prescribed by SEBI/stock exchanges with regard to algorithmic trading are effectively implemented.

- Such system audit of algorithmic trading system shall be undertaken by a system auditor who possess any of the following certifications:
 - (a) CISA (Certified Information System Auditors) from ISACA;
 - (b) DISA (Post Qualification Certification in Information Systems Audit) from Institute of Chartered Accountants of India (ICAI);
 - (c) CISM (Certified Information Securities Manager) from ISACA;
 - (d) CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).
- Deficiencies or issues identified during the process of system audit of trading algorithm/software shall be reported by the stock broker/trading member to the stock exchange immediately on completion of the system audit. Further, the stock broker/trading member shall take immediate corrective actions to rectify such deficiencies/issues.
- In case of serious deficiencies/issues or failure of the stock broker/trading member to take satisfactory corrective action, the stock exchange shall not allow the stock broker/trading member to use the trading software till deficiencies/issues with the trading software are rectified and a satisfactory system audit report is submitted to the stock exchange. Stock exchanges may also consider imposing suitable penalties in case of failure of the stock broker/trading member to take satisfactory corrective action to its system within the time-period specified by the stock exchanges.
- Stock exchanges shall periodically review their surveillance arrangements in order to better detect and investigate market manipulation and market disruptions.
- The penalty rates specified by the stock exchanges of 'charges to be levied per algo orders' are required to be double.
- In order to discourage repetitive instances of high daily order-to-trade ratio, stock exchanges shall impose an additional penalty in form of suspension of proprietary trading right of the stock broker / trading member for the first trading hour on the next trading day in case a stock broker / trading member is penalized for maintaining high daily order-to-trade ratio, provided penalty was imposed on the stock broker/trading member on more than ten occasions in the previous thirty trading days.

Answer 2A(i)

'French auction' and 'Dutch auction'

Yes. In French Auction, which is also known as Multiple Price Based Auction, all bids equal to or above the cut-off price are accepted. However, the bidder has to obtain the treasury bills at the price quoted by him. This method is followed in the case of 364 days treasury bills and is valid only for competitive bidders.

In Dutch auction, which is also known as Uniform Price Based Auction, all the bids equal to or above the cut-off price are accepted at the cut-off level. However, unlike the Multiple Price based method, the bidder obtains the treasury bills at the cut-off price and not the price quoted by him. This method is applicable in the case of 91 day treasury bills only. The system of Dutch auction has been done away with by the RBI w.e.f. 08.12.2002 for the 91 day treasury T. Bill

Answer 2A(ii)

The Foreign Currency Convertible Bonds (FCCBs) are unsecured, carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company. Interest and redemption price (if conversion option is not exercised) is payable in dollars. FCCBs shall be denominated in any freely convertible Foreign Currency. However, it must be kept in mind that FCCB issue proceeds need to conform to ECB end use requirements.

Benefits to the Issuer Company

- Being Hybrid instrument, the coupon rate on FCCB is particularly lower than pure debt instrument thereby reducing the debt financing cost.
- FCCBs are book value accretive on conversion. It saves risks of immediate equity dilution as in the case of public shares. Unlike debt, FCCB does not require any rating nor any covenant like securities, cover etc.

Benefits to Investors

- It has advantage of both equity and debt.
- It gives the investor much of the upside of investment in equity, and the debt portion protects the downside.
- Assured return on bond in the form of fixed coupon rate payments.
- Ability to take advantage of price appreciation in the stock by means of warrants attached to the bonds, which are activated when price of a stock reaches a certain point.

Answer 2A(iii)

Trend represents price movement of a specific security in a stock market and it may be upward or downward trend. And, it is true that volume provides strength to trend. In fact, volume makes an attempt to confirm the strength of price trends. There is positive relation between trend and volume- with an upward trend, volume increases and with a downward trend, volume in the stock market falls. Higher volume represents higher demand and it acts like a fuel in the market – with increasing volumes, prices go up and the market has an upward trend while with decreasing volumes, price go down. But, in an upward market, if the volume starts declining or in a downward market, if the volume starts increasing, then it means that there is a trend reversal and hence, the investor should take a trading position in such a case- either sell or buy shares.

Question 3

- (a) *What is a Real Estate Investment Trust (REIT) ? What are the eligibility criteria for granting a certificate to an applicant to act as REIT as per SEBI guidelines in this regard ?* (8 marks)

- (b) *What are the restrictions imposed on business activities for collective investment management companies ?* (7 marks)

Answer 3(a)

“REIT” or “Real Estate Investment Trust” shall mean a trust registered as such under Real Estate Investment Trusts (REITs) Regulations, 2014. Any person shall not act as a REIT unless it is registered with SEBI under these regulations. An application for grant of certificate of registration as REIT shall be made, by the sponsor in such form and on such fees as prescribed in these regulations.

SEBI may, in order to protect the interests of investors, appoint any person to take charge of records, documents of the applicant and for this purpose, also determine the terms and conditions of such an appointment. SEBI shall take into account requirements as prescribed in these regulations for the purpose of considering grant of registration.

Eligibility Criteria

For the purpose of the grant of certificate to an applicant, SEBI shall consider all matters relevant to the activities as a REIT.

- (a) *Applicant* : Applicant must be a Trust and the Trust deed must be duly registered in India under the provisions of the Registration Act, 1908 containing the main objective as undertaking activity of REIT in accordance with the set Regulations.
- (b) *Sponsor* : There are not more than 3 sponsors, each holding or proposing to hold not less than 5% of the number of units of the REIT on post-initial offer basis. The sponsor must have a net worth of at least Rs. 100 Crores on a collective basis and have not less than 5 years’ experience in the real estate industry on an individual basis.
- (c) *Manager* : It must have net worth of not less than Rs. 10 crore; not less than 5 years of experience in fund management/ advisory services/ property management in the real estate industry or in development of real estate; and not less than 2 key personnel who each have not less than 5 years of experience in fund management/ advisory services/ property management in the real estate industry or in development of real estate.
- (d) *Trustee* : It should be registered with SEBI under SEBI (Debenture Trustees) Regulations, 1993; not an associate of the sponsor/ manager/ principal valuer and the trustee has such wherewithal with respect to infrastructure, personnel, etc. to the satisfaction of SEBI and in accordance with circulars or guidelines as may be specified by SEBI.
- (e) The unit holder of the REIT shall not enjoys preferential voting or any other rights over another unit holder.
- (f) There are no multiple classes of units of REIT.
- (g) The applicant has clearly described details related to proposed activities at the time of application for registration.
- (h) The applicant and parties to the REIT are fit and proper persons based on the criteria as specified in SEBI (Intermediaries) Regulations, 2008.

- (i) Whether any previous application for grant of certificate by the applicant or any related party has been rejected by SEBI.
- (j) Whether any disciplinary action has been taken by SEBI or any other regulatory authority against the applicant or any related party under any Act or the regulations or circulars or guidelines made thereunder.

Answer 3(b)

According to Regulation 13 of the SEBI (Collective Investment Schemes) Regulations, 1999, Collective Investment Management Company (CIMC) shall not:

- undertake any activity other than that of managing the scheme;
- act as a trustee of any scheme;
- launch any scheme for the purpose of investing in securities;
- invest in any schemes floated by it.

However, it has been provided that a CIMC may invest in its own scheme, if it makes a disclosure of its intention to invest in the offer document of the scheme, and does not charge any fees on its investment in that scheme.

Question 4

(a) *Distinguish between the following :*

- (i) *'Rating of manufacturing companies' and 'rating of financial services companies'.*
- (ii) *'Primary dealers' and 'corporate treasury'.*
- (iii) *'Venture capital fund' and 'social venture fund'. (3 marks each)*

(b) *Explain briefly the following :*

- (i) *Tracking stock*
- (ii) *Rolling settlement. (3 marks each)*

Answer 4(a)

- (i) *'Rating of manufacturing companies' and 'Rating of Financial services companies'*

The factors generally considered for rating of manufacturing companies covers evaluation of Business Risk, Financial Risk, Management Risk and Project Risk, where applicable. Each of these risk factors further sub divided into various parameters, which may be different for different type of industries.

The rating methodology for non-banking financial services companies is based on CAMELS model encompassing, Capital adequacy, Asset quality, Management, Earnings, Liquidity, Systems and control. In 1995, RBI had set up a working group under the chairmanship of Shri S. Padmanabhan to review the banking supervision system. The Committee recommended that the banks should be rated on the lines of international CAMELS model.

(ii) *'Primary Dealers' and 'Corporate Treasury'*

Primary dealers (PDs) are important intermediaries in the government securities markets. They act as underwriters in the primary market, and as market makers in the secondary market. PDs underwrite a portion of the issue of government security that is floated for a predetermined amount. The underwriting commitment of each PD is broadly decided on the basis of its size in terms of its net owned funds, its holding strength, the committed amount of bids and the volume of turnover in securities.

The process of administering to the financial assets and holdings of a business is called corporate treasury. The goal of most treasury management departments is to optimize their company's liquidity, make sound financial investments for the future with any excess cash, and reduce or enter into hedges against its financial risks. The main roles come under 'Corporate Treasury' is as follows:-

- Managing Risk
- Liquidity Risk
- Credit Risk
- Currency Risks, etc.

(iii) *'Venture Capital Fund' and 'Social Venture Fund'*

Venture Capital Fund will primarily invest in unlisted securities of startups, emerging or early stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property rights based activities or a new business model and shall include an angel fund.

Social Venture Fund will invest primarily in securities or units of social ventures and which satisfy social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns.

Answer 4(b)

(i) *Tracking Stock*

A Tracking stock is a type of common stock that "tracks" or depends on the financial performance of a specific business unit or operating division of a company, rather than the operations of the company as a whole. Tracking stocks are generally issued by a parent company in order to create a financial vehicle that tracks the performance of a particular division or subsidiary.

(ii) *Rolling Settlement*

Rolling settlement is the process of netting of transactions and actual delivery/ receipts of securities and transfer deeds against receipts and payments of the agreed amount. In this system of rolling settlement, each day is considered as a trading day period and trades are executed during the day and are settled on the basis of net obligations for the day. In India, trades in rolling settlement are settled on a T+2 basis i.e. on the 2nd working day after a trade.

PART B**Question 5**

(a) *Comment on the following :*

- (i) *Indian companies unlisted in India can go for listing in a foreign stock exchange.*
 - (ii) *Regulation 10 of the Takeover Code provides automatic exemption from the applicability of making open offer.*
 - (iii) *For the purpose of issue of bonus shares, the reserves created by revaluation of fixed assets shall not be capitalised.*
 - (iv) *A competitive bid is an offer made by a person other than the acquirer who has made the first public announcement.*
 - (v) *Enterprise value means value of a company which is equal to the market capitalisation plus value of debt in the company. (2 marks each)*
- (b) *You are the Company Secretary of Vision Ltd., whose shares were listed at Delhi Stock Exchange. The stock exchange delists the shares of the company. Advise the company regarding the remedy available keeping in view the provisions of the Securities Contracts (Regulation) Act, 1956. (6 marks)*
- (c) *Can a company issue shares at differential price in a public issue ? If yes, to whom and under what circumstances the shares can be issued at differential price ? (4 marks)*

Answer 5(a)

- (i) **The statement is true.** Unlisted Indian companies in India can go for listing in foreign stock exchange as per 'Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993', Depository Receipts Scheme, 2014 and Companies (Issue of Global Depository Receipts) Rules, 2014.
- (ii) **The statement is true.** Regulation 10 of the SEBI Takeover Regulations, 2011 provides for automatic exemption from the applicability of making Open Offer to the shareholders of the Target Company in respect of certain acquisitions subject to the compliance of certain conditions specified therein.
- (iii) **The statement is true.** Bonus shares shall not made out of revaluation of fixed assets. Capitalisation of profits refers to the process of converting profits or reserves into paid up share capital. The company shall issue bonus shares out of Free Reserves, Securities Premium Account and Capital Redemption Reserve Account.
- (iv) **The statement is true.** Competitive Bid means an offer made by a person other than the acquirer who has made the first public announcement.
- (v) **The statement is not true.** As per SEBI (Substantial Acquisition of Shares and Takeovers) Regulation 2011, Enterprise value means the value calculated as market capitalization of a company plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Answer 5(b)

To

The Board of Directors
Vision Ltd.

This is with reference to the delisting of Company's Shares by Delhi Stock Exchange Limited.

As a Company Secretary of the Company, I would like to notify that according to Section 21A of Securities Contracts (Regulation) Act, 1956, the securities of a company shall not be delisted unless the company concerned has been given a reasonable opportunity of being heard.

A listed company or an aggrieved investor may file an appeal before the Securities Appellate Tribunal against the decision of the recognised stock exchange delisting the securities within fifteen days from the date of the decision of the recognized stock exchange delisting the securities and the provisions of Sections 22B to 22E of this Act, shall apply, as far as may be, to such appeals.

The Securities Appellate Tribunal may, if it is satisfied that the company was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding one month.

In view of the above provisions, I would request you to guide and issue necessary instructions.

Mr. X

**Company Secretary
Vision Ltd.**

Answer 5(c)

Yes, a company can offer specified securities at different prices to retail individual investors or retail individual shareholders or employees entitled for reservation, anchor investor etc. A company making public issue of the securities has to comply with the provisions as laid down in SEBI (ICDR) Regulations, 2009, relating to differential pricing. In these regulations, SEBI has prescribed certain criteria for making differential pricing for different categories of investors. An issuer can offer specified securities at different prices, subject to the following:

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

However, such difference shall not be more than 10% of the price at which specified securities are offered to other categories of applicants.

- (b) in case of a book built issue, the price of the specified securities offered to an anchor investor should not be lower than the price offered to other applicants;
If the issuer opts for alternate method of book building, the issuer can offer

specified securities to its employees at a price, lower than floor price and the difference between such price and floor price shall not be more than 10%.

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

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

Question 6

- (a) As a Company Secretary of Lucky Ltd., prepare a Board note giving various requirements of SEBI guidelines for rights issue and enumerate the various major steps involved in such an issue. (8 marks)
- (b) Write short notes on the following :
- (i) Acquirer in the Takeover Code
- (ii) Confidentiality of request under SEBI (Informal Guidance) Scheme, 2003. (3 marks each)
- (c) Define the following :
- (i) Fast track issue
- (ii) Green shoe option. (3 marks each)

OR (Alternate question to Q.No. 6)

Question 6A

- (i) Fortune Ltd. is a registered stock broker of the Bombay Stock Exchange. SEBI levied a penalty of 2 crore on the company for violation of the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003. Fortune Ltd. is contemplating to challenge the SEBI's order before the Securities Appellate Tribunal (SAT) in an appeal. Explain the procedure for making an appeal before the SAL (8 marks)
- (ii) Write notes on the following :
- (a) Different types of listing
- (b) Person deemed to be connected person
- (c) Obligations of a debenture trustee. (4 marks each)

Answer 6(a)

To

03 January, 2017

The Board of Directors
Lucky India Ltd.

Rights issue as defined in the SEBI (ICDR) Regulation, 2009 is an issue of capital under Section 62 of the Companies Act, 2013 to be offered to the existing shareholders of the company through a letter of offer. A listed company cannot make any issue of security through a rights issue where the aggregate value of securities including premium exceeds Rs. 50 lakh, unless it has filled a draft letter of offer with SEBI through a

Merchant Banker at least 30 days prior to the filling of prospectus with the designated stock exchange.

The various steps involved for issue of rights share are enumerated below:

1. Check whether the rights issue is within the authorised share capital of the company. If not, steps should be taken to increase the authorised share capital.
2. In case of a listed company, notify the stock exchange concerned the date of Board Meeting at which the rights issue is proposed to be considered at least 2 days in advance of the meeting.
3. Rights issue shall be kept open for at least 15 days and not more than 30 days.
4. Convene the Board meeting and place before it the proposal for rights issue.
5. The Board of directors should decide on the following matters:
 - (i) Quantum of issue and the proportion of rights shares.
 - (ii) Alteration of share capital, if necessary, and offering shares to persons other than existing holders of shares in terms of Section 62 of the Companies Act, 2013.
 - (iii) Fixation of record date.
 - (iv) Appointment of merchant bankers and underwriters (if necessary).
 - (v) Approval of draft letter of offer or authorisation of managing director/ company secretary to finalise the letter of offer in consultation with the managers to the issue, the stock exchange and SEBI.
6. Immediately after the Board Meeting notify the concerned Stock Exchanges about particulars of Board's of Directors decision.
7. If it is proposed to offer shares to persons other than the shareholders of the company, a General Meeting has to be convened and a resolution is to be passed for the purpose in terms of Section 62 of the Companies Act, 2013.
8. Forward 6 sets of letter of offer to concerned Stock Exchange(s).
9. Despatch letters of offer to shareholders by registered post.
10. Check that an advertisement giving date of completion of despatch of letter of offer has been released in at least an English National Daily, one Hindi National Paper and a Regional Language Daily where registered office of the issuer company is situated.
11. Check that the advertisement contains the list of centres where shareholders or persons entitled to rights may obtain duplicate copies of composite application forms in case they do not receive original application form alongwith the prescribed format on which application may be made.
12. The applications of shareholders who apply both on plain paper and also in a composite application form are liable to be rejected.
13. Make arrangement with bankers for acceptance of share application forms.
14. Prepare a scheme of allotment in consultation with Stock Exchange.
15. Convene Board Meeting and make allotment of shares.
16. Make an application to the Stock Exchange(s) where the company's shares are listed for permission of listing of new shares.

Answer 6(b)(i)**Acquirer in the Takeover Code**

Regulation 2 (a) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 defines “Acquirer” which means any person who, directly or indirectly, acquires or agrees to acquire whether by himself, or through, or with persons acting in concert with him, shares or voting rights in, or control over a target company.

When an acquirer takes over the control or management of the target company', it is termed takeover. When an acquirer acquires “substantial quantity of shares or voting rights” of the target company, it results in a substantial acquisition of shares.

Answer 6(b)(ii)**Confidentiality of Request**

- (a) Under SEBI(Informal Guidance) Scheme 2003, any person submitting a letter or written communication under this scheme may request that it receive confidential treatment for a specified period of time not exceeding 90 days from the date of the Department’s response. The request shall include a statement of the basis for confidential treatment.
- (b) If the Department determines to grant the request, the letter or written communication will not be available to the public until the expiration of the specified period.
- (c) If it appears to the Department that the request for confidential treatment should be denied, the requestor will be so advised and such person may withdraw the letter or written communication within 30 days of receipt of the advise, in which case the fee, if any, paid by him would be refunded to him.
- (d) In case where a request has been withdrawn under clause (c), no response will be given and the letter or written communication will remain in the SEBI files but will not be made available to the public.
- (e) If the letter or written communication is not withdrawn, it shall be available to the public together with any written staff response.

Answer 6(c)(i)**Fast Track Issues**

Listed companies satisfying certain specified requirement are eligible to make fast track issue (FTIs) as per Regulation 10 of SEBI (ICDR) Regulations, 2009. Such listed companies are able to proceed with follow-on public offering/rights issue by filing a copy of the Red Herring Prospectus (in case of book built issue)/Prospectus (in case of fixed price issue) as the case may be, with SEBI and stock exchanges. Such companies are not required to file draft offer document with SEBI and stock exchanges.

Accordingly the provisions relating to filing of offer document are not applicable to public issue of securities by a listed issuer company or a rights issue of securities by a listed issuer company, where the aggregate value of such securities, including premium, if any, exceeds Rs. 50 lacs, subject to compliance of certain conditions as laid down in the SEBI (ICDR) Regulations, 2009.

Answer 6(b)(ii)**Green Shoe Option**

“Green Shoe Option” (GSO) means an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism in accordance with the provisions of Regulation 45 of SEBI (ICDR) Regulations, 2009.

The GSO process involves the appointment of a merchant banker as a stabilizing agent (SA) by the issuer company; agreement with promoters or other pre-issue shareholders to borrow a certain number of shares from them. The extent of borrowed shares is restricted to 15% of the issue size. The issuer company is required to pass a shareholder resolution for appointing a stabilizing agent and SA is required to open a GSO bank account and GSO demat account.

Answer 6A(i)

As per Section 15T of the SEBI Act, 1992, any person aggrieved,—

1. by an order of SEBI made under this Act, or the rules or regulations made thereunder; or;
2. by an order made by an adjudicating officer under this Act, may prefer an appeal to a Securities Appellate Tribunal having jurisdiction in the matter.
 - Every appeal shall be filed within a period of forty-five days from the date on which a copy of the order made by SEBI or the Adjudicating Officer, as the case may be, is received by him and it shall be in such form and be accompanied by such fee as may be prescribed.
 - Provided that the Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of forty-five days if it is satisfied that there was sufficient cause for not filing it within that period.
 - On receipt of an appeal, the Securities Appellate Tribunal may, after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against.
 - The Securities Appellate Tribunal shall send a copy of every order made by it to SEBI, the parties to the appeal and to the concerned Adjudicating Officer.
 - The appeal filed before the Securities Appellate Tribunal shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.

Answer 6A(ii)**(a) Different types of listing**

Listing of securities falls under 5 groups:-

- *Initial Listing* : If the shares or securities are to be listed for the first time by a company on a stock exchange is called initial listing.

- *Listing for Public Issue* : When a company whose shares are listed on a stock exchange comes out with a public issue of securities, it has to list such issue with the stock exchange.
- *Listing for Rights Issue* : When companies whose securities are listed on the stock exchange issue securities to existing shareholders on rights basis, it has to list such rights issues on the concerned stock exchange.
- *Listing of Bonus Shares* : Shares issued as a result of capitalisation of profit through bonus issue shall list such issues also on the concerned stock exchange.
- *Listing for merger or amalgamation* : When new shares are issued by an amalgamated company to the shareholders of the amalgamating company, such shares are also required to be listed on the concerned stock exchange.

(b) Person deemed to be connected person

As per SEBI (Prohibition of Insider Trading) Regulation, 2015, "Person is deemed to be a connected person", if such person –

- (a) an immediate relative of connected persons; or
- (b) a holding company or associate company or subsidiary company; or
- (c) an intermediary as specified in section 12 of the Act or an employee or director thereof; or
- (d) an investment company, trustee company, asset management company or an employee or director thereof; or
- (e) an official of a stock exchange or of clearing house or corporation; or
- (f) a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or
- (g) a member of the board of directors or an employee, of a public financial institution as defined in section 2 (72) of the Companies Act, 2013; or
- (h) an official or an employee of a self-regulatory organization recognised or authorized by SEBI; or
- (i) a banker of the company; or
- (j) a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than ten per cent of the holding or interest;

(c) Obligations of a debenture trustee

Regulation 13, 13A and 14 of SEBI (Debenture Trustees) Regulation, 1993 lays down the obligations of a debenture trustee.

Regulation 13 lays down that no debenture trustee who has been granted a certificate by SEBI shall act as debenture trustee unless he enters into a written agreement with the body corporate before the opening of the subscription list for issue of debentures

and the agreement inter alia contains that debenture trustee has agreed to act as such under the trust deed for securing an issue of debentures for the body corporate and the time limit within which the security for the debentures shall be created.

Regulation 13A stipulates that no debenture trustee shall act as such for any issue of debentures in case:

- (a) it is an associate of the body corporate; or
- (b) it has lent and the loan is not yet fully repaid or is proposing to lend money to the body corporate.

Regulation 14 specifies that every debenture trustee shall amongst other matters accept the trust deeds which contain the matters specified in Schedule IV to the regulations.

INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

PART A

1. Consider the following statements under the Factories Act, 1948 :
 - (i) An electronic data processing unit installed in a premises can be construed to make it a 'factory' even if no manufacturing process is being carried on in such premises
 - (ii) A company engaged in construction of railway line is a 'factory'
 - (iii) For computing the number of workers for the purpose of 'factory', all workers in different groups and relays in a day shall be taken into account
 - (iv) Hotels, eating places or restaurants are covered under the definition of 'factory'Select the false statements from the options given below -
 - (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) (iv) and (i).
2. Which one of the following will not be included in the list of legislations that may be brought under the ambit of labour audit –
 - (A) Payment of Wages Act, 1936
 - (B) Payment of Bonus Act, 1965
 - (C) Industrial Disputes Act, 1947
 - (D) Apprentices Act, 1961.
3. The Employees' State Insurance Act, 1948-
 - (A) Was enacted for the benefit of the employers
 - (B) Has been amended by the Employees' State Insurance (Amendment) Act, 2010 for enhancing the social security coverage and better services to the beneficiaries
 - (C) Applies to all factories including seasonal factories
 - (D) Has been extended by many State Governments to shops and hotels employing 10 or more persons.

4. Which one of the following was not laid down as objective of the Industrial Disputes Act, 1947 in the case of *Workmen of Dimakuchi Tea Estate v. Dimakuchi Tea Estate*
 - (A) Promotion of measures for securing health and social security of the workers
 - (B) Prevention of illegal strikes and lock-outs
 - (C) Promotion of collective bargaining
 - (D) Investigation and settlement of disputes of industrial nature arising between the employers and employees.
5. Section 4 of the Maternity Benefit Act, 1961 provides that no employer shall knowingly employ a woman in any establishment for a period of _____ immediately following the day of her delivery, miscarriage or medical termination of pregnancy.
 - (A) Six weeks
 - (B) Nine weeks
 - (C) Three months
 - (D) Six months.
6. Which one of the following injuries does not come under the definition of the term 'personal injury' according to the Employees' Compensation Act, 1923
 - (A) Nervous shock
 - (B) Mental strain
 - (C) Loss of money
 - (D) Break-down.
7. Excluding provisions of section 22 of the Payment of Bonus Act, 1965, the bonus should be paid within a period of eight months. But on sufficient reasons the period may be extended. However, the total period so extended should not exceed –
 - (A) One year
 - (B) Two years
 - (C) Three years
 - (D) Five years.
8. Which one of the following statements is false under the Minimum Wages Act, 1948 –
 - (A) The Act provides for fixation and revision of minimum wages of workers engaged in factories and establishments
 - (B) Under this Act, both Central Government as well as State Governments are responsible in respect of scheduled employments within their jurisdictions

- (C) There is large scale variation of minimum wages, both within the country and internationally, owing to different factors
- (D) In case of any scheduled employment carried on by or under the authority of the Central Government or Railways administration, the Central Government is the appropriate government.
9. Under section 2 of the Apprentices Act, 1961, the term 'apprentice' means –
- (A) A person who is a diploma holder and eligible for apprenticeship
- (B) A person who is an engineering graduate and eligible for apprenticeship
- (C) A person who is undergoing apprenticeship training in pursuance of a contract of apprenticeship
- (D) A person who is given training to learn the manufacturing process in the factory.
10. Consider the following statements under the Trade Unions Act, 1926 :
- (i) Trade union is a mandatory organisation of workers pertaining to a particular trade, industry or company
- (ii) Trade union is an unsuitable organisation for balancing and improving the relations between the employer and the employees
- (iii) Every registered trade union is a body corporate by the name under which it is registered
- (iv) Every registered trade union shall have perpetual succession and common seal.
- Select the false statements from the options given below -
- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i).
11. Part-A of the Schedule to the Child Labour (Prohibition and Regulation) Act, 1986 does not include
- (A) Handloom and powerloom industry
- (B) Plastic units and fiberglass workshops
- (C) Soldering processes in electronic industries
- (D) Transport of passengers, goods or mails by Railways.
12. Gratuity payable under the Payment of Gratuity Act, 1972 is exempted from attachment in execution of any decree or order of –
- (A) Civil court
- (B) Revenue court
- (C) Criminal court
- (D) All of the above.

- 13.** The Industrial Disputes Act, 1947 is the legislation for –
- (A) Inquiry into the disputes between the workmen and outside persons
 - (B) Settlement of disagreements between the workers employed in the industries
 - (C) Investigation and settlement of all industrial disputes
 - (D) Adjudication of disputes of all civil and criminal nature related with workers employed in the industries.

- 14.** Consider the following statements under the Minimum Wages Act, 1948 :
- (i) Payment for overtime work can be claimed only by the employees who are getting minimum rate of wages under the Act
 - (ii) Payment for overtime work cannot be claimed by the employees who are getting better wages
 - (iii) An employee shall receive wages for full normal working day even if his failure to work is caused by his unwillingness to work
 - (iv) The provisions of section 20(1) are applicable if there exists a dispute between the employer and the employee.

Select the false statements from the options given below –

- (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) (iv) and (i).
- 15.** Consider the following statements under the Payment of Wages Act, 1936 :
- (i) 'Employed person' does not include the legal representative of a deceased employed person
 - (ii) 'Industrial or other establishment' does not include tramway service or motor transport service engaged in carrying passengers or goods
 - (iii) 'Wages' does not include any bonus which does not form part of the remuneration payable under the terms of employment
 - (iv) 'Employer' includes the legal representative of a deceased employer.

Select the false statements from the options given below –

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i).

16. As per section 2(d) of the Employment Exchanges (Compulsory Notification of vacancies) Act, 1959, 'employment exchange' means any office or place established and maintained by the government for the collection and furnishing of information either by keeping of registers or otherwise in respect of
- (A) Persons who seek to engage employees
 - (B) Persons who seek employment
 - (C) Vacancies to which persons seeking employment may be appointed
 - (D) All of the above.
17. Which of the following are objects of the Industrial Employment (Standing Orders) Act, 1946 :
- (i) To enforce uniformity in the conditions of service under different employers in different industrial establishments
 - (ii) The employer, once having made the conditions of employment known to his employed workmen, cannot change them to their detriment
 - (iii) With the express or written conditions of employment, it is open for the prospective worker to accept them and join the industrial establishment
 - (iv) For maintaining industrial peace and continued productivity, significance of the written express conditions of employment cannot be minimised.
- Select the correct answer from the options given below –
- (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) All of the above.
18. To give effect to the provisions of the Constitution of India, the Parliament enacted the Equal Remuneration Act, 1976 based upon -
- (A) Directive Principles of State Policy
 - (B) Fundamental rights
 - (C) Fundamental duties
 - (D) Preamble.
19. Under section 46 of the Employees' State Insurance Act, 1948, the insured persons and their dependents are entitled to the following benefits at prescribed rate -
- (A) Periodical payments to an insured woman in case of confinement or miscarriage or sickness arising out of pregnancy or confinement
 - (B) Perpetual periodical payments to dependents of the insured person

- (C) Payment of funeral expenses on the death of insured person
 - (D) Both (A) and (C) above.
- 20.** As per the provisions of the Industrial Disputes Act, 1941, which one of the following is not a valid reason for an employer declaring lay-off -
- (A) Shortage of coal, power and raw material
 - (B) Accumulation of stocks
 - (C) Breakdown of machinery
 - (D) Financial stringency.
- 21.** The Maternity Benefit Act, 1961 –
- (A) Regulates the employment of workers in factories, mines and other establishments
 - (B) Is applicable to women employees and makes provisions to safeguard the interest of pregnant women workers
 - (C) Is a welfare legislation and hence discloses the objectives of Directive Principles of State Policy enshrined in the Constitution
 - (D) Both (B) and (C) above.
- 22.** Consider the following statements under the Contract Labour (Regulation and Abolition) Act, 1970 :
- (i) Under section 11 of the Act, gazette officers to be licensing officers are appointed by the Central Government
 - (ii) The licence issued to a contractor is transferable
 - (iii) A licence issued to a contractor may be revoked if it is found that it was obtained by misrepresentation or suppression of any material fact
 - (iv) The aggrieved person may, within 30 days from the date on which the order is communicated to him, prefer an appeal to an Appellate Officer.
- Select the correct statements from the options given below -
- (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) (iv) and (i).
- 23.** Consider the following statements under the Employees' Compensation Act, 1923 :
- (i) In case of temporary partial disablement, the employee's earning capacity in relation to other employment is not affected

- (ii) In case of permanent partial disablement, the disablement results in reduction in earning capacity in all employments
- (iii) 'Total disablement' incapacitates an employee for all work which he was capable of performing at the time of accident resulting in such disablement
- (iv) Loss of physical capacity is co-extensive with loss of earning capacity but loss of earning is not so co-extensive with loss of physical capacity.

Select the correct statements from the options given below

- (A) (i), (ii) and (iii)
 - (B) (ii), (iii) and (iv)
 - (C) (iv), (i) and (ii)
 - (D) All of the above.
- 24.** Which one of the following statements is false relating to the Employees' Insurance Court under section 74 of the Employees' State Insurance Act, 1948
- (A) The Employees' Insurance Court is constituted by the State Government
 - (B) The Court consists of such number of Judges as the Central Government gives directions to the State Government
 - (C) A person who is or has been a Judicial Officer or a legal practitioner of 5 years standing is qualified to be a Judge of the Employees' Insurance Court
 - (D) No Civil Court has power to decide the matters falling within the jurisdiction of the Employees' Insurance Court.
- 25.** A strike or lock-out may not be illegal under the provisions of the Industrial Disputes Act, 1947 if
- (A) It is declared in contravention of section 22 of the Act
 - (B) It is declared in consequence of an illegal strike
 - (C) It is continued in contravention of an order made under section 10(3) of the Act
 - (D) It is commenced or declared in contravention of section 23 of the Act.
- 26.** Which of the following statement(s) is/are false as per the Child Labour (Prohibition and Regulation) Act, 1986 –
- (A) As per Article 24 of the Constitution of India, a child below the age of 14 years may be employed in any factory, mine or any hazardous employment
 - (B) Child labour is a concrete manifestation of violations of a range of rights of children and hence, is not recognised as a serious social problem in India
 - (C) Under Article 21A of the Constitution of India, the State has been entrusted with the task of providing free and compulsory education to all the children in the age group of 6-14 years
 - (D) Both (A) and (B) above.

- 27.** Very small establishment as defined under section 2(f) 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 are not more than -
- (A) 8 Persons
 - (B) 9 Persons
 - (C) 10 Persons
 - (D) 20 Persons.
- 28.** As per section 1(3) of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, the provisions of this Act are applicable to -
- (A) Establishments registered under the Co-operative Societies Act, 1912
 - (B) Establishments registered under any law for the time being in force in any State relating to co-operative societies, employing less than 50 persons and working without the aid of power
 - (C) Every establishment which is a factory engaged in any industry specified in Schedule and employing 20 or more Persons.
 - (D) Establishments set-up under any Central, Provincial or State Act and whose employees are entitled to the benefits of contributory provident fund or old age pension.
- 29.** Section 96 of the Factories Act, 1948 provides that the wrongful disclosure of results of analysis done under section 91 of this Act shall be punishable with
- (A) Imprisonment which may extend upto 6 months
 - (B) Imprisonment which may extend upto 6 months or fine upto 10,000 or both
 - (C) Imprisonment which may extend upto 3 months or fine upto 10,000 or both
 - (D) Imprisonment which may extend upto 3 months or fine upto 5,000 or both.
- 30.** The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 applies in relation to vacancies in any employment –
- (A) In the public sector
 - (B) Connected with the staff of Parliament
 - (C) Proposed to be filled through promotion
 - (D) To do unskilled office work.
- 31.** Which one of the following statements is false under the Payment of Gratuity Act, 1972
- (A) Application of this Act to an employed person depends on two factors. Firstly,

he should be employed in an establishment to which the Act applies and; secondly, he should be an employee as defined in the Act

- (B) This Act applies to every shop or establishment in which twenty or more persons are employed
 - (C) Every employee is eligible for gratuity irrespective of his wage level
 - (D) 'Employee' includes teachers in educational institutions.
- 32.** Under the Trade Unions Act, 1926, a certificate of registration may be withdrawn or cancelled by the Registrar –
- (A) On application of the trade union
 - (B) If the Registrar is satisfied that the certificate has been obtained by fraud
 - (C) If the Registrar is satisfied that the trade union is continuing with requisite number of members
 - (D) Both (A) and (B) above.
- 33.** Section 3(3) of the Minimum Wages Act, 1948 provides that different minimum rates of wages may not be fixed for –
- (A) Different scheduled employments
 - (B) Same class of work in the same scheduled employments
 - (C) Adults, adolescents, children and apprentices
 - (D) Different localities.
- 34.** Which one of the following statements is false under the Payment of Bonus Act, 1965
- (A) The date of commencement of accounting year, once declared by the employer, can be changed by him with previous permission of the prescribed authority in writing
 - (B) 'Award' means a judgment of the court in relation to rights and obligations of the employee or employer under the provisions of the Act
 - (C) 'Corporation' means any body corporate established by or under any Central, Provincial or State Act but does not include a company or a cooperative society
 - (D) All of the above.
- 35.** Which one of the following is not included as an essential element in the definition of 'factory' under the Factories Act, 1948
- (A) Premises
 - (B) Ten or more workers on any day of the last 12 months where manufacturing process is being carried on with the aid of power

- (C) Manufacturing process which is being carried on in the premises
- (D) 'Mine' subject to the operation of the Mines Act, 1952.
- 36.** The definition of 'industry' given in the Industrial Disputes Act, 1947 indicates that
- (A) There should exist a dispute or difference
- (B) The dispute or difference should be between employer and employee or workmen and workmen or employer and workmen
- (C) The dispute or difference should be connected with the employment or non-employment or terms of employment or the conditions of labour of any person
- (D) None of the above.
- 37.** Consider the following statements regarding Employees' Deposit-Linked Insurance Scheme under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 :
- (i) The Employees' Deposit-Linked Insurance Scheme, 1976 is applicable to all factories/establishments
- (ii) The employees are not required to contribute to the insurance fund
- (iii) The nomination made by a member under the employees' provident fund scheme is treated as nomination under this scheme
- (iv) No factory or establishment can be granted exemption from this scheme.
- Select the correct statements from the options given below –
- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i).
- 38.** Which one of the following statements is true under the Payment of Gratuity Act 1972 –
- (A) Where an establishment has branches in more than one State, the appropriate government in such a case is the Central Government
- (B) Where a factory belongs to or is under the control of the Central Government, the appropriate government in such a case is the State Government within whose territorial limits the factory is situated
- (C) A service is deemed to be continuous, in case of legal termination of service and subsequent re-employment
- (D) The number of days on which an employee has actually worked under an employer shall not include the days in case of a female on maternity leave.

- 39.** Which one of the following statements is true under the Minimum Wages Act, 1948
- (A) Under section 7, it is necessary that the Advisory Board must consist of representatives of any particular industry
 - (B) Under section 9, 'independent person' means a person who is considered to be independent by the appropriate government
 - (C) The Central Advisory Board consists of persons to be nominated by the Central Government and the State Governments
 - (D) The Central Advisory Board is appointed for the purpose of advising the Central Government and the State Governments.
- 40.** Which one of the following statements is true in relation to 'family' under the Employees' State Insurance Act, 1948
- (A) An unmarried daughter who is wholly dependent on the earnings of the insured person is deemed to be in family up to the age of twenty one years
 - (B) A child who is infirm by reason of any physical or mental abnormality and wholly dependent on the earnings of the insured person, is deemed to be in family up to the age of eighteen years
 - (C) Dependent parents whose income from all sources does not exceed such income as may be prescribed by the Central Government are deemed to be in family
 - (D) All of the above.
- 41.** Under the Employees' Compensation Act 1923 the 'theory of notional extension of employment' in case of personal injury to the employee means that -
- (A) The personal injury must be caused by an accident
 - (B) The injury must be caused in the course of employment
 - (C) There must be nexus between the time and place of the accident and the employment
 - (D) The employer shall not be liable if the employee at the time of accident was under the influence of drink or drugs.
- 42.** Which one of the following statements is false under the Factories Act, 1948 -
- (A) If a worker does not avail any earned leave entitled to him during the calendar year, it can be carried forward to the next calendar year
 - (B) Any unpaid wages due to the workers can be recovered as delayed wages under the provisions of the Employees' Compensation Act, 1923
 - (C) Where an adult worker has been allowed leave for not less than 4 days, wages due for the leave period should be paid in advance
 - (D) 'Standard family' means a family consisting of a worker his/her spouse and two children below the age of 14 years.

43. The definition of 'retrenchment' under the Industrial Disputes Act, 1947 includes—
- (A) Retirement of the workman on reaching the age of superannuation if the contract of employment contains a stipulation in this behalf
 - (B) Termination of service of the workman as a result of non-renewal of the contract of employment
 - (C) Termination of service of workman on the ground of continued ill-health
 - (D) None of the above.
44. Under the Maternity Benefit Act, 1961, every woman delivered of a child who returns to duty after such delivery shall be allowed -
- (A) Interval for rest as available to other workers
 - (B) Two breaks of prescribed duration for nursing the child
 - (C) In addition to interval for rest, two breaks of prescribed duration for nursing the child
 - (D) To take rest as and when she desires for nursing the child.
45. The Contract Labour (Regulation and Abolition) Act, 1970 deals with cognizance of offence under -
- (A) Section 26
 - (B) Section 27
 - (C) Section 28
 - (D) Section 29.
46. The Employees' State Insurance Act, 1948 lays down certain provisions to administer the affairs and general superintendence and control of the Employees' State Insurance Corporation through an executive body known as the
- (A) Standing committee
 - (B) Medical benefit council
 - (C) Both standing committee and medical benefit council
 - (D) None of the above.
47. Under the Child Labour (Prohibition and Regulation) Act, 1986, which of the following statement is correct –
- (A) 'Child' means a person who has completed his fourteenth year of age
 - (B) 'Day' means a period of twenty four hours beginning at midnight
 - (C) 'Establishment' does not include a place of public amusement or entertainment
 - (D) 'Workshop' means any premises wherein any manufacturing process is carried on.

48. According to section 2(9) of the Employees' State Insurance Act, 1948, 'employee' means any person employed for wages in connection with the work of a factory or establishment and
- (A) Who is employed by or through an immediate employer under the supervision of the principal employer
 - (B) Whose services are temporarily lent or let on hire to the principal employer
 - (C) Any person so employed whose wages exceed such wages as may be prescribed by the Central Government
 - (D) Both (A) and (B) above.
49. Which one of the following is not an essential ingredient for the definition of 'worker' under section 2(l) of the Factories Act, 1948
- (A) There- should be an 'employed person'
 - (B) Employment must be direct
 - (C) Employment should be in any manufacturing process
 - (D) Employment may be for remuneration or not.
50. Which one of the following statements is true under the Contract Labour (Regulation and Abolition) Act, 1970 –
- (A) The Act applies to every establishment in which forty or more workmen are employed or were employed on any day of the preceding twelve months as contract labour
 - (B) The Act does not apply to establishments in which work only of an intermittent or casual nature is performed
 - (C) The court shall decide as to whether work performed in an establishment is of an intermittent or casual nature
 - (D) A workman cannot be deemed to be employed as contract labour without the knowledge of the principal employer.
51. Which of the following will not be treated as 'excluded employee' under the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952
- (A) An employee being member of the fund has withdrawn full amount of his accumulation in the fund
 - (B) An employee, being a member whose pay exceeds fifteen thousand rupees per month
 - (C) An apprentice
 - (D) An employee working in factory and drawing pay not exceeding rupees fifteen thousand per month.

52. As per section 11 of the Maternity Benefit Act, 1961, every woman delivered of a child who returns to duty after such delivery shall be allowed in the course of her daily work, breaks of the prescribed duration for nursing the child until the child attains the age of -
- (A) Nine months
 - (B) Six months
 - (C) Twelve months
 - (D) Fifteen months.
53. As per section 2(i) of the Minimum Wages Act, 1948, which one of the following is not included in the definition of an 'employee' -
- (A) A person employed for hire or reward to do any work skilled or unskilled
 - (B) An outworker to whom any articles or materials are given out by another person for cleaning and washing purposes
 - (C) An employee declared to be an employee by the appropriate government
 - (D) Any member of armed forces of the Union.
54. Section 15 of the Payment of Wages Act, 1936 deals with claims arising out of deductions from wages or delay in payments, etc. The application of such claim
- (A) Must be submitted by the aggrieved employee only
 - (B) Cannot be presented by any official of the registered trade union
 - (C) Shall be presented within three months from the date on which the deduction from the wages was made or from the date on which the payment of the wages was due to be made
 - (D) May be admitted by the authority after the prescribed period of limitation on being satisfied by the sufficient cause.
55. Under the Industrial Employment (Standing Orders) Act, 1946 the Appellate Authority has no power to set aside the order of Certifying Officer. This was held in the case of
- (A) *Khadi Gram Udyog Sangh v. Jit Ram*
 - (B) *Barauni Refinery Pragati Sheel Parishad v. Indian Oil Corporation Ltd.*
 - (C) *Derby Textiles Ltd. v. Karamchari and Shramik Union*
 - (D) *Indian Iron and Steel Co. Ltd. v. Ninth Industrial Tribunal.*
56. Consider the following statements under the Factories Act, 1948 :
- (i) Only a member of the Board of directors of a company can be occupier of the factory of the company

- (ii) The ultimate control of factory owned by a company vests in the Board of directors
- (iii) The ultimate control of factory owned by a company which vests in the Board of directors can be vested in anyone else
- (iv) Company owning factory can nominate its employee as occupier of its factory.

Select the false statements from the options given below -

- (A) (i) and (ii)
- (B) (ii) and (ii)
- (C) (iii) and (iv)
- (D) (iv) and (ii).

57. Consider the following statements under the Payment of Bonus Act, 1965 :

- (i) An employer is entitled to deduct *Puja* bonus or any customary bonus paid to the employee, from the amount of bonus payable to him in respect of that accounting year
- (ii) Where an employer has paid a part of the bonus payable to an employee before the date on which such bonus becomes payable, then the employer shall be entitled to deduct the amount of bonus so paid from the amount of bonus in respect of that accounting year
- (iii) Where an employee is found guilty of misconduct causing financial loss to the employer, deduction of such amount out of bonus payable is lawful.

Select the correct statements from the options given below –

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (i)
- (D) All of the above.

58. Consider the following statements relating to 'strike' under the Industrial Disputes Act, 1947 :

- (i) Strike cannot take place only when there is cessation of work or refusal to work by the workmen acting in combination or in a concerted manner
- (ii) Time factor or duration of the strike is a material factor
- (iii) The purpose behind the cessation of work is not relevant in determining whether there is a strike or not
- (iv) It is enough if the cessation of work is in defiance of the employer's authority.

Select the correct statements from the options given below

- (A) (i) and (ii)
- (B) (ii) and (iii)

- (C) (iii) and (iv)
(D) (iv) and (i).
- 59.** The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 –
- (A) Is enacted by the Parliament of India and is an important economic legislation
(B) Provides for the establishment of Deposit Linked Insurance Fund and Employees' Insurance Court
(C) Aims at providing social security and timely monetary assistance to industrial employees and their families when they are in distress
(D) Is administered by the State Governments through the Employees' Provident Fund Organisation.
- 60.** Under section 19 of the Employees' Compensation Act, 1923, the Commissioner is empowered and has jurisdiction over the following matters –
- (A) Liability of any person to pay compensation
(B) Whether a person injured is or is not an employee and the nature and extent of disablement
(C) The amount or duration of compensation
(D) All of the above.
- 61.** Which one of the following cases is not related to 'employment injury' under the Employees' State Insurance Act, 1948
- (A) *Regional Director, E.S.I. Corpn. v. L. Ranga Rao*
(B) *E.S.I. Corpn., Indore v. Babulal*
(C) *Shyam Devi v. E.S.I.C.*
(D) *Royal Talkies, Hyderabad v. E.S.I.C.*
- 62.** Consider the following statements under the Minimum Wages Act, 1948 :
- (i) In relation to any scheduled employment, the State Government is deemed to be the appropriate Government
(ii) A person who engages workers through another person, like a contractor, is not deemed to be an Employer
(iii) 'Wages' does not include the value of any house accommodation but includes house rent allowance
(iv) 'Scheduled employment' means an employment specified in the schedule under the Act.
- Select the false statements from the options given below -
- (A) (i) and (ii)

- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i).

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

- (i) Any seven or more members of a trade union may apply for registration of the trade union
- (ii) No trade union of workmen can be registered unless at least ten percent or one hundred of the workmen, whichever is less, engaged or employed in the industry with which it is connected are the members of such trade union, on the date of making application for registration
- (iii) A certificate of registration of trade union is not a conclusive evidence that the trade union is duly registered under the Act
- (iv) A registered trade union has no power to acquire and hold movable and immovable properties.

Select the false statements from the options given below -

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i).

64. In the case of Workmen of Delhi Electric Supply Undertaking v. Management of D.E.S.U. (1973), the Supreme Court held that

- (A) The process undertaken in transforming and transmitting electricity generated at the power station falls within the definition of manufacturing process
- (B) The process undertaken in transforming and transmitting electricity generated at the power station does not fall within the definition of manufacturing process
- (C) Employment is a contract of service between the employer and employee whereunder the employee agrees to serve the employer subject to his control and supervision
- (D) Employment is a contract of service between the employer and employee whereunder the employer agrees to serve the employee subject to his control and supervision.

65. Consider the following statements under the Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by certain Establishments) Act, 1988 :

- (i) 'Employer' means the person who employs the workmen and includes the person designated as manager

- (ii) 'Small establishment' means an establishment in which not less than forty and not more than 100 persons are employed
- (iii) 'Very small establishment' means an establishment in which not more than nine persons are employed
- (iv) 'Establishment' includes an industrial or other establishment as defined in section 2 of the Payment of Wages Act, 1936.

Select the false statements from the options given below –

- (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) (iv) and (i).
- 66.** Under section 15(2) of the Payment of Wages Act, 1936 where contrary to the provisions of this Act any deduction has been made from wages of an employed person or any payment of wages has been delayed, an application may be made by _____ to the authority to hear claims.
- (A) Employed person himself
 - (B) Any legal practitioner authorised in writing to act on his behalf
 - (C) Any official of a registered trade union authorised in writing to act on his behalf
 - (D) All of the above.
- 67.** Under the provisions of the Payment of Bonus Act, 1965, an employee shall be disqualified from receiving bonus, if he is dismissed from service for –
- (A) Fraud
 - (B) Riotous or violent behaviour while on the premises of the establishment
 - (C) Theft, misappropriation or sabotage of any property of the establishment
 - (D) All of the above.
- 68.** The constitutional validity of section 3 of the Minimum Wages Act, 1948 was challenged in the case of –
- (A) *Unichoyi v. State of Kerala*
 - (B) *Nathu Ram Shukla v. State of Madhya Pradesh*
 - (C) *Bijoy Cotton Mills v. State of Ajmer*
 - (D) *Basti Ram v. State of Andhra Pradesh.*
- 69.** Consider the following statements under the Apprentices Act, 1961 :
- (i) A minor cannot be engaged as an apprentice

- (ii) The employer cannot engage apprentices from other States
- (iii) The State Government has power to prescribe the number of apprentices to be engaged by the employer
- (iv) To make suitable arrangements for imparting a course of practical training to the apprentice is a moral duty of the employer.

Select the correct statements from the options given below –

- (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) None of the above.
- 70.** The Factories Act, 1948 -
- (A) Extends to the whole of India including the State of Jammu and Kashmir
 - (B) Extends to the whole of India excluding the State of Jammu and Kashmir
 - (C) Has absolute application to factories belonging to the Central Government only
 - (D) Has absolute application to factories belonging to the State Governments only.

PART B

- 71.** The Constitution of India envisages -
- (A) Single polity but dual citizenship
 - (B) Dual polity but single citizenship
 - (C) Dual polity and dual citizenship
 - (D) Single polity and single citizenship.
- 72.** Which one of the following is not a correct statement as regards salient features of the Right to Information Act, 2005
- (A) The Act extends to the whole of India except Jammu and Kashmir
 - (B) Its commencement day is 180 days from its enactment
 - (C) It applies to the public authorities
 - (D) All citizens shall have the right to information subject to the provisions of the Act.
- 73.** Consider the following statements regarding FIR and power of investigation under the Code of Criminal Procedure, 1973 :
- (i) The basic rule is that FIR is lodged with the officer incharge of the police station within whose local jurisdiction the offence has been committed

- (ii) If the police officer refuses to record the information of offence, the aggrieved person may send it in writing to the superintendent of police concerned
- (iii) In cognizable offences, the police has no power of investigation without the order of the Magistrate
- (iv) The police officer has power to investigate in matters related to non cognizable offences without the order of the Magistrate.

Select the correct statements from the options given below -

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i).

74. As per section 115 of the Code of Civil Procedure, 1908, the High Court is empowered to call for the record of any case which has been decided by subordinate court in which no appeal lies thereto, wherein

- (A) The subordinate court has exercised a jurisdiction not vested in it by law
- (B) The subordinate court has failed to exercise a jurisdiction so vested
- (C) The subordinate court has acted in exercise of its jurisdiction illegally or with material irregularity
- (D) All of the above.

75. Consider the following statements regarding the writ of *Habeas Corpus* under the Constitution of India :

- (i) It is a remedy available to every person who is confined without legal justification
- (ii) The power to issue this writ is available only to the Supreme Court
- (iii) The writ cannot be issued against a private person
- (iv) The words *Habeas Corpus* literally mean 'to have the body'.

Select the false statements from the options given below –

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i)

76. Section 14 of the Limitation Act, 1963 provides for exclusion of time *bona fide* taken in a court without jurisdiction. For the relief under the said section consider the following conditions :

- (i) Plaintiff or applicant was prosecuting another civil proceedings against the defendant with due diligence

- (ii) Previous suit or application was not related to the same matter in issue
- (iii) Plaintiff or applicant was not prosecuting in good faith in that court
- (iv) Court was unable to entertain a suit or application on account of defect of jurisdiction.

Select the conditions which are not applicable from the options given below

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i).

77. Consider the following statements under the Code of Criminal Procedure, 1973 :

- (i) A summon shall be served by a police officer or by an officer of the court or other public servant
- (ii) A summon is issued either for appearance or for producing a document or thing which may be issued to an accused person or witness
- (iii) A warrant of arrest must bear the name and designation of the person who is to execute it
- (iv) If any person against whom a warrant of arrest has been issued has absconded, the court may publish a ' proclamation requiring him to appear.

Select the false statements from the options given below –

- (A) (i), (ii) and (iii)
- (B) (ii), (iii) and (iv)
- (C) (iv), (i) and (ii)
- (D) None of the above.

78. The primary rule of interpretation is 'literal construction' according to which –

- (A) 'Acts' are not to be regarded as including anything which is not within their letter as well as spirit
- (B) If the particular words exhaust the whole genus, then the general words are construed as embracing a larger genus
- (C) The words, phrases and sentences of a statute are ordinarily to be understood in their natural, ordinary or popular and grammatical meanings unless such a construction leads to an absurdity
- (D) None of the above.

79. Under the Code of Civil Procedure, 1908, the court may grant temporary injunction where it is proved by affidavit or otherwise that –

- (A) Any property in dispute in a suit is in danger of being wasted, damaged or alienated by any party to the suit

- (B) Defendant threatens or intends to remove or dispose of his property with a view to defrauding his creditors
- (C) Defendant threatens to dispossess the plaintiff or otherwise cause injury to the plaintiff in relation to any property in dispute in the suit
- (D) All of the above.
- 80.** The Specific Relief Act 1963 -
- (A) Does not consolidate the whole law on the subject
- (B) Purports to lay down the law relating to specific reliefs in all its ramifications
- (C) Is not an Act to define and amend the law relating to specific relief
- (D) Both (A) and (B) above.
- 81.** Regarding the reference to the statement of objects and reasons of a Bill of statute, it is a settled law that it can legitimately be referred to for a correct appreciation of :
- (i) What was the law before the disputed Act was passed
- (ii) What was the mischief or defect for which the law had not provided
- (iii) What remedy the legislature has intended
- (iv) The reasons for the statute.
- Select the correct objects from the options given below -
- (A) (i), (ii) and (iii)
- (B) (ii), (iii) and (iv)
- (C) (iii), (iv) and (i)
- (D) All of the above.
- 82.** Consider the following statements under the Code of Civil Procedure, 1908 :
- (i) 'Admission' means that one party accepts the case of the other party in whole or in part to be true
- (ii) Issue arises when a material proposition of fact or law is affirmed by one party and denied by the other
- (iii) Issues cannot be framed on the basis of document produced by the parties
- (iv) The plaintiff has no right to begin unless the defendant admits the fact alleged by the plaintiff.
- Select the false statements from the options given below -
- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) All of the above.

- 83.** An employer is liable for the acts of independent contractors -
- (A) If the employer authorises independent contractor to commit a tort or illegal act
 - (B) In torts of strict liability
 - (C) For negligence of independent contractor
 - (D) All of the above.
- 84.** Which one of the following is not a 'sufficient cause' under section 5 of the Limitation Act, 1963 –
- (A) Time taken for obtaining certified copies of the decree of the judgment necessary to accompany the appeal or application
 - (B) Ailment of a friend during which period the applicant or appellant was looking after him
 - (C) Imprisonment of the party or serious illness of the party
 - (D) *Bona fide* wrong advice given by the advocate.
- 85.** The freedom of trade, commerce and intercourse provided by the Constitution of India is not of absolute nature. There are some restrictions. In this regard, which of the following statement(s) is are correct –
- (A) Parliament has power to impose restrictions in the public interest
 - (B) The State Legislature cannot impose restrictions on the freedom of trade, commerce and intercourse
 - (C) The laws which create State monopoly in any trade, *etc.* are saved from the attack under Article 301
 - (D) Both (A) and (C) above.
- 86.** Which one of the following is not a secondary evidence under section 63 of the Indian Evidence Act 1872
- (A) Certified copies of primary evidence (document)
 - (B) A document executed in several parts 2
 - (C) Counter parts of documents as against the parties who did not execute them
 - (D) Oral account of the contents of a document given by some person who has himself seen it.
- 87.** As per section 2(10) of the Code of Civil Procedure, 1908, a 'judgment debtor' is -
- (A) Any person against whom a decree has been passed
 - (B) Any person against whom an order capable of execution has been made

- (C) Any person against whom a decree has been passed or an order capable of execution has been made
- (D) A legal representative of a deceased judgement debtor.
- 88.** Which one of the following is not a fundamental right under the Constitution of India -
- (A) Right to assemble peacefully
- (B) Right to constitutional remedies
- (C) Right to property
- (D) Right to move freely throughout the country.
- 89.** An *ex-parte* decree is passed against a defendant. Under the Code of Civil Procedure, 1908, such defendant may –
- (A) File an appeal against the *ex-parte* decree
- (B) Submit a petition in the Supreme Court for writ
- (C) File an application for review of the judgment
- (D) Both (A) and (C) above.
- 90.** Under section 10 of the Specific Relief Act, 1963, to succeed in a suit for specific performance, the plaintiff has to prove -
- (A) That a valid agreement of sale was entered into by the defendant in his favour
- (B) That the defendant committed breach of the contract
- (C) That he was always ready and willing to perform his part of obligation in terms of the contract
- (D) All of the above.
- 91.** Under the Constitution of India, the legislative powers of Parliament normally extend to all matters enlisted in the Union List and the Concurrent List. But under Article 249, Parliament has power to make laws in respect of any subject enumerated in the State List. In light of the above, consider the following statements :
- (i) Parliament can make such law only when the State legislatures authorise Parliament to do so
- (ii) Council of States has declared by resolution that it is necessary or expedient in national interest
- (iii) Such resolution by Council of States must be supported by two-thirds of its members present and voting
- (iv) Such law made by Parliament remains in force for a period not exceeding six months.

Select the correct statements from the options given below

- (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) None of the above.
- 92.** Which one of the following is not an essential element of a 'decree' under section 2 of the Code of Civil Procedure, 1908
- (A) The statement given by the Judge on the grounds of decree
 - (B) Formal expression of adjudication
 - (C) Conclusive determination of the rights of parties
 - (D) Determination with regard to or any of the matters in controversy in the suit.
- 93.** Under section 2(d) of the Code of Criminal Procedure, 1973, a complaint –
- (A) Must be in writing
 - (B) Must be made to the Chief Judicial Magistrate
 - (C) Must indicate that some known or unknown person has committed an offence
 - (D) May be sent to the police officer having power of investigation.
- 94.** An anticipatory bail is granted by High Court or a Court of Sessions to a person–
- (A) Who apprehends arrest for having committed a bailable offence but has not yet been arrested
 - (B) Who apprehends arrest for having committed a non-bailable offence but has not yet been arrested
 - (C) Who apprehends arrest for having committed both bailable and non-bailable offences but has not yet been arrested
 - (D) All of the above.
- 95.** Article 20(3) of the Constitution of India lays down that "no person accused of an offence shall be compelled to be a witness against himself". A person is entitled to this protection when –
- (A) He is accused of an offence
 - (B) There is a compulsion to be a witness
 - (C) Such compulsion should result in his giving evidence against himself
 - (D) An of the above.
- 96.** Consider the following statements relating to ordinance making powers of the President under Article 123 of the Constitution of India :
- (i) Ordinance making power of the President is basically his legislative power
 - (ii) The ambit of ordinance making power of the President is co-extensive with the legislative powers of Parliament

- (iii) An ordinance promulgated by the President may have retrospective operation
- (iv) The ordinance making power is available to the President only when both the Houses of Parliament have been prorogued or otherwise not in session.

Select the correct statements from the options given below –

- (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) All of the above.
- 97.** Under section 468 of the Code of Criminal Procedure, 1973, the period of limitation for an offence punishable with imprisonment for a term not exceeding one year is–
- (A) Six months
 - (B) One year
 - (C) Two years
 - (D) Three years.
- 98.** As per the Constitution of India, which one of the following statements is correct
- (A) Fundamental duties are not enforceable by courts
 - (B) Fundamental duties are enforceable by courts
 - (C) Right to property is enforceable as fundamental right
 - (D) None of the above.
- 99.** Article 14 of the Constitution of India states that "the State shall not deny to any person, equality before the law or the equal protection of the laws within the territory of India". Based on the above, select the correct statement from the options given below
- (A) This right is available to all citizens of India
 - (B) The expression 'equality before law has been borrowed from English common law and does not mean absolute equality
 - (C) In Chiranjit Lal Chowdhury v. Union of India, the Supreme Court held that a corporation is a juristic person and not entitled to the benefit of this Article
 - (D) Article 14 does not permit classification, however class legislation is permitted.
- 100.** Right to impart and receive information under the Right to Information Act, 2005 is a species of –
- (A) The right of freedom of speech and expression
 - (B) Article 21 relating to protection of life and personal liberty
 - (C) Article 38 relating to securing a social order for the promotion of welfare of the people
 - (D) Article 39A relating to equal justice and free legal aid.

ANSWER KEY
INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

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

Q. 2 : In Q. No. 2, None of the option is correct.

Note: The inconsistency or ambiguity in the question(s), if any, is/are taken care of while evaluating the answer sheet.