

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

JUNE 2018

MODULE 2



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

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

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(i)

EXECUTIVE PROGRAMME

UPDATING SLIP

COMPANY ACCOUNTS AND AUDITING PRACTICES

MODULE – 2 – PAPER 1

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

(ii)

UPDATING SLIP

CAPITAL MARKETS AND SECURITIES LAWS

MODULE – 2 – PAPER 2

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

EXECUTIVE PROGRAMME EXAMINATION
JUNE 2018
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) How will you present 'Trade Receivables' by way of note in Schedule III of Companies Act, 2013 ?
- (b) What are the advantages of "Economic Value Added Analysis" ?
- (c) Differentiate between "Bonus Issue" and "Right Issue" to existing shareholders?
- (d) What are the objectives of Accounting Standards Board ?
- (e) The following balances appeared in the books of R Ltd. on April 1, 2017 :
 - (1) 12% Debentures ₹8,00,000.
 - (2) Sinking fund ₹7,00,000.
 - (3) Sinking fund investment ₹7,00,000 represented by 10% ₹7,50,000 secured bonds of Government of India.

Annual contribution to the sinking fund was ₹1,20,000 made on 31st March each year. On 31st March, 2018, balance at bank was ₹3,50,000 before receipt of interest. The company sold investments at 90% for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2018 :

- (i) Sinking Fund Account
- (ii) Sinking Fund Investment Account
- (iii) Bank Account. (5 marks each)

Answer 1(a)

Disclosure requirements of Trade Receivables

As per Schedule III of the Companies Act, 2013, trade receivable will be shown as under by way of note:

- (i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated.
- (ii) Trade receivables shall also be classified as:
 - (a) To the extent secured, considered good;

- (b) Others, considered good;
- (c) Doubtful.
- (iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- (iv) Debts 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 1(b)**Advantages of Economic Value Added Analysis**

1. In various cases, company pay bonus to the employees on the basis of EVA generated. Since a higher EVA implies higher bonus to the employees, it encourages the employees to work hard for generating higher revenue.
2. Using EVA, company can evaluate the projects independently and take decision whether to execute the project or not .
3. It helps the company in monitoring the problem areas and accordingly taking corrective actions to resolve those problems.
4. Unlike accounting profit, such as EBIT, Net Income and EPS, EVA is based on the idea that a business must cover both the operating costs as well as the capital costs and hence it presents a better and true picture of the company to the owners, creditors, employees, shareholders and all other interested parties.
5. It also helps the owners of the company to identify the best person to run the company effectively and efficiently.

Answer 1(c)

The following are the main difference between Bonus Issue and Right Issue:

1. Bonus issues are made out of the accumulated reserves in the employment of the business, which in no way contribute to the increased earning capacity of the business. However, in the case of right issues, the existing holders are offered the shares forming part of the new issue; more funds flows into the company for improving the earning capacity.
2. In case of Bonus Issue, the rate of dividend is lower since the same quantum of profit would be distributed over a larger number of shares, However, in case of right issue, a progressive company generally picks up the old rate of dividend after a short period.
3. In case of Bonus Issue, the market value of the shares is lower. However in case of Right Issue, share value will naturally depend on the effectiveness with which new funds will be used.

Answer 1(d)**Objectives of the Accounting Standards Board**

The following are the objectives of the Accounting Standards Board:

- i. To conceive and suggest areas in which Accounting Standards need to be developed.
- ii. To formulate Accounting Standards with a view to assist the Council of the ICAI in evolving and establishing Accounting Standards in India.
- iii. To examine how far the relevant International Accounting Standard/International Financial Reporting Standard can be adopted while formulating the Accounting Standard.
- iv. To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
- v. To provide, from time to time, interpretations and guidance on Accounting Standards.
- vi. To carry out such other functions as may be specified relating to Accounting Standards.

Answer 1(e)**Sinking Fund Account**

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
31.03.18	To Sinking Fund Investment A/c	25,000	01.04.17	By Balance b/d	7,00,000
	10% (loss on sale of govt. bonds)		31.03.18	By Profit and Loss A/c	1,20,000
31.03.18	To General Reserve A/c b/d	8,70,000	31.03.18	By Interest on Sinking fund A/c (Interest on 10% govt. bond)	75,000
	Total	8,95,000		Total	8,95,000

Sinking Fund Investment Account

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
01.04.17	To Bal. b/d	7,00,000	31.03.18	By Bank A/c	6,75,000
			31.03.18	By Sinking Fund A/c (loss on sale of govt. bonds)	25,000
	Total	7,00,000		Total	7,00,000

Bank Account

<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
31.03.18	To Bal. b/d	3,50,000	31.03.18	By 12% Debenture A/c	8,80,000
31.03.18	To Sinking Fund A/c	75,000			
31.03.18	To Sinking Fund Investment A/c	6,75,000	31.03.18	By Bal c/d	2,20,000
	Total	11,00,000		Total	11,00,000

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

Question 2

- (a) Profit of S Ltd. before remuneration of Managing Director was ₹ 20,10,000 for the year ended on 31st March, 2018. The said profit has been calculated considering the following figures :

	₹
Capital Expenditure	8,25,000
Depreciation as per section 123 read with schedule II of Companies Act, 2013	70,000
Bonus to technicians	3,15,000
Compensation paid to workman	70,000
Loss on sale of fixed assets	70,000
Subsidy from Government	4,20,000
Multiple shift allowance	1,05,000
Provision for taxation	28,00,000
Ex-gratia payment to an employee	35,000
Profit on sale of building	2,10,000

Determine the maximum remuneration payable to Managing Director of S Ltd. from the above information. (3 marks)

- (b) The following information provided by Peeru Ltd. for the year ending 31st March, 2018 :

	₹
Closing Inventories of Materials	40,00,000
Closing Work-in-progress	20,00,000
Closing Inventory of Finished Goods	50,00,000
Sundry Debtors	80,00,000
Provision for bad and doubtful debts	8,00,000

<i>Bills Receivables</i>	20,00,000
<i>Loose and Tools</i>	10,00,000
<i>Stores and Spares</i>	5,00,000
<i>Prepaid Expenses</i>	4,00,000

You are required to prepare relevant notes to the accounts for the year ended 31st March, 2018 as per Schedule III of the Companies Act, 2013. (3 marks)

- (c) Mithu Ltd. forfeited 1,000 equity shares of ₹10 each, which were originally issued at a premium of 20 percent to Guna. On these shares ₹9 per share called up (other than premium). Guna failed to pay allotment money ₹5 (including premium) and also the first call of ₹2 per share. Out of these forfeited shares 700 shares were re-issued to Naku as fully paid-up for ₹8 per share. Give journal entries for forfeiture and re-issue of shares. (3 marks)
- (d) What is "Internal Reconstruction" ? State the methods of internal reconstruction. (3 marks)
- (e) Distinguish between liability and provision. (3 marks)

OR (Alternative question to Q. No. 2)

Question 2A

- (i) A Ltd. holds 75% shares in its subsidiary B Ltd. From the following information calculate minority interest at the end of each year :
- Share capital of B Ltd. was ₹10,00,000 (₹10 each share) and reserves ₹2,00,000 on the date of acquisition on 31st March, 2014.
 - Fully paid bonus shares were issued by B Ltd. on 31st March, 2015 in the ratio of 2 bonus shares for every 5 shares held.
 - Profit and Loss of B Ltd. for the various years are as follows :
 - 31st March, 2015 : ₹3,00,000
 - 31st March, 2016 : ₹(1,00,000) Loss
 - 31st March, 2017 : ₹2,00,000
 - 31st March, 2018 : ₹2,50,000 (including profit of ₹50,000 on revaluation of assets)
- (5 marks)
- (ii) On 1st July, 2017 a company issued 50,000, 9% debentures of ₹100 each at a discount of 10%. The debentures were redeemable by five annual drawings of ₹10,00,000 on 31st March each year. Calculate the amount of discount on debentures to be written off at the end of the each year on 31st March. (5 marks)
- (iii) The final accounts of P Ltd. as on 31st March, 2018 revealed the following significant information :
- Share Capital (Fully paid up)

Equity share capital — 1,00,000 shares of ₹ 10 each

12% Preference share capital — 20,000 shares of ₹ 50 each

— *Reserves and surplus — ₹ 1,50,000*

— *Preliminary Expenses — ₹ 30,000*

— *The valuation of assets revealed that the assets as per accounts are undervalued by ₹ 2,50,000.*

— *The average pre-tax profits of past three years was ₹ 5,00,000. Tax applicable to company is 30%.*

— *It is anticipated that due to favourable market condition, pre-tax profit will increase by 20%.*

— *Equity shareholders expect a return at 15%.*

You are required to calculate fair value of equity share of P Limited. (5 marks)

Answer 2(a)

Calculation of Profit as per Section 198 of the Companies Act

<i>Particulars</i>	<i>Amount (Rs.)</i>
Net Profit	20,10,000
<i>Add:</i>	
• Capital Expenditure	8,25,000
• Loss on Sale of Fixed Assets	70,000
• Provision for taxation	28,00,000
• Ex-gratia payment to an employee	35,000
<i>Less:</i>	
• Profit on Sale of Building	(2,10,000)
Total	55,30,000
Remuneration payable under Companies Act, 2013 (Rs. 55,30,000 * 5%)	2,76,500

Answer 2(b)

Notes to Accounts

Short Term Loan and Advances

<i>Particulars</i>	<i>Amount (Rs.)</i>
Prepaid Expenses	4,00,000

Inventories

<i>Particulars</i>	<i>Amount (Rs.)</i>
Closing Stock of Raw Material	40,00,000
Closing Stock of work-in progress	20,00,000
Closing stock of Finished Goods	50,00,000
Loose Tools	10,00,000
Stores and Spares	5,00,000
Total	1,25,00,000

Trade Receivable

<i>Particulars</i>	<i>Amount (Rs.)</i>
Sundry Debtors	80,00,000
<i>Less : Provisions for Doubtful Debts</i>	<i>(8,00,000)</i>
<i>Add : Bills Receivable</i>	<i>20,00,000</i>
Total	92,00,000

Answer 2(c)**Journal Entries in the Books of Mithu Limited**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount (Dr.)</i>	<i>Amount (Cr.)</i>
-	Equity Share Capital A/c	Dr.	9000	
	Securities Premium A/c	Dr.	2000	
	To Equity Share allotment A/c			5000
	To Equity Share First Call A/c			2000
	To Shares Forfeited A/c			4000
	(Being 1000 Equity Shares Forfeited)			
-	Bank A/c	Dr.	5600	
	Shares Forfeited A/c	Dr.	1400	
	To Equity Share Capital A/c			7000
	(Being 700 Forfeited shares re-issued at discount of Rs. 2 per share)			
-	Share Forfeited A/c	Dr.	1400	
	To Capital Reserve A/c			1400
	(Being Balance amount forfeited on 700 re-issued shares transferred to capital reserve)			

Note: Amount transferred to Capital Reserve

Amount forfeited on 700 Shares $4000/1000 \times 700 = \text{Rs. } 2800$

Less: Discount on Re-Issue = $700 \times 2 = \text{Rs. } 1400$

Balance amount transferred to capital reserve = Rs. 1400

Answer 2(d)

Meaning of Internal Reconstruction : When the company reconstructs its financial structure internally without undergoing liquidation, it is internal reconstruction. Under this scheme company continues its legal existence. A scheme of re-organisation is prepared in which all parties sacrifice. It also means the reduction of capital to cancel any paid up share capital which is lost or not represented by available assets. This is done to write off the losses of the company.

Methods of internal reconstruction : There are various steps of internal reconstruction which are defined in financial accounting. For properly deploying the process of internal reconstruction, following methods are generally employed or used simultaneously.

1. Alteration of share capital
2. Variation of Shareholder's Rights
3. Reduction of Share Capital
4. Compromise/ Arrangement
5. Surrender of Shares

Answer 2(e)

Difference between Liability and Provision

<i>Points</i>	<i>Liability</i>	<i>Provision</i>
Meaning	Expenses or amounts which are payable on the expiry of certain period as agreed between business parties are known as liability.	A Provision is a charge against profit i.e. it is debited to profit and loss account.
Type of account	Liabilities are personal accounts.	Provisions are nominal accounts
Treatment	Liabilities are shown on the liability side of the balance sheet.	As per schedule III of the Companies Act, 2013, long term provisions are shown under the heading 'Non-current liabilities' while short term provisions are shown under the heading 'Current Liabilities'

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

Share of Minority for different years in profit:

<i>Year Ended</i>	<i>Cumulative Profit at the end</i>	<i>Calculation of Share of Minority</i>	<i>Share of Minority</i>
31.03.2015	(2,00,000+3,00,000-4,00,000 see note) = 1,00,000	1,00,000 *25%	25,000
31.03.2016	(1,00,000-1,00,000) = 0	0 * 25%	0
31.03.2017	(0+2,00,000) = 2,00,000	2,00,000 * 25%	50,000
31.03.2018	(2,00,000 + 2,50,000)	4,50,000 * 25%	1,12,500

Note: Bonus share capital = 10,00,000 * 2/5 = 4,00,000

Minority Interest for different years

<i>Particulars \ Year ended</i>	<i>31.03.2015</i>	<i>31.03.2016</i>	<i>31.03.2017</i>	<i>31.03.2018</i>
Share Capital (See Note)	3,50,000	3,50,000	3,50,000	3,50,000
Share of Profit (Rev. profit)	25,000	0	50,000	1,12,500
Total	3,75,000	3,50,000	4,00,000	4,62,500

Note : Capital held by minority = (10,00,000+4,00,000)*25% = 3,50,000

Answer 2A(ii)

<i>Year ended</i>	<i>Outstanding Amount (Rs.)</i>	<i>Month for which amount remained outstanding</i>	<i>Product of Amount (Rs. in Lakhs)</i>
31.03.2018	5000000	9 (01.07.2017 – 31.03.2018)	450
31.03.2019	5000000	3 (01.04.2018 – 30.06.2018)	150
	4000000	9 (01.07.2018 – 31.03.2019)	360
31.03.2020	4000000	3 (01.04.2019 – 30.06.2019)	120
	3000000	9 (01.07.2019 – 31.03.2020)	270
31.03.2021	3000000	3 (01.04.2020 – 30.06.2020)	90
	2000000	9 (01.07.2020 – 31.03.2021)	180
31.03.2022	2000000	3 (01.04.2021 – 30.06.2021)	60
	1000000	9 (01.07.2021 – 31.03.2022)	90
31.03.2023	1000000	3 (01.04.2022 – 30.06.2022)	30
Total			1800

The amount of discount Rs. 5,00,000 (10% of Rs. 50,00,000) to be written off in various years would be:

<i>Year</i>	<i>Ratio * Discount</i>	<i>Amount to be written off</i>
2017-18	450 / 1800 * 500000	125000
2018-19	(150+360) / 1800 * 500000	141667
2019-20	(120+270) / 1800 * 500000	108333
2020-21	(90+180) / 1800 * 500000	75000
2021-22	(60+90) / 1800 * 500000	41667
2022-23	30 / 1800 * 500000	8333
Total		500000

Answer 2A(iii)

P Limited (Year ended 31st March, 2018)

(a) Valuation of Equity Shares (Intrinsic Value Method)

Equity Shareholders Fund

Equity Capital	10,00,000
Reserve and Surplus (Rs. 1,50,000 – Rs. 30,000)	1,20,000
Appreciation in Assets	2,50,000
Net assets available to Equity Shareholders	13,70,000

$$\begin{aligned}
 \text{Value per fully paid equity share} &= \text{Net assets for equity shareholders / No. of equity shares} \\
 &= 13,70,000 / 1,00,000 \\
 &= \text{Rs. 13.70}
 \end{aligned}$$

(b) Valuation of Equity Shares (Yield Method - Earning Basis)

(i) Future Maintainable Profit

<i>Particulars</i>	<i>Amount in Rs.</i>
Present average profit before tax @ 30%	5,00,000
Add : Increase by 20%	1,00,000
Total	6,00,000
Less : Tax @ 30%	(1,80,000)
Future Profit after tax	4,20,000
Less : Preference Dividend 12% on Rs. 10,00,000	1,20,000
Future Maintainable Profit available to Equity Share Holders	3,00,000

(ii) Expected rate of return = FMP available to equity share holders * 100 / Paid up Equity Capital

$$= 300000 * 100 / 1000000$$

$$= 30\%$$

(iii) Value Per Equity Shares (Yield Basis)

Expected Rate of Return * Paid up price per share / Normal Rate of Return

$$= 30 * 10 / 15$$

$$= \text{Rs. } 20$$

(c) Fair Value per equity share

$$= \text{Intrinsic value method} + \text{Yield value method} / 2$$

$$= (13.70 + 20) / 2$$

$$= \text{Rs. } 16.85$$

Question 3

(a) Chandu Ltd. has issued 1,00,000 redeemable preference shares of ₹100 each, on which fully amount was called, are due for redemption at a premium of 20 percent. The following balances are appearing in the books of the company :

	₹
9% Redeemable Preference Shares of ₹100 each	1,00,00,000
Calls-in-Arrears (on above Red. Preference Shares)	2,00,000
General Reserve	60,00,000
Securities Premium	18,00,000
Development Rebate Reserve	40,00,000

It is ascertained that calls-in-arrears are on account of final call on 10,000 shares held by four members whose whereabouts could not be known. ₹10,00,000 of the Development Rebate Reserve is free for distribution as dividend. Balance of General Reserve and Securities Premium are to be utilised for the purpose of redemption and the shortfall, if any, is to be made good by issue of equity shares of ₹10 each at 25% premium. The redemption of preference shares was duly carried out. You are required to give the necessary journal entries in the books of the company.

(5 marks)

(b) *Prakash Processors Ltd. went into voluntary liquidation on 31st December, 2016 when the following Balance Sheet was prepared :*

	<i>Amount</i>
	<i>₹</i>
I. Equity & Liabilities	
(1) <i>Shareholders' Funds :</i>	
(a) <i>Share Capital :</i>	
4,000, 12.5% cumulative preference shares of ₹ 100 each, fully paid	4,00,000
2,500 equity shares of ₹100 each, ₹75 paid	1,87,500
7,500 equity shares of ₹100 each, ₹60 paid	4,50,000
(b) <i>Reserves & Surplus (P/L A/c Dr. Balance)</i>	(2,81,250)
(2) <i>Non-current Liabilities :</i>	
15% Debentures secured by a floating charge	2,50,000
Interest outstanding on Debentures	37,500
(3) <i>Current Liabilities :</i>	
Trade Payables	4,18,750
<i>Total</i>	<u>14,62,500</u>
II. Assets	
(1) <i>Non-Current Assets :</i>	
(a) <i>Tangible Fixed Assets :</i>	
Land and Building	2,50,000
Machinery and Plant	6,25,000
(b) <i>Intangible Fixed Assets :</i>	
Patents	1,00,000
(2) <i>Current Assets :</i>	
Stock	1,37,500
Trade receivables	2,75,000
Cash at Bank	75,000
<i>Total</i>	<u>14,62,500</u>

Preference Shares dividend were in arrears for 2 years and the Trade Payable included preferential creditors of ₹38,000.

The assets realized as follows :

Land and Building ₹3,00,000; Machinery and Plant ₹5,00,000; Patents ₹75,000; Stock ₹1,50,000; Trade receivables ₹2,00,000.

The expenses of liquidation amounted to ₹27,250. The liquidator is entitled to a commission of 3% on assets realised except cash. Assuming the final payments including those of debentures is made on 30th June, 2017, prepare the Liquidator's Statement of Account. (5 marks)

(c) Choti Ltd. is absorbed by Moti Ltd. The following are the Balance Sheets of both the companies as on 31st March, 2018 :

	Choti Ltd.		Moti Ltd.	
	₹	₹	₹	₹
I. EQUITY & LIABILITIES				
(1) Shareholders' Funds				
(a) Share Capital :				
Equity Share Capital of ₹ 100 each, fully paid up		5,00,000		50,00,000
(b) Reserves & Surplus :				
General Reserve	9,50,000		19,00,000	
Statement of Profit & Loss	2,00,000	11,50,000	5,00,000	24,00,000
(2) Current Liabilities :				
Sundry Creditors		2,00,000		1,80,000
TOTAL		18,50,000		75,80,000
II. ASSETS				
(1) Non-Current Assets :				
Tangible Assets		10,00,000		50,00,000
(2) Current Assets		8,50,000		25,80,000
TOTAL		18,50,000		75,80,000

It was mutually decided by companies that holder of every three shares of Choti Ltd. will be given six shares of Moti Ltd. plus as much cash as is necessary to adjust the rights of shareholders of both the companies, in accordance with the intrinsic value of shares as per respective balance sheets. Calculate amount of purchase consideration and show, how it will be discharged. (5 marks)

Answer 3(a)**Journal Entries in the Books of Chandu Ltd.**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount Rs.(Dr.)</i>	<i>Amount Rs.(Cr.)</i>
---	Bank A/c Dr. To Equity Share Application & Allotment A/c (Being application money received @ Rs. 12.50 per share on 200000 equity share)		2500000	2500000
---	Equity Share Application & Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being application money transferred to equity share capital a/c and securities premium a/c)		2500000	2000000 500000
---	Securities Premium A/c Dr. To Premium on redemption of preference share A/c (Being Premium on Redemption of Preference Share provided for out of securities premium a/c)		1800000	1800000
---	9% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Share A/c Dr. To Preference Shareholder A/c (Being Preference Share Redeem at 20% premium due)		9000000 1800000	10800000
---	Preference Shareholder A/c To Bank A/c (Being amount paid)		10800000	10800000
---	General Reserve A/c Dr. Development Rebate Reserve A/c Dr. To Capital Redemption Reserve A/c (Being amount Transferred)		6000000 1000000	7000000

Working Note:

1. Only fully paid-up shares can be redeemed.
2. New Issue of Equity Shares

<i>Particulars</i>	<i>Amount (Rs.)</i>
9% Redeemable Preference Share Capital	9000000
<i>Less : Redemption out of revenue profit</i>	
General Reserve	(6000000)
Development Rebate Reserve	(1000000)
Equity Shares to be issued for _____	2000000

Answer 3(b)

Prakash Processors Limited
Liquidator's Statement of Account

<i>Receipts</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>	<i>Payments</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>
To Assets realized			By Liquidation expenses		27250
Bank		75000	By Liquidators remuneration (Note 1)		36750
Other Assets			By Debenture holders	250000	
Land	300000		Interest Accrued	37500	
Machinery	500000		Interest (1.1.17 – 30.06.17) (Note 2)	18750	306250
Patents	75000		By Preference Creditors		38000
Stock	150000		By Unsecured Creditors		380750
Trade Receivable	200000	1225000	By Preference shareholders:		
			Preference Capital	400000	
			Arrears of dividend (400000*12.5%* 2 year)	100000	500000
Sub-Total		1300000	Sub Total		1289000
To Call on equity share- holders (7500*Rs.2.65) [Note No. 3]		19875	By equity shareholders (Rs. 12.35 on 2500) [Note No. 3]		30875
Total		1319875	Total		1319875

Working notes:

1. Liquidators Remuneration

$1225000 \times 3/100 = \text{Rs. } 36750$

2. Interest on Debentures : As the company is solvent, interest on debentures will have to be paid for the period 1.1.17-30.06.17

$250000 \times 15/100 \times 1/2 = \text{Rs. } 18750$

3. Total equity capital – paid up = Rs. 637500

Less : Balance available after payment to unsecured and preference shares (1300000-1289000) = (11000)

Loss to be borne by 10000 equity shares (637500-11000) = Rs. 626500

Loss per shares = Rs. 62.65

Hence the amount call on Rs. 60 paid on 7500 shares = Rs. 2.65

Refund to Shares on Rs. 75 paid (On 2500 shares)= Rs. 12.35

Answer 3(c)

Intrinsic Value of Shares of Both the Companies

<i>Particulars</i>	<i>Choti Ltd.</i>	<i>Moti Ltd.</i>
Non-Current Assets	10,00,000	5000000
Current Assets	850000	2580000
	1850000	7580000
<i>Less : Liabilities</i>		
Sundry Creditors	200000	180000
Net Assets	1650000	7400000
No. of Shares	5000	50000
Intrinsic Value	330	148

Amount to be paid in Cash

Value of 3 Shares of Choti Ltd. $(330 \times 3) = 990$

Value of 6 Shares of Moti Ltd. $(148 \times 6) = 888$

Amount to be paid in Cash for every three shares of Choti Ltd. = 102

Purchase Consideration (Net Payment Method)

I Shares of Moti Ltd. $(5000 \times 6/3) \times 148$ i.e. $10000 \times 148 = \text{Rs. } 1480000$
(since shares cannot be in fraction, fraction of share will be paid in cash)

II Cash $(5000/3 \times 102) = \text{Rs. } 170000$

Total I + II = Rs. 1650000

Discharge of Purchase Consideration

10000 shares of Moti Ltd. issued at Rs. 148 per shares = Rs. 1480000

In Cash = Rs. 170000

Total = Rs. 1650000

Question 4

(a) Strong Ltd. acquired 32,00,000 equity shares of Weak Ltd. on 31st March, 2018. Following are the Balance Sheets of both the companies as on that date :

	Strong Ltd. (₹ in lakh)	Weak Ltd. (₹ in lakh)
I. EQUITY & LIABILITIES		
(1) Shareholders' Funds :		
(a) Share Capital :		
Equity Shares of ₹10 each	1,000	400
(b) Reserves & Surplus :		
General Reserve	480	340
Statement of Profit & Loss	114.40	72
(2) Non-Current Liabilities :		
Bank Loan	160	—
(3) Current Liabilities :		
Bills Payable (including ₹8 lakh to Strong Limited)	—	16.80
Sundry Creditors	94.40	18
Total	1848.80	846.80
II. ASSETS		
(1) Non-Current Assets :		
(a) Tangible Fixed Assets :		
Land & Building	300	360
Plant & Machinery	480	318.80
(b) Non-Current Investments :		
Investment in shares of Weak Ltd.	680	—
(2) Current Assets :		
Stock	240	72
Sundry Debtors	88	80
Bills Receivable (including ₹6 lakh from Weak Ltd.)	31.60	—
Cash and Cash Equivalents	29.20	16
Total	1848.80	846.80

You are supplied the following additional information :

- (i) Weak Ltd. made a bonus issue on 31st March, 2018 (after above Balance Sheet) of one equity share for every four shares held by its shareholders.
- (ii) The directors of both companies, have decided to revalue the Land and Building and Plant and Machinery of Weak Ltd. ₹400 lakh and ₹298.80 lakh respectively.
- (iii) Sundry creditors of Strong Ltd. are included ₹24 lakh due from Weak Ltd. Prepare the consolidated Balance Sheet as at 31st March, 2018 in the books of Strong Ltd. Show your working clearly. (8 marks)

(b) The following is the Balance Sheet of AB Ltd. as on 31st March, 2018 :

Particulars	Amount ₹
I. EQUITY & LIABILITIES	
(1) Shareholders' Funds :	
(a) Share Capital :	
1,500, 8% pref. shares of ₹100 each	1,50,000
4,000 equity shares of ₹100 each	4,00,000
(b) Reserves & Surplus :	
General reserve	50,000
(2) Non-current Liabilities :	
8% Debentures	1,50,000
Interest accrued	8,000
(3) Current Liabilities :	
Trade Payables	2,20,000
Total	9,78,000
II. ASSETS	
(1) Non-Current Assets :	
(a) Tangible Assets :	
Plant	2,25,000
Less : Depreciation	<u>35,000</u>
Machinery	4,50,000
Less : Depreciation	<u>70,000</u>
(b) Intangible Assets :	
Computer Software	1,17,000
Patents	1,22,000
(2) Current Assets :	
Inventories	20,000

Trade Receivables	31,200
Cash & cash-equivalents	85,800
(3) Other Current Assets :	
Unamortised Preliminary expenses	32,000
Total	9,78,000

It was decided to reconstruct the company on the basis of the following scheme:

- (i) Equity shares to be reduced by ₹ 90 each.
- (ii) Preference shares to be reduced by ₹10 each.
- (iii) The Debenture holders to waive their outstanding interest.
- (iv) One equity share, ₹10 fully paid will be issued for every ₹40 of preference share dividend, which was in arrear for last two years.
- (v) General Reserve and all intangible and fictitious assets to be written off.
- (vi) Two Non-current tangible assets to be reduced proportionally by the balance available.

Give journal entries to show the above scheme of Capital Reduction.

(7 marks)

Answer 4(a)

Consolidated Balance Sheet of Strong Ltd. and its subsidiary Weak Ltd. for the year ended 31st March, 2018

Sr. No.	Particulars	Amount (Rs. In Lakhs)	Amount (Rs. In Lakhs)
I	Equity & Liabilities		
(1)	Share Holder's Fund		
(a)	Share Capital		
	Equity shares of Rs. 10 each fully paid		1000.00
	Minority Interest (See Note 5)		166.40
(b)	Reserve and Surplus		
	General Reserve	480.00	
	Profit and Loss	114.40	594.40
(2)	Secured Loan		
	Bank Loan		160.00

(3) Current Liabilities		
Bills Payable:		
Weak Ltd.	16.80	
Less Inter Co. Debts	(6.00)	10.80
Sundry Creditors		
Strong Ltd.	94.40	
Weak Ltd.	18.00	
Total	112.40	
Less : Inter Co. Debts	(24.00)	88.40
Total		2020.00
<hr/>		
II Assets		
(1) Fixed Assets		
(a) Goodwill (See Note 4)		14.40
(b) Land and Building		
Strong Ltd.	300.00	
Weak Limited	400.00	700.00
(c) Plant and Machinery		
Strong Ltd.	480.00	
Weak Limited	298.80	778.80
(2) Current Assets, Loans and Advances		
(A) Current Assets:		
Stock		
Strong Ltd	240.00	
Weak Ltd	72.00	312.00
Sundry Debtors		
Strong Ltd	88.00	
Weak Ltd	80.00	
Total	168.00	
Less : Inter Co. Debts	(24.00)	144.00
Cash		
Strong Ltd	29.20	
Weak Ltd	16.00	45.20
(B) Loans and Advances		
Bills Receivable		
Strong Ltd.	31.60	
Less : Inter Co. Owings	6.00	25.60
Total		2020.00
<hr/>		

Notes to Accounts

Strong Ltd. Holds 3200000 shares in weak ltd.

Minority Interest 800000 shares

Ratio is 4:1

<i>Note No.</i>	<i>Particulars</i>	<i>Amount (Rs. in Lakhs)</i>
1.	Strong Ltd. share in Capital Profit and Reserve of Weak Ltd.	
	Balance of pre-acquisition general reserve	340.00
	<i>Less</i> : Utilized for bonus issue	
	(Issue of 40 lakhs *1/4=10 Lakhs bonus shares @ 10 each	(100.00)
	Total	240.00
	Balance in Profit and Loss (pre-acquisition)	72.00
	Total	312.00
	Share of Strong Ltd. (4/5*312)	249.60
2.	Profit / Loss on Revaluation of Assets	
	Increase in the value of Land and Building	40.00
	<i>Less</i> : Decrease in the value of Plant and Machinery	(20.00)
	Net (Capital) profit on revaluation of assets	20.00
	Strong Ltd.'s share 4/5 of Rs. 20 lakhs	16.00
	Weak Ltd. shares 1/5 of Rs. 20 lakhs	4.00
3.	Share Capital of Weak Limited	
	As per Balance sheet	400.00
	<i>Add</i> : Increase due to bonus issue	100.00
	Total	500.00
	Strong Ltd.'s share 4/5 of Rs. 500 lakhs	400.00
	Weak Ltd. shares 1/5 of Rs. 500 lakhs	100.00
4.	Cost of Control	
	Cost of Investment in shares of weak Ltd.	680.00
	<i>Less</i> : paid up value of share capital (including bonus)	(400.00)
	Total	280.00

Less : Profit on revaluation of assets	(16.00)
Total	264.00
Less : Share in capital profit and reserve	(249.60)
Goodwill	14.40

5. Minority Interest	
Paid-up value of share capital held	100.00
Add : Profit on revaluation of assets	4.00
Add : Share in General Reserve	
1/5* 240 lakhs (340 lakhs – 100 lakhs)	48.00
Add : 1/5* 72 lakhs (profits)	14.40
Total	166.40

Answer 4(b)**Journal Entries**

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
-	Equity Share Capital A/c	Dr.	360000	
	8% Preference Share Capital A/c	Dr.	15000	
	To Capital Reduction A/c			375000
	(Being share capital reduced)			
-	Interest accrued on Debentures A/c	Dr.	8000	
	To Capital Reduction A/c			8000
	(Being debentures holder waived their interest)			
-	Capital Reduction A/c	Dr.	6000	
	To Preference Dividend A/c			6000
	(Being arrears of preference dividend to be paid)			
-	Preference Dividend A/c	Dr.	6000	
	To Equity Share Capital A/c			6000
	(Being 600 equity shares of Rs. 10 paid issued in satisfaction of preference dividend)			

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount (Dr.)</i>	<i>Amount (Cr.)</i>
-	General Reserve A/c	Dr.	50000	
	To Capital Reduction A/c			50000
	(Being General Reserve written off.)			
-	Capital Reduction A/c	Dr.	427000	
	To Preliminary Exp. A/c			32000
	To Computer Software A/c			117000
	To Patents A/c			122000
	To Plant A/c			52000
	To Machinery A/c			104000
	(Being tangible and intangible assets written off.)			

PART B

Question 5

- (a) *What are the reporting requirements of fraud detected while performing duties as auditor under section 143(12) of Companies Act, 2013 ?*
- (b) *What are the advantages of "Efficiency Audit" ?*
- (c) *"Test checking reduce the volume of the work considerably but not reduce the liability of the auditor." Explain and write the advantages and disadvantages of test checking. (5 marks each)*

Answer 5(a)

Under section 143 (12) of the Companies Act, 2013, if an auditor of a company in the course of the performance of his duties as an auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed.

Provided that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.

Provided further that the companies, whose auditors have reported frauds under this sub-section to the audit committee or the Board but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.

The term “Fraud” as defined under the 2013 Act is very wide and encompasses every act of omission or commission. “Fraud” in relation to affairs of a company or anybody corporate, includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss.

Answer 5(b)

Advantages of Efficiency Audit

Auditing efficiency enables the management/owner to know whether the departments and agencies manage resources with due regard to efficiency. More specifically, such audits can: –

1. Help managers and staff to be more sensitive to their obligations with reference to efficiency;
2. Underline the importance of measuring efficiency and of using that information for managing operations and providing accountability;
3. Identify means for improving efficiency, even in operations where efficiency is difficult to measure;
4. Demonstrate the scope of lowering the cost of delivering programs without reducing the quantity or quality of output or the level of service;
5. Increase the quantity or improve the quality of output and level of service without increasing spending; and
6. Identify required improvements in existing controls, operational systems, and work processes for better use of resources.

Answer 5(c)

Carrying out detailed check of each and every transaction of a large business shall be time consuming for the auditor. In auditing the accounts of a business, every single copy is not usually checked by the auditor; what is usually done in practice is that a representative number of entries of each class are selected and checked and if they are found correct, the remaining entries are considered to be correct. This is known as Test Checking.

In those organizations, where satisfactory internal check system is in existence, the auditor need not carry out detailed checking. He may adopt Test checking. It is a system of sampling employed by the auditor for the purpose of reducing the volume of detailed checking involved in the audit. If, in Test Checking, he finds that the records checked by him are correct then no further detail checking is required be carried out.

Advantages of Test Check

1. Volume of work is considerably reduced.
2. There is a saving in terms of time, cost and energy.

3. The extra time available can be utilised in concentrating on the areas of considerable importance.
4. If done carefully, test checking can be quite effective.

Disadvantages of Test Check

1. The auditor always is under fear that he may have missed out certain important items or some errors may remained undetected while test checking.
2. Where the client's staff is aware that the auditor resorts to test checking, the staff may become careless.

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

Question 6

- (a) *Explain the need of audit sampling in an audit of financial statements.*
- (b) *The form and contents of audit documentation depends upon certain factors. Discuss.*
- (c) *Explain objectives of "Internal Control System".* *(5 marks each)*

OR (Alternative question to Q. No. 6)

Question 6A

- (i) *"Internal audit has become an important tool in modern time." Why ?*
- (ii) *Explain the term "Segregation of Duties" in the context of Purchase Control Review.*
- (iii) *Write a short note on tolerable error.* *(5 marks each)*

Answer 6(a)

Need for Audit Sampling

Audit Sampling is needed in an audit financial statements because Formalized audit sampling procedures offer innumerable benefits to all auditors. These include:

1. Developing a consistent approach to audit areas;
2. Providing a framework within which sufficient audit evidence is obtained;
3. Forcing clarification of audit thinking in determining how the audit objectives will be met;
4. Minimising the risk of over-auditing; and
5. Facilitating more expeditious review of working papers.

Answer 6(b)

The form and content of audit documentation should be designed to meet the circumstances of the particular audit. The information contained in audit documentation constitutes the principal record of the work that the auditors have performed in accordance

with standards and the conclusions that the auditors have reached. The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment. The Audit documentation therefore is not restricted to being only on papers, but can also be on electronic media.

Generally the factors that determine the form and content of documentation for a particular engagement are:

- (a) The nature of the engagement.
- (b) The nature of the business activity of the client.
- (c) The status of the client.
- (d) Reporting format.
- (e) Relevant legislations applicable to the client.
- (f) Records maintained by the client.
- (g) Internal controls in operation.
- (h) Quality of audit assistants engaged in the particular assignment and the need to direct and supervise their work.

Answer 6(c)

The Objectives of Internal Control system includes:

Authorization - The objective is to ensure that all transactions are approved by responsible personnel in accordance with their specific or general authority before the transaction is recorded.

Completeness - The objective is to ensure that no valid transactions have been omitted from the accounting records.

Accuracy - The objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data, and information is recorded in a timely manner.

Validity - The objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.

Physical Safeguards and Security - The objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.

Error Handling - The objective is to ensure that errors detected at any stage of processing receive prompts corrective action and are reported to the appropriate level of management.

Segregation of Duties - The objective is to ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures related to processing of a transaction.

Answer 6A(i)

Internal Audit has become an important management tool in the modern time for the following reasons:

1. Internal Auditing is a specialized service to look into the standards of efficiency of business operations.
2. Internal Auditing can evaluate various problems independently in terms of overall management control and suggest improvements.
3. Internal Audit's independent appraisal and review can ensure the reliability and promptness of MIS and the management reporting on the basis of which the top management can take firm decisions.
4. Internal Audit system makes sure the internal control system including accounting control system in an organization is effective.
5. Internal Audit ensures the adequacy, reliability and accuracy of financial and operational data by conducting appraisal and review from an independent angle.
6. Internal Audit is an integral part of "Management by System".
7. Internal Audit can break through the power ego and personality factors and possible conflicts of interest within the organization.
8. It ensures compliance of accounting procedures and accounting policies.
9. Internal Auditor can be of valuable assistance to management in acquiring new business, in promoting new products and in launching new projects for expansion or diversification of business.

Answer 6A(ii)**Segregation of duties in purchase operations**

To ensure proper separation of duties, assign related buying functions to different people. Ensure proper segregation, no single person has complete control over all buying activities. It is always preferable to have different people who –

- I. Approve purchases
- II. Receive ordered materials
- III. Approve invoices for payments
- IV. Review and reconcile financial records
- V. Perform inventory counts

If segregation of duties does not exist in purchases operations, this may result into unauthorized or unnecessary purchases, improper charges to department budgets, purchase of goods at excessive costs, use of goods for personal purposes.

Answer 6A(iii)

Tolerable error is the maximum error in the population that the auditor would be willing to accept and still concludes that the result from the sample has achieved the audit objectives. Tolerable error is considered during the planning stage and, for substantive procedures, is related to the auditor's judgment about materiality. The smaller the tolerable error, the greater the sample size will need to be.

In tests of control, the tolerable error is the maximum rate of deviation from a prescribed control procedure that the auditor would be willing to accept, based on the preliminary assessment of control risk.

In substantive procedures, the tolerable error is the maximum monetary error in an account balance or class of transactions that the auditor would be willing to accept so that when the results of all audit procedures are considered, the auditor is able to conclude, with reasonable assurance, that the financial statements are not materially mis-stated.

CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

Attempt the following questions :

- (a) Earnings per share of Alxa Piston Ltd. expected at the end of the year 2015-2016 is ₹18. The earnings per share in the year 2014-2015 is ₹16. The required rate of return is 25% p.a. and the dividend pay-out ratio is 30% which is expected to remain constant. If the earnings are expected to grow at the historical growth rate, compute the value of the share of the company at the beginning of 2015 - 2016. (4 marks)
- (b) Narender purchased a bond with face value of ₹1,000 for ₹950. The coupon rate on the bond is 12%. If he sells the bond one year later for ₹960. Compute the holding period return for Narender. (3 marks)
- (c) The following is the information pertaining to the portfolio of Dolex Mutual Fund:

Stock	No. of Shares	Current Market Price (₹)
L&T	1,10,000	2.685.45
Cipla	3,12,000	259.95
Wipro	4,50,000	523.10
HDFC	3,90,000	883.30
Tata Steel	2,99,000	502.75

The fund has not borrowed any money, but its accrued management fee with the portfolio manager currently total ₹30,00,000. The number of units outstanding is 10,75,73,000. Compute the value of the portfolio and NAV. (4 marks)

- (d) Blue Line Shoe Company is contemplating a debenture issue on the following terms :

Face Value	₹1,000
Term to Maturity	7 years
Coupon Rate of Interest :	
Years 1-2	10% pa.
3-4	12% pa.
5-7	15% pa.

The current market rate of interest on similar debentures is 15% pa. The company proposes to price the issue so as to yield a (compounded) return of 16% pa. to the investors. The debentures would be redeemed at a premium of 12% at the end of seven years.

Compute the maturity price of the debentures. (4 marks)

Answer 1(a)

Computation of Value of shares of the company at the beginning of 2015-16

Current Value of the share = Expected dividend a year / (Required rate of return – Growth rate in dividends)

In the given case, dividend a year hence = EPS * Dividend Payout
 = ₹18 * 0.3
 = ₹5.4

Required Rate of return = 0.25

Growth rate (as payout ratio remains constant)

Growth rate in EPS = (₹18 / ₹16) - 1 = 12.5%

Value of share = ₹5.4 / (0.25 - 0.125) = ₹43.2

Answer 1(b)

Computation of the holding period return for Narender

Holding period return for Bond = (Sale Price – Purchase Price) / Purchase Price + Interest / Purchase Price

= (₹ 960 - ₹ 950) / ₹ 950 + ₹ 120 / ₹ 950
 = 13.68%

Answer 1(c)

Computation of Value of portfolio and NAV

Value of the Portfolio = ₹1,10,000 * ₹2,685.45 + ₹3,12,000 * ₹259.95 + ₹4,50,000 * ₹523.10 + ₹3,90,000 * ₹883.30 + ₹2,99,000 * ₹502.75

= ₹ 1,10,67,08,150

= ₹ 1,10,67,08,150 – ₹ 30,00,000

= ₹1,10,37,08,150

NAV = ₹ 1,10,37,08,150 / 10,75,73,000

= ₹10.26

Answer 1(d)**Computation of maturity price of debentures**

Year	Coupon (Rs.)	PV of Coupon @16% (Rs.)
1	100	86.21
2	100	74.32
3	120	76.88
4	120	66.27
5	150	71.42
6	150	61.57
7	150	53.07
PV of Coupons		489.74

Redemption Value = Rs.1, 000 (1.12) = Rs. 1,120

PV of redemption value = Rs.1,120/ (1.16)⁷ = Rs. 396.29

Price of the debentures = Rs. 489.74 + Rs. 396.29 = Rs. 886.03

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

Question 2

Explain the following :

- Tracking Stocks
- Option Contract
- Futures
- Hedge Funds
- Global Depository Receipts. (3 marks each)

OR (Alternate question to Q. No. 2)

Question 2A

- What do you understand by "Application Supported by Blocked Amount (ASBA)"? How does it work in Initial Public Offer (IPO) ? Describe. (5 marks)
- Securities Exchange Board of India (SEBI) permitted all classes of investors to short sell subject to the broad framework specified. Enumerate the broad framework for short selling. (5 marks)
- An issuer may list its debt securities issued on private placement basis on a recognised stock exchange subject to specified conditions as per SEBI (Issue and Listing of Debt Securities) Regulations, 2008. Explain those conditions. (5 marks)

Answer 2**(a) Tracking Stocks**

A Tracking stock is a type of common stock that “tracks” or depends on the financial performance of a specific business unit or operating division of a company, rather than the operations of the company as a whole. As a result, if the unit or division performs well, the value of the tracking stocks may increase, even if the company’s performance as a whole is not up to mark or satisfactory. The opposite may also be true.

Tracking stock carries dividend rights tied to the performance of a targeted division without transferring ownership or control over divisional assets. In contrast to a spin-off or an equity carve-out, the parent retains full control, allowing it to enjoy any operating synergies, or economies of scale in administration or finance.

(b) Option Contract

An option contract conveys the right, but not the obligation, to buy or sell a specific security or commodity at specified price within a specified period of time. The right to buy is referred to as a call option whereas the right to sell is known as a put option. An option contract comprises of its type a put or call, underlying security or commodity expiry date, strike price at which it may be exercised.

Option provides the investor with the opportunity to hedge investments in the underlying shares and share portfolios and can thus reduce the overall risk related to the investments significantly.

(c) Futures

Futures is a contract between two parties to buy or sell a underlying asset of standardized quantity and quality for a price agreed upon today with delivery and payment occurring at a specified future date. Underlying assets for the purpose include equities, foreign exchange, interest bearing securities and commodities. The idea behind financial futures contract is to transfer future changes in security prices from one party in the contract to the other. It offers a means to manage risk in participating financial market. Futures basically transfer value rather than create it. It is a means for reducing risk or assuming risk in the hope of profit. Every futures contract entered into has two side willing buyer and a willing seller. If one side of contract makes a profit, the other side must make a loss. All futures market participants taken together can neither lose nor gain. The futures market is a zero sum game.

(d) Hedge funds

Hedge funds, including fund of funds are unregistered private investment partnerships, funds or pools that may invest and trade in many different markets, strategies and instruments (including securities, non-securities and derivatives) and are not subject to the same regulatory requirements as mutual funds, including mutual fund requirements to provide certain periodic and standardized pricing and valuation information to investors. Usually, hedge funds:

- are organized as private investment partnerships or offshore investment corporations;

- use a wide variety of trading strategies involving position-taking in a range of markets;
- employ an assortment of trading techniques and instruments, often including short-selling, derivatives and leverage;
- pay performance fees to their managers; and
- have an investor base comprising wealthy individuals and institutions and relatively high minimum investment limit.

(e) Global Depository Receipts

According to Section 2 (44) of the Companies Act, 2013 “Global Depository Receipt” means any instrument in the form of a depository receipt, by whatever name called, created by a foreign depository outside India and authorised by a company making an issue of such depository receipts. Section 41 of the Companies Act, 2013 authorizes a company to issue Global Depository Receipts after following the conditions as prescribed in Companies (Issue of Global Depository Receipts) Rules, 2014.

It is a form of depository receipt or certificate created by the Overseas Depository Bank outside India denominated in dollar and issued to non-resident investors against the issue of ordinary shares or foreign currency convertible bonds of issuing company. It is traded in Europe or the US or both.

Answer 2A(i)

“Applications Supported by Blocked Amount (ASBA)” is an application for subscribing to an issue, containing an authorization to block the application money in a bank account. In its continuing endeavour to make the existing public issue process more efficient, SEBI introduced a supplementary process of applying in public issues, viz., the ASBA process. The ASBA process is available in all public issues made through the book building route.

Process

- An ASBA investor submits an ASBA physically or electronically through the internet banking facility, with whom the bank account to be blocked is maintained, then the SCSB blocks the application money in the bank account specified in the ASBA
- The application money remains blocked in the bank account till finalisation of the basis of allotment in the issue or till withdrawal/failure of the issue or till withdrawal/rejection of the application, as the case may be.
- The application data shall thereafter be uploaded by the SCSB in the electronic bidding system through a web enabled interface provided by the Stock Exchanges.
- Once the basis of allotment of finalized, the Registrar to the Issue sends an appropriate request to the SCSB for unblocking the relevant bank accounts and for transferring the requisite amount to the issuer’s account. In case of withdrawal/failure of the issue, the amount shall be unblocked by the SCSB on receipt of information from the pre-issue merchant bankers.

Answer 2A(ii)**Broad Framework for short selling**

- “Short selling” shall be defined as selling a stock which the seller does not own at the time of trade.
- All classes of investors, viz., retail and institutional investors, shall be permitted to short sell.
- Naked short selling shall not be permitted in the Indian securities market and accordingly, all investors would be required to mandatorily honour their obligation of delivering the securities at the time of settlement.
- No institutional investor shall be allowed to do day trading i.e., square-of their transactions intra-day. In other words, all transactions would be grossed for institutional investors at the custodians’ level and the institutions would be required to fulfill their obligations on a gross basis.
- The custodians, however, would continue to settle their deliveries on a net basis with the stock exchanges.
- The stock exchanges shall frame necessary uniform deterrent provisions and take appropriate action against the brokers for failure to deliver securities at the time of settlement which shall act as a sufficient deterrent against failure to deliver.
- A scheme for Securities Lending and Borrowing (SLB) shall be put in place to provide the necessary impetus to short sell. The introduction of fullfledged securities lending and borrowing scheme shall be simultaneous with the introduction of short selling by institutional investors.
- The securities traded in Future and Option (F&O) segment shall be eligible for short selling.
- SEBI may review the list of stocks that are eligible for short selling transactions from time to time.
- The institutional investors shall disclose upfront at the time of placement of order whether the transaction is a short sale. However, retail investors would be permitted to make a similar disclosure by the end of the trading hours on the transaction day.
- The brokers shall be mandated to collect the details on scrip-wise short sell positions, collate the data and upload it to the stock exchanges before the commencement of trading on the following trading day. The stock exchanges shall then consolidate such information and disseminate the same on their websites for the information of the public on a weekly basis.
- The frequency of such disclosure may be reviewed from time to time with the approval of SEBI.

Answer 2A(iii)

Regulation 20 of the SEBI (Issue and Listing of Debt Securities) Regulations, 2008 provides the conditions for listing of debt securities on a recognized stock exchange, issued on private placement basis which are as discussed below:

1. An issuer is required to fulfill the following:
 - Is in compliance with the provisions of the Companies Act, 2013, rules prescribed there under and other applicable laws.
 - Credit rating has been obtained from at least one credit rating agency registered with SEBI.
 - Should be in dematerialized form.
 - The disclosures as provided in these regulation have been made.
2. Where application is made to more than one recognised stock exchange, the issuer shall choose one of them as the designated stock exchange
3. The issuer shall comply with conditions of listing of such debt securities as specified in the Listing Agreement with the stock exchange where such debt securities are sought to be listed.
4. The issuer shall make disclosures in a disclosure document as specified in Schedule I of these regulations accompanied by the latest Annual Report of the issuer and the same shall be made on the website of the stock exchange where such securities are proposed to be listed.
5. The designated stock exchange shall collect a regulatory fee from the issuer at the time of listing of debt securities issued on private placement basis.

Question 3

- (a) *Money market instruments mainly include government securities, securities issued by banking sector and securities issued by private sector. Briefly explain various instruments. (5 marks)*
- (b) *SEBI has classified Alternative Investment Fund (AIF) into three broad categories i.e. Category I, Category II and Category III. Discuss key features of AIF categories. (5 marks)*
- (c) *Indian companies are allowed to raise equity capital in the international market through the issue of ADR/GDR/FCCB/FCEB. Briefly discuss the regulatory framework of ADR & GDR in India. (5 marks)*

Answer 3(a)

There are various types of money market instruments as stated below:

Treasury Bills : Treasury Bills are money market instruments issued by RBI at a prefixed date and of a fixed amount to finance the short term requirements of the Government of India. These are discounted securities and thus are issued at a discount to face value. The return to the investor is the difference between the maturity value and issue price.

Certificates of Deposits (CDs) : CD is a negotiable money market instrument and issued in dematerialised form or as Usance Promissory Note, against funds deposited at a bank or other eligible financial institution for a specified time period. Guidelines for issue of CDs are presently governed by various directives issued by the Reserve Bank of India, as amended from time to time.

Inter-corporate Deposits (ICD) : An ICD is an unsecured loan extended by one corporate to another. ICDs are unsecured, and hence the risk inherent is high. The ICD market is an unorganised market with very less information available publicly about transaction details.

Commercial Bills : These are basically negotiable instruments accepted by buyers for goods or services obtained by them on credit. Such bills being bills of exchange which can be kept upto the due maturity date and encashed by the seller or may be endorsed to a third party in payment of dues owing to the latter. The most common practice is that the seller who gets the accepted bills of exchange discounts it with the Bank or financial institution or a bill discounting house and collects the money (less the interest charged for the discounting).

Commercial Paper (CP) : CP is an unsecured money market instrument issued in the form of a promissory note. CP, is issued to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors. Subsequently, primary dealers (PDs), and all-India financial institutions were also permitted to issue CP to enable them to meet their short-term funding requirements for their operations.

Answer 3(b)

As per regulation 3 of the SEBI (Alternative Investment Funds) Regulations, 2012, Alternative investment funds (AIFs) are classified into three categories i.e. Category I, II & III. The following are the key features of AIFs categories:

- Category I and Category II shall have minimum tenure of 3 year & the tenure may be extended for a further period of 2 years only with the approval of two-third of the unit holders by value of their investment.
- There is no minimum tenure prescribed in case of Category III. The tenure may be extended for a further period of 2 years in case of close-ended fund subject to approval of two-third of the unitholders by value of their investment.
- Category I and Category II, investment in one Investor Company shall not invest more than 25% of its investible funds in one Investee Company. In case of Category III, maximum 10% of the investible funds in one Investee Company is allowed.
- Category I AIFs will be considered as venture capital funds/companies for the purpose of Section 10 (23FB) of the Income Tax Act, 1961. The income from Category II and III funds will not be exempt under section 10(23FB) of the Income Tax Act, 1961. Taxation of such funds would depend on the legal status of the fund i.e. company limited liability partnership or trust.
- In case of Category I, Category II & Category III, an annual report is required to be presented to the investor within 180 days from the end of the year. In case of

Category III, AIF is also required to provide a quarterly report to the investors within 60 days from the end of the quarter.

Answer 3(c)

Regulatory framework of ADR/GDR in India

Indian companies are allowed to raise capital in the international market through issue of ADR/GDR, which are regulated by the following legislations in India:

- The Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993
- Depository Receipts Scheme, 2014
- Notifications/Circulars issued by Ministry of Finance (MoF), GOI
- Consolidated FDI Policy
- RBI Regulations/Circulars
- Companies Act, 2013 and Rules thereunder
- Listing Regulations.

Question 4

- (a) *Discuss the procedure for making an issue of Indian Depository Receipts under Rule 13 of the Companies (Registration of Foreign Companies) Rules, 2014.*
(8 marks)
- (b) *“The judgement is qualitative in nature and the role of the quantitative analysis is to help make the best possible overall qualitative judgement or opinion. The reliability of the rating depends on the validity of the criteria and the quality of analysis.” Discuss the statement in context of SEBI (Credit Rating Agencies) Regulations, 1999.*
(7 marks)

Answer 4(a)

As per Rule 13 (3) of the Companies (Registration of Foreign Companies) Rules, 2014, the following are the procedure for issuing Indian Depository Receipts (IDRs):

- (a) the issuing company shall, where required, obtain the necessary approvals or exemptions from the appropriate authorities from the country of its incorporation under the relevant laws relating to issue of capital and IDRs.
- (b) issuing company shall obtain prior written approval from SEBI on an application made in this behalf for issue of IDRs along with the issue size.
- (c) an application under clause (b) shall be made to SEBI (along with draft prospectus) at least ninety days prior to the opening date of the IDRs issue, in such form, along with such fee and furnishing such information as may be specified by the SEBI from time to time: However, the issuing company shall also file with SEBI, through a Merchant Banker, a due diligence report along with the application under clause (b) in the form specified by SEBI.

- (d) SEBI may, within a period of thirty days of receipt of an application under clause (c), call for such further information, and explanations, as it may deem necessary, for disposal of such application and shall dispose the application within a period of thirty days of receipt of further information or explanation. However, if within a period of sixty days from the date of submission of application or draft prospectus, SEBI specifies any changes to be made in the draft prospectus, the prospectus shall not be filed with SEBI or Registrar of Companies unless such changes have been incorporated therein.
- (e) the issuing company shall on approval being granted by the SEBI to an application under clause (b), pay to the SEBI an issue fee as may be prescribed from time to time by the SEBI.
- (f) the issuing company shall file a prospectus, certified by two authorized signatories of the issuing company, one of whom shall be a whole-time director and other the Chief Financial Officer, stating the particulars of the resolution of the Board by which it was approved with SEBI and Registrar of Companies, New Delhi before such issue. However, at the time of filing of said prospectus with the Registrar of Companies, New Delhi, a copy of approval granted by SEBI and the statement of fees paid by the Issuing Company to SEBI shall also be attached.
- (g) the prospectus to be filed with SEBI and the Registrar of Companies, New Delhi shall contain the particulars as prescribed in sub-rule (8) and shall be signed by all the whole-time directors of the issuing company, and the Chief Financial Officer.
- (h) the issuing company shall appoint an overseas custodian bank, a Domestic Depository and a Merchant Banker for the purpose of issue of IDRs.
- (i) the issuing company may appoint underwriters registered with SEBI to underwrite the issue of IDRs.
- (j) the issuing company shall deliver the underlying equity shares or cause them to be delivered to an Overseas Custodian Bank and the said bank shall authorize the domestic depository to issue IDRs.
- (k) the issuing company shall obtain in-principle listing permission from one or more stock exchanges having nationwide trading terminals in India.

Answer 4(b)

Credit rating agencies have come to play an important role in the capital markets. Their assessment on various instruments and also on sovereign and corporate entities has been increasingly used as benchmarks by regulators and investors. The rating industry counts- CRISIL , ICRA, CARE, Brickwork Ratings Pvt. Ltd., SMERA on the domestic front and Moody's Investor Services, Standard & Poor's (S&P), Fitch Group, as important global credit rating agencies following the dramatic growth of international financial markets.

The rating process is itself based on certain given variables. The CRA does not perform an audit. Rather, it is required to rely on information provided by the issuer and

collected by the analysts from different sources, including interactions in-person with various entities. Consequently, the agency does not guarantee the completeness or accuracy of the information on which the rating is based. Standard and Poor's has rightly pointed out in determining a rating, both quantitative and qualitative analyses are employed. The judgement is qualitative in nature and the role of the quantitative analysis is to help make the best possible overall qualitative judgement because, ultimately, a rating is an opinion.

Rating assigned by CRAs are opinions based on established criteria and methodologies. As the rating process has to rely on audited figures and information supplied by the management, CRAs are, thus, required to ensure that they have systematically used all data available to them and which they have declared important to their rating. They should also have measures to establish whether the information used is accurate, authentic and from reliable sources. CRAs should not be allowed to rate instruments in cases where they do not have sufficient quality information to do so, increased disclosure about rating processes and decision outcomes would also improve their transparency.

It is obligatory on the part of rating agency to provide current opinions on the credit-worthiness of the issuer. Quarterly results announced by the companies are analyzed to see if they are at variance with the rating agencies expectations. A continuous review is essential and not just desirable.

PART B

Question 5

Answer the following :

- (a) *"SEBI has been established with objective of protecting the interest of investors and to promote the development of and to regulate the securities market (SEBI Act, 1992)". Discuss its composition and initiatives taken by SEBI for development and regulation of securities market. (8 marks)*
- (b) *"A company can raise funds from the primary market through different methods, different types of issues and by means of offer document and red herring prospectus". Enumerate. (6 marks)*
- (c) *"The book building process is very transparent. All investors including small investors can see on an hourly basis where the book is being built before applying". Explain the offer to public through Book Building Process. (6 marks)*

Answer 5(a)

Section 4 of the SEBI Act, 1992 provides that the Board shall consist of the following members, namely –

- A Chairman;
- 2 members from amongst the officials of the Ministry of the Central Government dealing with Finance and administration of the Companies Act, 2013;
- One member from amongst the officials of the Reserve Bank;

- 5 other members of whom at least 3 shall be the whole time members, to be appointed by the Central Government.

The Chairman and the other members shall be persons of ability, integrity and standing who have shown capacity in dealing with problems relating to securities market or have special knowledge or experience of law, finance, economics, accountancy, administration or in any other discipline which, in the opinion of the Central Government, shall be useful to SEBI.

Initiatives Taken by SEBI for development and regulation of Securities Market

SEBI has come a long way since its inception as an institution regulating the Indian Capital Markets. It has initiated a lot of reforms to make the market safer for investors. The following are the major policy initiatives taken by SEBI since its inception.

- *Screen Based Trading*: A major developmental initiative was a nation-wide on-line fully-automated screen based trading system (SBTS) where a member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds a matching sale or buy order from a counter party.
- *Risk management*: A number of measures were taken to manage the risks in the market so that the participants are safe and market integrity is protected. The trading cycle varied from 14 days for specified securities to 30 days for others and settlement took another fortnight. Rolling settlement on T+5 basis was introduced in phases. All scrips moved to rolling settlement from December 2001. T+5 gave way to T+3 from April 2002 and T+2 from April 2003.
- *Depositories Act*: The earlier settlement system gave rise to settlement risk. This was due to the time taken for settlement and due to the physical movement of paper. Further, the transfer of shares in favour of the purchaser by the company also consumed considerable amount of time. To obviate these problems, the Depositories Act, 1996 was passed to provide for the establishment of depositories in securities.
- *Derivatives*: To assist market participants to manage risks better through hedging, speculation and arbitrage, SC(R)A was amended in 1995 to lift the ban on options in securities.
- *Settlement Guarantee*: A variety of measures were taken to address the risk in the market. Straight through processing has been made mandatory for all institutional trades executed on the stock exchange.
- *Securities Market Awareness*: In January 2003, SEBI launched a nation-wide Securities Market Awareness Campaign that aims at educating investors about the risks associated with the market as well as the rights and obligations of investors.
- *Green Shoe Option*: As a stabilization tool for post listing price of newly issued shares, SEBI has introduced the green shoe option facility in IPOs.
- *Securities Lending and Borrowing*: A clearing corporation/clearing house, after registration with SEBI, under the SEBI scheme for Securities Lending and

Borrowing, as an approved intermediary, may borrow securities for meeting shortfalls in settlement, on behalf of the members.

- *Debt Listing Agreement* : In order to further develop the corporate debt market, SEBI prescribed a model debenture listing agreement for all debenture securities issued by an issuer irrespective of the mode of issuance.
- *Gold Exchange Traded Funds in India* : Pursuant to the announcement made by the Honourable Finance Minister in his Budget Speech for 2005-06, SEBI appointed a Committee for the introduction of Gold Exchange Traded Fund (GETF) in India. Based on the recommendations of the said Committee, the SEBI (Mutual Funds) Regulations, 1996 were amended and notification was issued on January 12, 2006 permitting mutual funds to introduce GETFs in India subject to certain investment restrictions.
- *Guidelines for Issue of Indian Depository Receipts (IDRs)* : SEBI issued Guidelines on disclosures and related requirements for companies desirous of issuing IDRs in India. SEBI also prescribed the listing agreement for entities issuing IDRs.
- *Grading of Initial Public offerings (IPOs)* : Grading of all IPOs was made mandatory. The grading would be done by credit rating agencies, registered with SEBI. It would be mandatory to obtain grading from at least one credit rating agency. The grading would be disclosed in the prospectus, abridged prospectus and in every advertisement for IPOs.
- *Introduction of Fast Track Issuances* : To enable compliant listed companies to access Indian primary market in a time effective manner through follow-on public offerings and rights issues, SEBI introduced fast track issue mechanism. To make the issuance process fast, the earlier requirement of filing draft offer documents was amended and the need to file draft offer documents with SEBI and the stock exchanges was done away with.

Answer 5(b)

A company can raise funds from the primary market through different method:

- (a) *Public issue* : When an issue/offer of securities is made to new investors for becoming part of shareholders' family of the issuer it is called a public issue. Public issue can be further classified into Initial public offer (IPO) and Further public offer (FPO).
- (b) *Right issue (RI)* : When an issue of securities is made by an issuer to its shareholders existing as on a particular date fixed by the issuer (i.e. record date), it is called a rights issue.
- (c) *Bonus issue* : When an issuer makes an issue of securities to its existing shareholders as on a record date, without any consideration from them, it is called a bonus issue.
- (d) *Private placement* : When an issuer makes an issue of securities to a select group of persons not exceeding 49, and which is neither a rights issue nor a

public issue, it is called a private placement. Private placement of shares or convertible securities by listed issuer can be of various types:

- (i) *Preferential Allotment* : When a listed issuer issues shares or convertible securities, to a select group of persons in terms of provisions of Chapter VII of SEBI (ICDR) Regulations in addition to the requirements specified in the Companies Act, 2013, it is called a preferential allotment.
- (ii) *Qualified Institutions Placement (QIP)* : When a listed issuer issues equity shares or securities convertible into equity shares to Qualified Institutional Buyers (QIBs) only in terms of provisions of Chapter VIII of SEBI (ICDR) Regulations, it is called a QIP.
- (iii) *Institutional Placement Programme (IPP)* : When a listed issuer makes a further public offer of equity shares, or offer for sale of shares by promoter/promoter group of listed issuer in which, the offer allocation and allotment of such shares is made only to QIBs in terms of chapter VIIIA of SEBI (ICDR) Regulations, 2009 for the purpose of achieving minimum public shareholding it is called an IPP.

Offer Document

“Offer document” means Prospectus in case of a public issue or offer for sale and Letter of Offer in case of a right issue, which is filed with Registrar of Companies (ROC) and Stock Exchanges. An offer document covers all the relevant information to help an investor to make his/ her investment decision.

Red Herring Prospectus (RHP)

“Red Herring Prospectus” is a prospectus, which does not have details of either price or number of shares being offered, or the amount of issue. This means that in case price is not disclosed, the number of shares and the upper and lower price bands are disclosed. An RHP for an Further Public Offer (FPO) can be filed with the ROC without the price band and the issuer, in such a case will notify the floor price or a price band by way of an advertisement one day prior to the opening of the issue. In the case of book-built issues, it is a process of price discovery and the price cannot be determined until the bidding process is completed. Hence, such details are not shown in the Red Herring prospectus filed with ROC in terms of the provisions of the Companies Act, 2013.

Answer 5(c)

Offer to public through Book Building Process

Regulation 43 of the SEBI (ICDR) Regulations, 2009 provides that a person shall not make an application in the net offer to public category for that number of specified securities which exceeds the number of specified securities offered to public.

- In an issue made through the book building process under regulation 26(1), the allocation in the net offer to public shall be as follows:
 - not less than thirty five per cent to retail individual investors;
 - not less than fifteen per cent to non-institutional investors; and

- not more than fifty per cent to qualified institutional buyers, five per cent. of which shall be allocated to mutual funds.
- In an issue made through the book building process under regulation 26(2),:
 - not more than ten per cent to retail individual investors;
 - not more than fifteen per cent to non-institutional investors; and
 - not less than seventy five per cent to qualified institutional buyers, five per cent. of which shall be allocated to mutual funds.

Provided that in both the cases as mentioned above, in addition to five per cent allocation available in terms of sub-point 3 as mentioned above, mutual funds shall be eligible for allocation under the balance available for qualified institutional buyers.

- The issuer may allocate upto sixty percent of the portion available for allocation to QIBs to an anchor investor.

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

Question 6

- (a) *“Right issue as identified in the SEBI Regulations is an issue of capital under Section 62 of the Companies Act, 2013 to be offered to the existing shareholders of the company through a letter of offer”. Enumerate the steps involved in issue and listing of rights shares. (8 marks)*
- (b) *“SEBI Complaints Redress System (SCORES) is efficient system of investor grievance redressal mechanism of SEBI”. Discuss the statement and salient features of SCORES. (6 marks)*
- (c) *Each registered intermediary should adopt written procedures to implement the anti-money laundering provisions as envisaged under the Anti Money Laundering Act, 2002. Explain the obligations of intermediaries under prevention of Money Laundering Act, 2002. (6 marks)*

OR (Alternate question to Q. No. 6)

Question 6A

Write notes on the following :

- (i) *Concurrent Audit*
- (ii) *Models of Depository*
- (iii) *Fast Track Issue*
- (iv) *Portfolio Managers and Custodian*
- (v) *Registrar and Share Transfer Agents. (4 marks each)*

Answer 6(a)

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

- Check whether the rights issue is within the authorised share capital of the company. If not, steps should be taken to increase the authorised share capital.

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

Answer 6(b)

SEBI Complaints Redress System (SCORES) is a web based centralized grievance redress system of SEBI (<http://scores.gov.in>). SCORES enables investors to lodge and follow up their complaints and track the status of redressal of such complaints online from the above website from anywhere.

The salient features of SCORES are:

- Complaints and reminders can be lodged online at the SCORE website at anytime from anywhere;
- An email is generated instantaneously acknowledging the receipt of complaint and allotting a unique complaint registration number to the complainant for future reference and tracking;
- The complaint forwarded online to the entity concerned for its redressal;
- The entity concerned uploads an Action Taken Report (ATR) on the complaint;
- SEBI peruses the ATR and closes the complaint if it is satisfied that the complaint has been redressed adequately;
- The concerned investor can view the status of the complaint online from the above website by logging in the unique complaint registration number;
- The entity concerned and the concerned investor can seek and provide clarification on his complaint online to each other;
- Every complaint has an audit trail; and
- All the complaints are saved in a central database which generates relevant MIS reports to enable SEBI to take appropriate policy decisions and/or remedial actions, if any.

Answer 6(c)

Section 12 of the Prevention of Money Laundering Act, 2002 lays down following obligations on an intermediary:

- Every banking company, financial institution and intermediary shall –
 - (A) maintain a record of all transactions, and where such series of transactions take place within a month;
 - (B) furnish information of transactions referred to in clause (a) to the Director within such time as may be prescribed;
 - (C) verify and maintain the records of the identity of all its clients, in such a manner as may be prescribed.

However, where the principal officer of an Intermediary or financial institution or intermediary, as the case may has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed limit so as to defeat the provisions of this section, such

officer shall furnish information in respect of such transactions to the Director within the prescribed time.

- The records shall be maintained for a period of ten years from the date of cessation of the transactions between the clients of the banking company or financial institution or intermediary, as the case may be.
- Every intermediary is required to furnish details of the following cash transactions:
 - (A) All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency.
 - (B) All series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month.
- Every intermediary is required to furnish details of suspicious transactions whether or not made in cash. Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith –
 - (a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
 - (b) appears to be made in circumstances of unusual or unjustified complexity; or
 - (c) appears to have no economic rationale or bona fide purpose.

Answer 6A(i)

Concurrent Audit

The bye-laws of Depositories (NSDL/CDSL) provides for concurrent audit of the Depository Participants. The process of demat account opening, control and verification of Delivery Instruction Slips (DIS) by DPs are subject to Concurrent Audit. Depository Participants have been advised to appoint a firm of qualified Chartered Accountant(s) or Company Secretary(ies) holding a certificate of practice for conducting the concurrent audit. However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors. In respect of account opening, the auditor should verify all the documents including KYC documents furnished by the Clients and verified by the officials of the Participants.

Answer 6A(ii)

Models of Depository

Immobilisation – Where physical share certificates are kept in vaults with the depository for safe custody. All subsequent transactions in these securities take place in book entry form. The actual owner has the right to withdraw his physical securities as and when desired. The immobilization of fresh issue may be achieved by issuing a jumbo certificate representing the entire issue in the name of depository, as nominee of the beneficial owners.

Dematerialisation – No Physical scrip in existence, only electronic records maintained

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

Answer 6A(iii)

Fast Track Issues

In Fast Track Issue (FTI) well established listed companies are able to access Indian primary market in a time effective manner through follow-on public offerings and rights issues, by filing a copy of the Red Herring Prospectus (in case of book built issue)/Prospectus (in case of fixed price issue) registered with the Registrar of Companies or the letter of offer filed with Designated Stock Exchange, as the case may be, with SEBI and stock exchanges. According to the Regulation 10 of SEBI (ICDR) Regulations, 2009, filing of offer document are not applicable to public issue/right issue by a listed issuer company for making fast track issue, where the aggregate value of such securities, including premium, if any, exceeds Rs. 50 Lakhs, upon fulfilling certain conditions as prescribed under SEBI (ICDR) Regulations, 2009.

Answer 6A(iv)

Portfolio Managers and Custodian

Portfolio manager means any person who pursuant to contract or arrangement with the client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the clients as the case may be. A portfolio manager is responsible for making an individual aware of the various investment tools available in the market and benefits associated with each plan.

A custodian is a person who carries on the business of providing custodial services to the client. The custodian keeps the custody of the securities of the client. The custodian also provides incidental services such as maintaining the accounts of securities of the client, collecting the benefits or rights accruing to the client in respect of securities. Every custodian should have adequate facilities, sufficient capital and financial strength to manage the custodial services.

Answer 6A(v)

Registrar and Share Transfer Agents

'Registrar to an Issue' means the person appointed by a body corporate or any person or group of persons to carry on the following activities on its or his or their behalf i.e.:

- (i) collecting application for investor in respect of an issue;
- (ii) keeping a proper record of applications and monies received from investors or paid to the seller of the securities;
- (iii) assisting body corporate or person or group of persons in determining the basis of allotment of the securities in consultation with the stock exchange, finalising the list of person entitled to allotment of securities and processing and despatch of allotment letters, refund orders or certificates and other related documents in respect of the issue;

‘Share Transfer Agent’ means:

- (i) any person who on behalf of anybody corporate, maintains the records of holders of securities issued by such body corporate and deals with all matters connected with the transfer and redemption of its securities;
- (ii) the department or division, by whatever name called, of a body corporate performing the activities as share transfer agents if at any time the total number of holders of its securities issued exceed one lakh.

INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

PART A

1. Under the Factories Act, 1948 which of the following is not included in the definition of 'manufacturing process' :
 - (A) Preserving or storing any article in cold storage,
 - (B) Any preliminary packing of raw material for delivery into the factory,
 - (C) Generating, transforming, transmitting power,
 - (D) Pumping oil, water or sewage or any other substance.
2. Which section of the Factories Act, 1948 deals with the 'conditions' that exempt the occupier or manager from liability in certain cases ?
 - (A) Section 71
 - (B) Section 101
 - (C) Section 110
 - (D) Section 96
3. What is the minimum number of workers required in a factory for the mandatory appointment of a safety officer ?
 - (A) More than 600
 - (B) More than 1000
 - (C) More than 750
 - (D) More than 300
4. As per the Section 6 of Factories Act, 1948, who has the power to make rules on approval, licensing and registration of factories ?
 - (A) State Government
 - (B) Central Government
 - (C) Local Body
 - (D) Labour Commissioner

5. The minimum wages as fixed under the Minimum Wages Act, 1948 must be revised at least once in :
- (A) 2 years
 - (B) 3 years
 - (C) 5 years
 - (D) No mention under Act
6. Under the Minimum Wages Act, 1948, which of the following cannot be appointed by the appropriate government by notification in the official gazette for deciding claims arising out of payment of less than the minimum rates of wages ?
- (A) Any Commissioner for Workmen's Compensation
 - (B) Any officer of the Central Government exercising functions as a Labour Commissioner for any region
 - (C) Any officer of the State Government not below the rank of Labour Commissioner
 - (D) Any officer not less than the rank of District Magistrate
7. What methods have been mentioned in Section 5 of the Minimum Wages Act, 1948 for fixation and revision of minimum wages ?
- (A) Committee method
 - (B) Notification method
 - (C) Voting method
 - (D) Both (A) and (B)
8. Under section 8 of the Minimum Wages Act, 1948 the Central Advisory Board shall consist of the following members nominated by Central Government :
- (A) The Employers
 - (B) The Employees
 - (C) Independent Persons
 - (D) All of the above
9. Which of the following is not included under the definition of wages given under the Payment of Wages Act, 1936 ?
- (A) Basic Wage
 - (B) Dearness Allowance
 - (C) Incentive
 - (D) Gratuity

10. Under the Payment of Wages Act, 1936 the fine should not be imposed on any employee who is below the age of _____ years.
- (A) 21
 - (B) 18
 - (C) 15
 - (D) 12
11. Which one of the following Articles of the Constitution of India is the basis upon which the Equal Remuneration Act, 1976 has been enacted by the Parliament of India ?
- (A) Article 22
 - (B) Article 40
 - (C) Article 49
 - (D) Article 39
12. If any employer omits or fails to carry out any direction made by the Appropriate Government under Equal Remuneration Act, 1976, he/she shall be punishable with :
- (A) Fine
 - (B) Imprisonment
 - (C) Both fine and imprisonment
 - (D) All of the above
13. Under the Equal Remuneration Act, 1976 it is the duty of every _____ to maintain registers and other documents in relation to the workers employed by him in the prescribed manner.
- (A) Central Government
 - (B) State Government
 - (C) Employer
 - (D) Labour Commissioner
14. Which one of the following statements is not correct as regards to the objects of the Equal Remuneration Act, 1976 :
- (A) Equal Remuneration Act, 1976 provides for payment of equal remuneration to men and women workman
 - (B) Such work should be same or of a similar nature
 - (C) There should not be discrimination while making recruitment for same work or work of a similar nature
 - (D) A discrimination between man and woman workman may be made in any condition of services subsequent to recruitment

15. Employee's share of contribution under the Employees State Insurance Act, 1948 is :
- (A) 12 percent
 - (B) 8.33 percent
 - (C) 1.75 percent
 - (D) 4.75 percent
16. Which of the following emoluments earned by an employee does not fall within the definition of 'Basic Wages' under Employees' Provident Fund and Misc. Provisions Act, 1952 ?
- (A) All the emoluments which are earned by an employee while on duty or on leave or on holidays with wages in either case in accordance with the terms of the contract of employment and which are paid or payable in cash to him
 - (B) The cash value of any food concession
 - (C) Any dearness allowance, house-rent allowance, overtime allowance, bonus, commission or other similar allowance payable to the employee in respect of his employment or of work done in such employment.
 - (D) Any presents made by the employer
17. The provisions of Employees Provident Funds and Miscellaneous Provisions Act, 1952 are applicable to employees who are drawing pay not exceeding :
- (A) ₹6,000 per month
 - (B) ₹6,500 per month
 - (C) ₹15,000 per month
 - (D) ₹12,000 per month
18. Under the Payment of Bonus Act, 1965 the gross profits derived by an employer from an establishment in respect of any accounting year, shall be computed :
- (A) In case of Banking Company according to Schedule II and in any other case Schedule I
 - (B) In case of Banking Company according to Schedule I and in any other case Schedule II
 - (C) In case of Banking Company and in any other case Schedule I
 - (D) In case of Banking Company and in any other case Schedule II
19. In case of contravention of the provisions of the Payment of Bonus Act, 1965 and its rules may attract the punishment of :
- (A) Imprisonment upto 3 months, or fine upto ₹500 or both
 - (B) Imprisonment upto 2 months, or fine upto ₹1,000 or both
 - (C) Imprisonment upto 6 months, or fine upto ₹5,000 or both
 - (D) Imprisonment upto 6 months, or fine upto ₹1,000 or both

20. Which one of the following statements is true as regard to the Payment of Bonus Act, 1965 ?
- (A) An employee suspended but sub-sequently reinstated is entitled for full wages for period of suspension only
 - (B) An employee suspended but sub-sequently reinstated is not entitled to bonus
 - (C) An employee suspended but subsequently reinstated is entitled for full wages for suspension period as well as bonus for the said period
 - (D) An employee suspended but subsequently reinstated with full back wages is not eligible for bonus for the period of suspension:
21. Except in case of death or disablement due to accident or disease of an employee the eligibility condition for obtaining gratuity under section 4(1) of the Payment of Gratuity Act, 1972 is :
- (A) Completion of 2 years of continuous service in continuity
 - (B) Completion of 3 years of continuous service in continuity
 - (C) Completion of 4 years of continuous service in continuity
 - (D) Completion of 5 years of continuous service in continuity
22. Which section of Payment of Gratuity Act, 1972 deals with the determination of the amount of 'Gratuity' ?
- (A) Section 10
 - (B) Section 8
 - (C) Section 7
 - (D) Section 9
23. Under the Payment of Gratuity Act, 1972 the maximum gratuity payable is :
- (A) ₹10 lakh
 - (B) ₹8 lakh
 - (C) ₹5 lakh
 - (D) ₹7 lakh
24. Under the Payment of Gratuity Act, 1972 the employer shall arrange to pay the amount of gratuity within _____ days from the date it becomes payable.
- (A) 30
 - (B) 15
 - (C) 60
 - (D) 75

25. Payment of Gratuity Act, 1972 is applicable to every shop or establishment within the meaning of any law for the time being in force in relation to shops and establishment in a State, in which _____ persons are or were employed on any day in the preceding 12 months.
- (A) 10 or more
 - (B) 10
 - (C) 20 or more
 - (D) 20
26. If due to physical defect, a workman is unable to get any work which a workman of his class ordinarily performs and has thus lost the power to earn :
- (A) It is not a physical defect and he is not entitled to compensation
 - (B) It is a temporary partial disablement and entitled to compensation
 - (C) It is a permanent partial disablement and entitled to compensation
 - (D) It is total disablement and entitled to compensation
27. Urban Improvement Trust of Ludhiana entrusted the electrification work of the town to the employees of the State of Punjab. A, an employee, received injuries while performing the work. The liability will stand of :
- (A) Urban Improvement Trust Ludhiana only
 - (B) State of Punjab only
 - (C) Urban Improvement Trust Ludhiana as well as State of Punjab
 - (D) None of the above
28. From the following Central Legislations state the name of the Legislation whose name has been changed in the year 2010 :
- (A) Workmen's Compensation Act
 - (B) Employees State Insurance Act
 - (C) Maternity Benefit Act
 - (D) Payment of Gratuity Act
29. As per the provisions of the Maternity Benefit Act, 1961 a woman shall be entitled to maternity benefit if she has actually worked in the establishment for a period not less than _____ in the twelve months immediately preceding the date of her expected delivery.
- (A) 80 days
 - (B) 120 days
 - (C) 180 days
 - (D) 270 days

30. Under the Maternity Benefit Act, 1961 till what age of the child a mother get 2 nursing breaks in the course of her daily work ?
- (A) 12 months
 - (B) 6 months
 - (C) 18 months
 - (D) 15 months
31. The object of Maternity Benefit Act, 1961 is :
- (A) To regulate the employment of women workers in such establishment for certain period before and after child birth
 - (B) The application of the Act in every establishment being a factory, mine or plantation
 - (C) To provide satisfactory conditions to expectant women
 - (D) All of the above
32. Under Maternity Benefit Act, 1961, for how many weeks a woman is entitled for leave in case of a miscarriage ?
- (A) 3 weeks
 - (B) 9 weeks
 - (C) 2 weeks
 - (D) 6 weeks
33. Consider the following statements under the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 :
- (i) Adolescent means a person who has completed his 14th years of age
 - (ii) Adolescent means a person who has not completed his 18th years of age
 - (iii) Adolescent means a person who has completed his 12th years of age
 - (iv) Adolescent means a person who has completed his 18th years of age
- Select the correct statement from the option given below :
- (A) (i) and (iii)
 - (B) (ii) and (iii)
 - (C) (i) and (ii)
 - (D) (iii) and (iv)
34. Under Child and Adolescent Labour (Prohibition and Regulation) Act, 1986, 'Day' means a period of 24 hours beginning at :
- (A) Morning 8.00 a.m.
 - (B) Noon
 - (C) Evening 4 p.m.
 - (D) Midnight

35. Which one of the following statements under the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 is not correct ?
- (A) No adolescent shall be permitted or required to work between 7 p.m. and 8 a.m.
 - (B) Every adolescent may be permitted to work overtime
 - (C) Adolescent will not be permitted to work in any establishment on any day on which he has already been working in another establishment
 - (D) The Act prohibits employment of children below 14 years in hazardous occupation
36. Section 8 of the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 states that the day specified in the notice as a weekly holiday for a child shall not be altered by an occupier more than once in _____
- (A) 1 week
 - (B) 1 month
 - (C) 2 months
 - (D) 3 months
37. As per section 2(1)(i) of the Contract Labour (Regulation and Abolition) Act, 1970 regarding definition of workmen which one of the following is not a workman who is :
- (A) employed to do skilled, semi skilled or unskilled work
 - (B) to do manual, supervisory work
 - (C) employed mainly in a managerial or administrative capacity
 - (D) employed to do technical or clerical work
38. Section 8 of the Contract Labour (Regulation and Abolition) Act, 1970 lays down that the registration of an establishment may be revoked. In such case the registering officer shall give an opportunity to the principal employer of the establishment to be heard. He will also obtain previous approval of the in case the registration is to be revoked.
- (A) Central Government
 - (B) State Government
 - (C) Commissioner of Labour
 - (D) Appropriate Government
39. Consider the following functionaries which are important in the enforcement of the Payment of Gratuity Act, 1972 :
- (i) Controlling Authority
 - (ii) Appellate Authority
 - (iii) Concessional Authority
 - (iv) Adjunct Authority

Select the correct statement from the option given below :

- (A) (i) only
 - (B) (i), (ii) and (iii) only
 - (C) (i), (ii), (iii) and (iv)
 - (D) (i) and (ii) only
40. Under the Industrial Employment (Standing Order) Act, 1946 the draft standing order is to be submitted within :
- (A) Two years from the date on which the Act is applicable in 5 copies
 - (B) One year from the date on which the Act is applicable in 5 copies
 - (C) Six months from the date on which the Act becomes applicable in 5 copies
 - (D) Six months from the date on which the Act is applicable in 10 copies
41. As per Schedule of the Industrial Employment Standing Orders Act, 1946 the additional matters to be provided in standing orders may be :
- (A) Age of retirement
 - (B) Secrecy
 - (C) Transfer
 - (D) All of the above
42. The appeal on the certified standing orders may be preferred within _____ days before the Appellate Authority.
- (A) 60
 - (B) 30
 - (C) 15
 - (D) 90
43. If any workman is suspended by the employer, the employer shall pay to such workman subsistence allowance at the rate of _____ percent of the wages which the workman was entitled to immediately preceding the date of such suspensions for the first ninety days of suspension.
- (A) 75%
 - (B) 50%
 - (C) 60%
 - (D) 70%

44. Under which Schedule of the Industrial Disputes Act, 1947, public utility services have been listed out ?
- (A) 1st Schedule
 - (B) 2nd Schedule
 - (C) 3rd Schedule
 - (D) 4th Schedule
45. Which one of the following is not a machinery for settlement of industrial disputes under the Industrial Disputes Act, 1947 ?
- (A) Conciliation officer
 - (B) Board of Conciliation
 - (C) Collective Bargaining Process
 - (D) Labour Court
46. Industrial Disputes Act, 1947 has been enacted to fulfil the objectives for :
- (A) Prevention of illegal strikes and lockouts
 - (B) Relief to workmen in the matter of lay-off and retrenchment
 - (C) Promotion of collective bargaining
 - (D) All of the above
47. The Industrial Disputes Act, 1947 replaces _____
- (A) Trade Disputes Act, 1929
 - (B) Royal Commission on Labour, 1934
 - (C) Labour Management Relations Act, 1947
 - (D) None of the above
48. Which one of the following disputes is not related to the Industrial Disputes Act, 1947 ?
- (A) Between employer and employer
 - (B) Between employer and workmen
 - (C) Between employer and supplier of raw material
 - (D) Between workmen and workmen
49. means an interim or a final determination of any industrial dispute or of any question relating there to by any labour court.
- (A) Banking Company
 - (B) Closure
 - (C) Award
 - (D) Conciliation Proceeding

50. How many members does a Conciliation Board consists of as per the Appropriate Government under Industrial Disputes Act, 1947 ?
- (A) Chairperson and 2 or 4 other members
 - (B) Chairperson and 1 or more member
 - (C) Chairperson and 5 or 6 other members
 - (D) Chairperson and 10 other members
51. A person shall not be appointed as the presiding officer of a labour court unless he has been the presiding officer under any Provincial or State Act for not less than _____ years.
- (A) 2
 - (B) 10
 - (C) 5
 - (D) 15
52. How many persons are to be appointed in a National Industrial Tribunal by the Central Government ?
- (A) 1 person
 - (B) 2 persons
 - (C) 3 persons
 - (D) 5 persons
53. Choose the correct option, where no workmen shall go on a strike in breach of contract and no employer of any such workmen shall declare a lock out during:
- (A) The pendency of conciliation proceedings before a board and 7 days after the conclusion of such proceedings
 - (B) The pendency of proceedings before Labour Court, Tribunal or National Tribunal and 2 months, after the conclusion of such proceedings
 - (C) During any period in which a settlement or award is in operation, in respect of any of the matters covered by the settlement or award
 - (D) All of the above
54. Unfair labour practices are listed in :
- (A) The Factories Act, 1948
 - (B) The Industrial Employment (Standing Order) Act, 1946
 - (C) The Industrial Disputes Act, 1947
 - (D) The Trade Union Act, 1926
55. Under Industrial Disputes Act 1947, how many days of notice is to be given to the workman by the employer in case of any changes to be made in the service conditions specified in the Fourth Schedule ?
- (A) 30 days

- (B) 15 days
 - (C) 21 days
 - (D) 45 days
56. Which of the following is not a designated authority for investigation and settlement of industrial disputes under Industrial Disputes Act, 1947 ?
- (A) Works Committee
 - (B) Conciliation officers
 - (C) Labour court
 - (D) Dispute Tribunal
57. 'Wages' means all remuneration capable of being expressed in terms of money, which would, if the terms of employment are express or implied, were fulfilled, be payable to a workman in respect of his employment or of work done in such employment, and includes :
- (A) Such allowances (including dearness allowance) as the workman is for the time being entitled to
 - (B) The value of any house accommodation, or of supply of light, water, medical attendance or other amenity or of any service or of any concessional supply of food-grains or other articles
 - (C) Any travelling concession
 - (D) All of the above
58. Trade Union is a :
- (A) Statutory organisation
 - (B) Non-Government organisation
 - (C) Voluntary organisation
 - (D) Private organisation
59. Who can not be an office bearer of the Trade Union as per the Trade Union Act, 1926 ?
- (A) Member of the executive
 - (B) Chairman of the executive
 - (C) Company Secretary
 - (D) None of the above
60. To register a Trade Union of Workmen, Under section 4 of the Trade Unions Act, 1926 there should be at least :
- (A) 10 percent or 100 workmen
 - (B) 10 percent or 250 workmen
 - (C) 10 percent or 500 workmen
 - (D) 10 percent or 1000 workmen

61. Section 41-G of the Factories Act, 1948 says about :
- (A) Fencing of machineries
 - (B) Facing of machineries
 - (C) Work on near machinery in motion
 - (D) Workers participation in safety management
62. Section 13A of the Payment of Wages Act, 1936 provides that every employer shall maintain such register of records giving particulars of persons employed by him. Every such register and record shall be preserved for a period of _____ after the date of the last entry made therein.
- (A) three years
 - (B) five years
 - (C) seven years
 - (D) ten years
63. As per Section 5 of the Payment of Wages Act, 1936 payment of wages of establishments employing not less than 1000 employees shall be paid within _____ of the wage month.
- (A) 7 days
 - (B) 15 days
 - (C) 2 days
 - (D) 10 days
64. An employee is eligible to get-bonus under the Payment of Bonus Act, 1965 if he had worked for not less than _____ in the preceding year.
- (A) 30 days
 - (B) 240 days
 - (C) 160 days
 - (D) 190 days
65. A certificate of registration of a Trade Union may be cancelled by the Registrar under Trade Union Act, 1926 if the Registrar is satisfied that a registered Trade Union of workmen ceases to have :
- (A) Below than 10 members
 - (B) Below than 7 members
 - (C) Below than 14 members
 - (D) Below than 20 members

66. As per Section 2(e) of the Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by certain Establishments) Act, 1988 'small establishment' means an establishment in which not less than and not more than persons are employed or were employed on any day of preceding twelve months.
- (A) 10; 20
 - (B) 15; 30
 - (C) 10; 40
 - (D) 10; 50
67. The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959 applies to :
- (A) Agriculture and horticulture in any establishment in private sector
 - (B) To do unskilled office work
 - (C) In domestic services
 - (D) A co-operative society established by or under State Act
68. Every apprentice undergoing apprenticeship training in an establishment is designated as :
- (A) Part time worker
 - (B) Full time worker
 - (C) Trainee
 - (D) Contractual worker
69. As per Section 20 of the Apprentices Act, 1961 any disagreement or dispute between an employer and an apprentice arising out of the contract of apprenticeship shall be referred for its decision to :
- (A) National Council
 - (B) Central Apprenticeship Council
 - (C) Regional Boards
 - (D) Apprenticeship Advisor
70. Which one of the following legislations does not come under the purview of Labour audit ?
- (A) Payment of Gratuity Act, 1972
 - (B) Apprentices Act, 1961
 - (C) Factories Act, 1948
 - (D) Employees Compensation Act, 1923

PART B

71. The fundamental right to _____ has been deleted by _____ amendment of the Constitution of India.
- (A) Forming Association; 44th
 - (B) Property; 44th
 - (C) Property; 42nd
 - (D) Against exploitation; 42nd
72. The preamble of the constitution of India envisages that :
- (A) It shall stand part of the Constitution
 - (B) It could be abrogated from the Constitution
 - (C) It does not acknowledge recognise or proclaim anything about the Constitution
 - (D) It has a separate entity in the Constitution
73. Which famous case involved the term “basic structure” of the Constitution ?
- (A) Kesavanand Bharti Vs. State of Kerala AIR 1973 SC 1461
 - (B) Maneka Gandhi Vs. Union of India AIR 1978
 - (C) Vishakha Vs. State of Rajasthan AIR 1997
 - (D) Indra Sawhney Vs. Union of India AIR 1992
74. Which Article in the Constitution Empowers the High Court with the power of Writ Jurisdictions ?
- (A) Article 226
 - (B) Article 225
 - (C) Article 370
 - (D) Article 78
75. Right to practice any profession, or to carry on any occupation, trade or business subject to reasonable restrictions is available under the article _____ of the Constitution of India.
- (A) Article 19(4)
 - (B) Article 19(5)
 - (C) Article 19(2)
 - (D) Article 19(1)
76. Which of the following articles was inserted in Constitution of India imposing therein the fundamental duties on every citizen of India ?
- (A) Article 50
 - (B) Article 51

- (C) Article 51-A
 - (D) Article 52
77. Which one of the following pairs is not correctly matched ?
- (A) Right to equality—includes the principles of natural justice
 - (B) Right to personal liberty—includes right to livelihood
 - (C) Protection available to accused person—includes protection against ex post facto laws in civil matters
 - (D) Protection against arrest and detention—includes right to consult and to be defended by lawyer of one's own choice
78. Vicarious liability means the liability of a person of his own act :
- (A) True
 - (B) False
 - (C) Partly true
 - (D) Partly false
79. The rule in Rylands Vs. Fletcher does not apply when the escape is due to :
- (A) Inevitable accident
 - (B) Vis major
 - (C) Negligence of the defendant
 - (D) Mistake
80. As a principle of the interpretation of statute a particular word should be attributed with same meaning throughout of a statute. But this rule will not be applicable to:
- (A) When the context excludes that principle
 - (B) Where it could cause injustice or absurdity
 - (C) Where different circumstances are being dealt with
 - (D) All of the above
81. The purpose of Interpretation is :
- (A) To understand the statute according to one's own comprehension
 - (B) To make a guess of what is written
 - (C) To see what is the intention expressed by the words used
 - (D) To be able to change the meaning according to the situation
82. The intentional confinement or restraint of another person without authority or justification and without that person's consent constitutes _____ .
- (A) Defamation
 - (B) Negligence

- (C) False imprisonment
 - (D) Nervous Shock
83. Under the Evidence Act, 1872 'fact' means :
- (A) Factum probandum
 - (B) Factum probans
 - (C) Both factum probandum and factum probans
 - (D) None of the above
84. The facts which form part of the same transaction are relevant :
- (A) Under Section 5 of Evidence Act, 1872
 - (B) Under Section 6 of Evidence Act, 1872
 - (C) Under Section 7 of Evidence Act, 1872
 - (D) Under Section 8 of Evidence Act, 1872
85. The doctrine of 'Part Performance' has been given statutory recognition in :
- (A) Section 53A of the Transfer of Property Act, 1882
 - (B) Section 27A of the Specific Relief Act, 1963
 - (C) Section 49 of Indian Registration Act, 1908
 - (D) All of the above
86. A decreeholder has been defined under Section _____ of the Civil Procedure Code, 1908.
- (A) 2(3)
 - (B) 2(13)
 - (C) 2(14)
 - (D) 2(16)
87. A judgement under Civil Procedure Code 1908 contains :
- (A) Concise statement of the case
 - (B) The points for determination
 - (C) The decision on the points of determination and the reason thereof
 - (D) All of the above
88. Court of Small Causes, under Section 3 of Civil Procedure Code, 1908 is subordinate to :
- (A) District Court
 - (B) High Court
 - (C) Both (A) and (B)
 - (D) Neither (A) nor (B)

89. For the application of the principle of Res-Subjudice, which of the following is essential :
- (A) Suits between the same parties or litigation under the same title
 - (B) The two suits must be pending for disposal in a court
 - (C) The matters in issue in the two suits must be directly and substantially be the same
 - (D) All of the above
90. Section 15 of the Civil Procedure Code 1908 lays down :
- (A) a rule of procedure
 - (B) a rule of jurisdiction
 - (C) a rule of evidence
 - (D) all of the above
91. Article 12 of the Constitution of India defines 'State' for the purpose of enforcement of fundamental rights. Against which of the following a writ can not be issued for the enforcement :
- (A) Income Tax Tribunal
 - (B) High Court
 - (C) Delhi Municipal Corporation
 - (D) Port Trust
92. A revision under section 115 shall not operate as a stay of suit or other proceeding before the court except where such suit or other proceeding is stayed by :
- (A) The High Court
 - (B) The Supreme Court
 - (C) The Appellate Court
 - (D) District and Sessions Court
93. Which one of the following statements is not correct as regards to the inquiry and trial under the provisions of Criminal Procedure Code, 1973 ?
- (A) The inquiry is different from a trial
 - (B) Inquiry is wider than trial
 - (C) It stops when trial begins
 - (D) Inquiry and trial may be done together
94. Suits under Section 20 of Civil Procedure Code, 1908 can be instituted where the course of action arises :
- (A) Wholly
 - (B) Partly
 - (C) Either wholly or in part
 - (D) None of the above

95. Which one of the following requisites is not correct as regards to the warrant of arrest issued by the court under Section 70 of the Criminal Procedure Code, 1973 ?
- (A) It must be in writing
 - (B) It must state the offence charged
 - (C) It may not be sealed
 - (D) It must be signed by the presiding officer of the court
96. As per Section 43 of Criminal Procedure Code, 1973 a private person can not arrest any person who in his presence commits :
- (A) a bailable offence
 - (B) a non-bailable offence
 - (C) who is a proclaimed offender
 - (D) a cognizable offence
97. What is the time limit to get the information concerning the life and liberty of a Person ?
- (A) 48 hours
 - (B) 24 hours
 - (C) 5 days
 - (D) 10 days
98. If information sought has been supplied by third party or is treated as confidential by that third party, the third party must be given a representation before the PIO (Public Information Officer) in reply to the notice issued to him within _____ days from the date of receipt of such notice.
- (A) 5
 - (B) 15
 - (C) 10
 - (D) 7
99. Appointment Committee of Central Chief Information Commission (CIC) includes:
- (A) Prime Minister
 - (B) Leader of the opposition in the Lok Sabha
 - (C) One Union Cabinet Minister to be nominated by the Prime Minister
 - (D) All of the above

100. As per the Section 2(H) of the Right to Information Act, 2005 “Public Authority” means any authority or body or institution of self-Government established or constituted :

- (i) by or under the Constitution
- (ii) by any other law made by Parliament
- (iii) by any other law made by state legislature
- (iv) by notification issued or order made by the Appropriate Government

Considering the above statements select the correct statement from the option given below :

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

ANSWER KEY
INDUSTRIAL LABOUR AND GENERAL LAWS - SELECT SERIES

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

Note:

* Question No. 16 :- B/C/D options are correct.

** Question No. 70 :- Option A/B/C/D are correct.