# GUIDELINE ANSWERS

## EXECUTIVE PROGRAMME

**JUNE 2022**

**MODULE 2**

THE INSTITUTE OF
Company Secretaries of India
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
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(Under the jurisdiction of Ministry of Corporate Affairs)
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| **CS Examinations** | **Applicability of Amendments to Laws** |
|---|---|
| December Session | upto 31 May of that Calender year |
| June Session | upto 30 November of previous Calender Year |

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**MODULE 2**

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**EXECUTIVE PROGRAMME EXAMINATION**

JUNE 2022

# CORPORATE & MANAGEMENT ACCOUNTING

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

*Total number of Questions : 100*

## PART I

1. Who originated the accounting concept based on double entry system ?

   (A) Luco Fernandis

   (B) Luca Pacioli

   (C) Eric Kohler

   (D) Eric Pacioli

2. Which of the following is an example of fictitious asset ?

   (A) Provision for taxation

   (B) Provision for depreciation

   (C) Cash discount to customers

   (D) Discount on issue of shares

3. What is the nature of a Cash Book ?

   (A) a Journal

   (B) a Ledger

   (C) both a Journal and a Ledger

   (D) neither a Journal nor a Ledger

4. In the context of filing of financial statements by a company, the term "XBRL" means ..................... .

   (A) Xavier Business Rules and Law

   (B) Extensible Business Reporting Language

   (C) Xavier Business Reporting Language

   (D) Extensible Business Rules and Law

5. As per ICAI Guidance Note on ESOP, Share Options Outstanding Account should be shown in the Balance Sheet of a company as follows :

   (A) Separate line item under Reserves and Surplus

   (B) Separate line item under Share Capital

   (C) Separate line item under Other Reserves

   (D) Separate line item under Current Liabilities

6. According to Section 128(1) of the Companies Act, 2013 every company shall prepare and keep its books of account and other relevant books and papers and financial statements for every financial year which give a true and fair view of the state of the affairs of the company at its ..................... .

   (A) Corporate office

   (B) Registered office

   (C) Every Regional office

   (D) Every Branch office

7. As per Companies Act, 2013, the prescribed form for Statement of Profit and Loss is given in :

   (A) Part I of Schedule II

   (B) Part I of Schedule III

   (C) Part II of Schedule III

   (D) Part I of Schedule V

8. The nature of shares of a company is considered as a/an .................... .

   (A) Movable property

   (B) Immovable property

   (C) Fictitious property

   (D) Hypothetical property

9. What will be the rate of interest on calls-in-advance in the absence of any provision in the Articles of Association of a company ?

   (A) 12% per annum

   (B) Rate decided by the Annual General Meeting

   (C) Any rate decided by the Board of Directors

   (D) Rate decided by the Board of Directors subject to a maximum of 12% per annum

10. Rule 12 of the Companies (Share Capital and Debentures) Rule, 2014 is related to ...................... .

   (A) Issue of sweat equity shares

   (B) Issue of right shares

   (C) Employee stock option plan

   (D) Buy-back of shares and other securities

11. Bonus shares cannot be issued by a company out of ................... .

    (A) Free reserves account

    (B) Capital redemption reserve account

    (C) Securities premium account

    (D) Revaluation reserve account

12. The maximum amount of discount on re-issue of forfeited shares shall be ................. .

    (A) Not exceeding the called-up amount of shares

    (B) Equal to or exceeding the forfeited amount

    (C) Not exceeding the amount credited to Shares Forfeited Account

    (D) Amount of premium received on original issue of shares

13. X applied for 200 shares of ₹10 each in ABC Ltd., but he was allotted only 160 shares. After having paid ₹1 on application he did not pay the allotment money of ₹2 per share and first call money of ₹3 per share. His shares were forfeited. What amount will be credited to share allotment account at the time of entry for forfeiture ?

    (A) ₹400

    (B) ₹320

    (C) ₹280

    (D) ₹800

14. P Ltd. has a total subscribed capital of ₹10,00,000 in equity shares of ₹10 each of which ₹7.50 were called up. A final call of 2.50 was made and all amounts paid except the two calls of ₹2.50 each in respect of 200 shares held by A. These shares were forfeited and re-issued at ₹8.00 per share. What amount will be transferred to capital reserve account on re-issue of forfeited shares ?

    (A) ₹500

    (B) ₹600

    (C) ₹1,000

    (D) ₹1,600

15. When debentures are issued as collateral security, the account to be debited to record in the books of account is .................... .

    (A) Debenture Account

    (B) Debenture Reserve Account

    (C) Debenture Suspense Account

    (D) Provision for Debenture Account

16. When there is profit on cancellation of debentures, the amount of profit is transferred to ................... .

    (A) General Reserve Account

    (B) Capital Reserve Account

    (C) Securities Premium Account

    (D) Profit and Loss Account

17. As per Section 68(2) of the Companies Act, 2013, post buy-back debt-equity ratio should be .................. .

    (A) 1 : 1

    (B) 1.5 : 1

    (C) 2 : 1

    (D) 2.5

18. Every buy-back shall be completed within a period of ................... from the date of the resolution or special resolution, as the case may be, passed by the Board of Directors.

    (A) Three months

    (B) Six months

    (C) One year

    (D) Two years

19. A company cannot issue a prospectus or make an offer or invitation to ............. for subscribing to debentures unless the company has before issuing such a prospectus, appointed one or more debenture trustees.

    (A) more than 100 persons

    (B) more than 200 persons

    (C) more than 300 persons

    (D) more than 500 persons

20. X Ltd. purchased a building worth ₹4,50,000 and furniture worth ₹2,50,000 from Z Ltd. for an agreed purchase consideration of ₹6,60,000 to be satisfied by issue of 8% debentures of ₹100 each at a premium of 10%. What is the amount to be transferred to capital reserve account ?

    (A) ₹20,000

    (B) ₹40,000

    (C) ₹60,000

    (D) ₹66,000

21. ABC Ltd. issued 10%, 10,000 debentures of ₹100 each at a discount of 8% and which are redeemable at a premium of 5%. What is the amount of loss on issue of debentures ?

(A) ₹80,000

(B) ₹30,000

(C) ₹50,000

(D) ₹1,30,000

22. As per the provisions of the Companies Act, 2013, it is required that if the company is not able to collect ................. of the offer amount, then it needs to compulsorily return the money to those who have subscribed to the shares.

(A) 75%

(B) 51%

(C) 85%

(D) 90%

23. In 2016, A Ltd. issued 12% ₹50,00,000 debentures at a discount of 8%; the debentures were redeemable in 2020. In 2020, the company gave the debenture-holders the option of converting the debentures into equity shares at a premium of 25%. One debentureholder, holding ₹2,00,000 debentures want to exercise the option. What is the face value of the shares that he will get ?

(A) ₹2,50,000

(B) ₹1,60,000

(C) ₹2,25,000

(D) ₹1,75,000

24. In case of buy-back of shares, passing of special resolution by a company is not required if :

(A) the buy-back is 10% or less of the total paid-up equity share capital

(B) the buy-back is 10% or less of the total paid-up equity share capital and free reserves

(C) the buy-back is 25% or less of the total paid-up equity share capital

(D) the buy-back is 25% or less of the total paid-up equity share capital and free reserves

25. The Escrow account under Regulation 9(xi) of SEBI (Buy-Back of Securities) Regulations, 2018, does not include :

(A) Cash deposited with a scheduled commercial bank

(B) Bank guarantee in favour of the merchant banker

(C) Deposit of acceptable securities with appropriate margin, with the merchant banker

(D) Deposit of acceptable securities with appropriate margin, with a scheduled commercial bank

26. In case of issue of equity shares with differential rights as to dividend, voting or otherwise, the shares with differential rights shall ...................... of the total post-issue paid up equity share capital, including equity shares with differential rights issued at any point of time.

(A) not exceed ten percent

(B) not exceed fifty one percent

(C) not exceed twenty five percent

(D) not exceed twenty six percent

27. Public companies are required to issue audited financial statements to the public at least .................... .

(A) every month

(B) every quarter

(C) every half-year

(D) every year

28. Financial statements are prepared with an objective to provide information about the ................... .

(A) financial position of the entity

(B) performance and changes in financial position of the entity

(C) cash flows during the year

(D) all of the above

29. When the effective capital of a company is ₹5 crore and above but less than 100 crore, the maximum remuneration payable by the company to its managerial personnel when the company has inadequate profits or no profits, will be ................... .

(A) ₹42 lakhs

(B) ₹60 lakhs

(C) ₹84 lakhs

(D) ₹120 lakhs

30. Every company having turnover of ................ during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board.

    (A) ₹100 crore or more

    (B) ₹200 crore or more

    (C) ₹500 crore or more

    (D) ₹1,000 crore or more

31. A company in which only the majority of shares (more than 50%) are owned by the holding company, it is said to be a/an ................... .

    (A) Associate company

    (B) Joint venture company

    (C) Partly owned subsidiary company

    (D) Limitedly owned subsidiary company

32. The main purpose of the preparation of consolidated statements is :

    (A) the compliance of AS-21

    (B) to satisfy the legal provisions of the Companies Act, 2013

    (C) to reflect a true and fair view of the position and the profit or loss of the holding company 'group'

    (D) to reflect a true and fair view of the position and the profit or loss of the holding company

33. If the holding company's year-end stock includes ₹2,70,000 goods invoiced to it by its 60% owned subsidiary at cost plus 25%, what is the amount of unrealized profit ?

    (A) ₹54,000

    (B) ₹67,500

    (C) ₹32,400

    (D) ₹40,500

34. Company Auditor's Report Order (CARO), 2016 was issued by .................. .

    (A) The Institute of Chartered Accountants of India

    (B) The Comptroller and Auditor General of India

    (C) The Ministry of Finance, Government of India

    (D) The Ministry of Corporate Affairs, Government of India

35. CARO, 2016 applies to a private limited company which has a total revenue disclosed in Schedule III to the Companies Act, 2013, including revenue from discontinuing operations exceeding ....................... during the financial year as per the financial statements.

(A) ₹10 crore

(B) ₹15 crore

(C) ₹25 crore

(D) ₹100 crore

36. Every non-listed public company must have at least one woman director, if it has :

(A) paid-up share capital of at least ₹100 crore

(B) turnover of at least ₹100 crore

(C) paid-up share capital of at least ₹50 crore

(D) turnover of at least ₹50 crore

37. Debenture interest paid is ₹1,20,000, Provision for taxation is ₹1,10,000, Preference share dividend paid is ₹80,000, Proposed dividend on equity shares is ₹1,80,000, then the Cash Flow from Financing Activities is :

(A) ₹2,00,000

(B) ₹2,60,000

(C) ₹3,80,000

(D) ₹4,90,000

38. Plant and machinery original costing ₹13,55,000 (accumulated depreciation ₹7,28,000) was sold at a profit of ₹1,59,000 during the year 2019-20. The amount of cash flow from this transaction would be :

(A) ₹6,27,000

(B) ₹7,86,000

(C) ₹15,14,000

(D) ₹8,87,000

39. Z Ltd. had the investment of ₹34 lakh as on 31st March, 2020 and that of ₹40.50 lakh as on 31st March, 2021. During the year the company sold 30% of its original investments at a profit of ₹4.80 lakh. The Cash Inflow and Cash Outflow from the investment are :

(A) ₹10.20 lakh and ₹16.70 lakh

(B) ₹15 lakh and ₹16.70 lakh

(C) ₹15 lakh and ₹21.50 lakh

(D) ₹16.70 lakh and ₹15 lakh

40. Cash inflow before working capital changes is ₹12,00,000, decrease in inventory is ₹1,50,000, increase in receivables position is ₹2,00,000 and increase in payables position is ₹1,75,000, then Cash Flow from Operating Activities is :

(A) ₹10,75,000

(B) ₹13,25,000

(C) ₹13,75,000

(D) ₹14,25,000

41. X Ltd. purchased goods at the cost of ₹60 lakh in November, 2020. Till March, 2021, 75% of the stock was sold. The company wants to disclose stock at ₹15 lakh. The expected sale value is ₹16.50 lakh and a commission at 10% on sale value is payable to the agent. What is the correct closing stock to be disclosed as at 31st March, 2021 as per AS-2?

(A) ₹15 lakh

(B) ₹16.50 lakh

(C) ₹14.85 lakh

(D) ₹18.15 lakh

42. AS-7 issued by the ICAI deals with ................. .

(A) Government grants

(B) Construction contracts

(C) Revenue recognition

(D) Disclosure of accounting policies

43. Stakeholders Grievance Committee is headed by ................. .

(A) an executive director

(B) a non-executive director

(C) a senior most director

(D) the managing director

44. Shareholder Value Added (SVA) is equal to :

(A) Book value of equity – Cost of equity

(B) Economic profits of a business – Minimum return required by equity shareholders

(C) Economic profits of a business – Minimum return required by all shareholders

(D) Economic profits of a business – Minimum return required by all providers of capital

45. Excess of Company's total market value over Capital invested is ....................

(A) Gross Value Added

(B) Economic Value Added

(C) Market Value Added

(D) Net Value Added

46. X Ltd. has a cash sales of ₹15,00,000. Cash expenses are ₹7,00,000 and depreciation ₹1,25,000. Cash from Operating Activities of the company is :

(A) ₹5,75,000

(B) ₹9,25,000

(C) ₹6,75,000

(D) ₹8,00,000

47. In case of financial enterprises, cash flows arise from interest paid should be classified as cash flow from :

(A) Operating Activities

(B) Investing Activities

(C) Financing Activities

(D) Cash Activities

48. Which of the following Section of the Companies Act, 2013, requires that the auditor has to report whether in his opinion the financial statements comply with the Accounting Standards referred in Section 133 of the Companies Act, 2013 :

(A) Section 141(3)(e)

(B) Section 141(3)(b)

(C) Section 143(3)(e)

(D) Section 145(3)(b)

49. Which of the following International Accounting Standard (IAS) is related to Employee Benefits ?

(A) IAS–8

(B) IAS–12

(C) IAS–19

(D) IAS–23

50. The IFRS Advisory Council is the formal advisory body to the :

(A) International Accounting Standards Board

(B) Trustees of the IFRS Foundation

(C) IFRS Foundation Monitoring Board

(D) Both (A) and (B)

51. The Association of International Certified Professional Accountants launched in 2017, bringing together the expertise and capabilities of the ..................... .

(A) CIMA and FASB

(B) AICPA and CIMA

(C) AICPA and FASB

(D) IFRS Foundation and FASB

52. External Reporting Board (XRB) belongs to :

(A) The UK

(B) The USA

(C) Australia

(D) New Zealand

53. Public Interest Committee (PIC) established by International Public Sector Accounting Standards Board (IPSASB) consists of individuals from the :

(A) International Monetory Fund

(B) International Organization of Supreme Audit Institutions

(C) World Bank Group

(D) All of the above

54. Financial Reporting Council (FRC) of the UK is a/an ..................... .

(A) Unlimited company

(B) Company limited by guarantee

(C) Subsidiary company of IFRS

(D) Associate company of the Institute of Chartered Accountants of England & Wales

55. Who notified the adoption and applicability of Indian Accounting Standards (Ind ASs) to Indian companies ?

(A) Ministry of Finance, GOI

(B) Ministry of Commerce, GOI

(C) Ministry of Corporate Affairs, GOI

(D) Accounting Standards Board, ICAI

56. Ind AS 110 deals with :

(A) Operating Segments

(B) Consolidated Financial Statements

(C) Fair Value Measurement

(D) Business Combinations

57. For the accounting period beginning on or after 1st April, 2019, all unlisted NBFCs whose net worth is more than or equal to .................. but less than ................ shall mandatorily follow the Ind ASs.

(A) ₹100 crore; ₹500 crore

(B) ₹250 crore; ₹500 crore

(C) ₹300 crore; ₹600 crore

(D) ₹400 crore; ₹800 crore

58. Ind AS 34 requires the following in the contents of an interim financial report in addition to what was required under previous standard AS 25 :

(A) A condensed balance sheet

(B) A condensed cash flow statement

(C) A condensed statement of profit and loss

(D) A condensed statement of changes in equity

59. Govind is the holder of 200 shares of ₹10 each. He had paid on these shares application money of ₹2 each, allotment money of ₹2 each and first call money of ₹3 each. He has failed to pay the final call amount, hence all his holdings were forfeited. Out of them 100 shares were re-issued at ₹11 each. The amount to be transferred to Capital Reserve Account would be :

(A) ₹1,400

(B) ₹1,500

(C) ₹800

(D) ₹700

60. The opportunity cost of the equity capital invested in a business is considered in the computation of .................. .

(A) Shareholder value added

(B) Market value added

(C) Economic value added

(D) Gross value added

**PART II**

61. ................... is a process to ensure that appropriate action is taken if costs exceed a pre-set allowance or actions to be taken if costs are expected to exceed the expected levels.

(A) Cost Management

(B) Cost Audit

(C) Cost Control

(D) Cost Reduction

62. Primary packing material is an example of .................... .

    (A) Direct material

    (B) Indirect material

    (C) Direct expenses

    (D) Selling and distribution overhead

63. Which of the following is the purpose of 'Time Recording' ?

    (A) Time-keeping

    (B) Time-booking

    (C) Time-keeping and Time-booking

    (D) Time management

64. Companies (Cost Records and Audit) Rules, 2014, came into force on ...........

    (A) 1st April, 2014

    (B) 30th April, 2014

    (C) 30th June, 2014

    (D) 1st January, 2014

65. Which of the following is the social purpose of Cost Audit ?

    (A) Inculcation of cost consciousness

    (B) Determination of inventory valuation

    (C) Promoting corporate governance

    (D) Improvement in productivity of human, physical and financial resources of the enterprise

66. Which of the following is the General Information attached with the Annexure to the Cost Audit Report ?

    (A) Reconciliation of indirect taxes

    (B) Distribution of earnings

    (C) Cost accounting policy

    (D) Details of industry specific operating expenses

67. Which of the following Form is used for filing Cost Audit Report with the Central Government ?

    (A) CRA–1

    (B) CRA–2

    (C) CRA–3

    (D) CRA–4

68. .................. is a budget which can be attained under standard conditions.

(A) Basic Budget

(B) Long-term Budget

(C) Current Budget

(D) Short-term Budget

69. If the Activity Ratio and Efficiency Ratio of a factory are 80% and 66.67% respectively, then the Capacity Ratio will be :

(A) 75%

(B) 94%

(C) 100%

(D) 120%

70. The following information is estimated for the year 2022 :

* Normal loss in production will be 5% of input

* Sales (in units) as per Sales Budget 76,700 units

* Closing stock will be 13200 units which has been estimated 10% more than previous year's quantity. The input for required production will be :

(A) 79,276 units

(B) 79,474 units

(C) 81,796 units

(D) 82,000 units

71. Which of the following would be found in a Cash Budget ?

(A) Accrued expenditure

(B) Outstanding expenditure

(C) Capital expenditure

(D) All of the above

72. The Budgeted Sales for the next 4 months are – ₹96,000; ₹1,44,000; ₹1,44,000 and ₹1,68,000 respectively. It is estimated that sales will be paid for as follows : 75% of the sales will be paid in the month in which sales were made. Of the balance, 50% will be paid in the month after the sales was made. The remaining 50% will be paid in the month after this. The amount of cash received in the 3rd month will be :

(A) ₹1,38,000

(B) ₹72,000

(C) ₹1,62,000

(D) ₹1,20,000

73. The ideal norm preferred by Banks for current ratio is .................... .

(A) 2 : 1

(B) 2.2 : 1

(C) 1.33 : 1

(D) 1.5 : 1

74. If Gross Profit is 1/4th of cost, Sales is 4,00,000 and Indirect Expenses are 24,000, what will be the Net Profit Ratio ?

(A) 14%

(B) 19%

(C) 20%

(D) 25%

75. The following information is given :

Current Ratio : 3

Acid Test Ratio : 1.8

Current Liabilities : ₹20 lakh

What is the value of Inventory ?

(A) ₹36 lakh

(B) ₹30 lakh

(C) ₹24 lakh

(D) ₹60 lakh

76. ..................... examines the policy of the company regarding dividend and retained earnings.

(A) Return on Investment

(B) Price Earnings Ratio

(C) Dividend Payout Ratio

(D) Earnings Per Share (EPS)

77. Interest Coverage Ratio = 7. It indicates that .................. .

(A) Assets are 7 times of interest

(B) Sales are 7 times of interest

(C) EBIT is 7 times of interest

(D) Profit after tax is 7 times of interest

78. Which of the following is NOT included in the activity ratios ?
    (A) Proprietary Ratio
    (B) Debtors Turnover Ratio
    (C) Sales to Capital Employed Ratio
    (D) Working Capital Turnover Ratio

79. Which of the following set of reports is classified according to their contents ?
    (A) Routine reports and Special reports
    (B) Descriptive reports, Tabular reports and Graphical reports
    (C) Production reports, Sales reports, Cost reports and Finance reports
    (D) Graphical presentation, Special reports and Cost reports

80. Which of the following is NOT an advantage of effective Management Reporting System ?
    (A) Improves decision-making
    (B) Improves efficiency of resources
    (C) Improves responsiveness to issues
    (D) Economical

81. Selling price of a product is ₹40 per unit. Variable cost ratio is 50%. Fixed cost is ₹1,20,000 and units sold are 10,000. What is the Margin of Safety in percentage?
    (A) 40%
    (B) 60%
    (C) 50%
    (D) 20%

82. Which of the following is a method of transfer pricing considered when the supplier division is a monopoly producer ?
    (A) Negotiated transfer pricing
    (B) Cost based transfer pricing
    (C) Opportunity cost transfer pricing
    (D) Standard cost transfer pricing

83. If Break Even Sales is 60% of current sales and profit is ₹4,000, then what is the amount of contribution ?
    (A) ₹12,000
    (B) ₹10,000
    (C) ₹16,000
    (D) ₹24,000

84. From the following information, calculate the amount of profit :

Sales ₹16,00,000; Fixed cost ₹4,00,000; P/V Ratio 30%.

(A) ₹1,00,000

(B) ₹80,000

(C) ₹70,000

(D) ₹90,000

85. P/V Ratio of A Ltd. is 50% and Margin of Safety is 40%. What is the amount of Break Even Point and Net Profit if the sales volume is ₹50 lakh ?

(A) ₹30 lakh and ₹20 lakh

(B) ₹20 lakh and ₹20 lakh

(C) ₹10 lakh and ₹30 lakh

(D) ₹30 lakh and ₹10 lakh

86. If total cost is ₹30,000 for the sales of ₹50,000 and ₹22,000 for the sales of 30,000, then the Profit Volume (P/V) Ratio is :

(A) 30%

(B) 40%

(C) 50%

(D) 60%

87. Ind AS 33 deals with ................. .

(A) Earnings per share

(B) Fair value measurement

(C) Value added statement

(D) Financial instrument presentation

88. Which of the following is NOT a valuation approach ?

(A) Income Approach

(B) Assets Approach

(C) Expenditure Approach

(D) Market Approach

89. A Ltd. has the following details :

| | |
|---|---|
| Return on Equity | 15% |
| Expected Earnings per share | ₹5 |

| | |
|---|---|
| Expected Dividend per share | ₹3 |
| Required Rate of Return | 10% p.a. |

What is the expected growth rate and its price per equity ?

(A) 4% and ₹60

(B) 6% and ₹60

(C) 4% and ₹75

(D) 6% and ₹75

90. Average profits, Super profits and Capital employed of Z Ltd. are ₹7,80,000; ₹2,40,000; and ₹45,00,000 respectively. Normal rate of return is 12%. The Value of Goodwill on the basis of Capitalization of 'Super profits' will be :

(A) ₹20 lakh

(B) ₹45 lakh

(C) ₹85 lakh

(D) ₹65 lakh

91. Under Section 247 of the Companies Act, 2013, a Registered Valuer shall be appointed by the .................. .

(A) Company Secretary

(B) Company Auditor

(C) Board of Directors

(D) Jointly by all the above three

92. Which of the following methods of valuation of shares is suitable for ascertaining the market value of shares which are quoted in a recognized stock exchange ?

(A) Based on rate of earnings method

(B) Based on rate of dividend method

(C) Based on price earning ratio method

(D) Based on price dividend ratio method

93. With reference to Ind AS 102, what does SBP stand for ?

(A) Sum Based Payment

(B) Share Based Payment

(C) Share Based Proportion

(D) Share Based Profit

94. Beta of market portfolio is always ............. .

(A) 0

(B) 1

(C) Less than 1

(D) More than 1

95. The relationship between risk and return established by the security market line is called as :

(A) Economic value model

(B) Earnings based model

(C) Arbitrage pricing model

(D) Capital asset pricing model

96. Under Arbitrage Pricing Theory, it is assumed that the markets are frictionless because of the fact that there are :

(A) No transaction costs

(B) No taxes

(C) Infinite number of securities are available

(D) All of the above

97. An investor expects a dividend of ₹8 per share for each of 5 years and a selling price of ₹120 at the end of 5th year. If his required rate of return is 10%, the share is a good buy now at a price of (PVFA 10, 5 = 3.791 and PVF 10, 5 = 0.621) :

(A) ₹100

(B) ₹108

(C) ₹110

(D) ₹115

98. Among all measures of business value, the ................. of business is likely to be the least value.

(A) Market value

(B) Replacement value

(C) Book value

(D) Liquidation value

99. Current market rate of X Ltd.'s equity share is ₹80 per share. The company is expected to pay a dividend of ₹4 per share with an annual growth of 10%. In this case the rate of return would be :

(A) 5.5%

(B) 10.5%

(C) 12%

(D) 15%

100. As per Sec. 54 of the Companies Act, 2013, a company can issue sweat equity shares of a class of shares already issued only after .................... from the date of commencement of business.

(A) One year

(B) Two years

(C) Three years

(D) 180 days

**ANSWER KEY**
**COST AND MANAGEMENT ACCOUNTING - SELECT SERIES**

| Q.No. | Ans | Q.No. | Ans | Q.No. | Ans |
|---|---|---|---|---|---|
| **PART I** | | 34 | D | 67 | D |
| 1 | B | 35 | A | 68 | A |
| 2 | D | 36 | A | 69 | D |
| 3 | C | 37 | A | 70 | D |
| 4 | B | 38 | B | 71 | C |
| 5 | A/B | 39 | B | 72 | A |
| 6 | B | 40 | B | 73 | C |
| 7 | C | 41 | C | 74 | A |
| 8 | A | 42 | B | 75 | C |
| 9 | D | 43 | B | 76 | C |
| 10 | C | 44 | D | 77 | C |
| 11 | D | 45 | C | 78 | A |
| 12 | C | 46 | D | 79 | C |
| 13 | C | 47 | A | 80 | D |
| 14 | B | 48 | C | 81 | A |
| 15 | C | 49 | C | 82 | C |
| 16 | B | 50 | D | 83 | B |
| 17 | C | 51 | B | 84 | B |
| 18 | C | 52 | D | 85 | D |
| 19 | D | 53 | D | 86 | D |
| 20 | B | 54 | B | 87 | A |
| 21 | D | 55 | C | 88 | C |
| 22 | D | 56 | B | 89 | D |
| 23 | B | 57 | B | 90 | A |
| 24 | B | 58 | D | 91 | C |
| 25 | D | 59 | D | 92 | C |
| 26 | * | 60 | C | 93 | B |
| 27 | D | **PART II** | | 94 | B |
| 28 | D | 61 | C | 95 | D |
| 29 | C | 62 | A | 96 | D |
| 30 | D | 63 | C | 97 | A |
| 31 | C | 64 | C | 98 | D |
| 32 | C | 65 | D | 99 | D |
| 33 | A | 66 | C | 100 | A |

**Notes :**

Q. No. 5 As per ICAI Guidance Note on ESOP, Employee Stock Option Outstanding will appear in the balance sheet under a separate heading between 'Share Capital' and 'Reserve and Surplus'. Option A & B both are correct.

Q. No. 26 None of the answer are correct. Correct answer is "not exceed 74 %".

***

# SECURITIES LAWS & CAPITAL MARKETS

Time allowed : 3 hours Maximum marks : 100

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

## PART I

### Question 1

*(a)* *Grow India Ltd. has recently launched a Mutual Fund Scheme with the name 'GI Equity Multi Cap Scheme' with following details :*

| | |
|---|---|
| *Size of the Scheme* | *₹200 lakh* |
| *Face value of the unit* | *₹20* |
| *Number of the outstanding units* | *₹20 lakh* |
| *Market value of the fund's investments receivables* | *₹360 lakh* |
| *Accrued Income* | *₹2 lakh* |
| *Receivables* | *₹2 lakh* |
| *Liabilities* | *₹1 lakh* |
| *Accrued expenses* | *₹1 lakh* |

*(i)* *What do you mean by NAV ?*

*(ii)* *Find out the NAV in the present case.*

*(iii)* *What does an expense ratio contain in a Mutual Fund Scheme ?*

*(5 marks)*

*(b)* *Saatvik is a Managing Director in a listed company as well as an Independent director in other three listed companies. One of the leading listed e-Commerce company offered him independent directorship on its Board. Whether he can accept the directorship with specific reference to SEBI regulation. Explain with reasons.* *(5 marks)*

*(c)* *A Company is planning for Initial Public Offer of its equity shares. It has decided differential pricing for retail individual investors vis-a-vis QIBs. The proposed price for retail individual investors is ₹250 and for QIBs is ₹300. Examine the validity of proposal of the company under SEBI Regulations. What will be your answer, if the company proposes ₹280 to anchor investors in book building issue ?* *(5 marks)*

*(d)* *Kiyan International Ltd., is a listed entity on the leading stock exchange platform. It had appointed one Executive Promoter Director in 2019 on a monthly salary only. The company now proposes to appoint another Executive Promoter Director on the Board at the same monthly salary. The aggregate annual remuneration to such directors exceeds five per cent of the net profit of the company.*

*(i)* *Examine with respect to the SEBI Regulations, the relevant approval required for paying this remuneration.*

(ii) *Whether it will make any difference, if the company pays fees/compensation instead of fixed monthly salary ?* *(5 marks)*

**Answer 1(a)**

**(i) Net Asset Value**

The performance of a particular scheme of a mutual fund is denoted by Net Asset Value (NAV).

In simple words, NAV is the market value of the securities held by the scheme. Mutual funds invest the money collected from investors in securities markets. Since market value of securities changes every day, NAV of a scheme also varies on day-to-day basis. The NAV per unit is the market value of securities of a scheme divided by the total number of units of the scheme on any particular date.

(ii) Net Asset Value = (Market value of investments + Receivables+ accrued income+ other assets – Accrued Expenses- Other Payables- Other Liabilities) / No. of units (mutual fund)

NAV in the given case-

= (₹360 lakh + ₹2 lakh + ₹2 lakh - ₹1 lakh - ₹1 lakh)/20 Lakh

NAV = ₹18.10 per unit

(iii) Expense Ratio contains:

- Fees paid to service providers like trustees, Registrar & Transfer Agents, Custodian, Auditor, etc.
- Asset management expenses
- Commissions paid to distributors
- Other selling expenses including advertising expenses
- Expenses on investor communication, account statements, dividend / redemption cheques / warrants
- Listing fees and Depository fees
- Service tax

**Answer 1(b)**

As per the Regulation 17A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the directors of listed entities shall comply with the following conditions with respect to the maximum number of directorships, including any alternate directorships that can be held by them at any point of time:

(1) A person shall not be a director in more than eight listed entities with effect from April 1, 2019 and in not more than seven listed entities with effect from April 1, 2020.

However a person shall not serve as an independent director in more than seven listed entities.

(2) Notwithstanding the above, any person who is serving as a whole time director/ managing director in any listed entity shall serve as an independent director in not more than three listed entities.

In the given case, Saatvik is a Managing Director in a listed company as well as an Independent Director in other three listed companies and hence he is already holding the maximum permissible directorship under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. He therefore cannot accept the independent directorship in a listed e-Commerce company.

**Answer 1(c)**

As per the Regulation 30 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 the issuer may offer its specified securities at different prices, subject to the following:

a) retail individual investors or retail individual shareholders or employees entitled reservation made under the Regulation 33 of the SEBI (ICDR) Regulations, 2018 may be offered specified securities at a price not lower than by more than ten per cent of the price at which net offer is made to other categories of applicants, excluding anchor investors;

b) in case of a book built issue, the price of the specified securities offered to the anchor investors shall not be lower than the price offered to other applicants.

The proposed price for retail individual investors (RII) is ₹250 and for QIB is ₹300. The maximum discount that can be provided to RII shall not be more than ten per cent of the price at which net offer is made to other categories i.e. 300 X 10% = ₹30. Hence, the price for RII shall not be lower than ₹270. In the given proposal, the difference between the proposed price for RII and QIB is more than 10% as envisaged in the regulation, hence the company cannot issue securities with such proposal.

If case the company proposes ₹280 to anchor investors in book building issue, such issue would not be permissible as the Regulation 30 of the SEBI (ICDR) Regulations, 2018 states that the price of the specified securities offered to the anchor investors shall not be lower than the price offered to other applicants.

**Answer 1(d)**

(i) According to the Regulation 17(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, the fees or compensation payable to executive directors who are promoters or members of the promoter group, shall be subject to the approval of the shareholders by special resolution in general meeting, if -

(i) the annual remuneration payable to such executive director exceeds rupees 5 crore or 2.5 per cent of the net profits of the listed entity, whichever is higher; or

(ii) where there is more than one such director, the aggregate annual remuneration to such directors exceeds 5 per cent of the net profits of the listed entity.

Provided that the approval of the shareholders under this provision shall be valid only till the expiry of the term of such director.

In the given case Kiyan International Ltd. is paying the aggregate annual remuneration to such directors in excess of five per cent of the net profit of the Company and in view of above the Company is required to take approval of shareholders by way of special resolution in general meeting.

(ii) As per Section 2 (78) of the Companies Act, 2013 “remuneration" means any money on its equivalent given or passed to any person for services rendered by him and includes perquisites is defined under the Income-tax Act. 1961.

Further, Sections 197(5) and (6) of the Companies Act, 2013 state that a director may receive remuneration by way of fee for attending meetings of the Board or Committee thereof or for any other purpose whatsoever as may be decided by the Board and that a director or manager may be paid remuneration either by way of a monthly payment or at a specified percentage of the net profits of the company or partly by one way and partly by the other.

In view of above, it will not make any difference, if the Company pays fees/ compensation instead of fixed monthly salary, as the definition under the Companies Act, 2013 is all inclusive of the fees / compensation.

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

**Question 2**

*(a) The facility of Application Supported by Blocked Amount (ASBA) introduced to protect the interest of investors for faster refund. SEBI has provided additional channels for making subscription and/or call money in respect of partly paid specified securities. Explain. (4 marks)*

*(b) E-voting by the shareholders in respect of all shareholders' resolutions is at a negligible level. SEBI has made certain changes in its regulation to make it more effective. Explain the initiatives taken by the SEBI. (4 marks)*

*(c) Due to growing numbers of startups in India, one of the leading listed startup has apprehension that the experienced employees may leave the company to get higher pay package. The CEO desires to issue Sweat Equity Shares to the employees to retain them. You being a Company Secretary advise the management about pricing of the shares under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021. (4 marks)*

*(d) The shares issued after the Initial Public Offering (IPO) of an unlisted company, out of options or SAR granted under any scheme prior to its IPO to its employees shall be listed immediately on exercise upon the options in all the recognised stock exchanges. However, the shares of the Company are already listed subject to compliance with the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. You are required to explain the compliances and conditions for the same. (4 marks)*

*(e) "The complaints related to trade, settlement and deficiency in services resulting into any financial loss to an investor, if not resolved amicably by the stock exchange, shall be referred to the Investor Grievance Redressal Committee (IGRC)". Explain the procedure for handling of complaints by IGRC as per SEBI circular. (4 marks)*

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

**Question 2A**

*(i) Akilesh, one of the Executive Director of a listed company has violated the provisions of Insider Trading Regulations of SEBI. The Adjudicating Officer has imposed penalty of 5 lakh. The Executive Director did not pay the amount within the stipulated time as stated in the order.*

*Examine the recourses available with the Adjudicating Officer for recovery of amount under the Securities Contracts (Regulation) Act, 1956. (4 marks)*

*(ii) With reference to the SEBI Regulations, explain with reasons, the eligibility for appointment of an Independent director in a listed company.*

*(a) Aarav has given his office premises on lease to the company.*

*(b) Ehsaan is a component supplier.*

*(c) Manav is 20 year old.*

*(d) Elika holds 1% of the total voting power. (4 marks)*

*(iii) Leisure Hill Cottage Ltd., collected ₹500 crore from general public under its novel scheme, "Roaming Holiday". The scheme provides monthly instalments and upon completion of installment tenure, the investor can opt for holiday with all facilities or a return of corpus with interest. Will this scheme come under the SEBI regulations ? Explain. (4 marks)*

*(iv) Amber Ltd. is a listed company on the leading stock exchange of the country. The company has substantial bank balances in the financial statement for the Financial Year 2020-21. There is no foreseeable investment opportunity with the company. Hence the management decided to buy-back its equity shares from the market. As a Company Secretary, prepare a note to the Managing Director enumerating the conditions for buy-back of shares with reference to SEBI (Buy-Back of Securities) Regulations, 2018. (4 marks)*

*(v) Amar, one of the Independent directors of Ignite Colour Ltd., a listed company, intends to hold a meeting of Independent directors without inviting the Managing Director of the company. Is the action of the Independent director valid ? Give reasons. (4 marks)*

**Answer 2(a)**

Application Supported by Blocked Amount (ASBA) is an application by an investor containing an authorization to Self-Certified Syndicate Bank (SCSB) to block the application money in the bank account, for subscribing to an issue. If an investor is applying through ASBA, his application money shall be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalized.

SEBI, in its endeavour to protect investors' interest and reduce investor grievances relating to refund, introduced ASBA as the sole payment mechanism in the IPO and Rights issues. Considering that payment through ASBA mechanism is investor friendly and enables faster completion of the process, it has been decided by the SEBI vide its circular dated 8th December, 2020 to introduce additional payment mechanism (i.e. ASBA, etc.) for making subscription and/or payment of calls in respect of partly paid specified securities through self-certified syndicate banks (SCSBs) and intermediaries such as Trading Members/ Brokers - having three in one type account and Registrar and Transfer agents (RTA).

For the purpose of making payment of balance money for calls in respect of partly paid specified securities, the additional channels are tabulated below:

| Channe I | Channel II | Channel III |
|---|---|---|
| Online ASBA : Through an online portal of the SCSB. The SCSBs shall send the application to RTA and block funds in shareholders account | Physical ASBA : Physically at the branch of a SCSB. The SCSBs shall send the application to RTA and block funds in shareholders account. | Additional Online mode : using the facility of linked online trading, demat and bank account (3-in-1type accounts), provided by some of the brokers. |

The payment period for payment of balance money in Calls shall be kept open for fifteen days.

**Answer 2(b)**

In terms of the Regulation 44 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, listed entities are required to provide remote e-voting facility to its shareholders, in respect of all shareholders' resolutions. However, it has been observed that the participation by the public non-institutional shareholders/retail shareholders is at a negligible level. Currently, there are multiple e-voting service providers (ESPs) providing e-voting facility to listed entities in India. This necessitates registration on various ESPs and maintenance of multiple user IDs and passwords by the shareholders.

In order to increase the efficiency of the voting process, pursuant to a public consultation, it has been decided by the SEBI vide its circular dated 9th December, 2020, to enable e-voting to all the demat account holders, by way of a single login credential, through their demat accounts/ websites of Depositories/ Depository Participants. Demat account holders would be able to cast their vote without having to register again with the ESPs, thereby, not only facilitating seamless authentication but also enhancing ease and convenience of participating in e-voting process. The same shall be implemented in a phased manner as prescribed under the circular.

The aforementioned facility shall be available to all individual shareholders holding the securities in demat mode.

**Answer 2(c)**

The SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 states that the price of sweat equity shares shall be determined in accordance with the pricing requirements stipulated for a preferential issue to a person other than a qualified institutional buyer under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Section 164 of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 deals with the pricing requirements stipulated for a preferential issue which is given as under:

**In case of frequently traded shares:**

Regulation 164(1) states that-

(1) if the equity shares of the issuer have been listed on a recognised stock exchange for a period of twenty six weeks or more as on the relevant date, the price of the equity shares to be allotted pursuant to the preferential issue shall be not less than higher of the following:

a. the average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognised stock exchange during the twenty six weeks preceding the relevant date; or

b. the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date.

(2) If the equity shares of the issuer have been listed on a recognised stock exchange for a period of less than twenty six weeks as on the relevant date, the price of the equity shares to be allotted pursuant to the preferential issue shall be not less than the higher of the following:

(a) the price at which equity shares were issued by the issuer in its initial public offer or the value per share arrived at in a scheme of compromise, arrangement and amalgamation under sections 391 to 394 of the Companies Act, 1956 or sections 230 to 234 of the Companies Act, 2013, as applicable, pursuant to which the equity shares of the issuer were listed, as the case may be; or

(b) the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on the recognised stock exchange during the period the equity shares have been listed preceding the relevant date; or

(c) the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date.

**In case of infrequently traded shares:**

The price determined by the issuer shall take into account the valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies. However, the issuer shall submit a certificate stating that the issuer is in compliance of this regulation, obtained from an independent valuer to the stock exchange where the equity shares of the issuer are listed.

**Answer 2(d)**

**Compliances and Conditions**

As per SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021-

1. The company shall not make any fresh grant which involves allotment or transfer of shares to its employees under any schemes formulated prior to its IPO and prior to the listing of its equity shares ('pre-IPO scheme') unless:

    - Such pre-IPO scheme is in conformity with SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021; and

    - Such pre-IPO scheme is ratified by its shareholders subsequent to the IPO.

    However, the ratification under clause (ii) may be done at any time prior to grant of new options or shares or SAR under such pre-IPO scheme.

2. No change shall be made in the terms of options or shares or SAR issued under such pre-IPO schemes, whether by repricing, change in vesting period or maturity or otherwise unless prior approval of the shareholders, by way of special resolutions, is taken for such a change, except for any adjustments for corporate actions made in accordance with these regulations.

3. For listing of shares issued pursuant to ESOS, ESPS or SAR, the company shall obtain the in-principle approval of the stock exchanges where it proposes to list the said shares prior to the grant of options or SARs.

4. When holding company issues option, share, SAR or benefits to the employee of its subsidiary, the cost incurred by the holding company for issuing such option, share, SAR or benefits shall be disclosed in the 'notes to accounts' of the financial statements of the subsidiary company.

5. In a case when the holding company issues option, if the subsidiary reimburses the cost incurred by the holding company in granting option, share, SAR or benefits to the employees of the subsidiary, both the subsidiary as well as the holding company shall disclose the payment or receipt, as the case may be, in the 'notes to accounts' to their financial statements.

6. The company shall appoint a registered merchant banker for the implementation of schemes covered by these regulations till the stage of obtaining in-principle approval from the recognised stock exchanges in accordance with clause (b) of regulation 10 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

**Answer 2(e)**

**Handling of complaints by Investor Grievance Redressal Committee (IGRC)**

In order to further strengthen the Investor Grievance Redressal Mechanism, the SEBI vide its circular dated 6th November, 2020 specified that for Complaints related to trade, settlement and 'deficiency in services', resulting into any financial loss, the stock exchange shall resolve the complaint on its own as per the time lines prescribed. However, if complaint is not resolved amicably, the same shall be referred to the IGRC, after recording the reasons in writing by the Chief Regulatory Officer of the Stock Exchange or any other officer of the Stock Exchange authorized in this behalf by the Managing Director.

i. IGRC shall have a time of 15 working days to amicably resolve the investor complaint through conciliation process. If IGRC needs additional information, then IGRC may request the Stock Exchange to provide the same before the initiation of the conciliation process. In such case, where additional information is sought, the timeline for resolution of the complaint by IGRC shall not exceed 30 working days.

ii. IGRC shall not dispose the complaint citing “Lack of Information and complexity of the case”. The IGRC shall give its recommendation to Stock Exchange.

iii. IGRC shall decide claim value admissible to the complainant, upon conclusion of the proceedings of IGRC. In case claim is admissible to the complainant, Stock Exchanges shall block the admissible claim value from the deposit of the member as specified in this regard.

iv. Expenses of IGRC shall be borne by the respective Stock Exchange and no fees shall be charged to the complainant/member.

v. The Stock Exchange shall organize regular training program for IGRC members in consultation with National Institute of Securities Markets (“NISM”). The cost of such program shall be borne by Investor Service Fund (“ISF”) of the Stock Exchange.

**Answer 2A(i)**

Section 23JB of the Securities Contracts (Regulation) Act, 1956 deals with recovery of amounts. If a person fails to pay the penalty imposed under this Act or fails to comply with a direction of disgorgement order issued under section 12A or fails to pay any fees due to the SEBI, the Recovery Officer may draw up under his signature a statement in the specified form specifying the amount due from the person and shall proceed to recover from such person the amount specified in the certificate by one or more of the following modes, namely:—

(a) attachment and sale of the person's movable property;

(b) attachment of the person's bank accounts;

(c) attachment and sale of the person's immovable property;

(d) arrest of the person and his detention in prison;

(e) appointing a receiver for the management of the person's movable and immovable properties.

The Recovery Officer shall be empowered to seek the assistance of the local district administration while exercising the powers as stated above. Therefore, Adjudicating Officer can exercise any of the above recourses for recovery of amount from Akhilesh.

**Alternate Answer**

The recourses available with Adjudicating Officer for Recovery of amount for violation of the provisions of Insider Trading Regulations of SEBI are covered under Section 28A of the SEBI Act, 1992.

Section 28A of the Securities and Exchange Board of India Act, 1992, provides that if a person fails to pay the penalty imposed under this Act or fails to comply with any direction of the SEBI for refund of monies or fails to comply with a direction of disgorgement order issued under section 11B or fails to pay any fees due to the SEBI, the Recovery Officer may draw up under his signature a statement in the specified form specifying the amount due from the person and shall proceed to recover from such person the amount specified in the certificate by one or more of the following modes, namely:—

(a) attachment and sale of the person's movable property;

(b) attachment of the person's bank accounts;

(c) attachment and sale of the person's immovable property;

(d) arrest of the person and his detention in prison;

(e) appointing a receiver for the management of the person's movable and immovable properties.

The Recovery Officer shall be empowered to seek the assistance of the local district administration while exercising the powers as stated above. Therefore, Adjudicating Officer can exercise any of the above recourses for recovery of amount from Akhilesh.

**Answer 2A(ii)**

As per the Regulation 16 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:

"Independent director" means a non-executive director, other than a nominee director of the listed entity who, satisfies the conditions as prescribed therein. It also states that such director neither himself/herself, nor whose relative(s) -

- holds together with his relative two per cent or more of the total voting power of the listed entity;
- is a material supplier, service provider or customer or a lessor or lessee of the listed entity;
- such director is not less than 21 years of age.

  a) In the given case, Aarav has given his office premises on lease to the company, therefore he is not eligible for appointment as an Independent director.

  b) In this case, Ehsaan is a component supplier i.e. a material supplier, hence he is not eligible for appointment as Independent director.

  c) Manav is 20 year old and minimum age prescribed for Independent director is 21 years. Hence he is not eligible for appointment as an Independent director.

d) Elika holds 1% of the total voting power, which is less than 2% of limit prescribed, hence he/she is eligible for appointment as an Independent director.

**Answer 2A(iii)**

As per Regulation 2(2) of the SEBI (Collective Investment Schemes) Regulations, 1999, the expression 'collective investment scheme' shall have the same meaning as assigned to it under section 11AA of the SEBI Act, 1992.

Proviso to Section 11AA(1) of the SEBI Act, 1992 provides that any pooling of funds under any scheme or arrangement, which is not registered with SEBI, involving a corpus amount of one hundred crore rupees or more shall be deemed to be a collective investment scheme.

Section 11AA (2) of the SEBI Act, 1992 provides that the following scheme or arrangement made or offered by any person shall be a collective investment scheme under which,—

(i) the contributions, or payments made by the investors, by whatever name called, are pooled and utilized for the purposes of the scheme or arrangement;

(ii) the contributions or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable, from such scheme or arrangement;

(iii) the property, contribution or investment forming part of scheme or arrangement, whether identifiable or not, is managed on behalf of the investors;

(iv) the investors do not have day-to-day control over the management and operation of the scheme or arrangement.

Section 11AA (2A) of the SEBI Act, 1992 provides that any scheme or arrangement made or offered by any person satisfying the conditions as may be specified in accordance with the regulations made under this Act shall be a collective investment scheme.

In view of the above, since Leisure Hill Cottage Ltd. collected ? 500 crore from general public under its novel scheme, "Roaming Holiday", meeting the criteria given as above, this scheme comes under the SEBI (Collective Investment Schemes) Regulations, 1999.

**Answer 2A(iv)**

**Note to Managing Director of Amber Ltd.**

Sir,

This is reference to the conditions for buy-back of shares with reference to the SEBI (Buy-Back of Securities) regulations, 2018.

The said Regulations shall be applicable to buy-back of shares or other specified securities of a company in accordance with the applicable provisions of the Companies

Act, 2013. Accordingly following condition are framed for buy-back of shares and specified securities.

(i) The maximum limit of any buy-back shall be 25% or less of the aggregate of paid-up capital and free reserves of the company based on both standalone and consolidated financial statements of the company.

(ii) The ratio of the aggregate of secured and unsecured debts owed by the company to the paid-up capital and free reserves after buy-back shall,-

a) be less than or equal to 2:1, based on both standalone and consolidated financial statements of the company:

However if a higher ratio of the debt to capital and free reserves for the company has been notified under the Companies Act, 2013, the same shall prevail; or

b) be less than or equal to 2:1, based on both standalone and consolidated financial statements of the company, after excluding financial statements of all subsidiaries that are non-banking financial companies and housing finance companies regulated by Reserve Bank of India or National Housing Bank, as the case may be:

However buy-back of securities shall be permitted only if all such excluded subsidiaries have their ratio of aggregate of secured and unsecured debts to the paid-up capital and free reserves of not more than 6:1 on standalone basis.

(iii) All shares or other specified securities for buy-back shall be fully paid-up.

(iv) A company may buy-back its shares or other specified securities by any one of the following methods:

a) from the existing share holders or other specified securities holders on a proportionate basis through the tender offer;

b) from the open market through—

i) book-building process,

ii) stock exchange;

c) from odd-lot holders:

Provided that the buyback from open market shall be less than fifteen per cent of the paid up capital and free reserves of the company, based on both standalone and consolidated financial statements of the company.

(v) A company shall not buy-back its shares or other specified securities:

(a) so as to delist its shares or other specified securities from the stock exchange.

(b) from any person through negotiated deals, whether on or off the stock exchange or through spot transactions or through any private arrangement.

(vi) A company shall not make any offer of buy-back within a period of one year reckoned from the date of expiry of buy-back period of the preceding offer of buy-back, if any.

(vii) A company shall not allow buy-back of its shares unless the consequent reductions of its share capital is effected.

(viii) A company may undertake a buy-back of its own shares or other specified securities out of—

(a) its free reserves;

(b) the securities premium account; or

(c) the proceeds of the issue of any shares or other specified securities.

Buy-back shall not be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

(ix) The company shall not directly or indirectly purchase its own shares or other specified securities:

(a) through any subsidiary company including its own subsidiary companies;

(b) through any investment company or group of investment companies; or

(c) if a default is made by the company in the repayment of deposits accepted either before or after the commencement of the Companies Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company.

The buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.

**Answer 2A(v)**

According to the Regulation 25 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the independent directors of the listed entity must hold at least one meeting in a financial year without the presence of non-independent directors and members of the management. All Independent directors shall strive to be present at such meeting.

In the given case the action of the Amar, Independent Director of Ignite Colour Ltd. is valid as the Managing Director was not invited.

**Question 3**

*(a) An extract of Balance Sheet of Airrath Aviation Ltd., comprises of :*

| | |
|---|---|
| *Equity Share Capital* | *₹30,00,000 of ₹50 each* |
| *12% Preference Share Capital* | *₹5,00,000 of ₹500 each* |
| *14% Debenture capital* | *₹15,00,000 of ₹500 each* |

*(i) Ascertain the maximum equity share capital and the number of equity shares that can be bought back in the present case.*

*(ii) What is meant by buy-back through tender offer under SEBI (Buy-Back of Securities) Regulations, 2018. (5 marks)*

*(b) MineGame Ltd., a gaming platform of a listed company comprises various subsidiaries, joint venture companies, associates and other related party entities forming an internal part of MineGame Group. In order to retain talented human resources and to recognise the efforts of employees of these entities in the group, MineGame Group decided to grant cash based SARs linked to the share of MineGame Group to the employees of joint venture. You are required to confirm as to whether the scheme falls under the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021. (5 marks)*

*(c) Answer the following with reference to SEBI Insider Trading Regulations by giving reasons :*

*(i) Does exercise of ESOPs/ESPS come under the definition of Trading under the Insider Trading Regulations ?*

*(ii) Can a CFO, who has not reported to the Board of Directors, act as a Compliance Officer and update the Board on the transactions related to Insider Trading ?*

*(iii) Can the company appoint more than one person as Compliance Officer under the regulation ? (5 marks)*

**Answer 3(a)**

(i) Ascertainment of maximum equity share capital of Airrath Aviation Ltd., that can be bought back-

$$= ₹30,00,000 \times \frac{25}{100} = ₹7,50,000$$

Maximum number of equity shares of Airrath Aviation Ltd., that can be bought back-

$$= \frac{\text{Rs. } 7,50,000}{\text{Rs. } 50} = 15,000 \text{ equity shares}$$

(ii) Buy-back through Tender Offer under SEBI (Buy-Back of Securities) Regulations, 2018

'Tender Offer' means an offer by a company to buy-back its own shares or other specified securities through a letter of offer from the holders of the shares or other specified securities of the company;

A company may buy-back its shares or other specified securities from its existing securities holders on a proportionate basis in accordance with the provisions of the SEBI (Buy-Back of Securities) Regulations, 2018.

However 15% of the number of securities which the company proposes to buy-back or number of securities entitled as per their shareholding, whichever is higher, shall be reserved for small shareholders.

**Answer 3(b)**

According to the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the provisions of these regulations shall apply to any company whose equity shares are listed on a recognised stock exchange in India and who seeks to issue sweat equity shares or has a scheme:-

(i) for direct or indirect benefit of employees;

(ii) involving dealing in or subscribing to or purchasing securities of the company, directly or indirectly; and

(iii) satisfying, directly or indirectly, any one of the following conditions: -

a. the scheme is set up by the company or any other company in its group.

b. the scheme is funded or guaranteed by the company or any other company in its group.

c. the scheme is controlled or managed by the company or any other company in its group.

Further the Regulation 2(1)(i) of the said Regulations defines "Employees" as follows:

"Employee", except in relation to issue of sweat equity shares, means, —

(i) an employee as designated by the company, who is exclusively working in India or outside India; or

(ii) a director of the company, whether a whole time director or not, including a nonexecutive director who is not a promoter or member of the promoter group, but excluding an independent director; or

(iii) an employee as defined in sub-clauses (i) or (ii), of a group company including subsidiary or its associate company, in India or outside India, or of a holding company of the company, but does not include -

(a) an employee who is a promoter or a person belonging to the promoter group; or

(b) a director who, either himself or through his relative or through any body corporate, directly or indirectly, holds more than ten per cent of the outstanding equity shares of the company;

The Regulation 2(1)(c) of the said Regulations defines "Associate Company" as follow:

"Associate Company" shall have the same meaning as defined under Section 2(6) of the Companies Act, 2013.

Further, as per Section 2(6) of the Companies Act, 2013, the term Associate Companies includes Joint Ventures. It is therefore noted that the provisions of the Regulations shall apply to those companies whose shares are listed on any recognised stock exchanges in India and has a scheme, which is set up, funded, or guaranteed and controlled or managed by the company or any other company in its group for direct or indirect benefit of the employees.

However in the given case of MineGame Group, the proposed scheme is being setup by MineGame Group and though the said scheme is for the benefit of the employees of joint venture but linked to the share of MineGame Group and not to listed company MineGame Ltd. Thus the said scheme does not come under the ambit of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

**Answer 3(c)**

(i) As per the SEBI (Prohibition of Insider Trading) Regulations, 2015, "Trading" means and includes subscribing, buying, selling, dealing, or agreeing to subscribe, buy, sell, deal in any securities, and "trade" shall be construed accordingly. No insider shall trade in securities that are listed or proposed to be listed on a stock exchange when in possession of unpublished price sensitive information. However, the insider may prove his innocence by demonstrating the circumstance that the transaction in question was undertaken pursuant to the exercise of stock options in respect of which the exercise price was pre-determined in compliance with applicable regulations.

Therefore, exercise of ESOP's/ESPS shall not be considered to be “trading” except for the purposes of Chapter III of the SEBI (Prohibition of Insider Trading) Regulations, 2015 i.e. except for the disclosures requirements under the SEBI (Prohibition of Insider Trading) Regulations, 2015.

(ii) As per Regulation 2(1)(c) of the SEBI (Prohibition of Insider Trading) Regulations, 2015, compliance officer means any senior officer, designated so and reporting to the board of directors or head of the organization in case board is not there. The function and responsibility of the compliance officer are specified in Regulation 2(1)(c) of the SEBI (PIT) Regulations, 2015. The company may at its discretion appoint any senior officer as the compliance officer, necessarily report to the Board of directors or head of the organisation as the case may be.

In view of the above a CFO in the present case cannot act as a Compliance Officer. Appointing any such person shall not be in accordance with the SEBI (Prohibition of Insider Trading) Regulations, 2015.

(iii) Yes, a company may appoint more than one person as Compliance Officer under the SEBI (PIT) Regulations, 2015. In case of appointing more than one person as compliance officer they shall be held jointly and severally responsible.

**Question 4**

*(a) MX Ltd. (Target Company) is a listed company. The company has 2 promoters, namely Namita and Sunita who holds paid up equity shares representing 29% and 40% respectively, making the aggregate shareholding of the promoters in the Target company 69%. On 15th February, 2018, Target company allotted 75,00,000 convertible warrants to Namita on preferential basis with due approval from Stock Exchange. These warrants were converted into equity on 30th June, 2018. Pursuant to the conversion, the shareholding of Namita increased from 29% to 37% of the paid up share capital of the Target company. However, during 20th June, 2018 to 25th June, 2018, Sunita sold some shares, thereby reducing the overall promoters shareholding from 69% to 68% of the paid up share capital of the Target company.*

*In view of the above facts, answer the following questions :*

*(i) Would Namita be required to make an open offer under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ("SAST Regulations") ?*

*(ii) Would the obligation to make an open offer apply to Namita in view of the fact that the aggregate promoters shareholding post conversion, does not breach the stipulated thresholds under the SAST Regulations ?*

*(iii) What are the disclosure requirements under the SAST Regulations, if any that Namita will have to comply with ? (8 marks)*

*(b) The GreenWood Ltd. had launched a scheme named as Malamal scheme. The scheme entailed a one-time payment of ₹10,000 in lieu of a unit of 10 Teakwood trees with a holding period of 20 years and on maturity, the contributor/investor have an option to get the teak trees or the realised sale proceeds thereof. The scheme was launched by the company for two calendar years. Within such short span of time, the scheme mobilized ₹2 crore from 2,000 contributors/ investors. The scheme was being carried on without obtaining registration from SEBI. Referring to the SEBI Regulations, answer the following :*

*(i) State the provisions under which the registration was required.*

*(ii) What are the powers of SEBI in this regard ?*

*(iii) What should be the minimum duration of the scheme ? (7 marks)*

**Answer 4(a)**

The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ('SAST Regulations') set out the events that trigger an obligation to make an open offer on the acquirer (along with persons acting in concert). Trigger points for making an open offer by an acquirer are as follows:

- An acquirer, along with Persons acting in concert (PAC), if any, who intends to acquire shares which along with his existing shareholding would entitle him to exercise 25% or more voting rights, can acquire such additional shares only after making a Public Announcement (PA) to acquire minimum twenty six percent shares of the Target Company from the shareholders through an Open Offer. [Regulation 3(1)]
- An acquirer who holds 25% or more but less than maximum permissible non-public shareholding of the Target company, can acquire such additional shares as would entitle him to exercise more than 5% of the voting rights in any financial year only after making a public announcement to acquire minimum twenty six percent shares of Target company from the shareholders through an Open Offer. [Regulation 3(2)]

(i) Since Namita already holds 29% shares in the Target Company MX Limited, which is above the 25% limit specified in Regulation 3(2) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011, and by virtue of conversion of warrants, has acquired an additional 8% of the paid up share capital of the MX Limited, which is above the 5% limit specified in Regulation 3(2) of the said Regulations, she is required to make a public announcement of an open offer under Regulation 3(2) of the SAST Regulations.

(ii) Explanation to Regulation 3(2) of the SAST Regulations states that-

For the purpose of determining the quantum of acquisition of additional voting rights, the gross acquisitions alone shall be taken into account regardless of any intermittent fall in shareholding or voting rights whether owing to disposal of shares held or dilution of voting rights owing to fresh issue of shares by the target company.

Further Regulation 3(3) of the SAST Regulations provides that acquisition of shares by any person, such that the individual shareholding of such person acquiring shares exceed the stipulated thresholds, shall also be attracting the obligation to make an open offer for acquiring shares of the target company irrespective of where there is a change in the aggregate shareholding with persons action in concert.

Hence, in view of the above provisions requiring gross acquisition and individual shareholding to consider for the purpose of the SAST Regulations, even though the conversion of warrants by Namita does not cause the aggregate promoter shareholding to breach the stipulated thresholds i.e. 5% under Regulation 3(2), Namita, in his individual capacity would be required to make an open offer under Regulation 3(2) of the SAST Regulations.

(iii) Namita will be required to make a disclosure of change in shareholding under Regulation 29(2) of the SAST Regulations. According to Regulation 29(2), any person together with persons acting in concert with him, holds shares or voting rights entitling them to five per cent or more of the shares or voting rights in a target company, shall disclose the number of shares or voting rights held and change in shareholding or voting rights, even if such change results in shareholding falling below five per cent, if there has been change in such holdings from the last disclosure made and such change exceeds two per cent of total shareholding or voting rights in the target company.

The disclosures shall be made within two working days of the receipt of intimation of allotment of shares, or the acquisition or the disposal of shares or voting rights in the target company to—

(a) every stock exchange where the shares of the target company are listed; and

(b) the target company at its registered office.

**Answer 4(b)**

(i) Section 11AA (2) of the SEBI Act, 1992 provides that any scheme of arrangement shall be a collective investment scheme made or offered by any person under which, --

(i) the contributions, or payments made by the investors, by whatever name called, are pooled and utilized for the purposes of the scheme or arrangement;

(ii) the contributions or payments are made to such scheme or arrangement by the investors with a view to receive profits, income, produce or property, whether movable or immovable, from such scheme or arrangement;

(iii) the property, contribution or investment forming part of scheme or arrangement, whether identifiable or not. is managed on behalf of the investors;

(iv) the investors do not have day-to-day control over the management and operation of the scheme or arrangement.

In view of the above, the Malamal scheme is in the nature of Collective Investment Scheme in the given case.

As per Section 12(1B) of the SEBI Act, 1992, no person shall sponsor or cause to be sponsored or carry on or caused to be carried on any venture capital funds or collective investment schemes including mutual funds, unless he obtains a certificate of registration from the SEBI in accordance with the regulations. Further, Regulation 4 of the SEBI (Collective Investment Schemes) Regulations, 1999 provides that any person proposing to carry any activity as a Collective Investment Management Company on or after the commencement of these regulations shall make an application to the SEBI for the grant of registration.

(ii) Directions by the SEBI

The SEBI may, in the interests of the securities market and the investors, give such directions as it deems fit in order to ensure effective observance of these regulations, including directions:

(a) requiring the person concerned not to collect any money from investors or to launch any collective investment scheme;

(b) prohibiting the person concerned from disposing of any of the properties of the collective investment scheme acquired in violation of these regulations;

(c) requiring the person concerned to dispose of the assets of the collective investment scheme in a manner as may be specified in the directions;

(d) requiring the person concerned to refund any money or the assets to the concerned investors along with the requisite interest or otherwise, collected under the collective investment scheme;

(e) prohibiting the person concerned from operating in the capital market or from accessing the capital market for a specified period.

The SEBI has issued directions pursuant to the aforesaid regulations in the matter of Dairyland Plantations (India) Limited.

Further, as per Section 15D of the SEBI Act, 1992, if any person, who is required under SEBI Act or any rules or regulations made thereunder to obtain a certificate of registration from the SEBI for sponsoring or carrying on any collective investment scheme, sponsors or carries on any collective investment scheme, without obtaining such certificate of registration, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which he sponsors or carries on any such collective investment scheme subject to a maximum of one crore rupees.

(iii) The duration of the collective investment scheme shall not be of less than three calendar years. The instant scheme is for two calendar year, which is in contravention to the SEBI (Collective Investment Schemes) Regulations, 1999.

**PART II**

**Question 5**

*(a) Eknath, a risk averse investor is planning to take advantage of market rumour that in the upcoming budget, the Government is likely to announce some economic package including production linked incentive (PLI) scheme for auto industries. As he does not like to take higher risk; he purchases one call and put option contract (Lot size 1000 shares) of a leading auto component manufacturing company at a premium of ₹5 and ₹4 respectively with strike price of ₹105. In the budget, no PLI scheme was declared and the price of stock fell to ₹90.*

*(i) Ascertain the net loss/profit.*

*(ii) What would be your answer, if the stock price escalates to ₹120 as Government slashed GST rate on vehicles ? (5 marks)*

*(b) Enumerate the general obligations and responsibilities of an Investment Adviser in Indian Securities Market. (5 marks)*

*(c) What would be the impact on validity of certificate in case of change in status or constitution of an Intermediary ? (5 marks)*

**Answer 5(a)**

If price of stock fell to ₹90

| | | |
|---|---|---|
| Cost of Call Option | = | (₹5 per share) x (1000 shares i.e. lot of call option) |
| | = | ₹5000 |
| Cost of Put option | = | (₹4 per share) x (1000 shares i.e. lot of put option) |
| | = | ₹4000 |
| Total premium paid | = | ₹5000 + ₹4000 = ₹9000 |

The price of the stock fell to ₹90. The market price is lower than the strike price, the investor will lose the call premium and gain in put option. Eknath has a right to sell 1000 shares at ₹105, the price of which is ₹90. By exercising put option, Eknath will earn ? 105 - ₹90 = ₹15 per share (lot of 1000 shares in put option).

| | | |
|---|---|---|
| Net Profit | = | profit on put – Cost/loss on premium paid on call & put option |
| | = | (₹15 per share on put × 1000 shares) - ₹9000 |
| | = | ₹15000 - ₹9000 |
| | = | ₹6000/- |

If price of stock escalates to ₹120

The total premium paid is same as in 1st case i.e. ₹9000

The investor will now lose in put option and gain in call option. By exercising call option, Eknath will earn ₹120 - ₹105 = ₹15 per share. (lot of 1000 shares in call option).

Net Profit = Profit on call – Cost/loss on premium paid on call & put option

= (₹15 per share on call × 1000 shares) - ₹9000

= ₹15000 - ₹9000)

= ₹6000/-

In both the scenario, the net profit will remain the same.

**Answer 5(b)**

**General Obligations and Responsibilities of an Investment Adviser**

The SEBI (Investment Advisers) Regulations, 2013 provides the following general obligations and responsibilities of an Investment Adviser:

- An investment adviser shall act in a fiduciary capacity towards its clients and shall disclose all conflicts of interests as and when they arise.
- An investment adviser shall not receive any consideration by way of remuneration or compensation or in any other form from any person other than the client being advised, in respect of the underlying products or securities for which advice is provided.
- An investment adviser shall maintain an arms-length relationship between its activities as an investment adviser and other activities.
- An investment adviser which is also engaged in activities other than investment advisory services shall ensure that its investment advisory services are clearly segregated from all its other activities, in the manner as prescribed hereunder.
- An investment adviser shall ensure that in case of any conflict of interest of the investment advisory activities with other activities, such conflict of interest shall be disclosed to the client.
- An investment adviser shall not divulge any confidential information about its client, which has come to its knowledge, without taking prior permission of its clients, except where such disclosures are required to be made in compliance with any law for the time being in force.
- An investment advisor shall not enter into transactions on its own account which is contrary to its advice given to clients for a period of fifteen days from the day of such advice.
- An investment advisor shall follow Know Your Client procedure as specified by the SEBI from time to time.
- An investment adviser shall abide by Code of Conduct.

- An investment adviser shall not act on its own account, knowingly to sell securities or investment products to or purchase securities or investment product from a client.
- In case of change in control of the investment adviser, prior approval from the SEBI shall be taken.
- Investment advisers shall furnish to the SEBI information and reports as may be specified by the SEBI from time to time.
- It shall be the responsibility of the investment adviser to ensure compliance with the certification and qualification requirements.

**Answer 5(c)**

**Conditions of certificate**

As per Regulation 9(1) of the SEBI (Intermediaries) Regulations, 2008, any certificate granted by the SEBI to an intermediary shall be subject to the condition, namely:—

(a) where the intermediary proposes to change its status or constitution, it shall obtain prior approval of the SEBI for continuing to act as an intermediary after such change in status or constitution;

(b) it has to pay the applicable fees in accordance with the relevant regulations;

(c) it shall abide by the provisions of the securities laws and the directions, guidelines and circulars as may be issued thereunder;

(d) it shall continuously comply with the requirements of regulation 4;

(e) it shall meet the eligibility criteria and other requirements specified in SEBI (Intermediaries) Regulations, 2008 and the relevant regulations.

The SEBI may impose other conditions as it may deem fit in the interest of investors or orderly development of the securities market or for regulation of the working of the intermediary and the intermediary shall comply with such conditions.

(2) A request for prior approval, under clause (a) of sub regulation (1) which is complete in all respects shall be disposed off by the SEBI within a period of sixty days from the date of receipt of such request and where the decision of the SEBI has not been communicated to the intermediary within the said period of sixty days, the prior approval shall be deemed to have been granted.

(3) The request for prior approval under clause (a) of sub regulation (1) shall contain the information in Form A in respect of the intermediary after the proposed change in status or constitution and the information under Part I of Form A shall be uploaded in the website specified by the SEBI.

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

**Question 6**

*Write short notes on the following :*

*(a) Repo and Reverse repo rate*

*(b) Post Trade Surveillance*

(c) *Vigil Mechanism*

(d) *SARAL Account Opening*

(e) *Alternative Investment Fund.* *(3 marks each)*

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

**Question 6A**

(i) *Define derivative. Explain about Currency derivatives and Commodity derivatives.*

(ii) *How can UPI as a payment option be used in the public issue ?*

(iii) *What is FED policy ? How does a change in US Fed rate can impact India ?*
*(5 marks each)*

**Answer 6(a)**

**Repo Rate** : The rate at which the Commercial Banks borrow money from RBI. Reduction in Repo Rate helps the Commercial Banks to get money at a cheaper rate and an Increase in Repo Rate discourages the Commercial Banks to get money as the rate increases and becomes expensive. The increase in the Repo Rate will increase the cost of borrowing and lending of the banks which will discourage the public to borrow money and encourages them to deposit.

**Reverse Repo Rate (RRR)** : The rate at which the RBI borrows money from the Commercial Banks. An increase in the reverse repo rate will decrease the money supply and vice-versa, other things remaining constant. An increase in Reverse Repo Rate means that Commercial Banks will get more incentives to park their funds with the RBI, therefore decreasing the supply of money in market. An increase in the Repo Rate and the Reverse Repo Rate indicates strengthening of RBI's Monetary Policy.

**Answer 6(b)**

**Post Trade Surveillance**

It is one of the category of market surveillance which plays a vital role in ensuring market integrity, which is the core objective of regulators. It includes following:

- *End of day alert* – Alerts generated using statistical tools. The tool highlights stocks which have behaved abnormally form its past behaviour.
- *Pattern recognition model* - Models designed using high end tools and trading patterns which itself identifies suspects involving in unfair trading practice.
- *Transaction alerts for member* - As part of surveillance obligation of members the alerts are downloaded to members under 14 different heads.

**Answer 6(c)**

**Vigil Mechanism**

According to the Regulation 22 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the listed entity shall formulate a vigil mechanism / whistle blower policy for directors and employees to report genuine concerns.

The vigil mechanism shall provide for adequate safeguards against victimization of director(s) or employee(s) or any other person who avail the mechanism and also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases.

**Answer 6(d)**

**SARAL Account Opening**

SEBI vide circular dated 4th March, 2015 provided for SARAL account opening for resident individuals. An individual investors can open a trading account and demat account by filling up a simplified Account Opening From (AOF") termed as 'SARAL AOF' and will also have the option to obtain other facilities, whenever they require, on furnishing of additional information as per prescribed regulations/circulars.

For a set of individual investors, it has been decided by the SEBI to simplify the requirement of submission of 'proof of address'. The requirement of submission of proof of address is as follows:

(i) Individual investor may submit only one documentary proof of address (either residence/correspondence or permanent) while opening a trading account and / or demat account or while undergoing updation.

(ii) In case the proof of address furnished by the said investor is not the address where the investors is currently residing the intermediary may take a declaration of the residence/correspondence address on which all correspondence will be made by the intermediary with the investor. No proof is required to be submitted for such correspondence/residence address.

(iii) In the event of change of address due to relocation or any other reason, investor may intimate the new address for correspondence to the intermediary within two weeks of such a change. The residence/ correspondence address and any such change thereof may be verified by the intermediary through positive confirmation such as (i) acknowledgment of receipt Welcome Kit/ dispatch of contract notes/ any periodical statement, etc. (ii) telephonic conversation; (iii) visits, etc.

**Answer 6(e)**

**Alternative Investment Fund**

Alternative investment funds (AIFs) are defined in Regulation 2(1)(b) of the SEBI (Alternative Investment Funds) Regulations, 2012. It refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP) which are not presently covered by any Regulation of SEBI governing fund management (like, Regulations governing Mutual Fund or Collective Investment Scheme) nor coming under the direct regulation of any other sectoral regulators in India-IRDA, PFRDA, RBI. Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.

According to SEBI (AIF) Regulations, 2012, "Alternative Investment Fund means any fund established or in operated in India in the form of a trust or a company or a limited liability partnership or a body corporate which,

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

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

**Answer 6A(i)**

**Derivative**

A derivative is a financial instrument that derives its value from an underlying asset. This underlying asset can be stocks, bonds, currency, commodities, metals and even intangible, assets like stock indices. Derivatives can be of different types like futures, options, swaps, caps, floor, collars etc. The most popular derivative instruments are futures and options.

Derivative includes: -

a) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;

b) a contract which derives its value from the prices, or index of prices, of underlying securities;

c) commodity derivatives; and

d) such other instruments as may be declared by the Central Government to be derivatives.

**Currency Derivatives**

Currency derivatives are financial contracts between the buyer and seller involving the exchange of two currencies at a future date, and at a stipulated rate. Currency Derivative trading is similar to Stock Futures and Options trading. However, the underlying asset are currency pairs (such as USDINR or EURINR) instead of Stocks. Currency Options and Currency Futures trading is done in the Foreign Exchange markets. Forex rates are the value of a foreign currency relative to domestic currency. The major participants of Currency Trading in India are banks, corporations, exporters and importers.

Benefits of currency derivatives include:

- Diversification of investments
- Easy investment in currencies
- Hedging opportunity to importers & exporters
- Trading opportunity due to volatility in currency
- Exchange-traded and hence systematically regulated
- Provides transparent rates

**Commodity Derivatives**

Commodity is a physical good attributable to a natural resource that is tradable and supplied without substantial differentiation by the general public. Commodities trade in physical (spot) markets and in futures and forward markets. Spot markets involve the physical transfer of goods between buyers and sellers; prices in these markets reflect current (or very near term) supply and demand conditions.

Commodity derivatives are financial instruments whose value is based on underlying commodities, such as oil, gas, metals, agricultural products and minerals. Other assets such as emissions trading credits, freight rates and even the weather can also underlie commodity derivatives.

Commodity Derivatives markets are a good source of critical information and indicator of market sentiments. Since, commodities are frequently used as input in the production of goods or services, uncertainty and volatility in commodity prices and raw materials makes the business environment erratic, unpredictable and subject to unforeseeable risks.

Volatility in raw material costs affects businesses and can be significant given that commodity prices are driven by supply and demand from domestics as well as global markets. Ability to manage or mitigate risks by using suitable hedging in commodity derivative products, can positively affect business performance.

**Answer 6A(ii)**

**Unified Payments Interface (UPI)** is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI regulated entity. UPI is built over the IMPS (Immediate Payment Service) infrastructure and allows you to instantly transfer money between any two parties' bank accounts. UPI as a payment mechanism is available for all public issues for which Red Herring prospectus is filed after 1st January, 2019.

UPI as a payment option can be used in the public issue process in following ways:

1. *UPI as part of bidding* :

   - Investor will fill in the bid details in the application form as per the existing process along with his UPI ID.
   - As per the existing process, investor may submit the application with any of the intermediary (Syndicate Member / Registered Stock Brokers / Registrar and Transfer Agents / Depository Participants), who, on receipt of application will upload the bid details along with UPI id in the stock exchange bidding platform.
   - The stock exchange will electronically share the bid details, along with investors UPI id, with the Escrow/ Sponsor Bank appointed by the issuer company.

2. *UPI as part of blocking* :

   - The Escrow / Sponsor Bank will initiate a mandate request on the investor i.e. request the investor to authorize blocking of funds equivalent to applicant amount and subsequent debit of funds in case of allotment.
   - The request raised by the Escrow/Sponsor Bank, would be electronically

received by the investor as SMS/intimation on his / her bank provided mobile no. linked to UPI ID.

- Upon validation of block request by the investor, the said information would be electronically received by the investors' bank, where the funds, equivalent to application amount, would get blocked in investors account. Intimation regarding confirmation of such block of funds in investors account would also be received by the investor.

3. *UPI as part of payment for shares post allocation process* :

   - The registrar to the issue, based on information of bidding and blocking received from stock exchange, would undertake reconciliation and prepare the basis of allotment.

   - Upon approval of such basis the instructions would be sent to sponsor bank to initiate process for credit of funds in the public issue escrow account and unblocking excess money.

   - Based on authorization given by investor using UPI PIN at the time of blocking, the funds, equivalent to the allotment, would be debited from investors account and remaining funds, if any, would be unblocked.

**Answer 6A(iii)**

**FED POLICY**

The Federal Reserve System is the central bank of the United States. It performs five general functions to promote the effective operation of the U.S. economy and, more generally, the public interest. The Federal Reserve:

- conducts the nation's monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy;
- promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system as a whole;
- fosters payment and settlement system safety and efficiency through services to the banking industry and the U.S. government that facilitate U.S.-dollar transactions and payments; and
- promotes consumer protection and community development through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and the administration of consumer laws and regulations.

The Fed Funds Rate is the interest rate at which the top US banks borrow overnight money from common reserves. All American banks are required to park a portion of their deposits with the Federal Reserve in cash, as a statutory requirement.

Actually, fed fund rate gives the direction in which US interest rates should be heading at any given point of time. If the Fed is increasing the interest rates, lending rates for companies and retail borrowers will go up and vice versa. In India, hike in repo rate may not impact the countries outside India. On the other hand, US interest rates matter a lot to global capital flows. Some of the world's richest institutions and investors have their base in USA. They constantly compare Fed rates with interest rates across the world to make their allocation decisions.

In the globalised world, markets are connected. An increase in Fed rates will be negative in general for the US stock market and if it leads to another round of sell-offs, it will also have ripple effects on the Indian market.

Any changes in the Fed Fund Rates impact the domestic borrowing market to a large extent. For instance, if the Fed rates go up, it will make the RBI hesitant in cutting rates at that time. The reason is that if RBI cut rates it will lead to heavy pullout of foreign investors from the Indian bond market.

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# ECONOMIC BUSINESS AND COMMERCIAL LAWS

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

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

**PART I**

**Question 1**

(a) *What are the functions of Reserve Bank of India to secure monetary stability in India ?*

(b) *What kinds of restrictions and prohibition have been imposed upon person, resident of India and citizen of India to accept foreign contribution under the Foreign Contribution (Regulation) Act, 2010 ?*

(c) *What are limits of Current Account Transactions by an Individual under liberalized remittance scheme ?*

(d) *Enumerate the Directions Pertaining to NBFCs issued by Reserve Bank of India.*

*(5 marks each)*

**Answer 1(a)**

The Reserve Bank of India (RBI) holds a pivotal position in fiscal structure of India. RBI is banker's bank. The RBI has been constituted under Reserve Bank of India Act, 1934. The Preamble to the Reserve Bank of India Act, 1934 under which it was constituted, specifies its objective as regulation of the issue of bank notes and the keeping of reserves with a view to securing monetary stability in India, generally to operate the currency and credit system of the country to its advantage and operation of the monetary policy framework in India.

Thus, the Reserve Bank's mandate for monetary policy flows from its monetary stability objective. Essentially, monetary policy deals with the use of various policy instruments for inflow and the cost and availability of money in the economy.

The Reserve Bank of India (RBI) is vested with the responsibility of adopting and implementing monetary policy. This responsibility is explicitly mandated under the RBI Act. The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth. Price stability is a necessary precondition to sustainable growth.

Further, the functions of the Reserve Bank of India are Banking Functions; Issue bank notes; Monetary Policy Functions; Public Debt Functions; Foreign Exchange Management; Banking Regulation & Supervision; Regulation and Supervision of NBFCs; Regulation & Supervision of Co-operative banks; Regulation of Derivatives and Money Market Instruments; Payment and Settlement Functions; Consumer Protection Functions; Financial Inclusion and Development Functions etc.

**Answer 1(b)**

Section 3(1) of the Foreign Contribution Regulation Act, 2010 prohibits following person to accept foreign contribution:

(a) candidate for election; (b) correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper; (c) public servant, Judge, Government servant or employee of any corporation or any other body controlled or owned by the Government; (d) member of any Legislature; (e) political party or office-bearer thereof; (f) organisation of a political nature as may be specified by the Central Government; (g) association or company engaged in the production or broadcast of audio news or audio visual news or current affairs programmes through any electronic mode, or any other electronic form or any other mode of mass communication. (h) correspondent or columnist, cartoonist, editor, owner of the association or company referred to in clause (g).

Section 3(2) states that:

(a) No person, resident in India, and no citizen of India resident outside India, shall accept any foreign contribution, or acquire or agree to acquire any currency from a foreign source, on behalf of any political party, or any person referred to in sub-section (1), or both.

(b) No person, resident in India, shall deliver any currency, whether Indian or foreign, which has been accepted from any foreign source, to any person if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to any political party or any person referred to in sub-section (1), or both.

(c) No citizen of India resident outside India shall deliver any currency, whether Indian or foreign, which has been accepted from any foreign source, to—

  (i) any political party or any person referred to in sub-section (1), or both; or

  (ii) any other person, if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to a political party or to any person referred to in sub-section (1), or both.

  According to Section 3(3) of the Act, no person receiving any currency, whether Indian or foreign, from a foreign source on behalf of any person or class of persons, referred to in section 9, shall deliver such currency—

  (a) to any person other than a person for which it was received, or

  (b) to any other person, if he knows or has reasonable cause to believe that such other person intends, or is likely, to deliver such currency to a person other than the person for which such currency was received.

**Answer 1(c)**

The limit of Current Account Transaction under the liberalized remittances scheme is USD 2,50,0000 per Financial Year (FY).

It may be noted that one release of foreign exchange in excess of USD 2, 50,000 requires prior permission from the Reserve Bank of India. The permitted areas are;

(a) *Private Visits*

  For private visits abroad, other than visit to Nepal and Bhutan, resident & individual can obtain foreign exchange up to an aggregate amount of USD 2, 50,000 from an authorized dealer in any one financial year, irrespective of number of visits undertaken during the year.

(b) *Gift/Donation*

Any individual may remit up-to USD 2, 50,000 in one Financial Year as gift to a person residing outside India or as donation to an organization outside India.

(c) *Going Abroad on Employment*

A person going abroad for employment can draw foreign exchange up to USD 2,50,000 in one Financial Year from an authorized dealer in India.

(d) *Emigration*

A person wanting to emigrate can draw foreign exchange from AD Category I bank AD category II up to the amount prescribed by the country of emigration or USD 2,50,000.

(e) *Maintenance of Close Relatives Abroad*

A resident individual can remit up-to USD 2, 50,000 in one Financial Year towards maintenance of close relatives.

(g) *Business Trip*

Visits by individuals in connection with attending of an international conference, seminar, specialized apprentice training, etc., are treated as business visits. For business trips to foreign Countries individuals can avail of foreign exchange up to USD 2,50,000 in one Financial Year irrespective of the visits undertaken during the year.

(h) *Medical Treatment Abroad*

Authorised Dealers may release foreign exchange up to an amount of USD 2, 50,000 in one Financial Year or its equivalent per financial year without insisting on any estimate from a hospital/doctor.

(i) *Foreign Studies*

AD Category I banks and AD Category II, may release foreign exchange up to USD 2, 50,000 or its equivalent to resident individuals for studies abroad without insisting on any estimate from the foreign University.

**Answer 1(d)**

Following are the major Directions issued by Reserve Bank of India are as under:

a) Non-Banking Financial Company Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

b) Non-Banking Financial Company — Non-Systemically Important Non-Deposit taking (Reserve Bank) Directions, 2016

c) Core Investment Companies (Reserve Bank) Directions, 2016

d) Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016

e) Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016

f) Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016

g) Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016

h) Non-Banking Financial Company -Account Aggregator (Reserve Bank) Directions, 2016

i) Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 2016

j) Non-Banking Financial Company-Peer to Peer Lending Platform (Reserve Bank) Directions, 2017.

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

**Question 2**

*(a) What do you mean by Compounding of Contraventions ? (4 marks)*

*(b) What are the conditions for Indian party to make investment in overseas joint venture or wholly owned subsidiaries ? (4 marks)*

*(c) Explain the Guidelines for notifying Special Economic Zone. (4 marks)*

*(d) What are the penalties for contravention of Foreign Direct Investment Regulations? (4 marks)*

*(e) What is the limit on possession and retention of foreign currency or foreign coins under the Foreign Exchange Management (Possession and Retention of Foreign Currency) Regulations, 2015 ? (4 marks)*

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

**Question 2A**

*(i) Who are recognized lenders in External Commercial Borrowing Framework ?*

*(ii) How does Export Promotion Capital Goods Scheme facilitate the import of capital goods for producing quality goods and services to enhance Indian Export Competitiveness ?*

*(iii) What is Importer-Exporter Code ? How is it obtained ?*

*(iv) "Cancellation of certificate under the Foreign Contribution (Regulation) Act, 2010". iscuss.*

*(v) How hedging is regulated under External Commercial Borrowing framework ?*
*(4 marks each)*

**Answer 2(a)**

Contravention is a breach of the provisions of any Act and rules/ regulations / notification / orders/ directions/ circulars issued there under. Compounding refers to the process of voluntarily admitting the contravention, pleading guilty and seeking redressal. The Reserve Bank of India empowered to compound any contraventions under section 13 of the Foreign Exchange Management Act, 1999 except the contravention under Section 3(a), for a specified sum after offering an opportunity of personal hearing to the contravener. It is a voluntary process in which an individual or a corporate seeks compounding of an admitted contravention. It provides comfort to any person who contravenes any provisions of Foreign Exchange Management Act, 1999 (except section 3(a) of the Act) by minimizing transaction costs. Willful, malafide and fraudulent transactions are, however, viewed seriously, which will not be compounded by the Reserve Bank.

Any person who contravenes any provision of the Foreign Exchange Management Act, 1999 except section 3(a) or contravenes any rule, regulation, notification, direction or order issued in exercise of the powers under this Act or contravenes any condition subject to which an authorization is issued by the Reserve Bank, can apply for compounding to the Reserve Bank. Applications seeking compounding of contraventions under section 3(a) of Foreign Exchange Management Act, 1999 may be submitted to the Directorate of Enforcement.

**Answer 2(b)**

An Indian Party has been permitted to make investment / undertake financial commitment in oversea Ventures (JV) / Wholly Owned Subsidiaries (WOS), as per the ceiling prescribed by the Reserve from time to time.

The total financial commitment of the Indian Party in all the Joint Ventures / Wholly Owned Subsidiaries shall comprise of the following:

a. 100% of the amount of equity shares and/ or Compulsorily Convertible Preference Shares (CCPS);

b. 100% of the amount of other preference shares;

c. 100% of the amount of loan;

d. 100% of the amount of guarantee (other than performance guarantee) issued by the Indian Party;

e. 100% of the amount of bank guarantee issued by a resident bank on behalf of JV or WOS of the India Party provided the bank guarantee is backed by a counter guarantee/collateral by the Indian Party;

f. 50% of the amount of performance guarantee issued by the Indian Party provided that if the outflow on account of invocation of performance guarantee results in the breach of the limit of financial commitment in force, prior permission of the Reserve Bank is to be obtained before executing remittance beyond the limit prescribed for the financial commitment;

g. Funding for Overseas Direct Investment can be made by one or more of the permissible sources.

**Answer 2(c)**

Section 5 of the Special Economic Zones Act, 2005 stipulates broader guidelines to be considered by the Central Government, while notifying any area as a Special Economic Zone or an area to be included in the SEZ and in discharging its functions under the Act. These include:

a) Generation of additional economic activity;

b) Promotion of exports of goods and services;

c) Promotion of investment from domestic and foreign sources;

d) Creation of employment opportunities;

e) Development of infrastructure facilities; and

f) Maintenance of sovereignty and integrity of India, the security of the State and friendly relations with foreign States.

**Answer 2(d)**

If a person violates/contravenes any Foreign Direct Investment Regulations, by way of breach/non-adherence/non-compliance/contravention of any rule, regulation, notification, press note, press release, circular, direction or order issued in exercise of the powers under Foreign Exchange Management Act, 1999 or contravenes any conditions subject to which an authorization is issued by the Government of India/ Reserve Bank of India, he shall, upon adjudication, be liable to a penalty up to thrice the sum involved in such contraventions where such amount is quantifiable, or up to two lakh where the amount is not quantifiable, and where such contraventions is a continuing one, further penalty may extend to five thousand Rupees for every day after the first day during which the contraventions continues.

Where a person committing a contravention of any provisions of this Act or of any rule, direction or order made there under is a company (company means any, body corporate and includes a firm or other a individuals as defined in the Companies Act), every person who, at the time the contravention was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

Any Adjudicating Authority adjudging any contraventions stated above, may, if he thinks fit in addition to any penalty which he may impose for such contravention direct that any currency, security or any other property in respect of which the contravention has taken place shall be confiscated to the Central Government.

**Answer 2(e)**

Under Regulation 3 of the Foreign Exchange Management (Possession and Retention of Foreign Currency) Regulations, 2015, the Reserve Bank has specified following limits for possession or retention of foreign currency or foreign coins, namely:

(i) Possession without limit of foreign currency and coins by an authorized person within the scope of his authority;

(ii) Possession without limit of foreign coins by any person;

(iii) Retention by a person resident in India of foreign currency notes, bank notes and foreign currency travelers cheques not exceeding US$ 2000 or its equivalent in aggregate, provided that such foreign exchange in the form of currency notes, bank notes and travelers cheques acquired during a visit to any place outside India by way of payment for services not arising from any business in or anything done in India; or from any person not resident in India and also who is on a visit to India, or as honorarium or gift or for services rendered or in settlement of any lawful obligation; or as a honorarium or gift while on a visit to any place outside India; or represents unspent amount of foreign exchange acquired from an authorised person for travel abroad.

Regulation 4 provides that a person resident in India but not permanently resident therein may possess without limit foreign currency in the form of currency notes, bank notes and travelers' cheques, if such foreign currency was acquired, held or owned by him when he was resident outside India and, has been brought into India in accordance with the law for the time being in force.

**Answer 2A(i)**

Recognised lender should be resident of Financial Action Task Force (FATF) or International Organisation of Securities commission's (IOSCO) compliant country, including on transfer of External Commercial Borrowing. However,

(a) Multilateral and Regional Financial Institutions where India is a member country will also be considered as recognised lenders;

(b) Individuals as lenders can only be permitted if they are foreign equity holders or for subscription to bonds/debentures listed abroad; and

(c) Foreign branches / subsidiaries of Indian banks are permitted as recognised lenders only for foreign currency ECB (except FCCBs and FCEBs). Foreign branches / subsidiaries of Indian banks, subject to applicable prudential norms, can participate as arrangers/underwriters/market maker/traders for Rupee denominated Bonds issued overseas. However, underwriting by foreign branches/ subsidiaries of Indian banks for issuances by Indian banks will not be allowed.

**Answer 2A(ii)**

The objective of the Export Promotion capital Goods (EPCG) Scheme is to facilitate import of capital goods for producing quality goods and services to enhance India's export competitiveness. EPCG Scheme provides for following:

a. EPCG scheme allows import of capital goods for pre-production, production and post production at Zero customs duty. Alternatively, the Authorization holder may also procure Capital Goods from indigenous sources. Capital goods for the purpose of the EPCG scheme shall include:

   (i) Capital Goods including in Completely Knocked down (CKD)/ Semi- Knocked Down (SKD) conditions thereof;

   (ii) Computer software systems;

   (iii) Spares, moulds, dies, jigs, fixtures, tools & refractories for initial lining and spare refractories; and

   (iv) Catalysts for initial charge plus one subsequent charge.

b. Import of capital goods for Project Imports notified by Central Board of Excise and Customs is also permitted under EPCG Scheme.

c. Import under EPCG Scheme shall be subject to an export obligation equivalent to 6 times of duty saved on capital goods, to be fulfilled in 6 years reckoned from date of issue of Authorisation.

d. Authorisation shall be valid for import for 18 months from the date of issue of Authorisation. Revalidation of EPCG Authorisation shall not be permitted.

e. In case countervailing duty (CVD) is paid in cash on imports under EPCG, incidence of CVD would not be taken for computation of net duty saved, provided CENVAT is not availed.

f. Second hand capital goods shall not be permitted to be imported under EPCG Scheme. g. Authorisation under EPCG Scheme shall not be issued for import of any Capital Goods (including Captive plants and Power Generator Sets of any kind) for

   (i) Export of electrical energy (power),

   (ii) Supply of electrical energy (power) under deemed exports,

   (iii) Use of power (energy) in their own unit, and

   (iv) Supply/export of electricity transmission services.

(h) Import of items which are restricted for import shall be permitted under EPCG Scheme only after approval from EXIM Facilitation Committee (EFC) at DGFT Headquarters.

(i) If the goods proposed to be exported under EPCG authorization are restricted for export, the EPCG authorization shall be issued only after approval for issuance of export authorization from EXIM Facilitation Committee at DGFT Headquarters.

**Answer 2A(iii)**

An Exporter Importer Code (IEC) is a 10-digit number allotted to a person that is mandatory for undertaking any export / import activities. Now the facility for IEC in electronic form or e-IEC has also been operationalised. No export/import shall be made by any person without obtaining IEC number unless I specially exempted.

The procedure to obtain IEC is following:

(1) Application for obtaining IEC can be filed manually and submitting the form in the office of Regional Authority (RA) of DGFT. Alternatively, Exporters/Importers shall file an application in ANF 2A Format for grant of e-IEC. Those who have digital signatures can sign and submit the application online along with the requisite documents. Others may take a printout of the application, sign the undertaking declaration, upload the same with other requisite documents and thereafter submit the signed copy of the online application form to concerned jurisdictional Regional Authorities (RA) either through post or by hand.

(2) Deficiency in the application form has to be removed by re-logging onto 'Online IEC application on DGFT website and filling the form again by paying the requisite application processing charge.

(3) When an e-IEC is approved by the competent authority, applicant is informed

through e-mail that a computer-generated e-IEC is available on the DGFT website. By clicking on 'Application Status' having filled and submitted the requisite details in 'Online IEC Application webpage, applicant can view and print his e-IEC. Briefly, following are the requisite details/documents (scanned copies) to be submitted/ uploaded along with application for IEC;

(i) Details of the entity seeking the IEC:

(a) PAN of the business entity in whose name Import/Export would be done (Applicant individual in case of Proprietorship firms).

(b) Address Proof of the applicant entity.

(c) LLPIN/CIN/ Registration Certification Number (whichever is applicable).

(d) Bank account details of the entity. Cancelled Cheque bearing entity's pre-printed name or Bank certificate in prescribed format ANF 2A (I).

(ii) Details of the Proprietor/ Partners/ Directors/ Secretary or Chief Executive of the Society/ Managing Trustee of the entity: (a) PAN (for all categories) (b) DIN/DPIN (in case of Company (LLP firm)

(iii) Details of the signatory applicant:

(a) Identity proof

(b) PAN

(c) Digital photograph

(iv) In case the applicant has digital signature, the application can also be submitted online and no physical application or document is required. In case the applicant does not possess digital signature, a print out of the application filed online duly signed by the applicant has to be submitted to the concerned jurisdictional RA, in person or by post.

**Answer 2A(iv)**

Section 14 of the Foreign Contribution (Regulation) Act, 2010 empowers the Central Government to Cancel the Certificate. Accordingly, the Central Government may if it is satisfied after making such inquiry as it may deem fit, by an order, Cancel the certificate if –

- the holder of the certificate has made a statement in, or in relation to, the application for the grant of registration or renewal thereof, which is incorrect or false; or
- the holder of the certificate has violated any of the terms and conditions of the certificate or renewal thereof; or
- in the opinion of the Central Government, it is necessary in the public interest to cancel the certificate; or
- the holder of certificate has violated any of the provisions of this Act or rules or order made thereunder; or

- if the holder of the certificate has not been engaged in any reasonable activity in its chosen field for the benefit of the society for two consecutive years or has become defunct

Before passing an order of cancellation of Certificate, the person concerned would be given a reasonable opportunity of being heard. Any person, whose certificate has been cancelled, shall not be eligible for registration or grant of prior permission for a period of three years from the date of cancellation of such certificate.

**Answer 2A(v)**

The entities raising External Commercial Borrowing (ECB) are required to follow the guidelines for hedging issued, if any, by the sectoral or prudential regulator in respect of foreign currency exposure. Infrastructure space companies shall have a Board approved risk management policy. Further, such companies are required to mandate 70 per cent of their ECB exposure in case the average maturity of the ECB is less than 5 years. The designated Authorised Dealer (AD) Category-I bank shall verify that 70 per cent hedging requirement is complied with during the currency of ECB and report the position to RBI through Form ECB 2.

The following operational aspects with respect to hedging should be ensured:

*Coverage* : The ECB borrower will be required to cover the principal as well as the coupon financial hedges. The financial hedge for all exposures on account of ECB should start from each such exposure (i.e., the day the liability is created in the books of the borrower).

*Tenor and Rollover* : A minimum tenor of one year for the financial hedge would be required with rollover, duly ensuring that the exposure on account of ECB is not unhedged at any point currency of the ECB.

*Natural Hedge* : Natural hedge, in lieu of financial hedge, will be considered only to the extent of offsetting projected cash flows / revenues in matching currency, net of all other projected outflows. For this purpose, an ECB may be considered naturally hedged if the offsetting exposure has the maturity cash flow within the same accounting year. Any other arrangements/ structures, where revenues are indexed to foreign currency will not be considered as a natural hedge.

Overseas investors are eligible to hedge their exposure in Rupee through permitted derivative products Category I banks in India. The investors can also access the domestic market through branches / subsidiaries of Indian banks abroad or branches of foreign banks with Indian presence on a back-to-back basis.

**PART II**

**Question 3**

*(a) What was Raghavan Committee ? What were the recommendations of Raghavan Committee ?*

*(b) Define the term 'Service' under the Competition Act, 2002 ?*

*(c) What is the threshold limit for regulation of combination under section 5 under the Competition Act, 2002 ?*

*(d) Who can appear before the Competition Commission of India ?*

*(e) Why do we need competition in the market under the Competition Act, 2002 ?*

*(3 marks each)*

**Answer 3(a)**

As India moved steadily on the path of reforms comprising of Liberalisation, Privatisation and Globalisation it did away with the MRTP Act, 1969 as it was realised that the Act had outlived its utility and control of monopoly was not appropriate to support the growth aspirations of Indians. Indeed, need was felt to promote and sustain competition in the market place. The then Finance Minister in budget speech in 1999 had announced: “The Monopolies and Restrictive Trade Practices Act has become obsolete in certain areas in the light of international economic developments relating to competition laws. We need to shift our focus from curbing monopolies to promoting competition. Government has decided to appoint a committee to examine this range of issues and propose a modem Competition Law suitable for our conditions." Accordingly, a High-Level Committee on Competition Policy and Law was constituted under chairmanship of Mr. S.V.S Raghavan.

The Committee submitted its report on 22nd May 2000 recommending replacement of the MRTP Act with a modem competition law for fostering competition and for eliminating anticompetitive practices in the economy. After consulting the stakeholders, Competition Bill, 2001 was introduced in the Parliament which eventually became the Competition Act, 2002. Rashaan Committee recommendation for the establishment of a Competition Commission of India & winding up of MRTP Commission, formulation of merger rules etc.

**Answer 3(b)**

As per Section 2(u) of the Competition Act, 2002, service means service of any description which is made available to potential users and includes the provision of services in connection with business of any industrial or commercial matters such as banking, communication, education, financing, insurance, chit funds, real estate, transport, storage, material treatment, processing, supply of electrical or other energy, boarding, lodging, entertainment, amusement, construction, repair, conveying or news or information and advertising.

**Answer 3(c)**

The Threshold limits for regulation of combination under Section 5 of the Competition Act, 2002 are following:

| | | *Assets* | | *Turnover* |
|---|---|---|---|---|
| Enterprise Level | India | >2000 INR Crore | OR | >6000 INR Crore |
| | Worldwide with Indian Leg | >USD 1 billion with at least>1000 INR Crore in India | | >USD 3 billion with at least >3000 INR Crore in India |

Or

| | | | | |
|---|---|---|---|---|
| Group Level | India | >8000 INR Crore | OR | >24000 INR Crore |
| | Worldwide with Indian Leg | >USD 4 billion with at least>1000 INR Crore in India | | >USD 12 billion with at least >3000 INR Crore in India |

**Answer 3(d)**

As per Section 35 of the Competition Act, 2002, the following persons are entitled to appear before the Competition Commission of India:

1. a complainant; or
2. a defendant; or
3. the Director General

They may either appear in person or authorise one or more chartered accountants or company secretaries or cost accountants or legal practitioners or any of his or its officers to present his or its case before the Competition Commission of India.

**Answer 3(e)**

Competition is now universally acknowledged as the best means of ensuring that consumers have access to the broadest range of services at the most competitive prices. Producers will have maximum incentive to innovate, reduce their costs and meet Consumer demand Competition this promotes allocative and productive efficiency. But all this requires healthy market Conditions and governments across the globe are increasingly trying to remove market imperfections through appropriate regulations to promote competition.

**Question 4**

*(a) How can the order of Competition Commission imposing monetary penalty be executed under the Competition Act, 2002 ? Explain.*

*(b) What is the procedure for inquiry of complaint under section 19 of the Competition Act, 2002 ?* *(5 marks each)*

**Answer 4(a)**

Section 39(1) of the Competition Act, 2002 provides that if a person fails to pay any monetary penalty imposed on him under the Act, the Competition Commission of India shall proceed to recover such penalty, in such manner as may be specified by the regulations.

As per Section 39 (2) of the Act, in a case where the Commission is of the opinion that it would be expedient to recover the penalty imposed under the Act in accordance with the provisions of the Income-tax Act, 1961, it may make a reference to this effect to the concerned income-tax authority under that Act for recovery of the penalty as tax due under the said Act.

Where a reference has been made by the Commission under sub-section (2) stated above for recovery of penalty, the person upon whom the penalty has been imposed shall be deemed to be the assessee in default under the Income Tax Act, 1961 and the provisions contained in sections 221 to 227, 228A, 229, 231 and 232 of the said Act and the Second Schedule to that Act and any rules made there under shall, in so far as may be, apply as if the said provisions were the provisions of this Act and referred to sums by way of penalty imposed under this Act instead of to income-tax and sums imposed by way of penalty, fine, and interest under the Income–tax Act, 1961 and to the Commission instead of the Assessing Officer.

**Answer 4(b)**

Section 26 of the Competition Act details out the procedure for inquiry of complaint. According to it if the Competition Commission of India is of the opinion that there exists a prima facie case, on receipt of an information from any person, consumer, their association or trade association or on a reference from Central Government or State Government or of a statutory authority or on its knowledge or information under Section 19, it shall direct the Director General to cause an investigation to be made into the matter.

The Director General shall investigate into the matter and submit a report of its findings within the period as may be specified by the Commission. It is, however, not binding on the Commission to accept the report of the Director General.

Where upon receipt of a reference or information, the Commission is of the opinion that there is no prima-facie case, it shall pass an order dismissing the reference/ information, as it deems fit and necessary.

Upon receipt of a report from the Director General, the Commission shall forward a copy thereof to (a) the parties concerned or (b) Central Government or (c) State Government or (d) statutory authority as the case may be.

If the Director General, in relation to a matter referred to it, recommends that there is no contravention of any of the provisions of the Act, the Commission shall give an opportunity of hearing to the informant and after hearing, if the Commission agrees with the recommendation of the Director General, it shall dismiss the information.

If, after hearing information provider, the Commission is of the opinion that further inquiry is called for, it shall direct the enquiry to proceed further.

Where the report of the Director General relates to matter referred to Commission by the Central Government or a State Government or a statutory authority and the report contains recommendation that there is no contravention of the provisions of the Act, the Commission shall invite the comments of the Central Government or the State Government or statutory authority, as the case may be, on such report. On receipt of the comments, if there is no prima-facie case, in the opinion of the Commission the Commission shall return the reference. However, if the Commission feels that there is a prima-facie case it shall proceed with a reference.

Section 26(9) provides that the Commission on receipt of recommendation of Director General that there is contravention of any of the provisions of the Act, and a further inquiry is called for, shall inquire into such contravention in accordance with the provisions of the Act.

**PART III**

**Question 5**

(a) *In pandemic of Covid 19 a drug company made an offer by advertisement, a reward of ₹10,000 to anyone suffering from Covid after using their drug in prescribed manner. Mrs. Romila having taken the drug as per prescription could not be cured. She claimed for the money. Will she succeed ?*

*(4 marks)*

(b) *Tommy has two properties, Property-M and Property-N. He sells his Property-N to John and puts a condition that John should not construct more than one storey on Property-N so that Property-M, which he retains, shall have good light and free air. Whether the condition imposed by Tommy is 'valid' under the Transfer of Property Act, 1882 ? Give reasons.* *(4 marks)*

(c) *Ramesh buys a second-hand car from Suresh for ₹4 Lakh. The car is a stolen property of Dinesh. After two months of use Dinesh claims the car and deprives Ramesh of the car. Can Ramesh claim compensation from Suresh ?*

*(4 marks)*

(d) *What are the rights of the allottees under the Real Estate (Regulation & Development) Act, 2016 ?* *(4 marks)*

(e) *What are the contracts which cannot be specifically enforced under the Specific Relief Act, 1963 ?* *(4 marks)*

**Answer 5(a)**

Yes, she will succeed. The problem is based on leading case of Carlill v. Carbolic Smoke Ball Co. wherein the company offered by advertisement a reward of 100£ to anyone who contacted influenza after using their smoke ball in the specified manner. Mrs. Carlill used smoke ball in the specified manner, but was infected by influenza. She claimed the reward and it was held that she could recover the reward as general offer can be accepted by anybody. Since his offer is of a continuing nature, more than one person can accept it and can even claim the reward.

**Answer 5(b)**

As per Section 11 of the Transfer of Property Act, 1882, where an immovable property is transferred by one to another, the transferor should not impose conditions as to how and in what manner the transferee should enjoy the property.

But the above provision is subject to an exception i.e. if the condition which is imposed by transferor is for the benefit of another piece of immovable property which he retains then such a condition is valid.

*For Example* : A has properties X and Y. He sells property Y to B and puts a condition that B should not construct on property Y more than one storey so that A's property X which he retains should have good light and free air. Such a condition is valid.

Thus, it is clear that the condition imposed by Tommy is for the benefit of another property which he retains. Such a condition is valid under the Transfer of Property Act, 1882.

**Answer 5(c)**

Yes, Ramesh can claim compensation from Suresh.

Section 14(a) of the Sales of Goods Act, 1930 provides that unless the circumstances of the contract are such as to show a different intention, there is an implied condition as to title that the seller, in an actual sale, has the right to sell the goods, and in agreement to sell, he will have a right to sell the goods at the time when property is to pass.

As a result, if the title of the seller turns out to be defective, the buyer is entitled to reject the goods and can recover the full price paid by him.

In *Rowland* v. *Divall*, A had bought a second-hand motor car from B and paid for it. After he had used it for six months, he was deprived of it because the seller had no title to it. It was held that B had broken the condition as to title and 'A' was therefore, entitled to recover the purchase money from B.

**Answer 5(d)**

Section 19 of the Real Estate (Regulation and Development) Act, 2016 provides for the various rights of the allottees as follows:

1. *Right to obtain information relating to sanctioned plans, layout plans, etc.* : The allottee shall be entitled to obtain the information relating to sanctioned plans, layout plans along with the specifications, approved by the competent authority, and other information as per the Act or the agreement for sale signed with the promoter.
2. *Right to know stage-wise time schedule of completion of the project* : The allottee shall be entitled to know the stage-wise time schedule of completion of the project, including the provisions for water, sanitation, electricity, and other amenities and services as agreed to between the promoter and the allottee in accordance with the terms and conditions of the agreement for sale.
3. *Right to claim possession* : The allottee shall be entitled to claim the possession of an apartment, plot, or building. The association of allottees shall be entitled to claim the possession of the common areas.
4. *Right claim refund, interest, and compensation* : The allottee shall be entitled to claim a refund with interest and compensation from the promoter if the promoter fails to comply or is unable to give possession of the apartment, plot, or building.
5. *Right to have the necessary documents and plans* : The allottee shall be entitled to have the necessary documents and plans, including that of common areas, after handing over the physical possession of the apartment or plot or building by the promoter.

**Answer 5(e)**

Following contracts cannot be specifically enforced under Specific Relief Act:

(a) Where a party to the contract has obtained substituted performance of a contract in accordance with the provisions of section 20 of the Specific Relief Act.

(b) A contract, the performance of which involves the performance of a continuous duty which the Court cannot supervise.

(c) A contract that is so dependent on the personal qualifications of the parties that the Court cannot enforce specific performance of its material terms.

(d) A contract which is in its nature determinable.

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

**Question 6**

*(a) Ramu purchased a tractor from Mahendra Ltd. for tilling the land but he used it in idle time for transportation of agricultural produce on hire. Some defects were developed in the engine of the tractor. He complained to Mahendra Ltd., but all in vain. Then he filed a suit in Consumer Disputes Redressal Forum for damages caused by the defects. Mahendra Ltd. pleaded that Ramu is not a 'consumer' within the definition of section 2(7) of the Consumer Protection Act, 2019, as he is using the tractor for commercial purposes. Whether Ramu will succeed in his case ? Refer to relevant provisions of law in support of your answer with reference to case law, if any.*

*(b) Raman borrows ₹5,000 from Boman and promises to pay ₹10,000, if he fails to pay on a stipulated date. Is on Raman's failure to repay on stipulated date, Boman is entitled to recover 10,000 from Raman ? Examine the validity of claim of stipulated damages.*

*(c) Write short note on Auction Sales under the Sales of Goods Act, 1930.*

*(d) What do you understand by "Holding out" under the Indian Partnership Act, 1932? Enumerate the circumstances under which the doctrine of "Holding out" is not applicable ?*

*(e) What do you mean by the International Organization of Legal Metrology (OIML) Certification System ?* *(3 marks each)*

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

**Question 6A**

*Distinguish the following :*

*(i) Sale and Purchase Agreement*

*(ii) Quantum Meruit and Anticipatory Breach*

*(iii) Reversion and Remainder under the Transfer of Property Act, 1882*

*(iv) Ambiguous and Inchoate Instruments*

*(v) Rectification of Instrument and Cancellation of Instrument.*

*(3 marks each)*

**Answer 6(a)**

According to Section 2(7) of the Consumer Protection Act, 2019, consumer means any person who–

(i) buys any goods for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or partly paid or partly promised, or under any system of deferred payment, when such use is made with the approval of such person, but does not include a person who obtains such goods for resale or for any commercial purpose; or

(ii) hires or avails of any service for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any beneficiary of such service other than the person who hires or avails of the services for consideration paid or promised, or partly paid and partly promised, or under any system of deferred payment, when such services are availed of with the approval of the first mentioned person, but does not include a person who avails of such service for any commercial purpose.

"Commercial Purpose" does not include use by a person of goods bought and used by him exclusively for the purpose of earning his livelihood, by means of self-employment; the expressions "buys any goods" and "hires or avails any services" includes offline or online transactions through electronic means or by teleshopping or direct selling or multi-level marketing.

In the case of *Bhupendra Jang Bahadur Guna* v. *Regional Manager & Others*, it was held that a tractor purchased primarily to till the land of the purchaser and let out on hire during the idle time to till the lands of others would not amount to commercial use.

In view of the provisions of Consumer Protection Act and decided case law stated above, Ramu is a consumer under the Consumer Protection Act, 1986 and he can file the claim if there is any defect in the tractor.

**Answer 6(b)**

Yes, claim can sustain if Court finds it reasonable.

Section 74 of the Indian Contract Act, 1872, provides for reasonable compensation for breach of contract where penalty is stipulated for.

When a contract has been broken, if a sum is named in the contract as the amount to be paid in case of such breach, or if the contract contains any other stipulation by way of penalty, the party complaining of the breach is entitled, whether or not actual damage or loss is proved to have been caused thereby, to receive from the party who has broken the contract reasonable compensation not exceeding the amount so named or, as the case may be, the penalty stipulated for.

Illustration (a) A contracts with B to pay B Rs. 1,000, if he fails to pay B Rs. 500 on a given day. A fails to pay B Rs. 500 on that day. B is entitled to recover from A such compensation, not exceeding Rs. 1,000, as the Court considers reasonable.

**Answer 6(c)**

The auction sale is a public sale where bids are invited and goods are sold to the highest bidder. Presenting goods for auction sale is an 'invitation to make an offer'.

When a bidder makes a bid, it is an 'offer' and 'sale is complete when the auctioneer accepts the bid. Auctioneer can accept bid in any of the following manners:

- By saying 1, 2 & 3.
- By saying going, going, gone.
- By fall of the hammer.

Provisions relating to auction sale:

1. *Sale in lots* : In the case of sale by auction, where goods are put up for sale in lots, each lot is prima facie deemed to be the subject of a separate contract of sale.
2. *Completion of sale* : The sale is complete when the auctioneer announces its completion by the fall of the hammer or in other customary manner and, until such announcement is made, any bidder may retract /withdraw his bid.
3. *Right of the seller to bid* : A right to bid may be reserved expressly by or on behalf of the seller and, where such right is expressly so reserved, but not otherwise, the seller or any one person on his behalf may, subject to the provisions hereinafter contained, bid at the auction;

   Where the sale is not notified to be subject to a right to bid on behalf of the seller, and bids are made by seller or on behalf of seller, such sale may be treated as fraudulent by the buyer.
4. *Reserved price* : The sale may be notified to be subject to a reserved or upset price.
5. *Pretended to bid* : When a seller appoints a person to make a bid on his behalf to get a higher price, it is known as pretended bidding.

If the seller makes use of pretended bidding to raise the price, the sale is voidable at the option of the buyer.

**Answer 6(d)**

Section 28 of the Indian Partnership Act, 1932 deals with partner by estoppels or holding out. Holding Out means “to represent”. Strangers, who hold themselves out or represent themselves to be partners in a firm, whereby they induce others to give credit to the partnership are called “Partners by Holding Out”.

In case of “Partnership by Estoppel”, the representation is made by partners about a stranger within his knowledge and hearing and he does not contradict it. He is then held liable as a partner. Partner by estoppel or holding out is subject to the liability as partner to anyone who has on the faith of such misrepresentation given credit to the firm.

The doctrine of Holding Out is not applicable in the following cases:

1. It does not apply to cases of torts committed by partners. A person, therefore, cannot be held liable for the torts of another simply because that other person held himself to be his partner.

2. It does not extend to bind the estate of a deceased partner, where after a partner's death the business of the firm is continued in the old firm name.

3. It also does not apply where the Holding Out partner has been adjudicated insolvent.

**Answer 6(e)**

The International Organization of Legal Metrology (OIML) is an intergovernmental treaty organization whose membership includes Member States, countries which participate actively in technical activities, and corresponding Members, countries which join the OIML as observers. It was established in 1955 in order to promote the global harmonization of legal metrology procedures.

The OIML certificate system for measuring instruments was introduced in 1991 to facilitate administrative procedures and lower the costs associated with the international trade of measuring instruments subject to legal requirements.

The System provides the possibility for a manufacturer to obtain an OIML Certificate and a Test Report indicating that a given instrument complies with the relevant requirements of OIML.

Certificates are delivered by the OIML Member States that have established one or several Issuing Authorities responsible for processing applications by manufacturers wishing to have their instrument certified.

Certificates are accepted by national metrology services on a voluntary basis and as the climate for mutual confidence and recognition of test results develops between OIML Members, the System serves to simplify the type (pattern) approval process for manufacturers and metrology authorities by eliminating costly duplication of application and test procedures.

**Answer 6A(i)**

Sale is contract by which property in goods passes from the seller to the buyer for a price. A purchase agreement is a contract that specifies the terms and conditions of a sale of goods. It is the most important legal document in any sale process.

If there is an agreement to sell and the seller commits a breach, the buyer has only a personal remedy against the seller, namely, a claim for damages. But if there has been a sale, and the seller commits a breach by refusing to deliver the goods, the buyer has not only a personal remedy against him but also the other remedies which an owner has in respect of goods themselves such as a suit for conversion or detenue, etc.

A hire purchase agreement is basically a contract of hire, but in addition, it gives the hirer an option to purchase at the end of the hiring period. Consequently, until the final payment, the hirer is merely a bailee of ownership remains vested in the bailor. Under such a contract, the owner of goods delivers the goods who agrees to pay certain stipulated periodical payments as hire charges. Though the possession is with the hirer, the ownership of the goods remains with the original owner.

**Answer 6A(ii)**

The expression “Quantum Meruit” literally means “as much as earned” or reasonable remuneration. It is used where a person claims reasonable remuneration for the services rendered by him when there was no express promise to pay the definite remuneration, thus, the law implies reasonable compensation for the services rendered by a party if there are circumstances showing that these are to be paid for.

Anticipatory Breach of contract may occur, before the time for performance is due. This may happen where one of the parties definitely renounces the contract and shows his intention not to perform it or does some act which makes performance impossible. The other party, on such a breach being committed, has a right of action for damages. He may either sue for breach of contract immediately after repudiation or wait till the actual date when performance is due and then sue for breach. If the promisee adopts the latter course, i.e., waits till the date when performance is due, he keeps the contract alive for the benefit of the promisor as well as for his own. He remains liable under it and enables the promisor not only to complete the contract in spite of previous repudiation, but also to avail himself of any excuse for non- performance which may have come into existence before the time fixed for performance.

**Answer 6A(iii)**

In English Law some interests in the property are called reversion and remainders. A “reversion” is the residue of an original interest which is left after the grantor has granted the lessee a small estate. For example, A, the owner of a land may lease it to B for a period of five years. The person who grants the lease is the lessor and the person who takes the lease is called the lessee. Here, after the period of 5 years the lease will come to an end and the property reverts back to the lessor. The property which reverts back to him is called the reversion or the interest. The grantor has a larger and an absolute interest out of which he carves out a smaller estate and gives to the grantee, i.e. the lessee.

When the owner of the property grants a limited interest in favour of a person or persons and gives the remaining to others, it is called a “remainder”. For instance, A the owner of a land transfers property to B for life and then to C absolutely. Here the interest in favour of B is a limited interest, i.e., it is only for life. So long as A is alive he enjoys the property. He has a limited right since he cannot sell away the property. His right is only to enjoy the property. If he sells this interest it will be valid so long as he is alive. So after B’s death the property will go to C, interest is called a remainder. In the case of a “remainder”, the property will not come back to the owner, but it goes over to the other person.

**Answer 6A(iv)**

Section 17 of the Negotiable Instruments Act, 1881 deals with ambiguous instruments. It states that where an instrument may be construed either as a promissory note or bill of exchange, the holder may at his election treat it as either, and the instrument shall be thenceforward treated accordingly.

An instrument, which in form is such that it may either be treated by the holder as a bill or as a note, is an ambiguous instrument. Bill drawn to or to the order of the drawee or by an agent on his principal, or by one branch of a bank on another or by the direction of a company or their cashier are also ambiguous instruments.

Section 20 of the Negotiable Instruments Act, 1881 provides that, when one person signs and delivers to another a paper stamped in accordance with the law relating to negotiable instruments, and either wholly blank or having written thereon an incomplete negotiable instrument, he thereby gives prima facie authority to the holder thereof to make or complete, as the case may be, upon it a negotiable instrument, for any amount specified therein, and not exceeding the amount, covered by the stamp. Such an instrument is called an inchoate instrument.

The person so signing shall be liable upon such instrument, in the capacity in which he signs the same, to any holder in due course for such amount, provided that no person other than a holder in due course shall recover from the person delivering the instrument anything in excess of the amount intended by him to be paid thereon.

**Answer 6A(v)**

Rectification means correction of an error in an instrument in order to give effect to the real intention of the parties. According to Section 26 of the Specific Relief Act, 1963 when, through fraud or a mutual mistake of the parties a contract or other instrument in writing not being the articles of association of a company to which the Companies Act, applies does not express their real intention, then:

(a) either party or his representative in interest may institute a suit to have the instrument rectified; or

(b) the plaintiff may, in any suit in which any right arising under the instrument is in issue, claim in his pleading that the instrument be rectified; or

(c) a defendant in any such suit as is referred to in clause (b), may, in addition to any other defence open to him, ask for rectification of the instrument.

If, in any suit in which a contract or other instrument is sought to be rectified, the court finds that the instrument through fraud or mistake, does not express the real intention of the parties, the court may in its discretion direct rectification of the instrument so as to express that intention, so far as this can be done without prejudice to rights acquired by third persons in good faith and for value.

A contract in writing may first be rectified, and then if the party claiming rectification has so prayed in his pleading and the court thinks fit, may be specifically enforced.

Rectification of an instrument shall not be granted to any party under this section unless it has been specifically claimed.

Section 31(1) of the Specific Relief Act, 1963 provides that any person against whom a written instrument is void or voidable, and who has reasonable apprehension that such instrument if left outstanding may cause him serious injury, may sue to have it adjudged void or voidable; and the court may in its discretion, so adjudge it and order it to be delivered up and cancelled.

As per Section 31(2), if the instrument has been registered under the Indian Registration Act, the court shall also send a copy of its decree to the officer in whose office the instrument has been so registered and such officer shall note on the copy of the instrument contained in his books the fact of its cancellation.

According to Section 32 of the Act, where an instrument is evidence of different rights or different obligations, the court may, in a proper case, cancel it in part and allow it to stand for the residue.

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## FINANCIAL AND STRATEGIC MANAGEMENT

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

### PART I

1. Investment Decisions help in achieving which of the following long-term objectives of the company ?

   (A) Survival and Growth

   (B) Preserving Market Share

   (C) Retaining Leadership in Activity

   (D) All of the above

2. Liquidity of Receivables is assessed through which of the following :

   (A) Average Collection Period

   (B) Receivables Turnover Ratio

   (C) Both (A) and (B)

   (D) None of the above

3. Relationship between Liquidity and Profitability is :

   (A) Direct

   (B) Inverse

   (C) Both are mutually exclusive

   (D) None of the above

4. The present value of ₹1,00,000 to be received 3 years later when rate of return is 10% p.a. compounded annually is :

   (A) ₹75,131

   (B) ₹86,153

   (C) ₹72,900

   (D) ₹70,000

5. A deposited ₹1,00,000 in a bank for a period of 5 years and the rate of interest is 5% p.a. compounded annually. How much amount A will receive after 5 years?

   (A) ₹1,25,000

   (B) ₹1,27,628

   (C) ₹1,32,525

   (D) ₹1,02,763

6. Capital Budgeting Decisions are of paramount importance for a business firm. Which of the following factors contributes significantly to this importance ?

   (A) Impact on immediate future only

   (B) Involves huge amount of scarce resources

   (C) Reversibility

   (D) All of the above

7. Which of the following techniques are traditional cash flow based techniques ?

   (A) Accounting Rate of Return

   (B) Pay Back Period

   (C) Net Present Value

   (D) All of the above

8. Which of the following are assumptions of Net Income Approach of Capital Structure Theory ?

   (A) Cost of equity is more than cost of debt.

   (B) Both cost of debt and cost of equity remain constant and increase in financial leverage does not affect the risk perception of investors.

   (C) There are no taxes.

   (D) All of the above

9. Capital Structure of A Ltd. comprises of the following :

   | | | |
   |---|---|---|
   | Equity Share Capital | : | ₹25 Lakh 10% |
   | Debentures | : | ₹10 Lakh |

   If EBIT is ₹6 lakh, degree of Financial Leverage is :

   (A) 1.3

   (B) 1.2

   (C) 2

   (D) 1.5

10. In terms of difference between operating leverage and financial leverage, which of the following is incorrect?

   (A) Operating Leverage is associated with investment activities of the company, whereas Financial Leverage is associated with financing activities of the company.

   (B) Operating Leverage consists of fixed operating expenses of the company, whereas financial leverage consists of fixed financial expenses of the company.

(C) Operating Leverage represents the firm's ability to use the fixed operating cost, whereas financial leverage represents the firm's ability to use the fixed financial cost.

(D) Operating Leverage is calculated as EBIT/EBT, whereas financial leverage is calculated as Contribution/EBIT

11. A project requires a capital outlay of ₹400 Lakh. The required amount can be raised either by issuing equity shares of the face value ₹400 Lakh, or by issuing equity shares to the extent of ₹200 Lakh and acquiring 15% debt of 200 Lakh. Assuming a tax rate of 40%, the indifference point of both the financing options will be :

(A) ₹40 Lakh

(B) ₹50 Lakh

(C) ₹60 Lakh

(D) ₹70 Lakh

12. Based on the following financials of a company, what will be its combined leverage?

| | |
|---|---|
| Turnover : | ₹50 Lakh |
| Variable Cost : | ₹30 Lakh |
| Fixed Cost : | ₹10 Lakh |
| 10% Debentures : | ₹20 Lakh |
| Tax rate : 30% | |

(A) 2 times

(B) 1.5 times

(C) 1.75 times

(D) 2.5 times

13. Which of the following is correct regarding cost of capital?

(A) When interest rates increases, cost of equity decreases, thereby decreasing cost of capital

(B) When tax rate increases, cost of debt decreases, thereby increasing cost of capital

(C) An increase in interest rate will affect the cost of debt and potentially the cost of capital

(D) None of the above

14. A Ltd. issued 8% debentures (face value ₹10 each) worth ₹100 Lakh at par. A Limited falls in 30% tax bracket. The effective cost of debentures will be:

    (A) 5.5%

    (B) 5.6%

    (C) 6%

    (D) 8%

15. A Ltd. issued debentures worth ₹100 Lakh with coupon rate of 10% and realized ₹97.5 Lakh. The company falls in 30% tax bracket. These debentures are repayable at par after 5 years. The effective cost of debentures will be:

    (A) 8.55%

    (B) 8.44%

    (C) 7.55%

    (D) 7.44%

16. ABC Ltd. floated 20000 10% preference shares of ₹100 each redeemable after 10 years at face value. Floatation cost amounted to ₹2 per share. Applicable tax rate is 30%. Cost of preference shares will be:

    (A) 10.4%

    (B) 10.5%

    (C) 10.3%

    (D) 10.6%

17. A Ltd. issued equity shares of ₹10 Lakh comprising of 1 lakh shares of ₹10 each. The current market price per share is ₹50 and current dividend paid is ₹5 per share. The dividend is expected to grow @ 5% per annum. On the basis of dividend growth model, the cost of equity will be:

    (A) 15%

    (B) 15.2%

    (C) 15.5%

    (D) 16%

18. B Ltd. has equity shares of ₹25 Lakh comprising of 25000 shares of ₹100 each in its capital structure. The current market price per share is 110 and profit after tax is ₹5 Lakh. The expected growth rate in earnings is 10%. On the basis of Earnings Price Ratio approach, the cost of equity will be:

    (A) 25%

    (B) 15%

    (C) 20%

    (D) 12%

19. What will be the approx. present value of an annuity of ₹25,000 to be received at the end of each of the next 5 years, if the discount rate is 12% ?

    (A) ₹80,000

    (B) ₹90,000

    (C) ₹95,000

    (D) ₹98,000

20. Which of the following is/are not a part of negative covenants in a Loan Agreement?

    (A) Restrictions to pay commission to Promoters, Directors, Managers or any other person for furnishing the guarantee or indemnity for the undertaking

    (B) Restrictions to pay dividend to the equity shareholders in case of default in payment of interest or repayment of principal

    (C) Restrictions on creating a charge or lien on the assets of the undertaking

    (D) None of the above

21. Which of the following is not a salient feature of a financial lease?

    (A) It can be cancelled during the initial lease period

    (B) The lease is more or less fully amortized during the primary lease period

    (C) The lessee is responsible for maintenance, insurance and taxes

    (D) The lessee generally enjoys the option of renewing the lease for future periods at substantially reduced lease rentals

22. Which of the following is not a merit of Regular Dividend Policy?

    (A) It helps in creating confidence among the investors

    (B) It does not assist in stabilizing market value of related securities

    (C) It assists in maintaining goodwill of the company

    (D) It gives a regular income to the shareholders

23. A bond carries a coupon rate of 12.4% p.a. compounded quarterly. What will be effective yield on the bond ?

    (A) 12.79%

    (B) 12.89%

    (C) 12.99%

    (D) 13.09%

24. Which of the following is/are assumption(s) of Walter's Model of Equity Valuation?

(A) All the investments are routed through Retained Earnings only

(B) The firm's Internal rate of Return and Cost of Capital are constant

(C) All earnings are either distributed as dividend or reinvested internally immediately

(D) All of the above

25. The formula for Walter's Model of Equity Valuation is :

$$P=\frac{D+r/ke\ (E\text{-}D)}{ke}$$

Which of the following is not correct explanation of abbreviations used in the formula ?

(A) P-Market Price per share

(B) D-Dividend per share

(C) r-Rate of Interest

(D) E-Earning per share

26. Which of the following is/are criticism of Walter's Model of Equity Valuation ?

(A) It mixes dividend policy with investment policy

(B) It is based on the unrealistic assumption that return on investment is constant

(C) It assumes that firm's cost of capital or discount rate does not remain constant and changes directly with firm's risk

(D) All of the above

27. The existing net working capital of a firm was ₹12,04,000. It repaid its creditors worth ₹1,40,000 by issuing them 3 year bonds and acquired a 5 year loan of ₹3 Lakh. Further, it redeemed its 8% debentures worth ₹2 Lakh by issuing 9% preference shares of equal amount. Which of the following is correct in the light of this information ?

(A) Net Working capital will increase by ₹1,40,000

(B) Net Working capital will decrease by ₹1,40,000

(C) There will be no change in Net Working Capital

(D) None of the above

28. Which of the following is indicative of Aggressive Approach of Working Capital Management ?

(A) Holding low level of inventory

(B) Following Liberal Credit Policy

(C) Maintaining high cash balance

(D) All of the above

29. Which of the following methods is/are used to determine the working capital needed?

    (A) Current Asset Holding Period

    (B) Ratio to Sales

    (C) Both (A) and (B)

    (D) None of the above

30. Following financials pertain to ABC Ltd. for the year ended 31/03/2021:

    (i) Raw Meterial Inventory-Average outstanding amount : ₹40,000

    (ii) W-I-P Inventory-Average outstanding amount : ₹1,08,000

    (iii) Finished Goods Inventory-Average outstanding amount : ₹1,80,000

    (iv) Sundry Debtors-Average outstanding amount : ₹2,00,000

    (v) Sundry Creditors-Average outstanding amount : ₹1,20,000

    (vi) Purchase of Raw Metarial-Average amount/day : ₹2,400

    (vii) Cost of Sales-Average amount/day : ₹3,000

    (viii) Sales-Average amount/day : ₹5,000

    Operating Cycle of ABC Ltd. is :

    (A) 190 days

    (B) 185 days

    (C) 186 days

    (D) 195 days

31. Which one of the following will not help in lowering the cost of inventory ?

    (A) Entering into short-term arrangements for supply of materials at market driven prices

    (B) Arranging for direct supply of Raw Materials at manufacturing locations

    (C) Promoting ex-factory sales of finished goods

    (D) Availing quantity discounts and spot payment discounts if carrying costs and financing costs are less than discounts

32. Jones, a HNI, wants to invest in shares of XYZ Ltd., a major component manufacturing company. Apart from looking into internal and external information about the company, Jones should look into which of the following tools, so that he can arrive at his investment decision ?

    (A) Earnings per share

    (B) Price/Earnings Ratio

(C) Dividend Yield

(D) All of the above

33. Which of the following statements is correct ?

(A) A Line chart is a basic type of chart used in financial analysis. It is generally created by connecting a series of past prices together with a line

(B) Line chart represents only the closing prices over a set period

(C) The line is formed by connecting the closing prices for each period over the time frame and intra-period highs and lows are ignored

(D) All of the above

34. Which of the following is correct ?

(A) Systematic risk it uncontrollable by an organization and is micro in nature

(B) Systematic risk is controllable by an organization and is macro in nature

(C) Systematic risk is uncontrollable by an organization and is macro in nature

(D) None of the above

35. Which of the following is not a type of Systematic Risk ?

(A) Interest Rate Risk

(B) Market Risk

(C) Business Risk

(D) Purchase Risk

36. A invested ₹2 lakh in equity shares of a limited company in the beginning of 2020. So far, he has received ₹1 Lakh as dividend income. The current market price of his holdings is ₹3 Lakh. His total return is :

(A) 50%

(B) 100%

(C) 33.33%

(D) None of the above

37. Standard deviation is a measure of how each possible outcome deviates from the expected value. In this context, which of the following statements is correct?

(A) The higher is the value of deviation, the lower is the risk associated with portfolio

(B) The lower is the value of deviation, the lower is the risk associated with portfolio

(C) Value of deviation has nothing to do with portfolio risk

(D) None of the above

38. Which of the following is not considered as the assumption of Markowitz Model of Portfolio Analysis ?

(A) Investors consider each investment alternative as being represented by a probability distribution of expected returns over some holding period

(B) Individuals do not estimate risk on the basis of variability of expected returns

(C) Individuals do not base decisions solely on expected returns and variance only

(D) Both (B) and (C)

39. The assumptions of Capital Asset Pricing Model include :

(A) Diversified portfolio and Single point transaction horizon

(B) Investors can borrow and lend at Risk-free rate of return

(C) Perfect Capital Market

(D) All of the above

40. Which of the following is not an advantage of Capital Asset Pricing Model ?

(A) It considers only systematic risk reflecting a reality in which most investors have diversified portfolios from which unsystematic risk has been essentially eliminated

(B) Theoretically derived relationship between required return and systematic risk, which has been subjected to frequent empirical research and testing

(C) It is not superior to WACC in providing discount rate for being used in investment appraisals

(D) Much better method of calculating the cost of equity than the dividend growth model, in that it explicitly considers a company's level of systematic risk relative to stock market as a whole

41. Beta is a factor of which of the following :

(A) Standard Deviation of security/portfolio

(B) Standard Deviation of market

(C) Correlation between security and market

(D) All of the above

42. Which of the following is/are features of Capital Market Line ?

(A) Portfolio is assumed to be efficient

(B) It assumes no unsystematic risk

(C) It estimates the return for a portfolio based on the total risk route

(D) All of the above

43. High financial gearing will increase the earnings per share of the company if:

(A) Earnings before Interest and Taxes are rising

(B) Earnings before Interest and Taxes are falling

(C) Earnings after Taxes are rising

(D) Earnings after Taxes are falling

44. A project requires an initial outlay of ₹5 Lakh. It is expected to generate annual CFAT of ₹1,25,000 through its useful life of years 1 to 5 excluding the scrap value of ₹1 Lakh to be realized at the end of 5th year. The Internal Rate of Return (IRR) of the project will be in the range of :

(A) 10%-11%

(B) 11%-12%

(C) 12%-13%

(D) 13%-14%

45. Pay-back Period with constant annual cash flows is calculated as :

(A) Initial Investment/Annual Cash Flow

(B) Initial Investment * Annual cash flow

(C) Annual Cash Flow/Initial Investment

(D) None of the above

46. Payback period method can be successfully employed in which of the following circumstances ?

(A) Where the firm does not suffer from liquidity problem and is interested in analysing profitability

(B) Where project is certain in terms of risk, and return is a serious concern

(C) Where good returns have been estimated but uncertainty is high

(D) None of the above

47. Net present value is generally preferred over Internal Rate of Return (IRR) method because :

(A) It is comparatively simple to operate

(B) It does not suffer from limitations of multiple rates

(C) The reinvestment assumption under NPV method is more realistic

(D) All of the above

48. The degree of financial leverage of a firm is 2 and degree of its operating leverage is 4. Fixed cost is ₹60,000 and variable cost as a percentage of sales is 60. Applicable tax rate is 30%. Earnings after tax (EAT) of the firm will be :

(A) ₹8,400

(B) ₹10,000

(C) ₹7,000

(D) ₹9,100

49. Which of the following is correct ?

(A) Business Risk does not have an impact on the past operational profitability of the firm

(B) Business Risk pertains to day-to-day operations of the firm

(C) Both (A) and (B) are correct

(D) Neither (A) nor (B) is correct

50. X Ltd., a leather manufacturing company, has a Sales turnover of ₹40 Lakh for the year ended 31/03/2021. Its variable cost for the year was ₹20 Lakh and fixed cost was ₹5 lakh. It issued debentures worth 10 Lakh on 01/10/2020 carrying an interest rate of 8% p.a. The financial leverage of the company will be :

(A) 1.15

(B) 1.05

(C) 1.03

(D) 1.13

51. Which of the following is correct regarding cost of retained earnings ?

(A) Since the company is not required to pay dividend on retained earnings, there is no cost associated to it

(B) Opportunity cost of foregone dividends must be considered as cost of retained earnings

(C) Both (A) and (B) are correct

(D) None of the above

52. The capital structure of A Ltd. comprises of the following :

Equity Share Capital : ₹4 lakh 8%

Debentures : ₹1 lakh

Value of Beta is 2, associated risk-free rate of return and market risk premium are 5% and 4% respectively. A Ltd. falls in 30% tax bracket.

The weighted average cost of capital of the company will be :

(A) 11.12%

(B) 11.32%

(C) 11.52%

(D) 11.72%

53. Which of the following statements is/are correct ?

(A) Weighted Average Cost of Capital using book value weights will be generally understated if the market value of shares is higher than book value

(B) The relationship of book value and market value of securities has nothing to do with calculation of weighted average cost of capital

(C) Both (A) and (B) are correct

(D) Both (A) and (B) are incorrect

54. Which of the following are the main objectives of syndication of Euro-currency loans from the borrowers' point of view ?

(A) Large sums are arranged without delay at low cost

(B) Borrowers get better introduction to enter into international market without much difficulty

(C) Funds are made easily available for meeting balance of payment deficit and for financing large industrial projects. Further, the borrower is also allowed to select the length of roll-over period

(D) All of the above

55. Which of the following is not an assumption of EOQ Model ?

(A) Total usage of the commodity for the given period is known with certainty and the usage is spreaded evenly throughout the period

(B) There is sufficient gap between placing the order and receiving the supply

(C) The cost per order of commodity is constant irrespective of the number of total orders

(D) Carrying cost of the inventory is given as a percentage of the value of inventory and is fixed

56. DEF Ltd., a manufacturer of ball-point pens, is interested in knowing the Economic Order Quantity. It furnishes you the following information :

Annual Requirement : 40000 units

Cost per unit : ₹16

Carrying Cost 15% p.a.

Ordering Cost per order : ₹480

What will be its EOQ ?

(A) 6000 units

(B) 5000 units

(C) 4000 units

(D) 3000 units

57. Which of the following factors determine the credit policy of a firm ?

(A) Effect of credit period on volume of sales

(B) Credit Terms

(C) Cash Discount

(D) All of the above

58. Which of the following is not a major requirement of Efficient Market Hypothesis?

(A) Prices must be efficient so that new inventions and better products will cause a firm's security prices to rise and motivate investors to buy stocks

(B) Transaction costs such as brokerage on purchase and sell of securities is taken into consideration

(C) Taxes are assumed to have no noticeable effect on investment policy

(D) Every investor has similar access to investible funds at same terms and conditions

59. Economic Value added can be calculated as :

(A) Gross Operating Profit – Taxes – Cost of Capital

(B) Operating Profit – Taxes

(C) Net Operating Profit – Taxes – Cost of Capital

(D) None of the above

60. Which of the following is not an objective of portfolio management ?

(A) Risk Reduction

(B) Safety of Principal

(C) Diversification of Risk

(D) Stability of Income

**PART II**

61. According to Scientific Management Theory of F.W. Taylor, which of the following is not a principle of scientific management ?

(A) Each task should be studied to determine the most efficient way of doing the task

(B) There should be complete harmony between Management and Workers

(C) Workers should be given adequate freedom in their work

(D) All of the above

62. Which of the following are important features of Human Relations Theory as propounded by Elton Mayo ?

(A) A manager must have basic understanding of human behaviour in the context of work groups and organization

(B) The informal groups have significant influence on morale and productivity of workers

(C) Workers are motivated not only by money alone, but also by work situations including recognition, participation, etc.

(D) All of the above

63. Establishment of Objectives is the initial important step in planning process. Which of the following is a merit of establishing objectives ?

(A) It provides rationale for carrying a range of activities as well as indicates the direction of the efforts of the team

(B) It focuses the attention of the managers on the end-results to be achieved

(C) It forms the nucleus of the planning process

(D) All of the above

64. Steps involved in Organizing function of management include :

(A) Identification of Activities and organizing the same

(B) Classification of Authority

(C) Coordination between Authority and Responsibility

(D) All of the above

65. Which of the following is not a feature of Controlling function of Management ?

(A) It is a pervasive function

(B) It is a forward looking function

(C) It is a static function

(D) It is related with planning

66. Environment Scanning is one of the four phases of Strategic Management Process. Which of the following is not an essential feature of Environment Scanning ?

(A) It involves scanning the internal environment for strengths and weaknesses

(B) It involves scanning the external environment for opportunities and threats

(C) It involves deciding the best course of action for accomplishing the organizational objectives

(D) All of the above

67. Threats of New Entrants in industry will be high in which of the following circumstances ?

(A) Capital required to make an entry is not huge

(B) Existing firms are neither quiet influential nor dominant to prevent new entrants, nor do they have patents, trade-marks or strong bond value

(C) There are no strict government regulations to prevent new entrants

(D) All of the above

68. In Porter's Five Force Model, Bargaining Power denotes to which of the following?

(A) Buying in high volumes or controlling many access points to the final customers

(B) Only few buyers in the market

(C) Switching cost to competitors is low

(D) All of the above

69. Which of the following is/are the function(s) of strategic leadership ?

(A) Articulating the strategic vision for the organization

(B) Influencing organizational members and organizational change

(C) Generating an environment in which employees match the organizational needs in the context of their individual jobs

(D) All of the above

70. Which of the following is not a functional role of Company Secretary in Strategic Management ?

(A) Advisory Role

(B) Communication with Stakeholders

(C) Compiling and Certifying Financial Statements

(D) Management of meetings of board and committees

71. Which of the following is/are limitation(s) of strategic planning ?

(A) It can consume lot of time and money. This can be wasteful if strategic planning turns out to be unsuccessful

(B) Faulty assumptions about the future, poor assessment of organizational capabilities, poor group dynamics and information overload can lead to the development of poor plans

(C) Both (A) and (B)

(D) None of the above

72. Situation Analysis is an essential component of strategy formulation. Timing of conducting Situation Analysis is very important. It should be conducted during which of the following time horizons ?

(A) Before development of a strategy

(B) During development of a strategy

(C) After development of a strategy

(D) All of the above

73. Effectiveness of Situation Analysis can be assessed by which of the following approaches ?

(A) Through its simplicity and practicality

(B) Through its clarity for even an outsider to understand

(C) Through its focus being on key factors that have an impact on business, both internally and externally, and through its identification of future goals of the business

(D) All of the above

74. In terms of SWOT analysis of Amazon, which of the following may be considered as threats ?

(A) Loss of Profits due to low profit margins

(B) Patent Infringement and other aspects of litigation

(C) Cyber-security issues

(D) All of the above

75. Strategies that utilizes strengths to maximize the opportunities are represented by which cell of TOWS matrix ?

(A) WT Cell

(B) ST Cell

(C) SO Cell

(D) WO Cell

76. Which of the following is a strategy of TOWS concept ?

(A) Competitive Strategy

(B) Conducive Strategy

(C) Concrete Strategy

(D) Conflict Strategy

77. Limitations of PERT include :

(A) Uncertainty about the estimate of time and resources as it is based on assumptions

(B) Costs may be higher than the conventional method of planning

(C) Not suitable for simple an repetitive processes

(D) All of the above

78. Effective implementation of a strategy in an organization needs multiple supporting factors. Which of the following is not included in the list of such factors ?

(A) Action Planning

(B) Organizational Structure

(C) Budgeting

(D) Human Resource

79. Strategic Implementation involves a number of issues. Which of the following is not amongst issues concerning Strategic Implementation ?

(A) Project Implementation

(B) Procedural Implementation

(C) Financing

(D) Organizational Structure and Strategies

80. Which of the following is not an important benefit of Mckinsey's 7-S Framework Model ?

(A) It helps to guide organizational change

(B) It combines rationale and hard elements with emotional and soft elements

(C) Managers act only on selective Ss in parallel as all the Ss may not be interrelated

(D) All the above are benefits

81. Which of the following problems is not encountered in the process of resource allocation ?

(A) Power Play

(B) Future Commitments

(C) Resistance to Change

(D) Past Commitments

82. Strategic Benchmarking is concerned with which of the following ?

(A) It helps the companies to identify the winning strategies used by successful companies and thereafter adopt them in their own strategic process

(B) It looks at other companies that engage in similar activities and identifies the best practices that can be applied

(C) It compares other companies' financial performance

(D) It determines how strong a company's products are as compared to that of competitors

83. Generic Benchmarking approach deals with which of the following ?

(A) It focuses on excellent work processes rather than on the business practice of a particular organization

(B) It compares the work of different teams or business units or divisions within the same organization

(C) It compares itself with the competitors inside the industry itself

(D) It compares the functional area of the organization with similar organizations

84. Which of the following is not a key principle of Total Quality Management ?

(A) Management Commitment

(B) Periodic Improvement

(C) Fact-based Decision-making

(D) Employee Empowerment

85. The concept of Six Sigma was developed by :

(A) General Electric Company

(B) General Motors

(C) Motorola

(D) Mitsubishi Corporation

86. For controlling function to be effective, which of the following steps are required?

(A) Establishment of Standards

(B) Measurement of Performance and comparison of Actual and Standard Performance

(C) Taking Remedial Actions

(D) All of the above

87. Staffing function of Management involves which of the following activities ?

(A) Assessment of Manpower Requirements

(B) Recruitment and Selection

(C) Orientation, Training and Performance Evaluation

(D) All of the above

88. Which of the following are the benefits of Motivation ?

(A) Managers can get the things done through others

(B) It inspires the subordinates to work with zeal and willingness and initiates to achieve enterprise goals

(C) It promotes team-work and can tap the human potential in the best possible manner

(D) All of the above

89. Which of the following is not a contributory factor for intense rivalry among the existing competitors ?

(A) Exit barriers are stringent

(B) Products are differentiated

(C) Products can be easily substituted

(D) Customer Loyalty is Low

90. Which of the following is not a key strategic leadership role of a strategist ?

(A) Navigator

(B) Global Thinker

(C) Change Driver

(D) None of the above

91. BCG Matrix is built around :

(A) Industry Attractiveness and Business Strength

(B) Industry Growth and Market Share

(C) Industry Attractiveness and Relative Market Share

(D) Industry Growth-rate and Business Strength

92. Which of the following is not a growth option in Ansoff's Growth Matrix ?

(A) Market Penetration Strategy

(B) Product Development Strategy

(C) Market Development Strategy

(D) None of the above

93. The strength of Market Development option of Ansoff's Growth Matrix is that :

(A) It puts pressure on Marketing and Sales Function

(B) It puts pressure on Operations Function

(C) It puts pressure on Supply Function

(D) It puts pressure on Finance Function

94. Which of the following strategies of Ansoff's Growth Matrix is referred as Suicide Cell ?

(A) Market Penetration

(B) Product Development

(C) Diversification

(D) Market Development

95. Which of the following is not an advantage of Divisional Structure of an organization ?

(A) Management by Exception

(B) Liberal Financial Control

(C) Enhancement of Morale

(D) High Efficiency Level

96. Which of the following is not an advantage of Matrix Organization structure ?

(A) Direct Relations

(B) Quality Decisions

(C) Single Channel of Authority and Responsibility

(D) Participative Management

97. Which of the following areas is not covered by Strategic Control ?

(A) Setting Performance Standards

(B) Feedback for Future Actions

(C) Linking Performance and Rewards

(D) Measurement of Organizational Progress

98. Adoption of Six Sigma methodology helps in improving efficiency due to which of the following factors ?

(A) It meticulously identifies defects and minimizes the variations in the process

(B) It takes a bird's eye view of the production process

(C) It relies on external agency to make assessment of the production process

(D) None of the above

99. Which of the following signifies a Six Sigma Green Belt individual ?

(A) One who has the basic understanding of Six Sigma, Statistical Tools and DMAIC

(B) One who has the highest levels of training in the statistical tools of Six Sigma

(C) An individual who works on projects on part-time basis either as a team member for Complex Projects or as a Team Leader for simple Projects

(D) An individual who understands the theory of Six Sigma but does not yet have the quantitative skills to function as an active Six Sigma Project Team Member

100. Which of the following best describes the term Artificial Intelligence ?

(A) Machine's ability to simulate Robotic Intelligence

(B) Machine's ability to simulate Human Intelligence

(C) Both (A) and (B)

(D) Neither (A) nor (B)

**ANSWER KEY**

**FINANCIAL AND STRATEGIC MANAGEMENT - SELECT SERIES**

| PART I | | Q.No. | Ans | Q.No. | Ans |
|---|---|---|---|---|---|
| **Q.No.** | **Ans** | 34 | C | 67 | D |
| 1 | D | 35 | * | 68 | * |
| 2 | C | 36 | B | 69 | D |
| 3 | B | 37 | B | 70 | C |
| 4 | A | 38 | D | 71 | C |
| 5 | B | 39 | D | 72 | A |
| 6 | B | 40 | C | 73 | D |
| 7 | * | 41 | D | 74 | D |
| 8 | D | 42 | D | 75 | C |
| 9 | B | 43 | A | 76 | A |
| 10 | D | 44 | C | 77 | D |
| 11 | C | 45 | A | 78 | C |
| 12 | D | 46 | C | 79 | C |
| 13 | C | 47 | D | 80 | C |
| 14 | B | 48 | C | 81 | B |
| 15 | * | 49 | B | 82 | A |
| 16 | C | 50 | C | 83 | A |
| 17 | C | 51 | B | 84 | B |
| 18 | C | 52 | C | 85 | C |
| 19 | B | 53 | A | 86 | D |
| 20 | D | 54 | D | 87 | D |
| 21 | A | 55 | B | 88 | D |
| 22 | B | 56 | C | 89 | B |
| 23 | C | 57 | D | 90 | D |
| 24 | D | 58 | B | 91 | B |
| 25 | C | 59 | C | 92 | D |
| 26 | D | 60 | C | 93 | A |
| 27 | D | **PART II** | | 94 | C |
| 28 | A | 61 | C | 95 | B |
| 29 | C | 62 | D | 96 | C |
| 30 | * | 63 | D | 97 | A |
| 31 | A | 64 | D | 98 | A |
| 32 | D | 65 | C | 99 | C |
| 33 | D | 66 | C | 100 | B |

* The options for these questions are either incorrect or incomplete data provided in the questions. So whether a candidate has attempted the following questions or not may be awarded marks for the same.