

# **GUIDELINE ANSWERS**

## **EXECUTIVE PROGRAMME**

**JUNE 2016**

**MODULE 2**



**THE INSTITUTE OF  
Company Secretaries of India**

**IN PURSUIT OF PROFESSIONAL EXCELLENCE**  
Statutory body under an Act of Parliament

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

## C O N T E N T S

*Page*

### **MODULE 2**

1. Company Accounts and Auditing Practices	...	1
2. Capital Markets and Securities Laws	...	24
3. Industrial, Labour and General Laws (OMR Based Exam.)	...	40

(i)

EXECUTIVE PROGRAMME

**UPDATING SLIP**

**COMPANY ACCOUNTS AND AUDITING PRACTICES**

MODULE – 2 – PAPER 1

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

(ii)

**UPDATING SLIP**

**CAPITAL MARKETS AND SECURITIES LAWS**

MODULE – 2 – PAPER 2

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<i>Examination Session</i>	<i>Question No.</i>	<i>Updating required in the answer</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>

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(iii)

**UPDATING SLIP**

**INDUSTRIAL, LABOUR AND GENERAL LAWS**

MODULE – 2 – PAPER 3

<i>Examination Session</i>	<i>Question No.</i>	<i>Updating required in the answer</i>
(1)	(2)	(3)
All Previous Sessions	—	The Questions and Answers of all previous sessions are to be updated/revised as per the notified provisions of Labour Laws/ Industrial Laws/General Laws.

**EXECUTIVE PROGRAMME EXAMINATION**

JUNE 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) State how would you present 'cash and cash equivalents' under the current assets in the balance sheet as per Schedule III of the Companies Act, 2013.
- (b) Explain amortisation period in relation to intangible assets. When this period needs to be reviewed and changed ?
- (c) Board of directors of Mahua Ltd. wants to attach Directors' report to the balance sheet to be presented at the annual general meeting and seeks your help in preparing the same. Enumerate any ten matters on which information is required to be given in such report.
- (d) Moon Ltd. issued 5,000 debentures of ₹100 each at a discount of 10%. The expenses on issue amounted to ₹20,000. The company wants to redeem the debentures at the rate of ₹1,00,000 each year commencing with the end of fifth year. How much discount and expenses should be written off in each year ?
- (e) Following is the extract of balance sheet of Sunrise Ltd. as on 31st March, 2015:

	₹
<i>Issued and subscribed capital :</i>	
40,000, 10% Preference shares of ₹10 each fully paid	4,00,000
1,80,000 Equity shares of ₹10 each, ₹7.50 paid-up	13,50,000
<i>Reserves and surplus :</i>	
Capital reserve	1,60,000
General reserve	2,00,000
Securities premium	40,000
Surplus	3,20,000

The company made the final call of ₹2.50 per share from equity shareholders and duly received it. Thereafter, it was decided to capitalise its reserves by issuing bonus shares at the rate of 1 share for every 3 shares held. Capital reserve includes ₹80,000 being profit on exchange of machinery.

Pass journal entries with necessary assumptions. (5 marks each)

**Answer 1(a)**

'Cash and cash equivalents' under the current assets shall be presented as:

- (i) Bank Balances
- (ii) Cheques, draft in hand
- (iii) Cash in hand
- (iv) Cash Equivalent (Short term highly liquid investment)
- (v) Other (Specify nature)
- (vi) Earmarked bank balances
- (vii) Balances with banks to the extent held as security against borrowings, Guarantee
- (viii) Repatriation restrictions
- (ix) Bank deposits with more than 12 months maturity

**Answer 1(b)****Amortisation on Intangible Assets**

The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

As the future economic benefits embodied in an intangible asset are consumed over time, the carrying amount of the asset is reduced to reflect that consumption. This is achieved by systematic allocation of the cost of the asset, less any residual value, as an expense over the asset's useful life. Amortisation is recognised whether or not there has been an increase in, for example, the asset's fair value or recoverable amount.

Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life will be short. If control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, the useful life of the intangible asset should not exceed the period of the legal rights unless the legal rights are renewable; and renewal is virtually certain.

The amortisation period should be reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly.

**Answer 1(c)**

The report of the Board of Directors must contain information regarding the following matters:

- (i) The state of affairs of the company, Review of its operating information.
- (ii) The amount, if any, which it proposes to carry to any reserves in such balance sheet.
- (iii) The amount of dividend recommended.

- (iv) Details of any material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance sheet relates and the date of the report, conservation of energy, technology absorption, foreign exchange earnings and outgo.
- (v) Director's responsibility statement that directors confirms the adoption of applicable accounting standards, use of prudent accounting policies in preparation of financial statement, use of utmost care in preparing financial statement and safeguarding the assets of company and preparation of accounts on a going concern basis.
- (vi) Management discussion and analysis report.
- (vii) Corporate governance report
- (viii) Details necessary for a proper understanding of the state of the company's affairs and which are not, in the Board's opinion, harmful to the business of the company or of any of its subsidiaries, in respect of changes which have occurred during the financial year in the nature of company's business, in the company's subsidiaries or in the nature of the business carried on by them.

**Answer 1(d)**

Total amount of discount and expenses is Rs. 70,000 (Rs.50,000+ Rs. 20,000).

It should be written off each year according to the ratios of the amounts outstanding.

Year	Ratio
1	5
2	5
3	5
4	5
5	5
6	4
7	3
8	2
9	1
Total	35

In each of the first five years, discount to be written off will be  $(70,000 \times 5) / 35 = \text{Rs. } 10,000$  each year

6th Year:  $(70,000 \times 4) / 35 = \text{Rs. } 8,000$

7th Year:  $(70,000 \times 3) / 35 = \text{Rs. } 6,000$

8th Year:  $(70,000 \times 2) / 35 = \text{Rs. } 4,000$

9th Year:  $(70,000 \times 1) / 35 = \text{Rs. } 2,000$



**Answer 1(e)**

In the Books of Sunrise Ltd.

**Journal Entries**

		Dr. (Rs.)	Cr. (Rs.)
Equity Share Final Call A/c	Dr.	4,50,000	
To Equity Share Capital A/c			4,50,000
(Being the final call of Rs. 2.50 each on 1,80,00 shares)			
Bank A/c	Dr.	4,50,000	
To Equity Share Final Call			4,50,000
(Being final call money received)			
Security Premium A/c	Dr.	40,000	
Capital Reserve A/c	Dr.	80,000	
General Reserve A/c	Dr.	2,00,000	
Profit & Loss A/c	Dr.	2,80,000	
To Bonus to Equity Shareholders			6,00,000
(Being utilization of reserves and profit & loss balance for issue of bonus share in the ratio of 1:3)			
Bonus to Equity Shareholders	Dr.	6,00,000	
To Equity Share Holders A/c			6,00,000
(Being issue of bonus shares)			

*Assumption* : It is assumed that Balance of capital reserve (1,60,000 - 80,000) and security premium has been realized in cash.

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

- (a) A company purchased 200, 12% debentures of ₹100 each at ₹97 on cum interest basis on 1st July, 2015 for immediate cancellation. Interest is payable on 30th September and 31st March each year. Pass journal entries in the books of the company.
- (b) State the functions of National Financial Reporting Authority to provide for matters relating to accounting and auditing standards.
- (c) What are the provisions regarding creation and adequacy of debenture redemption reserve (DRR) in each of the following cases :
- (i) All India public financial institutions regulated by Reserve Bank of India and banking company.

- (ii) Non-banking financial institutions registered with the Reserve Bank of India.
- (iii) Other companies including manufacturing and infrastructure companies.
- (d) State the purposes for which balance in securities premium account can be utilised.
- (e) State how would you present short-term loans and advances under current assets in the balance sheet of a company as per Schedule III of the Companies Act, 2013 ? (3 marks each)

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

**Question 2A**

- (i) From the following information, calculate the value of shares of ₹10 —
- (a) On dividend basis; and
- (b) On return on capital employed basis.

Year	Capital employed (₹)	Profit (₹)	Dividend	Weight
2011	10,00,000	80,000	12%	1
2012	16,00,000	1,60,000	14%	2
2013	20,00,000	2,20,000	16%	3
2014	25,00,000	3,75,000	18%	4

The market expectation being 10%. Use weighted average for calculation.  
(5 marks)

- (ii) Vibgyor Ltd. is unaware of the manner and details of presentation of long-term loans and advances to be given in the balance sheet as per Schedule III of the Companies Act, 2013. Advise the company with the contents and manner of its disclosure. (5 marks)
- (iii) Following balances appeared in the books of Bahubali Ltd. as on 1st April, 2014:

14% Debentures	₹15,00,000
Balance of sinking fund	₹12,00,000
Sinking fund investment	₹12,00,000

Following further information is provided :

- Sinking fund investment is represented by 10%, ₹13,00,000 secured government bonds.
- Annual contribution to sinking fund is ₹2,40,000 on 31st March each year.
- Balance at bank on 31st March, 2015 is ₹6,00,000 before receipt of interest.
- Investment was sold at 90% on 31st March, 2015.
- Debentures were redeemed at 10% premium on 31st March, 2015.

Prepare necessary ledger accounts for the year ended 31st March, 2015.

(5 marks)

**Answer 2(a)**

**Journal Entries**

<i>Date</i>		<i>Dr. (Rs.)</i>	<i>Cr. (Rs.)</i>
1/7/15	12 % Debenture A/c	Dr. 20,000	
	Debenture Interest A/c	Dr. 600	
	To Bank A/c		19,400
	To Profit on Redemption of Debenture		1,200
	(Cancellation of 200 debentures of Rs. 100 each by purchase in the open market at Rs. 97 cum- interest)		
	Profit on redemption of debenture A/c	Dr. 1200	
	To capital Reserve A/c		1200
	(Transfer of profit on cancellation)		
	Profit & Loss A/c	Dr. 600	
	To Debenture Interest		600
	(Transfer of Interest)		

**Answer 2(b)**

**Functions of National Financial Reporting Authority**

- (i) make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;
- (ii) monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed;
- (iii) oversee the quality of service of the professionals associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed;
- (iv) The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

**Answer 2(c)**

In the given case, Debenture Redemption Reserve (DRR) shall be created in accordance with the following conditions:

- (i) No DRR is required for debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies

- (ii) NBFCs registered with the RBI the adequacy of DRR will be 25% of the value of debentures issued through public issue. No DRR is required in the case of privately placed debentures.
- (iii) Other companies including manufacturing and infrastructure companies, the adequacy of DRR will be as follows:

\*For Listed company: 25% of the value of debentures issued through public issue or private placed debentures

\*For unlisted company: 25% of the value of debentures on private placement basis

**Answer 2(d)**

The Securities Premium Account may be applied by the company for following purposes:

- (i) towards the issue of fully paid bonus shares to the existing shareholders of the company;
- (ii) in writing off the preliminary expenses of the company;
- (iii) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;
- (iv) for the purchase of its own shares or other securities

**Answer 2(e)**

Short-term loans and advances would be shown in the Balance Sheet as under:

- (i) (a) Loans and Advances to Related parties (giving details thereof);  
(b) Others (specify nature).
- (ii) The above shall also be sub-classified as:
  - (a) To the extent secured, considered good;
  - (b) Others, considered good;
  - (c) Doubtful.
- (iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
- (iv) Loans and Advances due by directors or other officers of the company or any of them either severally or jointly with any other person debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

**Answer 2A(i)****Calculation of value of shares***(a) on dividend basis*

<i>Year</i>	<i>Dividend Rate</i>	<i>Weight</i>	<i>Product</i>
<i>2011</i>	<i>12</i>	<i>1</i>	<i>12</i>
<i>2012</i>	<i>14</i>	<i>2</i>	<i>28</i>
<i>2013</i>	<i>16</i>	<i>3</i>	<i>48</i>
<i>2014</i>	<i>18</i>	<i>4</i>	<i>72</i>
<i>Total</i>	<i>10</i>		<i>160</i>

$$160/10 = 16$$

$$\text{Value of shares} = (16/10) \times 10 = 16$$

*(b) Return on capital employed basis*

<i>Year</i>	<i>ROCE (%)</i>	<i>Weight</i>	<i>Product</i>
<i>2011</i>	<i>8</i>	<i>1</i>	<i>8</i>
<i>2012</i>	<i>10</i>	<i>2</i>	<i>20</i>
<i>2013</i>	<i>11</i>	<i>3</i>	<i>33</i>
<i>2014</i>	<i>15</i>	<i>4</i>	<i>60</i>
<i>Total</i>		<i>10</i>	<i>121</i>

$$121/10 = 12.10$$

$$\text{Value of shares} = (12.1/10) \times 10 = 12.10$$

**Answer 2(A)(ii)**

Long-term loans and advances shall be disclosed in the Balance Sheet as under:

- (i) Long-term loans and advances shall be classified as:
  - (a) Capital Advances;
  - (b) Security Deposits;
  - (c) Loans and Advances to related parties (giving details thereof);
  - (d) Other Loans and Advances .
- (ii) The above shall also be separately sub-classified as:
  - (a) To the extent secured, considered good;
  - (b) Others, considered good;
  - (c) Doubtful

- (iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
- (iv) Loans and Advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

**Answer 2(A)(iii)****14% debenture A/c**

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
31/3/15	To Deb. Holders A/c	15,00,000	1/4/14	By Balance b/d	15,00,000
		15,00,000			15,00,000

**Sinking Fund A/C**

31/3/15	To 10% bond (loss)	30,000	1/4/14	By Balance b/d	12,00,000
31/3/15	To General Reserve (Balancing fig.)	15,40,000		By Profit & Loss	2,40,000
				By Bank (Interest on SF investment)	1,30,000
		15,70,000			15,70,000

**10% Secured Bond of Government**

1/4/14	To Balance b/d	12,00,000	31/3/15	By Bank	11,70,000
		12,00,000	31/3/15	By Sinking Fund A/c	30,000

**Bank A/c**

31/3/15	To Balance b/d	6,00,000	31/3/15	By 14% Debenture	16,50,000
	To sinking Fund (Int.)	1,30,000	31/3/15	By Balance c/d	2,50,000
	To SF investment	11,70,000			
		19,00,000			19,00,000

**Debenture holders A/c**

31/3/15	To Bank	16,50,000	31/3/15	By 14% Debentures	15,00,000
				By Premium on redemption	1,50,000
		16,50,000			16,50,000

**Question 3**

- (a) Extract of ledger balances of Kalpana Ltd. as on 31st March, 2015 includes the following :

	₹
2,000, 12% Preference shares of ₹100 each, fully paid	2,00,000
Surplus	40,000
Securities premium	12,000

Under the terms of issue, the preference shares are redeemable on 31st March, 2015 at a premium of 10%. The directors desire to make a minimum fresh issue of equity shares of ₹10 each at a premium of 5% for redemption purpose.

You are required to ascertain the amount of fresh issue to be made and pass necessary journal entries in the books of the company. (5 marks)

- (b) Following are the details of various outstanding liabilities of Inefficient Ltd. which went into liquidation on 1st April, 2015 :

- (i) Government taxes payable :

2013-14 : ₹22,000

2014-15 : ₹21,000

- (ii) Electricity and water charges payable to government on 31st March, 2015 : ₹20,000

- (iii) Wages of Staff 'A' for 5 months @ ₹4,000 per month

- (iv) Wages of Staff 'B' for 4 months @ ₹6,000 per month

- (v) Accrued holiday remuneration of Staff 'C' : ₹21,000

- (vi) Compensation payable to Staff 'D' under the Employees' Compensation Act, 1923 : ₹25,000

- (vii) Provident fund and gratuity payable to Staff 'E' : ₹30,000

Calculate the amount of preferential creditors.

(5 marks)

(c) Balance sheet of Zupiter Ltd. as on 31st March, 2015 is as under :

Particulars	₹
<b>I. EQUITY AND LIABILITIES</b>	
(1) Shareholders' funds	
Equity share capital	10,00,000
(2) Non-current liabilities	
Long-term debts	15,00,000
(3) Current liabilities	
(a) Trade payables	52,000
(b) Bank overdraft	1,21,000
<b>TOTAL</b>	<u><u>26,73,000</u></u>
<b>II. ASSETS</b>	
(1) Non-current assets	
Fixed assets	25,00,000
(2) Current assets	
(a) Inventories	64,440
(b) Trade receivables	1,07,325
(c) Cash and bank	1,235
<b>TOTAL</b>	<u><u>26,73,000</u></u>

**Statement of Profit and Loss**

Particulars	₹
Sales	15,62,000
Less : Operating expenses	<u>9,48,000</u>
EBIT	6,14,000
Less : Tax	<u>2,45,600</u>
Net operating profit after tax	<u><u>3,68,400</u></u>

The average rate of return of similar type of companies is 20% and risk-free rate of return is 15%. Rate of interest charged by bank is 18% and tax rate is 40%.

Calculate economic value added (EVA).

(5 marks)

**Answer 3(a)**

No. of shares to be issued

Suppose 'a' number of shares are to be issued

$$200000 + 20000 = 40000 + 12000 + 10a + 5\% \text{ of } 10a$$

$$220000 = 52000 + 10a + 0.5 a$$

$$10.5 a = 1,68,000$$

$$\text{Therefore } a = 168000/10.5 = 16000$$

No. of shares to be issued = 16000



<i>Particulars</i>		<i>Dr.(Rs.)</i>	<i>Cr.(Rs.)</i>
Pref. Share Capital A/c	Dr.	2,00,000	
Premium on Redemption A/c	Dr.	20,000	
To Preference Shareholders A/c			2,20,000
(Being premium redemption of, 2000 preference shares at premium of 10 %)			
Bank A/c	Dr.	1,68,000	
To Equity Share Capital A/c			1,60,000
To Securities Premium A/c			8,000
(Being issue of 16000 shares of Rs. 10 each at a premium of 10% for the purpose of redemption of preference shares)			
Securities Premium A/c	Dr.	20,000	
To premium on redemption			20,000
(Being utilization of security premium balance for writing of premium on redemption)			
Profit and Loss A/c	Dr.	40,000	
To capital redemption reserve A/c			40,000
(Being issue of bonus shares)			
Preference Share Holder A/c	Dr.	2,20,000	
To Bank A/c			2,20,000

**Answer 3(b)****Calculation of Preferential creditors**

(i) Govt. Taxes Payable-due and payable within 12 months	=	21,000
(ii) Wages of Staff A for 4 months @ 4000	=	16,000
(iii) Wages of Staff B (limited to Rs. 20,000)	=	20,000
(iv) Accrued holiday remuneration of Staff C	=	21,000
(v) Workmen Compensation to D	=	25,000
(vi) PF & Gratuity payable	=	30,000
(vii) Electricity and water charges payable to government (within 12 months)	=	20,000
Total Preferential Payment		Rs. 1,53,000

**Answer 3(c)****Calculation of Capital Employed**

Equity Share Capital	10,00,000
Long Term Debt	15,00,000
Bank O/D	1,21,000
Total Capital Employed	26,21,000

**Calculation of weighted average cost of capital**

	<i>Amount</i>	<i>Expected Return</i>
Equity	10,00,000	2,00,000
Long Term Debt	15,00,000	1,35,000
Bank O/D	1,21,000	13,068
Total	26,21,000	3,48,068

$$\text{WAAC} = 3,48,068 / 26,21,000 = 13.28\%$$

**Economic Value Added**

$$\begin{aligned} & \text{Net Operating Profit after Tax} - (\text{WAAC} \times \text{Capital Employed}) \\ & = 3,68,400 - 13.28\% \times 26,21,000 \\ & = 3,68,400 - 3,48,069 \text{ (Rounded off)} = \text{Rs. } 20,331 \end{aligned}$$

**Workings:**

- Expected Return or Cost of capital on:
  - Long-Term debt =  $15,00,000 \times 15\% \times (1 - .40) = \text{Rs. } 1,35,000$
  - Bank Overdraft =  $1,21,000 \times 18\% \times (1 - .40) = \text{Rs. } 1,30,68$

**Question 4**

- (a) Prepare the consolidated balance sheet from the following balance sheets of Happy Ltd. and Joy Ltd. as on 31st March, 2015 :

<i>Particulars</i>	<i>Happy Ltd.</i>	<i>Joy Ltd.</i>
<b>I. EQUITY AND LIABILITIES</b>	<b>(₹)</b>	<b>(₹)</b>
(1) <i>Shareholders' funds</i>		
(a) <i>Share capital</i>		
<i>Equity shares of ₹10 each</i>	4,00,000	1,50,000
(b) <i>Reserves and surplus</i>		
<i>General reserve</i>	2,10,000	13,000
<i>Surplus</i>	1,50,000	80,000

<i>(2) Current liabilities</i>			
	<i>Trade payables</i>	<u>40,000</u>	<u>59,450</u>
	<b>TOTAL</b>	<u><u>8,00,000</u></u>	<u><u>3,02,450</u></u>
<b>II. ASSETS</b>			
<i>(1) Non-current assets</i>			
	<i>Fixed assets</i>	3,96,000	1,45,000
<i>(2) Current assets</i>			
	<i>(a) Inventories</i>	1,02,000	62,050
	<i>(b) Trade receivables</i>	97,000	82,200
	<i>(c) Investments (in shares of Joy Ltd.)</i>	1,80,000	—
	<i>(d) Cash and bank</i>	<u>25,000</u>	<u>13,200</u>
	<b>TOTAL</b>	<u><u>8,00,000</u></u>	<u><u>3,02,450</u></u>

Following additional information is also given :

- (i) Happy Ltd. acquired shares of Joy Ltd. on 1st April, 2014 when Joy Ltd. had surplus of ₹66,000 and general reserve of ₹9,000.
  - (ii) Trade payables of Happy Ltd. included a sum of ₹24,000 payable to Joy Ltd. for purchases made from Joy Ltd. on which it charged a profit of ₹6,000.
  - (iii) Joy Ltd. declared and paid interim dividend @ 8% on 2nd June, 2014.
  - (iv) Inventories of ₹1,02,000 of Happy Ltd. included unsold goods purchased from Joy Ltd. at a cost of ₹18,000. (8 marks)
- (b) Alpha Ltd. decided to wind-up with effect from 31st March, 2015 and was to be taken over by Gama Ltd. on the basis of following balance sheet of Alpha Ltd. as on that date :

Particulars	₹
<b>I. EQUITY AND LIABILITIES</b>	
<i>(1) Shareholders' funds</i>	
<i>(a) Share capital</i>	
1,20,000 shares of ₹10 each fully paid	12,00,000
<i>(b) Reserves and surplus</i>	
Profit prior to incorporation	42,000
Surplus	5,22,000
<i>(2) Current liabilities</i>	
<i>(a) Trade payables</i>	2,26,000
<i>(b) Bills payable</i>	40,000
<i>(c) Provision for income-tax 2,20,000</i>	
<b>TOTAL</b>	<u><u>22,50,000</u></u>

II. ASSETS	15	EP-CAAP-June 2016
(1) Non-current assets		
Fixed assets		9,64,000
(2) Current assets		
(a) Inventories		7,75,000
(b) Trade receivables		1,52,000
(c) Bills receivables		30,000
(d) Cash and bank		<u>3,29,000</u>
	TOTAL	<u><u>22,50,000</u></u>

Gama Ltd. took over the assets at following values :

- Fixed assets : ₹12,80,000, Inventories : ₹7,70,000; Bills receivable: ₹30,000.
- Trade receivables realised ₹1,40,000.
- Bills payables and income-tax liabilities were settled at ₹30,000 and ₹2,22,000 respectively. Trade payables were finally settled with the cash remaining after meeting liquidation expenses of ₹20,000.
- Purchase consideration was satisfied by Gama Ltd. as : ₹5,10,000 by allotment of fully paid 10% preference shares of ₹100 each and the balance in equity shares of ₹10 each at ₹8 per share paid-up.

You are required to prepare necessary accounts in the books of Alpha Ltd.  
(7 marks)

#### Answer 4(a)

Assumption

- (i) It is assumed that 10000 shares out of total 15000 shares of JOY Ltd have been acquired.
- (ii) the solution is based on the assumption that the unrealised profit on stock is Rs. 6,000 with respect of the sum payables by Happy Ltd. To Joy Ltd.

Consolidated Balance Sheet of Happy Ltd. and its subsidiary Joy. Ltd.as at 31st March 2015

*Equity and Liabilities*

1. Shareholder's Fund	
(a) Share Capital	4,00,000
(b) Reserve and Surplus	
General reserve	2,12,667
Profit & Loss A/c	1,53,333
2. Non-Current Liabilities	
Minority Interest	81,000
3. Current Liabilities	75,450
Total	9,22,450

## Assets

## 1. Non-Current Assets

## (a) Fixed Assets

Tangible Assets 5,41,000

Intangible Assets (Goodwill) 30,000

## 2. Current Assets

(a) Inventories 1,58,050

(b) Trade Receivable 1,55,200

(c) Cash &amp; Bank 38,200

Total 9,22,450

*Working Note:*Degree of control =  $10,000 \text{ shares} / 15000 = 2/3$ . Minority  $1/3$ 

## Calculation of minority interest

\*Pre- Acquisition reserve 9,000

\*Pre – Acquisition profit 66,000

Total 75,000

Holding 50,000

Minority 25,000

## \*Post Acquisition Profit

Profit as per Balance sheet 80,000

Less: Pre- acquisition profit (66,000)

Total 14,000

Holding 9333

Minority 4667

## \* Post Acquisition Reserve

Balance as per the Balance Sheet 13000

Less : Pre-acquisition Reserve (9000)

Total 4000

Holding 2667

Minority 1333

\* Share Capital 1,50,000

Less: Minority Interest (50,000)

Total 1,00,000

## Calculation of Goodwill

Cost of investment 1,80,000

Less: capital profit	50,000
Less: face value of shares held	1,00,000
Goodwill	30,000

## Other Current Assets &amp; Liabilities

<i>Particulars</i>	<i>Assets</i>	<i>Debtors</i>	<i>Creditors</i>	<i>Cash</i>	<i>Reserve</i>
H Ltd.	396000	97000	40000	25000	210000
J Ltd.	145000	82200	59450	13200	2667
Total	541000	179200	99450	38200	212667
Less :					
Mutual Indebtness		24000	24000		
Balance	541000	155200	75450	38200	212667

## Stock

H Ltd.	102000
J Ltd.	62050
	-----
	164050
Less : Unrealised profit on stock	(6,000)
	-----
	1,58,050

## Profit and Loss A/c

H. Ltd	1,50,000
J. Ltd.	9333
Total	159333
Less: Unrealised profit on stock	(6,000)
	-----
	1,53,333

**Answer 4(b)**

## Purchase consideration

Fixed Assets	12,80,000
Inventories	7,70,000
Bills Receivable	30,000
Purchase consideration	20,80,000

## Discharge of Purchase consideration

- (i) 10% preference shares = 5,10,000 by issue of 5,100 shares of Rs, 100 each

- (ii) Equity shares = 20,80,000 - 5,10,000 = 15,70,000 by issue of 1,96,250 shares of Rs. 10 each : Rs. 8 paid up.

**In the Books of Alpha Ltd.**

<i>Dr.</i>	<b>Realisation A/c</b>		<i>Cr.</i>
To fixed assets	964000	By Bills Payable	40,000
" Inventories	775000	By Sundry Creditors	2,26,000
" Sundry Debtors	152000	By Provision for Income Tax	2,20,000
" Bills Receivable	30000	By Gama Ltd.	20,80,000
" Bank:		By Bank (Sundry Debtors)	1,40,000
Bills Payable	30000		
Income Tax	222000		
Liquidation Expenses	20000		
Trade Payable	197000		
" Equity Shareholder	316000		
	27,06,000		27,06,000

**Cash & Bank A/c**

To Balance b/d	3,29,000	By Liquidation Exp.	20,000
To Sundry Debtors	1,40,000	By Bills Payable	30000
		By Income Tax	222000
		By Sundry Creditors (Balancing fig)	197000
	4,69,000		4,69,000

**Equity Shareholders A/c**

To 10 % preference shares	5,10,000	By Equity Share Capital A/c	12,00,000
To Equity shares in Gama ltd.	15,70,000	By Profit prior to Incorporation	42,000
		By profit and loss	5,22,000
		By Realisation A/c	3,16,000
	20,80,000		20,80,000

**PART – B****Question 5**

- (a) *Mention the areas in which all the joint auditors are jointly and severally responsible.*
- (b) *What is the process of issuing audit standards by Auditing and Assurance Standards Board (AASB) ?*
- (c) *Differentiate between 'internal audit' and 'statutory audit'. (5 marks each)*

**Answer 5(a)**

All the joint auditors are jointly and severally responsible in the following area :

- (i) In respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- (ii) In respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors.
- (iii) In respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- (iv) For examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and
- (v) For ensuring that the audit report complies with the requirements of the relevant statute.

**Answer 5(b)****Procedure of issuing auditing standards**

- (i) The Auditing and Assurance Standards Board identifies the areas where auditing standards need to be formulated and the priority in regard to their selection.
- (ii) In the preparation of the auditing standards, the Board is normally, assisted by study groups comprising of a cross section of members of the Institute.
- (iii) On the basis of the work of the study groups, an Exposure Draft of the proposed auditing standard is prepared by the Board and issued for comments of the *members*.
- (iv) After taking into the comments received, the draft of the proposed auditing standard is finalized by the Board and submitted to the Council of the Institute.
- (v) The Council considers the final draft of the proposed auditing standard and, if necessary, modifies the same in consultation with the Board. The auditing standard is then issued under the authority of the Council.

**Answer 5(c)**

Some differences between statutory audit and internal audit.

- (i) *Appointment* : Internal Auditor is appointed by the management of the organization



while the statutory auditor is appointed by owners i.e. shareholder for a company. First statutory auditors of a company are appointed by the board of directors.

- (ii) *Qualification* : Qualifications of the statutory auditor are prescribed in the Companies Act, 1956. In case of a company, a practicing chartered Accountants or a firm of practicing chartered Accountants can only be appointed as a statutory auditor. There are no fixed qualifications for the position of an internal auditor.
- (iii) *Objects* : The main object of the statutory audit is to form an opinion on the financial statement of the organization. Auditor has to state that whether the financial statements are showing the true and fair view of the affairs of the organization or not. The main object of the internal audit is to detect and prevent the errors and frauds.
- (iv) *Scope* : The scope of the statutory audit is fixed by the Companies Act, 1956. It cannot be changed by mutual consent between the auditor and the management of the audited business unit. The scope of the internal audit is fixed by the mutual consent of the auditor and the management of the unit under audit.
- (v) *Report* : The statutory auditor submits his report to the shareholder of the company in its general meeting. The internal auditor submits his report to the management of the company who is also his appointing authority.
- (vi) *Removal* : The procedure of removal of the statutory auditor is very complex. Only the company in the general meeting can remove the auditor. It requires the permission of the central government. Whereas, Internal auditor can be removed by the management without any permission of shareholders or Central Government.

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

**Question 6**

- (a) *Despite numerous benefits, internal audit has got some limitations. Discuss.*
- (b) *Distinguish between 'internal control system' and 'internal check system.'*
- (c) *What are the objectives of review of management information system (MIS) of an organisation ?* (5 marks each)

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

**Question 6A**

- (i) *Explain the objectives of investigation and also list out business situations where investigation may be considered necessary.*
- (ii) *Explain the provisions of section 139(1) of the Companies Act, 2013 regarding appointment of auditors.*
- (iii) *What are the important points to be considered while reviewing the 'process of taking insurance during transit' ?* (5 marks each)

**Answer 6(a)**

Limitations of Internal audit includes the following:

- (i) The installation and operation of internal audit involve extra expenditure which

cannot be met by many small concerns. As a matter of fact, internal audit is confined to larger business.

- (ii) The limitation of internal audit starts when there is time lag between recording and checking of entries. The accounting and internal audit must go side by side with minimum time gap
- (iii) Internal audit becomes as better as it is used by managers. There are occasions when managers cannot accept the finding of internal audit and take consequent actions. This defect arises mainly from the deficiencies of the internal auditing staff, because of their advisory staff position, unfamiliarity with operating aspects of work and accounting bias, internal auditors fail to be of any real help to the manager in many cases.
- (iv) Internal audits are employed by the organization and this can be impair their independence and objectivity and ability to report fraud/error to senior management because of perceived threats to their continued employment within the company to ensure the transparency. Best practice indicates that the internal audit should report both to management and those charged with governance (audit committee).
- (v) Internal auditors are not required to be professionally qualified and so there may be limitations in their knowledge and technical expertise.

#### **Answer 6(b)**

Internal control is the system of control established by the management in order to carry on business in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and completeness of records whereas Internal check is a system of allocation of responsibility, division of work and methods of recording transactions, whereby the work of one employee is checked continuously by another.

Internal check system is one part of internal control system. Internal control is broader concept as compare to internal check system; it contains many more types of controls other than the internal check system.

In internal control system, controls other than the internal check system are internal audit system and other nonfinancial control systems like quality control, purchasing controls, marketing controls etc.

The essence of internal check system is that the check should be automatic, continuous and objective while the essence of internal control system is in implementation of Internal check and Internal audit.

#### **Answer 6(c)**

Review Objectives of Management Information Systems are given below:

1. To determine whether review procedures are necessary to achieve stated objectives.
2. To determine whether MIS policies or practices, processes, objectives, and internal controls are adequate.

3. To evaluate whether MIS applications provide users with timely, accurate, consistent, complete, and relevant information.
4. To assess the types and level of risk associated with MIS and the quality of controls over those risks.
5. To determine whether MIS applications and enhancements to existing systems adequately support corporate goals.
6. To determine whether MIS is being developed in compliance with an approved corporate MIS policy or practice statement.
7. To determine whether management is committed to providing the resources needed to develop the required MIS.
8. To determine if officers are operating according to established guidelines.
9. To evaluate the scope and adequacy of audit activities.
10. To initiate corrective action when policies or practices, processes, objectives, or internal controls are deficient.

**Answer 6A(i)**

The real objective of conducting an investigation by an auditor on behalf of his client is to provide him the desired information in the form of a report about the matter specified. Normally the objective of investigation is to collect, analyze and evaluate facts in respect of desired field of activity with a view on some special purpose as determined by the person on whose behalf the investigation is undertaken.

The common reasons of getting the investigation done are listed below:

- (i) Proposed purchase of business.
- (ii) Proposed sale of business.
- (iii) Reasons for low profitability.
- (iv) Cause of high employee turnover.
- (v) Reliability of business data.
- (vi) Proposed investment in particular securities.
- (vii) Suspected fraud.
- (viii) Joining in existing partnership business.
- (ix) Borrowing funds & Lending funds.
- (x) Proposed purchase of controlling shares in a company.
- (xi) Suspected misfeasance against directors.
- (xii) Detection of undisclosed income for tax purposes.

**Answer 6A(ii)**

The provisions of sub-section 1 of section 139 regarding appointment of auditors can be briefly stated as under:

- (i) Every company shall, at the first annual general meeting, appoint an individual

or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting.

- (ii) The company shall place the matter relating to such appointment for ratification by members at every annual general meeting.
- (iii) Before the appointment of auditor is made, the written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor.
- (iv) The certificate shall also indicate whether the auditor satisfies the criteria provided in section 141.
- (v) The company shall inform the auditor concerned of his appointment, and also file a notice of such appointment with the Registrar within fifteen days of the meeting in which the auditor is appointed.
- (vi) The "appointment" includes reappointment.

**Answer 6A(iii)**

- (i) Check whether the process of taking insurance for transit vehicle exists or not.
- (ii) Check the coverage of insurance policy i.e. it covers full inventory value or just material price.
- (iii) Check which party among transporter or the client takes the insurance
- (iv) Check whether proper insurance value is declared for insurance coverage.
- (v) Check whether the insurance policy is made available to all concerned.
- (vi) Check whether any cost benefit analysis has been done for the insurance premium paid and claim has been made or not.

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## CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours

Maximum marks : 100

**NOTE :** Answer ALL Questions.

### PART A

#### Question 1

- (a) Massive Ltd. came out with its IPO in November, 2015 and offered shares of ₹10 each at ₹450 charging a premium of ₹440. Shyam applied for 1,000 shares which had been allotted. On the list day, the closing share price was ₹418 and he was very upset about it. He looked at the prospectus of the company and found that company's IPO was not graded. So, he filed a complaint with SEBI stating that the company did not obtain IPO grading which is mandatory and hence, the IPO should be cancelled and the company should be asked to refund the money to investors.

Assume that you are working with the SEBI, will you suggest that the said issue should be cancelled as there has been violation of SEBI rules and regulations. Give your answer with reasons. (5 marks)

- (b) Prime Ltd. issued some warrants which allowed the holders to purchase, with one warrant, one equity share at ₹18.275 per share. The equity share was quoted at ₹25 per share and the warrant was selling at ₹9.50. In this case, you are required to compute —

(i) The minimum price of warrant; and

(ii) The warrant premium. (4 marks)

- (c) Manish owns 250 preference shares of Amaze Ltd. which currently sells for ₹77 per share and pays annual dividend of ₹13 per share —

(i) What is Manish's expected return ?

(ii) If Manish requires 13% return, should he sell or buy more preference shares at the current price ? (4 marks)

- (d) A company is planning to issue deep discount bonds. As a financial advisor, you are required to suggest two important terms and conditions of issuing the said bond so as to minimise risk of the issuing company. (2 marks)

#### Answer 1(a)

Massive Ltd. came out with its IPO in November, 2015. SEBI vide its Circular No. LAD-NRO/GN/2013-14/44/226 dated February 4, 2014, by amending the SEBI (ICDR) Regulations, 2009, made IPO grading optional for public issue of securities. So in this case the company has come out with the public issue in 2015. there was have not been violations of SEBI rules and regulations and hence, the issue cannot be cancelled on this basis.

**Answer 1(b)**

- (i) Computation of Minimum Price of Warrant

Minimum Price = (Market Price of Equity Share – Exercise Price) \*(Exercise Ratio)

$$= (\text{Rs. } 25 - 18.275) * (1.0)$$

$$= \text{Rs. } 6.725$$

- (ii) Computation of Warrant Premium

Warrant Premium = (Market Price of warrant) - (Minimum Price of Warrant)

$$= \text{Rs. } 9.50 - \text{Rs. } 6.725$$

$$= \text{Rs. } 2.775$$

**Answer 1(c)**

- (i) Expected Return = Dividend / Market Price

$$= \text{Rs. } 13.00 / 77.00$$

$$= 16.88 \%$$

- (ii) Given 13% required rate of return, the stock worth is :-

$$V_p = \text{Dividend} / \text{Required Rate}$$

$$= \text{Rs. } 13.00 / 0.13$$

$$= \text{Rs. } 100$$

Because the expected rate of return (16.88%) is greater than the required rate of return (13%) or because the current market price (Rs. 77.00) is less than Rs. 100, the stock is undervalued and it is worth buying and accordingly Manish should buy more shares at current price.

**Answer 1(d)**

A deep discount bond is a zero coupon bond issued at a very heavy discount which is due to the fact that such bonds have very long maturity typically more than 20 years.

Since these bonds are of very long maturity, market conditions may change during this period which may be difficult to forecast in advance. In order to safeguard its interest, is suggested to consider following two important terms and conditions to minimize risk:

- (i) The Company may introduce call-option at different timings during the tenure of the bonds giving it right to call the bonds back if the market conditions are not favourable.
- (ii) The Company may also link the maturity amount to a benchmark yield so that unfavourable changes in market yields can be taken care of.

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

- (a) "Collective investment scheme (CIS) is a popular form of investment and it is accessible to all." In the light of this statement, explain the meaning and conditions for eligibility of CIS. (5 marks)
- (b) "Credit rating not only plays a significant role in investor protection but also benefits industry as a whole." Discuss. (5 marks)
- (c) "Basket trading system provides investors the facility of creating sensex linked portfolio and to create a linkage of market prices of the underlying securities." Elaborate the statement and discuss the essentials to participate in the system. (5 marks)

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

- (i) "A well functioning securities market is conducive to sustained economic growth." Explain. (5 marks)
- (ii) "Merchant bankers are the key intermediary between the company and issue of capital." Comment. (5 marks)
- (iii) "Offering circular is a mirror through which the prospective investors can access vital information of the company in order to form their investment strategies." Explain the statement and list out the contents included in the offering circular. (5 marks)

**Answer 2(a)**

According to SEBI Act, 1992, 'Collective Investment Scheme' means any scheme or arrangement which satisfies the conditions specified in section 11AA. Section 11AA of SEBI Act, 1992 provides that any scheme or arrangement which satisfies the conditions referred to in sub-section (2) or sub-section (2A) shall be a collective investment scheme.

**Conditions for Eligibility**

As per SEBI (Collecting Investment Schemes) Regulations, 1999, the applicant should satisfy the following eligibility criteria:

- (a) the applicant is set up and registered as a company under the Companies Act, 2013;
- (b) the applicant has specified the managing of collective investment scheme as one of its main objects in its Memorandum of Association;
- (c) the applicant has a net worth of not less than rupees five crores. However, at the time of making the application, the applicant shall have a minimum net worth of rupees three crores which has to be increased to rupees five crores within the time period of three years from the date of grant of registration;

- (d) the applicant is a fit and proper person for the grant of such certificate;
- (e) the applicant has adequate infrastructure to operate collective investment scheme in accordance with the provision of these regulations;
- (f) the directors or key personnel of the applicant should consist of persons of honesty and integrity having adequate professional experience in related field and have not been convicted for an offence involving moral turpitude or for any economic offence or for the violation of any securities laws;
- (g) at least fifty per cent of the directors of such Collective Investment Management Company shall consist of independent directors and are not directly or indirectly associated with the persons who have control over the Collective Investment Management Company;
- (h) no person, directly or indirectly connected with the applicant has in the past been refused registration by SEBI under the Act;
- (i) at least one of the directors on the board of the Collective Investment Management Company, who is not subject to retirement, is a representative of the trustee;
- (j) the Collective Investment Management Company is not a trustee of any collective investment scheme.
- (k) in case the applicant is an existing collective investment scheme, it complies with the provisions of Chapter IX of SEBI (Collective Investment Scheme) Regulations, 1999.

**Answer 2(b)**

The statement is absolutely correct, credit rating not only plays a significant role in investor protection but also benefits industry as a whole in terms of direct mobilization of savings from individuals. Ratings also provide a marketing tool to the company and its investment bankers in playing company' debt obligations with an investor's base that is aware of and comfortable with the level of risk. Credit rating helps to improve the corporate image of a company. High credit rating creates confidence and trust in the minds of the investors about the company. Credit rating not only helps to develop a good image of the company among the investors, but also among the customers, dealers, suppliers, etc. High credit rating can act as a marketing tool to develop confidence in the minds of customers, dealer, suppliers, etc. Companies that have high credit rating for their debt instruments get funds at lower costs from the market. High rating enables the company to offer low interest rates on fixed deposits, debentures and other debt securities.

**Answer 2(c)**

Basket trading system provides investors the facility of creating Sensex linked portfolios and also to create a linkage of market prices of the underlying securities of Sensex in the Cash Segment and Futures on Sensex. The Exchange has provided to the investors as well its member-brokers, a facility of Basket Trading System on BOLT. In the Basket Trading System, the investors through the member-brokers of the Exchange are able to buy/ sell all 30 scrips of Sensex in one go in the proportion of their respective



weights in the Sensex. The investors need not calculate the quantity of Sensex scrips to be bought or sold for creating Sensex linked portfolios and this function is performed by the system. The investors can also create their own baskets by deleting certain scrips from 30 scrips in the Sensex. Further, the investors can alter the weights of securities in such profiled baskets and enter their own weights. The investors can also select less than 100% weightage to reduce the value of the basket as per their own requirements.

To participate in this system, the member-brokers need to indicate number of Sensex basket(s) to be bought or sold, where the value of one Sensex basket is arrived at by the system by multiplying Rs.50 to prevailing Sensex. For e.g., if the Sensex is 26,000, then value of one basket of Sensex would be  $26,000 \times 50 =$  i.e., Rs.13,00,000/-. The investors can also place orders by entering value of Sensex portfolio to be brought or sold with a minimum value of Rs. 50,000/- for each order.

#### **Answer 2A(i)**

A well functioning securities market is conducive to sustained economic growth. The securities market fosters economic growth to the extent that it (a) augments the quantities of real savings and capital formation from any given level of national income, (b) increases net capital inflow from abroad, (c) raises productivity of investment by improving allocation of investible funds and (d) reduces the cost of capital. Thus, the savings and capital accumulation and formation respond favourably to developments in securities market. The securities market provide bridge between ultimate savers and ultimate investors and creates the opportunity to put the savings at the disposal of the enterprises, thus promising to raise the total level of investment and hence of growth.

#### **Answer 2A(ii)**

Merchant Bankers are the key intermediary between the company and issue of capital. It is quite common to come across reference to Merchant Banking and financial services as though they are distinct categories. The services provided by Merchant Bankers depend on their inclination and resources - technical and financial. Merchant bankers (Category I) are mandated by SEBI to manage public issues. These activities have major implications for the integrity of the market. They affect investors' interest and, therefore, transparency has to be ensured. Merchant Bankers are rendering diverse services and functions. These include organising and extending finance for investment in projects, assistance in financial management, raising Euro dollar loans and issue of foreign currency bonds. Different merchant bankers specialised in different services.

SEBI has advised that merchant Bankers shall undertake only those activities which relate to securities market. These activities are managing of public issue of securities; underwriting connected with the aforesaid public issue management business; managing/ advising on international offerings of debt/equity i.e. GDR, ADR, bonds and other instruments etc.

#### **Answer 2A(iii)**

Offering Circular is a mirror through which the prospective investors can access vital information regarding the company in order to form their investment strategies. It is to be prepared very carefully giving true and complete information regarding the financial strength of the company, its past performance, past and envisaged research and business

promotion activities, track record of promoters and the company, ability to trade the securities on Euro capital market. The Offering Circular should be very comprehensive to take care of overall interests of the prospective investor. The Offering Circular for Euro-issue offering should typically cover the following contents:

- Background of the company and its promoters including date of incorporation and objects, past performance, production, sales and distribution network, future plans, etc.
- Capital structure of the company-existing, proposed and consolidated.
- Deployment of issue proceeds.
- Financial data indicating track record of consistent profitability of the company.
- Group investments and their performance including subsidiaries, joint venture in India and abroad.
- Investment considerations.
- Description of shares.
- Terms and conditions of global depository receipt and any other instrument issued along with it.
- Economic and regulatory policies of the Government of India.
- Details of Indian securities market indicating stock exchange, listing requirements, foreign investments in Indian securities.
- Market price of securities.
- Dividend and capitalisation.
- Securities regulations and exchange control.
- Tax aspects indicating analysis of tax consequences under Indian law of acquisition, membership and sale of shares, treatment of capital gains tax, etc.
- Status of approvals required to be obtained from Government of India.
- Summary of significant differences in Indian GAAP, UK GAAP and US GAAP and expert's opinion.
- Report of statutory auditor.
- Subscription and sale.
- Transfer restrictions in respect of instruments.
- Legal matters etc.
- Other general information not forming part of any of the above.

### Question 3

- (a) *Comment on the following and support your answer with necessary reasons :*
- (i) *The capital market and the stock exchange in particular are referred to as the barometer of the economy.*
  - (ii) *Investment in Indian depository receipts (IDRs) is an opportunity for the Indian investors to invest funds in foreign equity.*
  - (iii) *The market makers infuse liquidity in securities that are not frequently traded on stock exchanges.* (4 marks each)

(b) Explain briefly the demutualisation of stock exchanges.

(3 marks)

**Answer 3(a)(i)**

The stock exchanges play a cardinal role in promoting the level of capital formation through effective mobilization of savings and ensuring investment safety. The capital market and in particular the stock exchange is referred to as the barometer of the economy. Government's policies are so moulded that creation of wealth through products and services is facilitated and surpluses and profits are channelized into productive uses through capital market operations. Capital market plays an extremely important role in promoting and sustaining the growth of an economy. It is an important and efficient conduit to channel and mobilize funds to enterprises, both private and government. Reasonable opportunities and protection are afforded by the Government through special measures in the capital market to get new investments from the public and the Institutions and to ensure their liquidity. Higher new investments from public and institutions lead to higher liquidity and ultimately higher stock market indices. That is why, it is said that changes in the stock market index is indicative of the concurrent changes in the economy and hence, termed as "barometer" of an economy. Stock index is taken to be the benchmark both for investors as well as corporate entities. On one hand where movement in stock indices reflect investment avenues at the disposal of investors, on the other hand, indices also reflect the scope of business opportunities for the corporate players for their prospective ventures and business proposals. All and all, stock exchanges are upheld as the barometer of the economy.

**Answer 3(a)(ii)**

Investment in Indian Depository Receipts (IDRs) is an interesting opportunity for the Indian Investors who are looking for investing their funds in foreign equity. Just like American Depository Receipts or Global Depository Receipts, which are instruments used by Indian Companies to raise money abroad, IDRs are meant for foreign companies looking to raise capital in India. IDR is basically any instrument in the form of a depository receipts created by Domestic depositories in India against the underlying equity shares of issuing company which is located outside India. The Indian IDR holder would thus indirectly own the equity shares of overseas issuer company.

**Answer 3(a)(iii)**

Market Making is a process whereby two way quotes are offered for the purpose of facilitating trading in respect of a certain scrip. The main advantage of market making is that it affords much-needed liquidity to the securities. It also increases the supply of scrips in the market and also triggers demand for the scrips in the market.

Market Making is basically aimed to inculcate liquidity in securities that are not really frequented on stock exchanges. A market-maker usually is responsible for enhancing activity in a few chosen securities. In the process, the market-maker provides both a buy and a sell quote for his chosen securities. Market making is solely done to infuse liquidity to lesser traded shares. Typically, it is the market maker, who is responsible for enhancing the demand-supply situation in securities which is inclusive of stocks, futures and options (F&O). Market maker is typically an institution or a broker, who gets an incentive to recommend the securities to the investors and thereby creating a market for the lesser traded options. The market-maker provides both a buy and a sell quote for

his chosen securities. He profits from the spread between buy and sell quotes. For example, if the market-maker gives a bid-ask quote of Rs 505-500 (which means the market-maker will buy from the market at Rs 500 and sell at Rs 505), then the profit is Rs 5. For illiquid securities, the profit spreads are usually higher (within a regulator-prescribed band) because of the higher risk taken by the market-maker. Market-makers are helpful as they are always ready to buy or sell as long as investors are willing to pay the price quoted by them.

### Answer 3(b)

Demutualisation means segregation of membership rights in a recognized stock exchange into a distinct ownership right through the ownership right of shares and distinct trading and/or clearing right of that recognized stock exchange. In simpler terms it is a process by which a mutually owned stock exchange is converted into a company owned by the shareholders through transforming its legal structure into a business entity.

The purpose of demutualisation is as follows:

1. Stock exchanges owned by members tend to work towards the interest of members alone, which could on occasion be detrimental to rights of other stakeholders. Division of ownership between members and outsiders can lead to a balanced approach, remove conflicts of interest, and create greater management accountability.
2. Publicly owned stock exchanges can enter into capital market for expansion of business.
3. Publicly owned stock exchange would be more professionally managed than broker owned.
4. Demutualisation enhances the flexibility of management.

### Question 4

(a) Distinguish between the following :

- (i) 'Initial margin' and 'maintenance margin'.
- (ii) 'Pass through certificate' and 'participation certificate'.
- (iii) 'Cash reserve ratio' and 'statutory liquidity ratio'. (2 marks each)

(b) Briefly explain the advertisement code prescribed for mutual funds under the SEBI (Mutual Funds) Regulations, 1996. (9 marks)

### Answer 4(a)(i)

#### 'Initial Margin' and 'Maintenance Margin'

"Initial margin" means the minimum amount, calculated as a percentage of the transaction value, to be placed by the client, with the broker, before the actual purchase. The broker may advance the balance amount to meet full settlement obligations.

"Maintenance margin" means the minimum amount, calculated as a percentage of market value of the securities, calculated with respect to last trading day's closing price, to be maintained by client with the broker.

**Answer 4(a)(ii)****‘Pass through certificate’ and ‘Participation certificate’**

*Pass through certificate* : When mortgages are pooled together and undivided interest in the pool is sold, pass-through securities are created. The pass-through securities promise that the cash flow from the underlying mortgages would be passed through to the holders of the securities in the form of monthly payments of interest and principal.

*Participation Certificates* : These are strictly inter-bank instruments confined to the Scheduled Commercial Banks. This instrument is a money market instrument with a tenure not exceeding 90 days. The interests on such participation certificate are determined by the two contracting banks.

**Answer 4(a)(iii)****‘Cash reserve ratio’ and ‘statutory liquidity ratio’**

*Cash reserve ratio (CRR)* is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank. CRR is set according to the guidelines issued by RBI in this behalf.

*Statutory liquid ratio (SLR)* is used by bankers and indicates the minimum percentage of deposits that the bank has to maintain in form of gold, cash or other approved securities. Thus, we can say that it is ratio of cash and some other approved securities to liabilities (deposits) it regulates the credit growth in India.

**Answer 4(b)**

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

- (a) Advertisements shall be accurate, true, fair, clear, complete, unambiguous and concise.
- (b) Advertisements shall not contain statements which are false, misleading, biased or deceptive, based on assumption/projections and shall not contain any testimonials or any ranking based on any criteria.
- (c) Advertisements shall not be so designed as likely to be misunderstood or likely to disguise the significance of any statement. Advertisements shall not contain statements which directly or by implication or by omission may mislead the investor.
- (d) Advertisements shall not carry any slogan that is exaggerated or unwarranted or slogan that is inconsistent with or unrelated to the nature and risk and return profile of the product.
- (e) No celebrities shall form part of the advertisement.
- (f) Advertisements shall not be so framed as to exploit the lack of experience or knowledge of the investors. Extensive use of technical or legal terminology or complex language and the inclusion of excessive details which may detract the investors should be avoided.

- (g) Advertisements shall contain information which is timely and consistent with the disclosures made in the Scheme Information Document, Statement of Additional Information and the Key Information Memorandum.
- (h) No advertisement shall directly or indirectly discredit other advertisements or make unfair comparisons.
- (i) Advertisements shall be accompanied by a standard warning in legible fonts which states 'Mutual Fund investments are subject to market risks, read all scheme related documents carefully.' No addition or deletion of words shall be made to the standard warning.
- (j) In audio-visual media based advertisements, the standard warning in visual and accompanying voice over reiteration shall be audible in a clear and understandable manner. For example, in standard warning both the visual and the voice over reiteration containing 14 words running for at least 5 seconds may be considered as clear and understandable.

### PART B

#### Question 5

- (a) *Discuss the functions and obligations of the 'know your client registration agency' in terms of the SEBI [KYC (Know Your Client) Registration Agency] Regulations, 2011. (6 marks)*
- (b) *What do you mean by Securities Appellate Tribunal (SAT) ? What is its composition ? As a Company Secretary, advise the aggrieved party about the appeal procedure and powers of SAT. (6 marks)*
- (c) *What is 'price sensitive information' ? Which information is deemed to be price sensitive information ? State with reasons whether the following information is price sensitive :*
  - (i) *The CEO of a company died in an air-crash.*
  - (ii) *RBI has increased its statutory liquidity ratio (SLR) by 25 basis points.*
  - (iii) *The company is setting-up another plant in Gujarat.*
  - (iv) *The company is negotiating with a foreign company to sell its stake in Star Ltd. (8 marks)*

#### Answer 5(a)

The know your client registration agency (KRA) has the following functions and obligations :

- KRA may prepare the Operating Instructions in co-ordination with other KRA(s) and issue the same to implement the requirements of these regulations.
- KRA(s) shall have electronic connectivity and with other KRA(s) in order to establish inter-operability among KRAs.
- KRA shall have a secure data transmission link with other KRA(s) and with each intermediary that uploads the KYC documents on its system and relies upon its data.

- KRA shall be responsible for storing, safeguarding and retrieving the KYC documents and submit to SEBI or any other statutory authority as and when required.
- KRA shall retain the KYC documents of the client, in electronic form for the period specified by Rules, as well as ensuring that retrieval of KYC information is facilitated within stipulated time period.
- Any information updated about a client shall be disseminated by KRA to all intermediaries that avail of the services of the KRA in respect of that client.
- KRA shall ensure that the integrity of the automatic data processing systems for electronic records is maintained at all times.
- KRA shall take all precautions necessary to ensure that the KYC documents/ records are not lost, destroyed or tampered with and that sufficient back up of electronic records is available at all times at a different place.
- KRA shall have adequate mechanisms for the purposes of reviewing, monitoring and evaluating its controls, systems, procedures and safeguards.
- KRA shall cause an audit of its controls, systems, procedures and safeguards to be carried out periodically and take corrective actions for deficiencies, if any and report to SEBI.
- KRA shall take all reasonable measures to prevent unauthorized access to its database and have audit of its systems and procedures at regular intervals as prescribed by SEBI.
- KRA shall have checks built in its system so that an intermediary can access the information only for the clients who approach him.
- KRA shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by SEBI or the Central Government and for redressal of client's grievances. The compliance officer shall immediately and independently report to SEBI any non-compliance observed by him.
- KRA shall send a letter to each client after receipt of the KYC documents from the intermediary, confirming the client's details thereof.
- KRA shall take adequate steps for redressal of the grievances of the clients within one month of the date of receipt of the complaint and keep the Board informed about the number, nature and other particulars of the complaints from such investors.

**Answer 5(b)**

The Central Government has setup a Tribunal known as Securities Appellate Tribunal (SAT) under the SEBI Act, 1992 at Mumbai. Any person aggrieved by the order of the SEBI or adjudicating officer of SEBI may prefer an appeal to a Securities Appellate Tribunal having jurisdiction in the matter.

The SAT shall consist of a Presiding Officer and two other members to be appointed by the Central Government.

As per Section 15(U)(2) of SEBI Act, 1992, the Securities Appellate Tribunal (SAT)

is vested with the powers of Civil Court under the Code of Civil Procedure, 1908 while trying a suit in respect of under mentioned issues/matters :

- summoning and enforcing the attendance of any person and examining him on oath;
- requiring the discovery and production of documents;
- receiving evidence on affidavits;
- issuing commissions for the examination of witnesses or documents;
- reviewing its decisions;
- dismissing an application for default or deciding it ex parte;
- setting aside any order of dismissal of any application for default or any order passed by it ex-parte; and
- any other matter which may be prescribed.

#### **Appeal to Securities Appellate Tribunal (SAT)**

- Any person aggrieved by the decision of the recognised stock exchange or adjudicating officer or any order of SEBI may appeal to SAT.
- Within 45 days from the date of on which a copy of order or receiving of decision by the appellant in such form and on such fees as prescribed.
- On receipt of appeal and after giving the parties to opportunity of being heard, pass order as thinks fit, confirming, modifying or setting aside the order.
- SAT shall dispose of the appeal within 6 months.

#### **Answer 5(c)**

According to Regulation 2(n) of the SEBI( Prohibition of Insider Trading) Regulations, 2015 'Unpublished price sensitive information' means any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following— (i) Financial results; (ii) Dividends; (iii) Change in capital structure; (iv) Mergers, de-mergers, acquisitions, delisting, disposals and expansion of business and such other transactions; (v) Changes in key managerial personnel; and (vi) Material events in accordance with the listing agreement.

Further, Section 195 (1) Clause (b) of Companies Act, 2013 defines 'price sensitive information' which means any information which relates, directly or indirectly, to a company and which if published is likely to materially affect the price of securities of the company.

- (i) The CEO of a company died in an air-crash –It is Price sensitive Information as there is a change in Key Managerial Personnel.
- (ii) RBI has increased its statutory liquidity ratio (SLR) by 25 basis points - It is not



- a Price Sensitive Information. As the SLR increased by RBI is publicly available information.
- (iii) The company is setting-up another plant in Gujarat – It is a Price sensitive Information as the company is planning expansion.
- (iv) The company is negotiating with a foreign company to sell its stake in Star Ltd.- It is a Price sensitive Information as there is going to be a capital restructure.

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

**Question 6**

- (a) Comment on the following :
- (i) 'Custodian of securities' means any person who carries on or proposes to carry on the business of providing custodial services.
- (ii) The recognised stock exchange has powers to make rules for restricting voting rights.
- (iii) All securities in depositories shall be in fungible form. (4 marks each)
- (b) Write notes on the following :
- (i) Multiple listing
- (ii) Differential pricing of securities. (4 marks each)

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

**Question 6A**

- (i) Comment on the following :
- (a) Corporate governance is looked upon as a distinctive brand and benchmark in the profile of corporate excellence.
- (b) Depository participant provides link between the company and investors.
- (c) 'Insider' means any person who is or was connected with the company or is deemed to have been connected with the company. (4 marks each)
- (ii) Write notes on the following :
- (a) Employee stock options
- (b) Whistle-blower policy. (4 marks each)

**Answer 6(a)(i)**

'Custodian of Securities' means any person who carries on or proposes to carry on the business of providing custodial services. A custodian helps ensuring the interests of the investors by keeping track and ensuring the safety of their investments under a custodial agreement. It helps in minimizing potential risk of mishandling of physical securities and investor records. The SEBI (Custodian of Securities) Regulations, 1996 prescribe the roles and responsibilities of the custodians.

**Answer 6(a)(ii)**

Section 7A of the Securities Contracts (Regulation) Act, 1956 stipulates that a

recognised stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely:

- the restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting;
- the regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange;
- the restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange; and
- such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified above.

#### **Answer 6(a)(iii)**

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

#### **Answer 6(b)(i)**

##### **Multiple Listing**

SEBI (ICDR) Regulation, 2009, provides that in case of an initial public offer, the company is required to make an application for listing of the specified securities in at least one recognised stock exchange having nationwide trading terminals. Further, it can make an application to one or more recognised stock exchanges for listing of specified securities on such stock exchanges and choose one of them as the designated stock exchange. Thus, a company can list its securities in more than one stock exchange. This is multiple listing.

Multiple listing provides arbitrage opportunities to the investors, whereby they can make profit based on the difference in the prices prevailing in the said exchanges.

#### **Answer 6(b)(ii)**

##### **Differential pricing of securities**

As per Regulation 29 of SEBI (ICDR) Regulation, 2009, 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.

**Answer 6A(i)(a)**

Corporate excellence refers to a transformation from the status of a good company to the status of a great company. The essence of corporate excellence is to have a competitive advantage over other firms in the industry. Corporate excellence is about developing and strengthening the management system and process of a company to improve performance and create value for stakeholders. Corporate governance is the one and only route to achieve corporate excellence. It provides a structure through which the objectives of a company are set and how they are achieved and monitored. A good governance practice enhances the efficiency of corporate sector and helps achieving excellence in all areas in the organization.

**Answer 6A(i)(b)**

Just as a brokers act an agent of the investor at the Stock Exchange; a Depository Participant (DP) is the representative (agent) of the investor in the depository system providing the link between the Company and investor through the Depository. The Depository Participant maintains securities account balances and intimate the status of holding to the account holder from time to time.

**Answer 6A(i)(c)**

As per SEBI (Prohibition of Insider Trading) Regulations, 2015 “Insider” means any person who is:

- (i) a connected person; or
- (ii) in possession of or having access to unpublished price sensitive information;

Further “Connected person” means, any person who is or has during the six months prior to the concerned Act been associated with a company, directly or indirectly, in any capacity including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relationship or by being a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company whether temporary or permanent, that allows such person, directly or indirectly, access to unpublished price sensitive information or is reasonably expected to allow such access.

**Answer 6A(ii)(a)****Employee stock options**

SEBI (Share Based Employee Benefits) Regulations, 2014 defines “Employee Stock Option Scheme” which means a scheme under which a company grants employee stock

option directly or through a trust. Further, The term ‘Employee Stock option’ has been defined in section 2(37) of the companies Act, 2013. According to which ‘employees’ stock option’ means the option given to the directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers or employees, the benefit or right to purchase, or to subscribe for, the shares of the company at a future date at a pre-determined price.

### **Answer 6A(ii)(b)**

#### **Whistle Blower Policy**

A whistle blower is the one who exposes wrongdoing, fraud, corruption or mismanagement in an organization. A whistle blower is a person who publicly complains/ discloses the concealed misconduct on the part of an organization or body of people, usually from within that same organisation. Whistle blower may be an employee, former employee, vendor, customer or other stakeholder. Whistle blower needs protection against retaliation/misbehavior by superiors. At the corporate level, the companies can provide protection to whistle blowers by establishing a well documented “Whistle Blower Policy” and ensuring its effectiveness practically.

Section 177 (9) of the Companies Act, 2013 read with Rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014 also requires every listed company and Companies belonging to following class or classes to establish vigil mechanism for their directors and employees to report their genuine concerns or grievances:

- (a) The Companies which accept deposits from the public;
- (b) The Companies which have borrowed money from banks and public financial institutions in excess of fifty crore rupees.

As per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the listed entity shall devise an effective whistle blower mechanism enabling stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices. Regulation 46 (2)(e) requires the listed entity shall disseminate the details of establishment of vigil mechanism/ Whistle Blower policy.

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## **INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES**

*Time allowed : 3 hours*

*Maximum marks : 100*

*Total number of Questions : 100*

### **PART A**

1. Which one of the following is not an essential element of a factory —
  - (A) There must be premises
  - (B) There must be a manufacturing process being carried on at the premises
  - (C) There must be 10 or more workers where the manufacturing process is being carried on with the aid of power
  - (D) There are installed electronic data processing units.
  
2. Which one of the following is not an obligation of apprentices under the Apprentices Act, 1961 —
  - (A) To qualify himself as a skilled craftsman before the expiry of the period of training
  - (B) To attend practical and instructional classes regularly
  - (C) To carry out all orders of his employer
  - (D) To carry out his obligations under the contract of apprenticeship.
  
3. Consider the following statements under the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 :
  - (i) 'Employer' includes any person entrusted with the supervision and control of employees in such establishment
  - (ii) Establishment in private sector means an establishment which is not an establishment in public sector and where ordinarily twenty five or more persons are employed to work for remuneration
  - (iii) The Act is applicable in relation to vacancies in any employment connected with the staff of Parliament.
  - (iv) The Act imposes punishment by way of fine and imprisonment both.Select the incorrect answer from the options given below —
  - (A) (i) and (ii)
  - (B) (ii) and (iii)
  - (C) (iii) and (iv)
  - (D) (iv) and (i).

4. Consider the following statements under the provisions of the Trade Unions Act, 1926 :
- (i) A federation of two or more trade unions is not deemed to be a trade union
  - (ii) Trade unions are the most suitable organisations for balancing and improving relations between the employers
  - (iii) Every registered trade union is a body corporate but not having perpetual succession
  - (iv) A registered trade union has power to acquire and hold movable and immovable properties.
- Select the incorrect answer from the options given below —
- (A) (i), (ii) and (iii)
  - (B) (ii), (iii) and (iv)
  - (C) (iii), (iv) and (i)
  - (D) (iv), (i) and (ii).
5. The term 'award' is defined in the Industrial Disputes Act, 1947 as —
- (A) An interim determination of any industrial dispute by any Labour Court, Industrial Tribunal or National Industrial Tribunal
  - (B) A final determination of any industrial dispute by any Labour Court, Industrial Tribunal or National Industrial Tribunal
  - (C) An interim or a final determination of any industrial dispute by any Labour Court, Industrial Tribunal or National Industrial Tribunal
  - (D) An interim or a final determination of any industrial dispute by any Labour Court, Industrial Tribunal and not National Industrial Tribunal.
6. The Industrial Employment (Standing Orders) Act, 1946 extends to the whole of India and applies to every industrial establishment wherein \_\_\_\_\_ or more workmen are employed or were employed on any day during the preceding \_\_\_\_\_ months.
- (A) 50; 6
  - (B) 75; 9
  - (C) 100; 12
  - (D) 200; 3
7. Which one of the following statements is incorrect as per the provisions of the Child Labour (Prohibition and Regulation) Act, 1986 —
- (A) The provisions of the Act are consistent with the provisions of the Constitution of India

- (B) The Act prohibits the engagement of children below the age of 14 years in factories, mines and hazardous employments
  - (C) The prohibition of employment is applicable to any workshop wherein any process is carried on by the occupier with the aid of his family
  - (D) The Act does not prohibit but regulates employment of children in non-hazardous occupations and processes.
- 8.** Under the Payment of Gratuity Act, 1972, 'gratuity' —
- (A) Is payable only in case of death of an employee
  - (B) Shall be paid by the employer at the rate of thirty days wages on the rate of wages last drawn by the employee for every completed year of service
  - (C) Is a lump sum payment made by the employer as a mark of recognition of the service rendered by the employee when he retires or leaves service
  - (D) Is payable only to those employees who are engaged in factories and mines.
- 9.** Under the provisions of the Maternity Benefit Act, 1961 no woman shall work in any establishment during —
- (A) Six weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy
  - (B) Eight weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy
  - (C) Nine weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy
  - (D) Three weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy.
- 10.** 'Retrenchment' under the Industrial Disputes Act, 1947 includes —
- (A) Voluntary retirement of the workman
  - (B) Retirement of the workman reaching the age of superannuation as per the contract of employment
  - (C) Termination by the employer of the service of a workman as a punishment inflicted by way of disciplinary action
  - (D) Termination by the employer of the service of a workman for any other reason.
- 11.** Which one of the following statements is incorrect under the Contract Labour (Regulation and Abolition) Act, 1970 —
- (A) The Act does not apply to establishments in which work only of intermittent or casual nature is performed
  - (B) 'Workman' does not include a person who is employed mainly in administrative capacity or who is an out-worker

- (C) The Tribunals enjoy jurisdiction to abolish contract labour
- (D) Before revoking registration of establishment / contractor the registering officer is required to obtain previous approval of the appropriate government.
- 12.** Which one of the following statements is correct regarding 'compensation' under the Employees' Compensation Act, 1923 —
- (A) The employer can make payment of compensation directly to the legal heirs of the deceased employee
- (B) The compensation money does not bear the first charge on the assets transferred by the employer
- (C) The amount of compensation payable under this Act, cannot be assigned or charged, save as provided by this Act
- (D) An agreement by an employee with the employer to relinquish any right of compensation is enforceable by the employer.
- 13.** Consider the following statements under the Payment of Gratuity Act, 1972 :
- (i) In a seasonal establishment, an employee shall be deemed to be in continuous service if he has actually worked for not less than seventy-five percent of the number of days on which the establishment was in operation
- (ii) Service is not continuous in case of legal termination of service and subsequent re-employment
- (iii) In a seasonal establishment, an employee shall be deemed to be in continuous service if he has actually worked for one hundred and ninety days
- (iv) Service is deemed to be continuous in case of legal termination of service and subsequent re-employment.
- Select the incorrect answer from the options given below —
- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (iii) and (iv)
- (D) (iv) and (i).
- 14.** As per section 4 of the Payment of Wages Act, 1936, no wage period shall exceed \_\_\_\_\_ and as per section 5, the wages of every person employed upon or in any railway factory or industrial or other establishment upon or in which less than one thousand persons are employed shall be paid before the expiry of \_\_\_\_\_.
- (A) One month; fifth day
- (B) One month; seventh day



- (C) Three months; seventh day  
(D) Two months; seventh day.
15. Consider the following statements under the Payment of Bonus Act, 1965 :
- (i) A suspended employee, subsequently reinstated with full back wages is not eligible for bonus
  - (ii) An employee dismissed from service for any act of misconduct is eligible for bonus
  - (iii) Statutory bonus and customary bonus operate in two fields and do not clash with each other
  - (iv) The employer is not entitled to deduct '*puja* bonus' from the amount of bonus payable by him to the employee.
- Select the incorrect answer from the options given below —
- (A) (i), (ii) and (iii)
  - (B) (ii), (iii) and (iv)
  - (C) (iii), (iv) and (i)
  - (D) (iv), (i) and (ii).
16. The Employees' Deposit-Linked Insurance Scheme, 1976 is applicable to —
- (A) All factories/ establishments to which the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 applies
  - (B) All the employees who are members of the provident fund in exempted establishment are covered under the scheme
  - (C) All the employees who are members of the provident fund in unexempted establishment are covered under the scheme
  - (D) All of the above.
17. Under section 2 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, 'basic wages' includes —
- (A) Emoluments earned by an employee while on duty and which are paid or payable in cash to him
  - (B) The cash value of any food concession
  - (C) Any dearness allowance
  - (D) Any presents made by the employer.
18. Consider the following statements under the Equal Remuneration Act, 1976 :
- (i) The executive power to enforce the provisions of the Act are available to both the governments, *i.e.*, the Central Government and the State Governments
  - (ii) The provisions of the Act are applicable to all categories of employment
  - (iii) Under section 3, the provisions of the Act do not have overriding effect

- (iv) The Act prevents discrimination made in favour of scheduled castes or scheduled tribes.

Select the correct answer from the options given below —

- (A) (i) and (ii)  
(B) (ii) and (iii)  
(C) (iii) and (iv)  
(D) (i) and (iv).
- 19.** Which one of the following statements is incorrect as per the provisions of the Employees' State Insurance Act, 1948 —
- (A) It is the first major legislation on social security in independent India  
(B) The Employees' State Insurance Corporation established by the State Governments is the premier social security organisation  
(C) Employees' State Insurance Fund has been created which is held and administered by the Employees' State Insurance Corporation  
(D) The Act guarantees reasonably good medical care to workers and their immediate dependents.
- 20.** Which one of the following is true in relation to courts of inquiry under section 6 of the Industrial Disputes Act, 1947 —
- (A) The court of inquiry is constituted by the State Government by notification in the official gazette  
(B) The court always consists of five independent persons and out of them one person is appointed as Chairman  
(C) The court enjoys power to consider and decide any matter under the provisions of this Act  
(D) The period within which the report is to be submitted is not mandatory and the report may be submitted even beyond the period of six months without affecting the legality of the inquiry.
- 21.** Consider the following statements under the Maternity Benefit Act, 1961 :
- (i) The object of this legislation does not correspond with the provisions contained in Article 42 of the Constitution of India  
(ii) Women employees are also entitled to six weeks maternity benefit in case of miscarriage  
(iii) A woman entitled to maternity benefit is also entitled to receive from her employer medical bonus  
(iv) The Act does not make provisions to safeguard the interest of pregnant women workers.

Select the correct answer from the options given below —

- (A) (i) and (ii)
  - (B) (ii) and (iii)
  - (C) (iii) and (iv)
  - (D) (iv) and (i).
- 22.** Under the provisions of the Industrial Disputes Act, 1947, which of the following is not a valid reason for an employer to declare lay-off —
- (A) Break-down of machinery
  - (B) Financial stringency
  - (C) Accumulation of stocks
  - (D) Shortage of raw materials.
- 23.** The Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 —
- (A) Provides for the exemption of employees employed in small establishments
  - (B) Is applicable to establishments in which not less than fifteen and not more than twenty persons are employed
  - (C) Provides for the exemption of employers of small establishments in relation to their tax liability
  - (D) Is applicable to establishments in which not less than ten and not more than nineteen persons are employed.
- 24.** Labour audit provides benefits to the labour, to the employer and to the government. Which one of the following is not a benefit of labour audit to the labour —
- (A) Labour audit boosts the morale of the workers
  - (B) It increases social security of the labour
  - (C) It increases status of the employer in society
  - (D) Labour audit secures timely payment of wages.
- 25.** In the case of *Workmen of Dimakuchi Tea Estate v. Dimakuchi Tea Estate* (1958), the Supreme Court laid down the following objectives of the Industrial Disputes Act, 1947 :
- (i) Promotion of measures for securing and preserving amity and good relations between the employer and workmen
  - (ii) Investigation and settlement of industries
  - (iii) Prevention of collective bargaining
  - (iv) Relief to workmen in the matters of lay-off and retrenchment.

Select the incorrect answer from the options given below —

- (A) (i) and (ii)
  - (B) (ii) and (iii)
  - (C) (iii) and (iv)
  - (D) (iv) and (i).
- 26.** Under section 27 of the Contract Labour (Regulation and Abolition) Act, 1970 where the offence consists of disobeying a written order made by an inspector, complaint thereof may be made —
- (A) Within three months from the date on which the alleged commission of the offence came to the knowledge of an inspector
  - (B) Within six months from the date on which the offence is alleged to have been committed
  - (C) Anytime before the expiry of one year from the date on which offence is alleged to have been committed
  - (D) Anytime because no rule of limitation applies to such cases.
- 27.** Section 1 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 states that —
- (A) The State Government can extend the provisions of this Act to any establishment
  - (B) The provisions of this Act cannot be applied to cooperative societies
  - (C) Once an establishment falls within the purview of this Act, it shall continue to be governed by this Act notwithstanding that the number of persons employed therein at any time falls below twenty
  - (D) Where an establishment to which this Act applied was divided among the partners, the Act would not apply to the part of each ex-partner if the number of persons employed in each part is less than twenty.
- 28.** Which one of the following activities would fall under 'industry' under the Industrial Disputes Act, 1947 —
- (A) Welfare activities or economic adventures undertaken by government or statutory bodies
  - (B) A charitable institution that makes no profit but hires the services of employees as in any other business but the goods and services which are the output, are made available at a low or no cost to the indigent poor
  - (C) Physical Research Laboratory, Ahmedabad carrying on research not for the benefit of others and not engaged in commercial activity
  - (D) Posts and Telegraphs Department.

- 29.** Section 15 of the Payment of Wages Act, 1936 deals with claims arising out of deductions from wages or delay in payment of wages. In this relation, which one of the following statements is incorrect —
- (A) Every application for such claim shall be presented within twelve months from the date on which the deduction was made or from the date on which the payment was due to be made
  - (B) Such application may be admitted after the expiry of twelve months if there was sufficient cause for delay
  - (C) Every claim shall be disposed of as far as practicable within a period of three months
  - (D) Direction for the payment of compensation cannot be made in the case of delayed wages.
- 30.** Which authority has been constituted by the Central Government to preside over the cases regarding determination of monies due from the employers —
- (A) Employees' Provident Funds Appellate Tribunal
  - (B) Employees' Provident Fund Consultancy Tribunal
  - (C) Employees' Provident Fund Help Desk
  - (D) Employees' Provident Fund Information Center.
- 31.** Consider the following statements under the provisions of the Payment of Wages Act, 1936 :
- (i) The employer is responsible for the payment of wages and in case of death of the employer his legal representative is liable
  - (ii) The wage period fixed by the employer cannot exceed one month
  - (iii) The employer cannot pay the wages either by cheque or by crediting the wages in the bank account of the employed person
  - (iv) Fine can be imposed on any employed person without the previous approval of the State Government.
- Select the correct answer from the options given below —
- (A) (i) and (iii)
  - (B) (ii) and (iv)
  - (C) (i) and (ii)
  - (D) (iii) and (iv).
- 32.** According to section 2(13) of the Payment of Bonus Act, 1965, 'employee' means any person (other than an apprentice) employed on a salary or wages

not exceeding \_\_\_\_\_ per month in any industry to do any skilled or unskilled, manual, supervisory, managerial, administrative, technical or clerical work of hire or reward, whether the terms of employment be expressed or \_\_\_\_\_.

- (A) ₹10,000; implied
- (B) ₹15,000; tacit
- (C) ₹18,000; implied and tacit
- (D) ₹20,000; implied or tacit.

**33.** The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959—

- (A) Provides for compulsory notification of vacancies and submission of employment returns by the employers to the employment exchange
- (B) Provides that the main activity of the employment exchange is appointment of job seekers in the establishments in the public sector
- (C) Applies to all establishments in the private sector and establishments engaged in agricultural activities
- (D) Applies to all establishments in the private sector employing 250 or more workers.

**34.** Which one of the following statements is correct under the Payment of Bonus Act, 1965 —

- (A) The sums deductible from gross profits do not include any amount by way of depreciation admissible under the Income-tax Act, 1961
- (B) The sums deductible from gross profits include any amount by way of development rebate for which the employer is entitled under the Income-tax Act, 1961
- (C) In calculating direct tax payable by the employer, account shall be taken of any loss incurred by the employer in respect of any previous accounting year
- (D) The available surplus in respect of any accounting year shall be the gross profit for that year before deducting the sum under section 6.

**35.** Under the Payment of Wages Act, 1936, the term 'wages' does not include —

- (A) Any travelling allowance or the value of any travelling concession
- (B) The value of any house accommodation
- (C) Any remuneration to which the person employed is entitled in respect of overtime work or holidays or any leave period
- (D) Any contribution paid by the employer to any pension or provident fund.

**36.** As per the provisions of section 20 of the Apprentices Act, 1961, any person aggrieved by the decision of the Apprenticeship Advisor may, within \_\_\_\_\_ from the date of communication to him of such decision, prefer an appeal against the decision to the Apprenticeship Council.

- (A) 15 Days

- (B) 30 Days
- (C) 60 Days
- (D) 90 Days.

**37.** Consider the following statements under the Minimum Wages Act, 1948 :

- (i) The Act provides for fixation and revision of minimum wages of the workers in the scheduled employments
- (ii) Under this Act, both Central and State Governments are responsible for fixation and revision of minimum wages in respect of scheduled employments
- (iii) There is a uniformity of minimum wages within the country inspite of differences in price of essential commodities, paying capacity, productivity, local conditions, *etc.*
- (iv) The Act extends to whole of India and provides for fixing minimum rate of wages in all employments.

Select the correct answer from the options given below —

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

**38.** According to the Payment of Gratuity Act, 1972, gratuity shall be payable to an 'employee' —

- (A) On his superannuation after completion of continuous service for not less than 5 years
- (B) On his retirement or resignation after completion of continuous service for not less than 5 years
- (C) On his becoming disabled due to accident even though unable to complete 5 years of continuous service
- (D) All of the above.

**39.** According to section 3(2) of the Minimum Wages Act, 1948 the appropriate government may fix minimum rate of wages. Accordingly, which one of the following matter does not fall within the provisions of section 3(2) —

- (A) Time work
- (B) Piece work
- (C) Manual work
- (D) Guarantee time rate.

- 40.** Section 7 of the Child Labour (Prohibition and Regulation) Act, 1986 stipulates that no child shall be permitted or required to work between —
- (A) 6.00 P.M. and 12.00 midnight
  - (B) 6.00 A.M. and 6.00 P.M.
  - (C) 8.00 A.M. and 4.00 P.M.
  - (D) 7.00 P.M. and 8.00 A.M.
- 41.** Under section 2(1)(e) of the Employees' Compensation Act, 1923 the following persons are included in the definition of 'employer' :
- (i) Any body of persons incorporated or not
  - (ii) Any managing agent of the employer
  - (iii) Legal representative of a deceased employer
  - (iv) A contractor
- Select the correct answer from the options given below —
- (A) (i) and (ii) only
  - (B) (i), (ii) and (iii) only
  - (C) (i), (ii), (iii) and (iv)
  - (D) (ii), (iii) and (iv) only.
- 42.** Which one of the following statements is incorrect regarding certification of draft standing orders under the Industrial Employment (Standing Orders) Act, 1946 —
- (A) The employee of an establishment is required to submit to the Certifying Officer, three copies of the draft standing orders proposed by him for adoption in their establishments
  - (B) The draft standing orders must be in conformity with the model standing orders
  - (C) Employers of industrial establishments of similar nature may submit a joint draft of standing orders
  - (D) Standing orders shall be certifiable if they are otherwise in conformity with the provisions of the Act.
- 43.** Which one of the following statements is correct under the Trade Unions Act, 1926 —
- (A) A certificate of registration is not a conclusive evidence that the trade union has been duly registered under the Act
  - (B) A certificate of registration of a trade union may be cancelled by the Registrar if he is satisfied that the certificate has been obtained by fraud



- (C) Any fifteen or more members of a trade union may apply for registration of the trade union
  - (D) The Act does not protect a trade union from civil or criminal liability.
- 44.** Under the Minimum Wages Act, 1948, the appropriate government can fix or revise minimum rates of wages by notification in the official gazette. In this regard —
- (A) The minimum rates of wages can be revised with retrospective effect
  - (B) The minimum rates of wages cannot be revised with retrospective effect
  - (C) The minimum rates of wages can be revised with retrospective effect in consultation with representatives of scheduled employments
  - (D) The minimum rates of wages can be revised with retrospective effect only when owners of scheduled employments can afford to pay.
- 45.** According to the provisions of the Employees' Compensation Act, 1923 an appeal against the order of Commissioner may be filed to the High Court within—
- (A) 15 Days of the order
  - (B) 30 Days of the order
  - (C) 45 Days of the order
  - (D) 60 Days of the order.
- 46.** Under section 20(1) of the Minimum Wages Act, 1948, which one of the following may be appointed by the appropriate government as an authority to hear and decide cases related to payment of wages —
- (A) Any commissioner for workmen's compensation
  - (B) Any officer of the Central Government exercising functions as labour commissioner for any region
  - (C) Any officer of the State Government not below the rank of Labour Commissioner
  - (D) All of the above.
- 47.** Which one of the following statements is incorrect within the meaning of 'employee' under the Employees' State Insurance Act, 1948 —
- (A) Person who is directly employed on any work by the principal employer of the factory
  - (B) Person employed in zonal offices and branch offices of a factory
  - (C) Person whose services are temporarily let on hire to the principal employer
  - (D) Person who is a member of the armed forces and working in the Ordinance Depot.
- 48.** As per the Minimum Wages Act, 1948, the appropriate government may review

and revise the minimum rate of wages at such intervals as it may think fit, such intervals should —

- (A) Not exceed one year
  - (B) Not exceed two years
  - (C) Not exceed three years
  - (D) Not exceed five years.
- 49.** Under the Employees' State Insurance Act, 1948 to determine whether an injury is 'employment injury' or not, the basic test to be applied is that —
- (A) Injury was sustained by a person within the premises or the concern where a person works
  - (B) There was visible injury in the form of some wound
  - (C) Injury sustained was not caused by negligence
  - (D) There is a nexus between the circumstances of the accident and the employment.
- 50.** Which one of the following is not welfare provisions under the Factories Act, 1948 —
- (A) Canteen
  - (B) Crèches
  - (C) Alcoholic beverage
  - (D) Drinking water.
- 51.** Which one of the following statements is true under the Payment of Gratuity Act, 1972 —
- (A) Gratuity is payable only to the employee himself
  - (B) The maximum amount of gratuity allowed under the Act is Rs. 3.5 lakh
  - (C) An employee is not required to make nomination
  - (D) An employer has the right of forfeiture of gratuity, but the right of forfeiture of gratuity is limited to the extent of damage.
- 52.** Section 2(n) of the Factories Act, 1948 defines the term 'occupier' as a person who has ultimate control over the affairs of the factory. In the light of the definition of occupier, in the case of a company —
- (A) The Company Secretary shall be deemed to be the occupier
  - (B) Any one of the directors shall be deemed to be the occupier
  - (C) Any senior officer of the company shall be deemed to be the occupier
  - (D) Any responsible and trusted employee who stays at the factory premises throughout day and night shall be deemed to be the occupier.

53. Consider the following statements under the Employees' Compensation Act, 1923 :
- (i) The liability of the employer for compensation in case of occupational disease is of moral nature
  - (ii) Where the employment was under more than one employer, all such employers are liable for the payment of compensation in such proportion as the Commissioner may deem just
  - (iii) In matters of personal injury, the employer is liable if the injury is caused by accident arising out of and in the course of employment
  - (iv) 'Personal injury' includes nervous shock or break-down or mental strain.
- Select the correct answer from the options given below —
- (A) (i), (ii) and (iii)
  - (B) (ii), (iii) and (iv)
  - (C) (iii), (iv) and (i)
  - (D) (iv), (i) and (ii).
54. Which of the following relations of an insured person will be included in the 'family' under section 2(11) of the Employees' State Insurance Act, 1948 —
- (A) Spouse
  - (B) A minor legitimate child
  - (C) An adopted child dependent upon the insured person
  - (D) All of the above.
55. In relation to section 1(3) of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, the Rajasthan High Court held in the case of Bikaner Cold Storage Co. Ltd. v. Regional Provident Fund Commissioner, Rajasthan (1979) that —
- (A) All types of workmen should be included for the purpose of ascertaining the strength of workmen
  - (B) Persons employed in the normal course of the business of the establishment should not be considered as the persons employed for the purpose of this provision
  - (C) Persons employed for a short duration or on account of urgent necessity which is not a regular feature of the business cannot be considered as employees.
  - (D) Casual workers are covered under this provision.
56. Which statement is correct as held by the Supreme Court in the case of *Bijoy Cotton Mills v. State of Ajmer* (1955) —
- (A) The freedom guaranteed under Article 19(1)(g) of the Constitution of India is an absolute freedom

- (B) The restrictions imposed upon the freedom of contract by the fixation of minimum rate of wages are not unreasonable
  - (C) The restrictions imposed upon the freedom of contract by the fixation of minimum rate of wages are unreasonable
  - (D) In the interest of general public the appropriate government is required to fix uniform rate of minimum wages.
- 57.** Under section 2(3) of the Employees' State Insurance Act, 1948 the term 'confinement' means —
- (A) Confinement of employees within the premises of the establishment during specified period
  - (B) Confinement of manufacturing process within the premises of the establishment
  - (C) Labour resulting in confinement on account of injury during the course of employment
  - (D) Labour resulting in the issue of a living child or labour after 26 weeks of pregnancy resulting in the issue of child.
- 58.** Under the provisions of the Industrial Disputes Act, 1947 no workman who is employed in any industrial establishment shall go on strike in breach of contract and no employer of any such workman shall declare a lock-out during the pendency of —
- (A) Conciliation proceedings before a Board and two months after the conclusion of such proceedings
  - (B) Proceeding before a Labour Court and two months after the conclusion of such proceedings
  - (C) Proceeding before a Tribunal or National Tribunal and two months after the conclusion of such proceedings
  - (D) Arbitration proceedings before an arbitrator and seven days after the conclusion of such proceedings.
- 59.** Which one of the following statements is true under the provisions of the Factories Act, 1948 —
- (A) For the purpose of cleanliness, the office of the factory must be kept clean and free from effluvia arising from any drain or nuisance
  - (B) Where the work carried on in the factory generates excessively high temperature, such process should be separated from the work room
  - (C) Artificial humidification is required for carrying out every type of manufacturing process

- (D) Sufficient number of spittoons situated at convenient places is a mandatory condition where more than 1,000 workers are ordinarily employed in a factory.
- 60.** Which one of the following is not a qualification to be a judge of the Employees' Insurance Court —
- (A) Judicial officer with minimum of five years standing  
(B) Legal practitioner with minimum of five years standing  
(C) Judicial officer as well as legal practitioner with minimum of five years standing  
(D) Special legal officer with minimum of five years standing.
- 61.** The administration of the Factories Act, 1948 is carried out through Inspecting Staff, Certifying Surgeon, Welfare Officer and Safety Officer. In this relation read the following statements :
- (i) The Chief Inspector of factories is appointed by the Central Government  
(ii) In every district the Sessions Judge shall be deemed to be an Inspector for his district  
(iii) The primary function of a 'Certifying Surgeon' is to make examination of the premise, plant and machinery and to maintain registers and records  
(iv) Under section 40B of this Act, appointment of Safety Officer is not mandatory in every factory.
- Select the correct answer from the options given below —
- (A) (i) and (ii)  
(B) (ii) and (iii)  
(C) (i) only  
(D) (iv) only.
- 62.** Under the provisions of the Employees' Compensation Act, 1923, the employer is not liable to pay compensation —
- (A) Where injury results in disablement for a period exceeding 3 days  
(B) Where the employee dies due to an accident and at the time of accident he was under the influence of drink  
(C) Where the employee has instituted a suit for damages in a Civil Court  
(D) Where the injury results in permanent total disability and at the time of accident the employee was under the influence of drugs.
- 63.** Under section 2 of the Employees' State Insurance Act, 1948 'permanent partial disablement' means —
- (A) Such disablement of a permanent nature as incapacitates an employee for all work which he was capable of performing at the time of the accident resulting in such disablement

- (B) A condition which requires medical treatment and attendance and necessitates abstention from work on medical grounds
  - (C) Disablement of a permanent nature, as reduced the earning capacity of an employee in every employment which he was capable of undertaking at the time of the accident resulting in the disablement
  - (D) A condition resulting from an employment injury which requires medical treatment and renders an employee as a result of such injury, temporarily incapable of doing the work which he was doing prior to or at the time of injury.
- 64.** The second schedule appended to the Industrial Disputes Act, 1947 relates to matters within the jurisdiction of the Labour Court. Which one of the following matters is not covered in the said schedule —
- (A) The illegality or otherwise of a strike or lock-out
  - (B) Discharge or dismissal of workmen
  - (C) The application and interpretation of standing orders
  - (D) Leave with wages and holidays.
- 65.** The provisions of the Payment of Bonus Act, 1965 do not apply to the following classes of employees —
- (A) Employees employed by any insurer carrying on general insurance business
  - (B) Employees employed by universities and other educational institutions
  - (C) Every other establishment in which twenty or more persons are employed on any day during an accounting year
  - (D) Both (A) and (B) above.
- 66.** In which case, the Supreme Court held that the process undertaken in zonal and sub-stations, transforming and transmitting electricity generated at the power station does not fall within the definition of 'manufacturing process' and could not be said to be a 'factory' —
- (A) Workmen of Delhi Electric Supply Undertaking v. Management of Delhi Electric Supply Undertaking
  - (B) R.E. D'souza v. Krishnan Nair
  - (C) V.P. Gopala Rao v. Public Prosecutor
  - (D) P. Natrajan v. E.S.I. Corporation.
- 67.** Which one of the following statements is incorrect regarding recovery of bonus from an employer under the Payment of Bonus Act, 1965 —
- (A) An application for recovery of bonus is required to be submitted to the State Government

- (B) An application for recovery of bonus shall be made within one year from the date on which the money becomes due
  - (C) After the expiry of limitation period of one year, an application for recovery of bonus may be entertained on the ground of sufficient cause
  - (D) Mode of recovery of bonus under section 21 is available only if bonus sought to be recovered is under settlement or an award or an agreement.
- 68.** Which one of the following statements is not correct as per section 2 of the Factories Act, 1948 —
- (A) 'Child' means a person who has not completed his 15<sup>th</sup> year of age
  - (B) 'Power' does not include the power generated by human or animal agency
  - (C) 'Adolescent' is a person who has completed his 14<sup>th</sup> year of age but has not completed his 20<sup>th</sup> year
  - (D) The term 'machinery' includes prime-movers, transmission machinery and all other appliances whereby power is generated, transformed, transmitted or applied.
- 69.** Which one of the following statements is incorrect under the Apprentices Act, 1961 —
- (A) The stipend is to be given to an apprentice at the rate specified by the appropriate government
  - (B) Any disagreement or dispute between an employer and an apprentice arising out of the apprenticeship contract is referred to Apprenticeship Council
  - (C) The National Council is not an authority under the Apprentices Act, 1961
  - (D) An offence cannot be committed by a company under this Act.
- 70.** Under section 38 of the Employees' State Insurance Act, 1948, consider the following statements :
- (i) Insurance of all employees in factories or establishments, to which this Act applies, is compulsory
  - (ii) Exempted employees are not liable to pay employees' contribution
  - (iii) It is moral obligation of the employer to pay his own contribution
  - (iv) Any dispute, in this relation, shall be settled by the court of Chief Judicial Magistrate.
- Select the incorrect answer from the options given below —
- (A) (i) and (ii)
  - (B) (ii) and (iii)

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

**PART - B**

- 71.** Consider the following statements under the Constitution of India :
- (i) In India, legal sovereignty is vested in the people of India and political sovereignty is distributed between the Union and the States
  - (ii) The Constitution of India is basically unitary but with some federal features
  - (iii) The Preamble declares India to be a socialistic State which means that people of India enjoy religious freedom
  - (iv) The Constitution is the supreme law of India and it can be amended by following the procedure laid down in Article 368.
- Select the incorrect answer from the options given below —
- (A) (i) and (ii)
  - (B) (ii) and (iii)
  - (C) (iii) and (iv)
  - (D) (iv) and (i).
- 72.** Which of the following acts as a Chairman of the committee constituted for appointment of Central Information Commission —
- (A) President of India
  - (B) Prime Minister of India
  - (C) The leader of opposition in the Parliament
  - (D) Any designated member of the Parliament.
- 73.** Which one of the following statements is false regarding power of 'summary trial' under the Code of Criminal Procedure, 1973 —
- (A) Power of summary trial is available to the Chief Judicial Magistrate, Metropolitan Magistrate and Magistrate of the First Class who is specially empowered by the High Court
  - (B) Offences not punishable with death, imprisonment for life or imprisonment for a term exceeding three years are covered under summary trial
  - (C) In all summary trials the summons case procedure is followed
  - (D) No sentence of imprisonment for a term exceeding three months shall be passed in any conviction in summary trials.
- 74.** Consider the following statements under the Code of Civil Procedure, 1908 :
- (i) In a suit by or against a corporation, pleading may be signed and



verified on behalf of the corporation by any of the promoters of the corporation

- (ii) In a suit by or against a corporation, the Court cannot require the personal appearance of the Secretary or Director of the corporation
- (iii) When a suit is instituted by a minor through a 'next friend', it is not necessary that such next friend should be of sound mind and has attained majority
- (iv) When a suit is instituted by a minor through a 'next friend' and during pendency of the suit he attains the age of majority, he may elect to proceed with the suit or may elect to abandon the suit.

Select the incorrect answer from the options given below —

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

**75.** Consider the following statements under the law of torts :

- (i) The rule of strict liability, as laid down in the case of *Rylands v. Fletcher*, is applicable where damage is caused due to natural use of the land
- (ii) For the tort committed by a partner in the ordinary course of the business of the firm, all other partners are liable
- (iii) A sovereign function denotes the activity of the State which can be carried out only by the State
- (iv) Defamation is a statement which tends to lower a person in the estimation of right thinking members of society.

Select the incorrect answer from the options given below —

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

**76.** Which one of the following statements is incorrect relating to 'complaint' under section 2(d) of the Code of Criminal Procedure, 1973 —

- (A) A complaint is an allegation made orally or in writing to a Magistrate
- (B) It is necessary that the name of the person or persons who have committed the offence in question must be mentioned in the complaint
- (C) A police report is deemed to be a complaint where after investigation it discloses commission of a non-cognizable offence

- (D) A petition addressed to the Magistrate containing an allegation that an offence has been committed and ending with a prayer that the culprit be suitably dealt with is a complaint.
77. Which one of the following statements is incorrect under the Right to Information Act, 2005 —
- (A) The Right to Information Act, 2005 extends to the whole of India except Jammu and Kashmir
  - (B) The Right to Information Act, 2005 confers on all persons a right to information
  - (C) Under section 4 of the Act every public authority has been entrusted with a duty to maintain records and publish manuals, rules, regulations, instructions, *etc.* in its possession as prescribed under the Act
  - (D) The Act specifies the manner in which request may be made for obtaining the information.
78. Which one of the following statements is correct regarding interpretation of statutes —
- (A) A statute has been defined as an advice of the legislature to people to do or not to do something
  - (B) Consolidating statute means a statute which consolidates several previous statutes relating to the same subject matter, with or without alteration of substance
  - (C) The purpose of interpretation is to understand the statute according to one's own comprehension
  - (D) While on interpretation of statutes omissions may be presumed and when a word is not in the statute, it may be given meaning.
79. Which one of the following statements is true regarding appeals in civil cases under the Code of Civil Procedure, 1908 —
- (A) Right to appeal in civil cases is a natural or inherent right attached to litigation
  - (B) From all original decrees an appeal can be preferred to the High Court
  - (C) No appeal lies in any suit of the nature cognizable by courts of small causes when the amount or value of the subject matter of the original suit does not exceed ten thousand rupees
  - (D) An appeal does not lie against an order under section 95 for compensation for obtaining attachment or injunction on insufficient ground.
80. Which one of the following statements is false under the Code of Civil Procedure, 1908 —
- (A) The explanation to section 9 provides that a suit in which the right to an office is contested is not a suit of civil nature

- (B) To apply the doctrine of *res sub judice* it is essential that there must be two suits instituted at different times
  - (C) The doctrine of *res judicata* underlines the general principle that no one shall be twice vexed for the same cause
  - (D) 'Set-off' is a reciprocal acquittal of debts between the plaintiff and defendant and it has the effect of extinguishing the plaintiff's claim to the extent of the amount claimed by the defendant as a counter claim.
- 81.** Section 190 of the Code of Criminal Procedure, 1973 provides for taking cognizance of an offence by the Magistrate —
- (A) On a police report filed under section 173 of the Code of Criminal Procedure, 1973
  - (B) On a complaint within the meaning of section 2(d) of the Code of Criminal Procedure, 1973
  - (C) *Suo motu*
  - (D) All of the above.
- 82.** Under section 10 of the Specific Relief Act, 1963 to succeed in a suit for specific performance the party need not prove that —
- (A) The plaintiff did not commit the breach of contract
  - (B) A valid agreement of sale was entered into by the defendant in his favour and the terms thereof
  - (C) The defendant committed breach of the contract
  - (D) The plaintiff was always ready and willing to perform his part of obligation in terms of the contract.
- 83.** Consider the following statements under the Right to Information Act, 2005 :
- (i) Information regarding Cabinet papers including records of deliberations of the Council of Ministers is exempted from disclosure
  - (ii) The Public Information Officer is empowered to reject a request for information where an infringement of a copyright is involved
  - (iii) The Central Information Commission is constituted by the appropriate government through a gazette notification
  - (iv) The State Information Commission consists of one State Chief Information Commissioner and not more than 15 State Information Commissioners.
- Select the incorrect answer from the options given below —
- (A) (i) and (ii)

- (B) (ii) and (iii)
  - (C) (iii) and (iv)
  - (D) (iv) and (i).
- 84.** Though the Directive Principles of State Policy contained in the Constitution are not enforceable by any court, yet they are —
- (A) Fundamental in the governance of the country
  - (B) Binding on the State
  - (C) Enforceable at the instance of the President of India
  - (D) Superior to fundamental rights.
- 85.** For a suit to recover possession of a movable property conveyed or bequeathed in trust and afterwards transferred by the trustee for a valuable consideration, under clause 93 of the Schedule to the Limitation Act, 1963 the period of limitation is —
- (A) Thirty years
  - (B) Twelve years
  - (C) Three years
  - (D) One year.
- 86.** The doctrine of *estoppel* is a —
- (A) Substantive law
  - (B) Rule of equity
  - (C) Rule of evidence
  - (D) Law of pleading.
- 87.** Out of the following which is not a secondary evidence —
- (A) Copies made from the original by mechanical process
  - (B) Copies made from or compared with original
  - (C) Oral accounts of the contents of a document given by a person who has himself seen it
  - (D) Oral account of a photograph.
- 88.** Which one of the following statements is false under the Code of Civil Procedure, 1908 —
- (A) A decree is the decision of a court of justice upon respective rights and claims of the parties to an action

- (B) A decree may be preliminary or final. It is preliminary when further proceedings are required to be taken before the suit can be completely disposed of
  - (C) A person who is not a party to the suit but in whose favour an order capable of execution is passed is deemed to be a 'decree-holder'
  - (D) The court may on application of any party to a suit, pass orders on different applications and any order which is not the final order in a suit is called 'interlocutory order'.
- 89.** Where the meaning of the statute is clear, there is no need for presumptions. But if the intention of the legislature is not clear, there are a number of presumptions. Which one of the following is not applicable in this regard —
- (A) A statute creating a criminal offence does not intend to attach liability without guilty intent
  - (B) A statute is not intended to be consistent with the principles of international law
  - (C) The legislature does not confer powers necessary to carry out duties imposed by it
  - (D) The law compels no man to do that which is futile or fruitless.
- 90.** Which one of the following in respect of set-off is correct under the provisions of the Code of Civil Procedure, 1908 —
- (A) Set-off can be claimed in a suit for recovery of money
  - (B) The amount claimed must be ascertained amount
  - (C) The amount claimed to be set-off must be legally recoverable and not barred by limitation
  - (D) All of the above.
- 91.** Under interpretation of statutes, the maxim *expressio unis est exclusio alterius* means that —
- (A) Meaning of a word should be known from its accompanying or associate words
  - (B) The best way to give the meaning to a document or proposition of law is to read it as it would have read when it was made
  - (C) Where there are general words following particular and specific words, the general words must be confined to things of the same kind as those specified
  - (D) Express mention of one thing implies the exclusion of another.

92. Which one of the following statements is incorrect as per the Constitution of India —
- (A) Laws made by Parliament may have their application even beyond the territory of India
  - (B) Laws made by the State legislature having extra-territorial application may be valid on the basis of 'territorial nexus'
  - (C) Parliament has power to make laws in relation to subjects enumerated in the Union List and the Concurrent List
  - (D) The Concurrent list contains subjects on taxation and hence Parliament as well as State Legislature both have power of taxation under this list.
93. In which of the following case the Supreme Court held that an amendment of the Constitution under Article 368 was 'law' within the meaning of Article 13—
- (A) *Golak Nath v. State of Punjab*
  - (B) *Sajjan Singh v. State of Rajasthan*
  - (C) *Shankari Prasad v. Union of India*
  - (D) *Kesvananda Bharti v. State of Kerala.*
94. Consider the following statements under the Code of Criminal Procedure, 1973:
- (i) A Sessions Judge may pass any sentence authorised by law but the sentence of death is subject to confirmation by the Supreme Court
  - (ii) If a person has committed a non-cognizable offence and does not disclose his name and residence, he may be arrested without warrant
  - (iii) A private person can arrest any person who has committed any offence
  - (iv) A Magistrate of the First Class may pass a sentence of imprisonment up to seven years and fine up to five thousand rupees or both.
- Select the incorrect answer from the options given below —
- (A) (i), (ii) and (iii)
  - (B) (ii), (iii) and (iv)
  - (C) (iii), (iv) and (i)
  - (D) (iv), (i) and (ii).
95. The purpose of interpretation clause is —
- (A) To give dictionary meaning of the word or expression

- (B) To give an overview of the statute
  - (C) To give complete meaning of the statute
  - (D) To avoid the necessity of frequent repetition in describing all the subject matter to which the word or expression so defined is intended to apply.
96. Which one of the following statements is true regarding limitation period for taking cognizance of an offence under the Code of Criminal Procedure, 1973—
- (A) If the offence is punishable with fine only, the period of limitation is one year
  - (B) If the offence is punishable with imprisonment for a term exceeding three years, the period of limitation is three years
  - (C) No rule of period of limitation is applicable where the offender is absconding or concealing himself
  - (D) The court may take cognizance of an offence after the expiry of the period of limitation, in the interest of justice.
97. While interpreting the phrase 'equality before the law' contained in Article 14 of the Constitution of India, the Supreme Court consistently maintained that 'equality' means —
- (A) Absolute equality among human beings
  - (B) Equal treatment to all persons
  - (C) Equality of status in the Preamble of the Constitution
  - (D) Among equals, the law should be equal and should be equally administered.
98. Consider the following statements under the Constitution of India :
- (i) The writ jurisdiction of the High Courts is wider than that of the Supreme Court
  - (ii) The writ of *habeas corpus* is a remedy available to a person who is confined without legal justification
  - (iii) One of the relevant justifications for delegated legislation is the need of some weapon for coping with situations created by emergency
  - (iv) The power of judicial review is not available in relation to delegated legislation.
- Select the incorrect answer from the options given below —
- (A) (i), (ii) and (iii)
  - (B) (ii), (iii) and (iv)
  - (C) (iii), (iv) and (i)
  - (D) (iv), (i) and (ii).

- 99.** Perpetual injunction under section 38 of the Specific Relief Act, 1963 can be granted —
- (A) When there exists no standard for ascertaining the actual damages caused
  - (B) When compensation would not afford adequate relief
  - (C) When the defendant is a trustee of the property for the plaintiff
  - (D) All of the above.
- 100.** Which one of the following statements is incorrect as per the Constitution of India —
- (A) The definition of 'State' under Article 12 of the Constitution includes the Government and legislature of each of the States
  - (B) Article 13(2) of the Constitution prevents the State from making law which takes away or abridges the fundamental rights
  - (C) Under Article 13(1) of the Constitution, any law inconsistent with the fundamental rights shall become *void* and hence dead for all times to come
  - (D) In *Bheshar Nath v. CIT* (1959), the Supreme Court held that the fundamental rights cannot be waived.

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

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

Q. 23: The correct answer is : "Is applicable to establishments in which not less than ten and not more than forty persons are employed".

Q. 35: Three options (A & B & D) are found to be correct.

Q. 58: Two options (B & C) are found to be correct.

Q. 98: The only incorrect statement is (iv). The power of Judicial review is not available in relation to delegated legislation.