

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

DECEMBER 2021

MODULE 2



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)

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

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EXECUTIVE PROGRAMME EXAMINATION
DECEMBER 2021
COMPANY ACCOUNTS AND AUDITING PRACTICES

Time allowed : 3 hours

Maximum marks : 100

- NOTE :** 1. Answer ALL Questions.
2. All working notes should be shown distinctly.

PART A

- (a) What are the disclosure requirements with regard to “Related Party Disclosures”– (AS–18) ? (5 marks)
- (b) From the following information, calculate the value of goodwill by – (i) 3 years’ purchase of actual average profit; and (ii) 10 years’ purchase of superprofit :
- Average capital employed ₹21,00,000.
 - Net trading profits of past four years : ₹3,40,000; ₹3,75,000; ₹4,00,000 and ₹4,60,000.
 - Normal rate of return of similar type of business is 15%.
 - Net profit of last two years includes the income from non-trading investments ₹15,000 per annum.
 - The fair remuneration of the owner is ₹75,000 per annum. (5 marks)
- (c) Anjali Ltd. issued 12,000, 13% debentures of ₹100 each at a discount of 6% on 1st July, 2017. The debentures are repayable in three equal instalments of ₹4,00,000 each on the 30th June every year. Books of accounts of the company are closed on 31st March every year. You are required to show the Discount on Issue of Debentures Account over the period. (5 marks)
- (d) S Ltd. issued 5,000, 14% debentures of ₹100 each on 1st April, 2016 at a discount of 5% repayable at a premium of 10% after 5 years out of the profits of the company. On 1st April, 2021, balance in the Debenture Redemption Reserve Account stood at ₹1,70,000. You are required to give journal entries in the books of the company both at the time of issue and redemption of debentures. (5 marks)
- (e) Distinguish between amalgamation in the nature of merger and amalgamation in the nature of purchase. (5 marks)

Answer 1(a)

Related Party Disclosures (AS-18) applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. Related Party disclosure requirement do not apply in circumstances where providing such disclosures would conflict with the reporting enterprise’s duties of confidentiality as specifically required in terms of a statute or by any regulator. No disclosure is required in consolidated financial statements in respect of into group transactions. No disclosure is required in the financial

statements of state controlled enterprise as regards related party relationship with other state controlled enterprises and transactions with such enterprises.

If there have been transactions between related parties, during the existence of a related party relationship enterprise should disclose:

- i. The name of the transacting related party.
- ii. A description of the relationship between the parties.
- iii. Description of the nature of the transaction.
- iv. Volume of transactions.
- v. Any other elements of the related party transactions necessary for an understanding of the financial statements.
- vi. The amounts or outstanding items pertaining to related parties at the balance sheet date and provision for doubtful debts due from such parties at that date; and
- vii. The amounts written off or written back in the period in respect of debts due from or to related parties.

Answer 1(b)

Calculation of Actual Average Profits (or Future Maintainable Profit)

Year	Profit ₹	Weights	Product ₹
I Year	3,40,000	1	3,40,000
II Year	3,75,000	2	7,50,000
III Year 4,00,000 - 15,000	3,85,000	3	11,55,000
IV Year 4,60,000 - 15,000 =	4,45,000	4	17,80,000
	Total	10	40,25,000

Weight Average Profit	4,02,500
Less : Fair Remuneration of owner	75,000
Actual average profit	<u>3,27,500</u>

Normal Profit : $\frac{\text{Average Capital Employed} \times \text{Normal Rate of Return}}{100}$

$$= 21,00,000 \times \frac{15}{100} = ₹ 315,000$$

Super Profit : Actual Average Profit - Normal Profit = ₹3,27,500 - ₹3,15,000 = ₹12,500

Valuation of Goodwill:

(i) 3 year's purchase of Actual Average Profit:

Value of Goodwill = Actual Average Profit x No. of Year's Purchases

$3,27,500 \times 3 = 9,82,500$

(ii) By 10 Year's purchases of super profit: $12,500 \times 10 = ₹1,25,000$

Answer 1(c)

Statement showing allocation of discount on issue of debentures

<i>For the year ended 31st March</i>	<i>Outstanding amount x period in years</i>	<i>Amount of discount write off</i>
2018	$1200000 \times 9/12 = 900000$	$72000 \times 9/24 = 27000$
2019	$1200000 \times 3/12 + 800000 \times 9/12 = 900000$	$72000 \times 9/24 = 27000$
2020	$800000 \times 3/12 + 400000 \times 9/12 = 500000$	$72000 \times 5/24 = 15000$
2021	$400000 \times 3/12 = 100000$	$72000 \times 1/24 = 3000$
	(9:9:5:1)	

Discount of issue of Debentures

<i>Date</i>	<i>Particulars</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount</i>
01.07.2017	To debentures A/c	72000	31.03.2018	By P&L A/c	27,000
			31.03.2018	By Balance C/D	45,000
	Total	72000		Total	72,000
01.04.2018	To Balance B/D	45000	31.03.2019	By P&L A/c	27,000
				By Balance C/D	18,000
	Total	45000		Total	45,000
01.04.2019	To Balance B/D	18000	31.03.2020	By P&L A/c	15,000
				By Balance C/D	3,000
	Total	18000		Total	18,000
01.04.2020	To Balance B/D	3000	30.06.2020	By P&L A/c	3,000
	Total	3000		Total	3000

Answer 1(d)**Journal Entries**

<i>Date</i>	<i>Particular</i>		<i>Dr. (₹)</i>	<i>Cr. (₹)</i>
01.04.2016	Bank	Dr.	4,75,000	
	Loss on Issue of Debentures A/c	Dr.	75,000	
	To 14% Debentures A/c			5,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(Allotment of 10,000, 14% debentures of ₹100 each issued at a discount of 5% and redeemable at a premium of 10% as per the Board resolution dated...)			
01.04.2021	14% Debentures A/c	Dr.	5,00,000	
	Premium on Red. of Debentures A/c	Dr.	50,000	
	To Debenture holders A/c			5,50,000
	(Being the amount due on redemption)			
01.04.2021	Profit and Loss Appropriation A/c	Dr.	80,000	
	To Debenture Redemption Reserve A/c			80,000
	(Being the transfer of profit to debenture redemption reserve account as required under SEBI guidelines)			
01.04.2021	Debenture holders A/c	Dr.	5,50,000	
	To Bank			5,50,000
	(Being the amount paid to debenture holders)			
01.04.2021	Profit and Loss Appropriation A/c	Dr.	2,50,000	
	To General Reserve			2,50,000
	(Being the transfer of profit to the extent of 50% of the face value of debentures redeemed)			
01.04.2021	Debenture Redemption Reserve A/c	Dr.	2,50,000	
	To General Reserve A/c			2,50,000
	(Being the transfer of balance in debenture redemption reserve account to General reserves on redemption of debentures)			

Note : Loss on issue of Debentures Account has to be written off by the company over the period of 5 years preferably at the rate of $(75,000 \times 1/5) = ₹15,000$ per year.

Answer 1(e)**Distinguish between Amalgamation in the nature of Merger and Amalgamation in the nature of Purchase**

- All the assets and liabilities of the transferor company become after amalgamation, the asset to and liabilities of transferee company in the amalgamation in the nature of merger whereas in the amalgamation in the nature of purchase, only the net assets and liabilities adjusted in the books of transferee company.
- Assets and liabilities are not revalued in the amalgamation in the nature of merger whereas in the amalgamation in the nature of purchase, assets and liabilities can be revalued.
- Purchase consideration could not be paid in cash in the amalgamation in the nature of merger except that cash may be paid in respect of any fractional shares whereas in the amalgamation in the nature of purchase, purchase consideration could be paid in cash.
- In the amalgamation in the nature of merger, 90 % shareholders become the shareholders of transferee company whereas in the amalgamation in the nature of Purchase, it is not necessary.
- In the amalgamation in the nature of merger, all accounts are amalgamated whereas amalgamation in nature of Purchase, partially accounts are amalgamated.

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

- (a) *What do you understand by Economic Value Added ? Explain the corrective action to improve Economic Value Added. (3 marks)*
- (b) *Veena Ltd. forfeited 300 equity shares of 100 each 80 per share (including premium) being called up, which were issued at a premium of 10%. Shareholder of 300 shares had paid only 50 per share (including premium). Out of these forfeited shares 200 shares were subsequently re-issued by the company at 80 called-up for 50 per share. Give necessary Journal Entries with regard to forfeiture and re-issue of shares. (3 marks)*
- (c) *What do you mean by Capital Redemption Reserve ? How it can be utilised as per Companies Act, 2013 and presentation in financial statements ? (3 marks)*
- (d) *On 1st July, 2020 a company purchased its own 1,000 9% Debentures of 100 each for 88,360. You are required to give necessary Journal Entries if :*
- (i) *These 9% debentures are cancelled immediately.*
 - (ii) *These 9% debentures, purchased by the company, are kept as investment. (3 marks)*
- (e) *What are the main sources of issue fully paid-up bonus shares as per Companies Act, 2013 ? (3 marks)*

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

- (i) Ankit Ltd. having three whole-time directors in the Board, the others being part time directors, earned profit year ending March 31, 2021 was 13,50,000 after taking into consideration the following :

Particulars	₹
Depreciation provided in the books	5,00,000
Depreciation allowable under Schedule II of Companies Act, 2013	4,00,000
Provision for Income-Tax	1,30,000
Directors fees	15,000
Subsidy from Government	4,20,000

Calculate the maximum remuneration payable to the whole-time directors assuming that the remuneration payable to the whole-time directors is to be calculated on net profit remaining after payment of remuneration to part-time directors and that the remuneration to part-time directors is to be calculated on the net profit remaining after payment of remuneration to whole-time directors.

(5 marks)

- (ii) Aarvi Ltd. 20,000 shares which were underwritten as follows :

X : 12,000 shares; Y : 5,000 shares and Z : 3,000 shares. The underwriters made applications for firm underwriting as under :

X : 1,600 shares; Y : 600 shares and Z : 2,000 shares. The total subscription excluding firm underwriting (including marked applications) were 10,000 shares.

The marked applications were X : 2,000 shares; Y : 4,000 shares and Z : 1,000 shares.

Prepare a statement showing the net liability of underwriters.

(5 marks)

- (iii) Shiva Ltd. purchased 4,000 equity shares of Chandu Ltd. on 1st October, 2018. From the following information of Chandu Ltd., calculate minority shareholder's interest :

	31st March, 2018 ₹	31st March, 2019 ₹
5,000 equity shares of 100 each	5,00,000	5,00,000
General Reserve	20,000	20,000
Profit and Loss A/c	5,000	35,000
Discount on issue of Debentures	10,000	10,000

On 1st April, 2018 Land & Building and Plant & Machinery of Chandu Ltd. were ₹2,00,000 and ₹5,00,000 respectively. On the date of acquisition Shiva Ltd. revalued Land & Building at ₹2,20,000 and Plant & Machinery at ₹4,55,000.

(5 marks)

Answer 2(a)

Economic value added (EVA) is a measure of a company's financial performance based on the residual wealth calculated by deducting its cost of capital from its operating profit, adjusted for taxes on a cash basis. EVA can also be referred to as economic profit, as it attempts to capture the true economic profit of a company.

EVA is the incremental difference in the rate of return over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested into it. If a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a company is producing value from the funds invested in it.

$$\text{EVA} = \text{Net Operating Profit after Taxes} - (\text{Equity Capital} \times \% \text{ Cost of Equity Capital})$$

Corrective action to improve EVA

1. Operating performance with respect to operating profit margins or asset turnover ratios could be improved to generate more revenue without using more capital.
2. The capital invested in the business might be reduced by selling under-utilized assets; this strategy will simultaneously improve operating performance through a higher asset turnover ratio, as well as a reduced capital charge against those earnings because of a reduced debt or equity capital investment.
3. Redeploy the capital invested to projects and activities that have higher operating performance than the current projects or investments are exhibiting.
4. If the business is not highly leveraged, change the capital structure by substituting lower cost debt for higher cost equity. Although this is the last strategy will decrease net income because of the higher interest cost, it will improve the EVA of the business because the total cost of debt and equity is reduced, and EVA measures the value created after all costs of capital (debt and equity) have been taken into account.

Answer 2(b)

<i>Particulars</i>	<i>(₹)</i>	<i>(₹)</i>
Equity Share Capital A/c	Dr. 21,000	
To Calls in arrears A/c		9,000
To Share forfeited A/c		12,000
(Forfeiture of 300 shares for non-payment of call of ₹30)		
Bank A/c	Dr. 10,000	
Share forfeited A/c	Dr. 6,000	
To Equity Share capital A/c		16,000
(200 forfeited shares are re-issued at ₹80 called up for ₹50)		
Share forfeited A/c	Dr. 2,000	
To Capital Reserve A/c		2,000
(Amount transferred)		

Answer 2(c)

If preference share shares are proposed to be redeemed out of the profits of the company, a sum equal to the nominal amount of the shares to be redeemed shall be transferred to a reserve called the Capital Redemption Reserve account out of the profits of the company and the provisions relating to reduction of share capital of a company shall apply as if the Capital Redemption Reserve Account were paid-up share capital of the company.

The Capital Redemption Reserve can be utilized for:

- (i) Capital Reduction A/c for internal reconstruction,
- (ii) In paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares

Capital Redemption Reserve to be shown in balance sheet liabilities side under the head "Reserve and Surplus".

Answer 2(d)

<i>Particulars</i>		<i>Amount (₹)</i>	<i>Amount (₹)</i>
(i) 9% Debentures A/c	Dr.	1,00,000	
To Bank A/c			88,360
To Profit on redemption of Debenture A/c			11,640
(1000 Debentures of ₹100 each purchased from market for ₹88360 and cancelled)			
Profit on Redemption of Debenture A/c	Dr.	11,640	
To Capital Reserve A/c			11,640
(Capital profit transferred to Capital Reserves A/c)			
<hr/>			
(ii) Investment in 9 % own Debentures A/c	Dr.	88,360	
To Bank A/c			88,360
(1000 own Debentures of Rs. 100 each Purchased as investments for ₹88360)			

Answer 2(e)

A company may issue fully paid-up Bonus Shares to its members, in any manner out of -

- (i) its Free Reserves or
- (ii) the Securities Premium or
- (iii) the Capital Redemption Reserve A/c

However, no issue of Bonus Shares shall be made by capitalising reserves created by the Revaluation of Assets.

Answer 2A(i)

Profit as per Profit & Loss A/c	13,50,000
Add : Excess depreciation written off (500000 - 400,000)	1,00,000
Add : Provision for Income Tax	1,30,000
Net profit for calculating Managerial remuneration	15,80,000

Calculation of Remuneration

Suppose remuneration Payable to whole-Time directors is X. Then the remuneration of Part time directors will be $1/100 \times (15,80,000 - X)$

Profit after Part time director's remuneration will be: $1580000 - 1/100 (15,80,000 - X)$

Therefore $X = 1/10 [1580000 - 1/100 (1580000 - X)]$

$10X = 1580000 - 1/100 (1580000 - X)$

$1000 X = 158000000 - 1580000 + X$

$999 X = 156420000$

$X = 156576.58$

Remuneration for whole time directors = ₹156576.58

Net Profit after whole-Time Directors remuneration will be ₹15,80,000 – 156576.58 = ₹1423423.42

Thus, remuneration of Part time directors will be = $1/100 \times 1423423.42 = ₹14234.23$

Answer 2A(ii)

Statement of Underwriters' Liability
(Firm underwriting shares are treated as unmarked applications)

Particulars	Shares			Total
	X	Y	Z	
Gross Liability	12,000	5,000	3,000	20,000
Less : Marked Applications	(2,000)	(4,000)	(1,000)	(7,000)
Balance	10,000	1,000	2,000	13000
Less : Unmarked application and firm underwriting in the ratio of gross liability (12:5:3)	(4,320)	(1,800)	(1,080)	(7,200)
Balance	5,680	(800)	920	5,800
Credit of Y's over subscription to X & Z in the ratio of 12:3	(640)	800	(160)	-
Net Liability	5,040	-	760	5,800
Add : Firm underwriting	1600	600	2000	4,200
Total Liability	6,640	600	2,760	10,000

Alternate Answer 2A(ii)

Statement of Underwriters' Liability
(Firm underwriting shares are treated as marked applications)

<i>Particulars</i>	<i>Shares</i>			
	<i>X</i>	<i>Y</i>	<i>Z</i>	<i>Total</i>
Gross Liability	12,000	5,000	3,000	20,000
Less : Unmarked applications 3000 in ratio of gross liability (12:5:3)	(1800)	(750)	(450)	(3000)
Balance	10,200	4,250	2,550	17000
Less : Marked application plus shares underwritten firm	(3,600)	(4,600)	(3,000)	(11,200)
Balance	6,600	(350)	(450)	5,800
Credit of Y's and Z's oversubscription	(800)	350	450	-
Net Liability	5,800	-	-	5,800
Add : Firm underwriting	1600	600	2000	4,200
Total Liability	7,400	600	2,000	10,000

Answer 2A(iii)

Computation of Capital Profit and Revenue Profit of Chandu Ltd.

<i>Particulars</i>	<i>Capital Profit (Pre-Acquisition) ₹</i>	<i>Revenue Profit (Post-Acquisition) ₹</i>
General Reserve	20,000	-
Profit & Loss A/c (at beginning)	5,000	-
Profit during the year	15,000	15,000
Discount on issue of debenture	(10,000)	
Profit on revaluation of Land & Building	20,000	
Loss on revaluation of Plant & Machinery	(45,000)	
	5,000	15,000
Shiva Ltd. (80% Share)	4,000	12,000
Minority Shareholders Interest (20%)	1,000	3,000
		₹
20% paid up capital of Chandu Ltd.		1,00,000
20% share in capital Profit		1,000
20% share in revenue Profit		3,000
Minority Shareholders interest		1,04,000

Question 3

(a) A Company was incorporated on 1st August, 2018 to acquire the business of Shri Kumar from 1st April, 2018. The accounts for the year ended 31st March, 2019 disclosed the following :

- (i) There was a gross profit ₹2,40,000.
- (ii) Total sales for the year ending 31st March, 2019 were ₹9,03,180 and sales for April to July, 2018 were ₹3,76,325.
- (iii) The expenses debited to Profit and Loss account included Directors fees ₹15,000, Bad debts ₹1,550, Advertising ₹12,000, Salaries and General expenses ₹36,000, Formation expenses ₹5,000, Donation to a political party given by the company ₹8,000.
- (iv) Bad debts ₹350 related to sales effected after 1st September, 2018.

Prepare a statement showing the amount of Profit prior to and post incorporation.
(5 marks)

(b) Raj Ltd. went into voluntary liquidation on 10th May, 2019. Certain creditors could not receive payment out of realisation of assets and out of the contributions from the contributories of the 'A' list. The following details of share transfers are made available to you :

Shareholders	No. of shares transferred	Date of transfer	Proportionate unpaid debts (Creditors) (₹)
P	2,000	20th April, 2018	6,000
Q	2,400	15th May, 2018	10,000
R	3,000	18th September, 2018	18,400
S	1,600	24th December, 2018	21,000
T	1,000	12th March, 2019	22,000

All the shares were ₹10 each, ₹6 paid-up.

You are to determine the amount realisable from various persons listed above.
(5 marks)

(c) Beta Ltd. had issued 10,000 Redeemable Preference Shares of ₹100 each fully called, due for redemption at a premium of 10%. The following balances appeared in the books of the company :

	₹
Redeemable Preference Share Capital	10,00,000
Call in Arrears (Redeemable Preference Shares)	20,000
General Reserve	6,00,000
Securities Premium	80,000
Foreign Project Reserve	4,00,000

It is ascertained that :

Calls-in-arrears are on account of final call on 1,000 shares held by four members whose whereabouts are not known. ₹1,00,000 of the Foreign Project Reserve is free for distribution as dividends. Balance of General Reserve and Securities Premium is to be utilized for the purpose of redemption and the shortfall is to be made by issue of Equity Shares of ₹10 each at par. The redemption of preference shares is duly carried out. You are required to give necessary journal entries.

(5 marks)

Answer 3(a)

Profit and Loss A/c for the year ending 31st March 2019

<i>Particulars</i>	<i>Pre incorporation</i>	<i>Post incorporation</i>	<i>Particulars</i>	<i>Pre incorporation</i>	<i>Post incorporation</i>
To Directors fees (post)	-	15,000	By gross profit (5:7)	1,00,000	1,40,000
To Bad Debts (W.No.3)	1,021	5,29			
To Advertising (5:7)	5,000	7,000			
To Salaries & General Exp (1:2)	12,000	24,000			
To Formation Expenses (post)	-	5,000			
To Donation (post)	-	8,000			
To Net profit	81,979	80,471			
Total	1,00,000	1,40,000	Total	1,00,000	1,40,000

W. No.

(i) Calculation of Sales Ratio

Pre-incorporation Sales Rs. 376325

Post incorporation Sales Rs. 526855 (Rs. 903180 – 376325)

Sales Ratio- 5:7

(ii) Time Ratio = 4 months : 8 months = 1:2

(iii) Bad Debts ₹350 after September 2018. Balance ₹1200 (1550-350) was distributed is April to August sales rates as under:

<i>Particulars</i>	<i>April to July</i>	<i>August</i>
Sales	376325	526855 / 8 = 65856
Ratio	376325 : 65856	
Bad Debts April to August Rs. 1200 to be allocated in the ratio 376325:65856	1021	179

Answer 3(b)**Statement showing Liability of 'B' List contributories**

Date	Creditors outstanding	Incremental amount	No. of share held				Ratio
			Q 2400	R 3000	S 1600	T 1000	
15-5-18	10000	10000	3000	3750	2000	1250	12:15:8:5
18-9-18	18400	8400	-	4500	2400	1500	15:8:5
24-12-18	21000	2600	-	-	1600	1000	8:5
12-03-19	22000	1000	-	-	-	1000	
Maximum Amount Payable to creditor (A)		22000	3000	8250	6000	4750	
Amount of uncall Capital @ Rs 4 per share Actual liability (B)			9600	12000	6400	4000	
Lower of (A) or (B)			3000	8250	6000	4000	
Total amount paid to creditors			₹3000 + ₹8250 + ₹6000 + ₹4000 = ₹21,250				

Note: Shareholder P will not contribute because the transfer date is beyond 1 year from the date of winding up.

Answer 3(c)**Journal Entries in the Books of Beta Ltd.**

Date	Particulars	L. F.	Amount (Dr.) ₹	Amount (Cr.) ₹
-	Preference Share Capital a/c	Dr.	100000	
	To Call in Arrear A/c			20000
	To Share Forfeiture A/c			80000
	(Being 1000 share forfeited)			
-	Share Forfeiture A/c	Dr.	80000	
	To Capital Reserve A/c			80000
	(Being Amount of share forfeiture transferred to Capital Reserve Account)			
Date of Redeemable	Preference Share Capital A/c	Dr.	9,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	90,000	
	To Preference Shareholders A/c			9,90,000
	(Amount due on redemption of Preference Shares at 10% premium)			

EP–CAAP–December 2021

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Date of Transfer	Securities Premium A/c	Dr.	80,000	
	General Reserve A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			90,000
	(Premium on redemption of Preference Shares provided for out of General Reserve and Securities Premium A/c)			
Date of Transfer	General Reserve A/c	Dr.	5,90,000	
	Foreign Project Reserve A/c	Dr.	1,00,000	
	Capital Reserve A/c	Dr.	80,000	
	To Capital Redemption Reserve A/c			7,70,000
	(Amount Transferred to Capital Redemption Reserve A/c)			
Date of Receipt	Bank A/c	Dr.	1,30,000	
	To Equity Share Application & Allotment A/c			1,30,000
	(Amount received on issue of 32,000 Equity Shares @ 10 per share.)			
Date of Allotment	Equity Share Application & Allotment A/c	Dr.	1,30,000	
	To Equity Share Capital A/c			1,30,000
	(Amount received on application transferred to equity share capital a/c on allotment)			
Date of Payment	Preference Shareholders A/c	Dr.	9,90,000	
	To Bank A/c			9,90,000
	(Being amount paid to preference shareholders on redemption.)			

Assumption: It is assumed that the 1000 preference share whose whereabouts is unknown is forfeited.

Alternative Answer 3(c)

Journal Entries in the Books of Beta Ltd.

<i>Date</i>	<i>Particulars</i>	<i>L. F.</i>	<i>Amount (Dr.) ₹</i>	<i>Amount (Cr.) ₹</i>
Date of Redeemable	Preference Share Capital A/c	Dr.	9,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	90,000	
	To Preference Shareholders A/c			9,90,000
	(Amount due on redemption of Preference Shares at 10% premium)			

Date of Transfer	Securities Premium A/c	Dr.	80,000	
	General Reserve A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			90,000
	(Premium on redemption of Preference Shares provided for out of General Reserve and Securities Premium A/c)			
Date of Transfer	General Reserve A/c	Dr.	5,90,000	
	Foreign Project Reserve A/c	Dr.	1,00,000	
	To Capital Redemption Reserve A/c			6,90,000
	(Amount Transferred to Capital Redemption Reserve A/c)			
Date of Receipt	Bank A/c	Dr.	2,10,000	
	To Equity Share Application & Allotment A/c			2,10,000
	(Amount received on issue of 32,000 Equity Shares @ 10 per share.)			
Date of Allotment	Equity Share Application & Allotment A/c	Dr.	2,10,000	
	To Equity Share Capital A/c			2,10,000
	(Amount received on application transferred to equity share capital a/c on allotment)			
Date of Payment	Preference Shareholders A/c	Dr.	9,90,000	
	To Bank A/c			9,90,000
	(Being amount paid to preference shareholders on redemption.)			

Assumption: It is assumed that the 1000 preference share whose whereabouts is unknown is not forfeited.

Question 4

- (a) The following Balance Sheets of Moon Ltd. and Star Ltd. as at 31st March, 2019 are supplied:

<i>Particulars</i>	<i>Moon Ltd.</i>	<i>Star Ltd.</i>
	(₹)	(₹)
I. EQUITY AND LIABILITIES		
(1) <i>Shareholders' Funds</i>		
(a) <i>Share Capital</i>		
<i>Equity shares of ₹ 100 each</i>	5,00,000	2,00,000
(b) <i>Reserves and Surplus</i>		
<i>General Reserve</i>	1,00,000	—
<i>Statement of Profit & Loss</i>	80,000	(1,00,000)

(2) <i>Non-current Liabilities</i>		
6% Debentures	-	1,00,000
(3) <i>Current Liabilities</i>		
Creditors	75,000	45,000
Total	7,55,000	2,45,000

II. ASSETS

(1) <i>Non-Currents Assets</i>		
(a) <i>Tangible Fixed Assets</i>		
Fixed Assets	3,50,000	1,50,000
(b) <i>Non-current Investments</i>		
6% Debentures in Star Ltd.		
(Acquired at Par)	60,000	—
1,500 Equity shares in Star Ltd. (at cost)	1,20,000	—
(2) <i>Currents Assets</i>		
Stock	90,000	40,000
Debtors	75,000	30,000
Cash at Bank	75,000	25,000
Total	7,55,000	2,45,000

Additional information :

- (i) Moon Ltd. acquired 1,500 equity shares in Star Ltd. on 1st August, 2018.
- (ii) The statement of Profit and Loss of Star Ltd. showed a debit of ₹1,50,000 on 1st April, 2018.
- (iii) On 3rd June, 2018 goods of Star Ltd. costing ₹6,000 were destroyed by fire against which insurers paid ₹2,000.
- (iv) Creditors of Star Ltd. on 31st March, 2019 include ₹20,000 for goods supplied by Moon Ltd. on which the latter company made profit of ₹2,000. One-half of these goods were still in its stock on 31st March, 2019.

Prepare the consolidated Balance Sheet as at 31st March, 2019 in the books of Moon Ltd. Show your working clearly. (8 marks)

- (b) The Balance Sheet of Nangu Ltd. as at 31st March, 2021 is as follows :

Balance Sheet of Nangu Ltd. as at 31st March, 2021

<i>Particulars</i>	<i>(₹)</i>
I. EQUITY AND LIABILITIES	
(1) <i>Shareholders' Funds</i>	
(a) <i>Share Capital</i>	
Equity shares of ₹100 each	2,00,000
(b) <i>Reserves and Surplus</i>	
Statement of Profit and Loss (Debit)	(97,000)

(2) <i>Non-Current Liabilities</i>	
6% <i>Debentures</i>	1,00,000
(3) <i>Current Liabilities</i>	
Trade creditors	50,000
Accrued Interest on <i>Debentures</i>	12,000
Total	2,65,000
II. ASSETS	
(1) Non-Current Assets	
(a) <i>Tangible Fixed Assets</i>	
Plant and Machinery	2,00,000
(2) Current Assets	
Stock-in-trade	50,000
Debtors	10,000
Cash at Bank	5,000
Total	2,65,000

The following scheme of re-construction was approved by the court :

- The shares were sub-divided into shares of ₹5 each and 90% of shares were surrendered.
- The total claim of debentureholders were reduced to ₹49,000 and in consideration of this they were also allotted out of the surrendered shares amounting to ₹25,000.
- The creditors agreed to reduce their claim to ₹20,000, 1/3 of (reduction) which was satisfied by issue of equity shares out of these surrendered shares.
- The shares surrendered but not re-issued were cancelled.
- Bad-debts to the extent of 10% of the total debtors would be provided for.
- The balance of Capital Reduction Account is to be applied for writing-off the losses and the balance if any is to be used in writing down the amount of Plant & Machinery and stock-in-trade proportionately.

You are required to give the necessary Journal Entries and draft the Balance Sheet of Nangu Ltd. after reconstruction. (7 marks)

Answer 4(a)

Star Ltd. Profit for the year 2018-19 is an under:

(i) Memorandum of Profit & loss Account of Star Ltd.

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To opening Debit Balance (Loss) on 1-4-2018	1,50,000	By net profit for the year 2018-19 (balancing Figure)	50,000
		By closing Debit Balance (loss on 31-3-2019)	1,00,000
	1,50,000		1,50,000

(ii) Computation of pre-acquisition and post- acquisition profit /reserve of Star Ltd.

<i>Particulars</i>	<i>Pre-acquisition profit ₹</i>	<i>Post- acquisition profit ₹</i>
Debit balance of P &L A/c (1.4.2018)	(150000)	-
Normal Profit for the years 2018-19 (₹ 50000+4000) (Note 1)	18000	36000
Uncovered loss related to goods destroyed on 03.06.2018	(4000)	-
Total	(1,36,000)	36,000
Moon Ltd. Share (75%)	(1,02,000)	27,000
Minority Share (25%)	(34000)	9000

The profit ascertained for year 2018-19

Note 1 : ₹50000 is after charging loss of goods destroyed (₹6000 - ₹2000) = ₹4000, therefore normal profit of Star Ltd. For 2018-19 is ₹54000(i.e.50000 + 4000)

(iii) Computation of Minority shareholders

<i>Particulars</i>	<i>₹</i>
25% paid up capital of Star Ltd.	50000
25% share in pre-acquisition loss of Star Ltd.	(34000)
25% share in pre-acquisition profit of Star Ltd.	9000
Minority shareholders Interest	25000

(iv) Computation of Goodwill/capital reserve on consolidation

<i>Particulars</i>	<i>₹</i>	<i>₹</i>
Cost of 1500 Equity shares of Star Ltd held by Moon Ltd		1,20,000
Less : Moon Ltd. Share in Net worth of Star Ltd. (01.08.2018)		
75% paid up Equity capital	150,000	
75% pre-acquisition loss of Star Ltd.	(1,02,000)	(48,000)
		72000
<i>Add</i> : Excess or under cost paid up for 6% debentures of Star Ltd. (₹60000 - ₹60000)		NIL
Goodwill		72000

(v) Computation of Consolidated Profit

<i>Particulars</i>	₹
Balance of Profit & Loss Accounts of Moon Ltd. on (31.3.2019)	80,000
Add : 75% share in post-acquisition profit of Star Ltd.	27,000
	1,07,000
Less : Unrealised profit of Moon Ltd. in closing stock held by Star Ltd. (2000 x 1/2)	(1000)
Consolidated Profit	1,06,000

Consolidated Balance Sheet of Group as at 31.03.2019

<i>Particulars</i>	₹
I. Equity And Liabilities	
(1) Shareholders Fund	
(a) Share capital	
5000 equity shares of ₹100 each fully paid	5,00,000
(b) Reserves and Surplus	
General Reserves	1,00,000
Consolidated profit	1,06,000
(2) Minority shareholders interest	25,000
(3) Non- current Liabilities	
(6% debentures (₹100000 – Mutual ₹60000))	40,000
(4) Current Liabilities	
(₹75000 + ₹45000 – Mutual ₹20000)	1,00,000
Total	8,71,000
II. Assets	
(1) Non- current Assets	
(a) Tangible fixed assets (₹350000 + ₹150000)	5,00,000
(b) Intangible fixed assets	
Goodwill	72,000
(2) Current Assets	
Stock (₹90000 + ₹40000 – unrealized profit ₹1000)	1,29,000
Debtors (₹60000 + ₹30000 – ₹20000)	70,000
Cash at Bank (₹75000 + ₹25000)	1,00,000
Total	8,71,000

Answer 4(b)**Journal of in the Books of Nangu Ltd**

<i>Particulars</i>	₹	₹
Equity share capital (Rs. 100) A/c	Dr. 2,00,000	
To Equity share capital (₹5) A/c		2,00,000
(sub-division of equity shares of ₹100 each into shares of ₹5 each)		
Equity share capital (₹5) A/c	Dr. 180,000	
To Surrendered share A/c		180,000
(Surrender of 90% of equity share of ₹5 each)		
6% Debentures A/c	Dr. 51,000	
Accrued interest on debentures	Dr. 12,000	
To Capital Reduction A/c		63,000
(Reduction of the claim of debenture holders to ₹49000)		
Surrendered shares A/c	Dr. 35,000	
To Equity share capital (₹5) A/c		35,000
(allotment of equity shares of ₹25000out of share surrendered to debenture holders and ₹10000 to sundry creditors)		
Sundry creditors A/c	Dr. 30,000	
To capital Reduction A/c		30000
(reduction of the claims of creditors from ₹50000 to ₹20000)		
Surrendered shares A/c	Dr. 1,45,000	
To capital reduction A/c		1,45,000
(Surrendered shares not issued cancelled)		
Capital reduction A/c	Dr. 1,000	
To provision for bad debts		1,000
(provision for bad-debts provided for)		
Capital reduction A/c	Dr. 2,37,000	
To Profit & Loss A/c		97000
To Plant & Machinery		1,12,000
To Stock – in trade		28,000
(Utilization of capital reduction account in writing down the value of plant & Machinery, Stock and the debit balance of P & L A/c)		

Nangu Ltd. (and reduced)
Balance Sheet (After Reconstruction)
on 31st March , 2021

Particulars	₹
I. Equity & Liabilities	
(1) Shareholders fund	
(a) Share capital 11000 equity shares of ₹5 each fully paid	55,000
(2) Non-current liabilities 6% debentures	49,000
(3) Current liabilities creditors	20,000
Total	1,24,000
II. Assets	
(1) Non-current Assets	
(a) Tangible fixed assets Plant & Machinery	88000
(2) Current Assets	
Stock in trade	22,000
Debtors	10000
Less : provision for bad debts	(1000)
Cash	5,000
Total	1,24,000

PART B

Question 5

- (a) Explain the different techniques used in review of internal control system.
- (b) What do you mean by verification of assets ? Explain the techniques of verification.
- (c) "Audit is essential whether it is a sole trader's business or a partnership or a limited company or government corporation." Analyse the statement in the light of advantages of an independent audit. (5 marks each)

Answer 5(a)

The different techniques used in review of internal control system are as under:

Narrative record - It is a complete and exhaustive description of the system as found in operation by the auditor. Actual testing and observation are necessary before such a system is in operation and would be more suited to small business.

Check list - A check list is a series of instruction and or answer. When he completes instruction, he initials the space against the instruction. Answers to the check list instruction are usually yes, No or not applicable. This is again an on the Job requirement and instructions are framed having regard to the desirable element of control.

Questionnaire - It is a comprehensive series of questions concerning internal control. This is the most widely used from for collecting information about the existence operation and efficiency of internal control in an organisation. The questionnaire is annually issued to the client and the client is requested to get it filled by the concerned executives and employees. If on a perusal of the answers, inconsistencies or apparent incongruities are noticed, the matter is further discussed by auditor's staff with the client employees for a clear picture. The concerned auditor then prepares a report of deficiencies and recommendation for improvement.

Flow Chart - It is a graphical presentation of each part of the company's system of internal Controls.

Answer 5(b)

The term 'verification' signifies the physical examination of certain class of assets and confirmation regarding certain transactions. Sometimes verification is confused with vouching but they differ from each other on the nature and depth of the examination involved. Vouching goes to prove the arithmetical accuracy and the genuineness of the transactions, whereas verification goes to enquire into the value, ownership, existence and possession of assets and also to confirm whether they are free from any mortgage or charge. The fact of the presence of any entry regarding the acquisition of asset does not prove that the particular asset actually exists on the Balance Sheet date, rather it purports to prove that the asset ought to exist; on the other hand, verification through physical examination and confirmation proves whether a particular asset actually exists without having any charge on the date of the Balance Sheet.

Verification of Assets includes verifying the following:

1. The existence of the assets.
2. Legal ownership and possession of the assets.
3. Ascertaining that the asset is free from any charge.
4. Correct Valuation.

Techniques of Verification:

1. *Inspection* : It means physical inspection of the assets i.e. company cash in the cash box, physical inventory, inspection of shares certificates, documents etc.
2. *Observation* : The auditor may observe or witness the inspection of assets done by others.
3. *Confirmation* : It means obtaining written evidence from outside parties regarding existence of assets.

Answer 5(c)

The fact that audit is compulsory by law, in certain cases by itself should show that there must be some positive utility in it. The chief utility of audit lies in reliable financial statement on the basis of which the state of affairs may be easy to understand. There

are other advantages of audit. Some or all of these are of considerable value even to those enterprises and organization where audit is not compulsory, these advantages are given below:

1. It safeguards the financial interest of persons who are not associated with the management of the entity whether they are partners or shareholders.
2. It acts as a moral check on the employees from committing defalcations or embezzlement.
3. Audited statements of account are helpful in setting liability for taxes, negotiating loans and for determining the purchase consideration for a business.
4. This are also use for settling trade disputes or higher wages or bonus as well as claims in respect of damage suffered by property, by fire or some other calamity.
5. An audit can also help in the detection of wastage and losses to show the different ways by which these might be checked, especially those that occur due to the absence of inadequacy of internal checks or internal control measures.
6. Audit ascertains whether the necessary books of accounts and allied records have been properly kept and helps the client in making good deficiencies or inadequacies in this respects. As an appraisal function, audit reviews the existence and operations of various controls in the organizations and reports weakness, inadequacy, etc., in them.
7. Audited accounts are of great help in the settlement of accounts at the time of admission or death of partner.
8. Government may require audited and certificated statement before it gives assistance or issues a licence for a particular trade.

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

Question 6

- (a) *As per Section 138 of Companies Act, 2013 explain internal audit and also state the class of Companies shall be required to appoint an internal auditor.*
- (b) *What are the points considered while reviewing the quality management system of a manufacturing organisation ?*
- (c) *What are the objectives of efficiency audit ? Explain the advantages of efficiency audit.* (5 marks each)

OR (Alternative question to Q. No. 6)

Question 6A

- (i) *What are the factors to be considered while determining sample size in audit sampling ?*
- (ii) *Describe the objectives of review of sales and distribution policies and programs.*
- (iii) *How does the compliance audit carry out ? Explain its stepwise approach.* (5 marks each)

Answer 6 (a)**(a) Internal Audit**

Section 138 under Chapter IX of the companies Act, 2013 contains provisions regarding internal audit. The provisions regarding internal audit of the company according to section 138 of the companies Act, 2013 and the companies (Accounts) Rules, 2014 are discussed below:

Qualifications for the Internal auditor : The internal auditor shall either be a chartered accountant whether engaged in practice or not or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Report of the internal audit : The report of internal audit shall be submitted to the Board of the company.

Companies Required to Appoint Internal Auditor: The following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely.

- (a) Every listed company;
- (b) Every unlisted public company having
 - Paid up share capital of fifty crore rupees or more during the preceding financial year; or
 - Turnover of two hundred crore rupees or more during the preceding financial year; or
 - Outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
 - Outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
- (c) Every private company having
 - Turnover of two hundred crore rupees or more during preceding five years
 - Outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point time during the preceding financial year

Other Provisions:

- All the companies covered under any of the above criteria will have to comply with the requirements of section 138 and this rule within six months of commencement of such section.
- The internal auditor may or may not be an employee of the company.
- The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

Answer 6(b)**Review of Quality Management System of a manufacturing organisation**

1. Whether formal documented instructions / procedures are available on:
 - I. Quality tests to be performed at each stage of the production process
 - II. Steps to be taken in the case of negative results
 - III. Documentation required to evidence completion and results of quality checks
2. Whether sufficient quantities of each production run are tested to enable compliance with quality control standards?
3. Whether Quality assurance procedures are integrated into the production process?
4. Whether defect rates, customer returns and complaints due to poor quality are monitored?
5. Whether measuring equipment and devices are calibrated on a periodic basis i.e. quarterly, half yearly?

Answer 6(c)**Objective of Efficiency Audit**

The objectives of Efficiency Audit can include assessing one or more of the following:

- The level of efficiency achieved by an organizational operation in relation to reasonable standards;
- The adequacy and reliability of systems of procedure used to measure and report efficiency;
- An organization's efforts to explore and exploit opportunities to improve efficiency; and
- Whether the management processes and information systems, operational systems, and practices of an organization help to achieve efficiency.

Advantages of Efficiency Audit

- i. Help managers and staff to be more sensitive to their obligation of due regard to efficiency;
- ii. Underline the importance of measuring efficiency and of using that information for managing operations and providing accountability;
- iii. Identify means for improving efficiency, even in operations where efficiency is difficult to measure;
- iv. Demonstrate the scope for lowering the cost of delivering programs without reducing the quantity or quality of outputs or the level of service;
- v. Increase the quantity or improve the quality of outputs and level of service without increasing spending; and
- vi. Identify needed improvements in existing controls, operational systems, and work processes for better use of resources.

Answer 6A(i)**Factors in determining sample size are as under**

1. When determining the sample size, the auditor should consider sampling risk, the tolerable error, and the expected error.
2. Sampling risk arises from the possibility that the auditor conclusion, based on a sample, may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedure.
3. The auditor is faced with sampling risk in both tests of control and substantive procedure as follow:
 - a. Tests of control:
 - i. *Risk of under reliance* : The risk that, although the sample result does not support the auditor's assessment of control risk, the actual compliance rate would support such an assessment.
 - ii. *Risk of over reliance* : The risk that, although the sample result supports the auditor's assessment of control risk, the actual compliance rate would not support such as an assessment.
 - b. Substantive procedures:
 - i. *Risk of incorrect rejection* : The risk that, although the sample results the supports the conclusion that a recorded account balance or class of transactions is materially misstated, in fact it is not materially misstated.
 - ii. *Risk of incorrect acceptance* : The risk that, although the sample result supports the conclusion that a recorded account balance or class or transactions is not materially misstated.
4. The risk of under reliance and the risk of incorrect rejection affect audit efficiency as they would ordinarily lead to additional work being performed by the auditor, or the entity, which would establish that the initial conclusions were incorrect. The risk of over reliance and the risk of incorrect acceptance affect audit effectiveness and are more likely to lead to an erroneous opinion on the financial statements than either the risk of under reliance or the risk of incorrect rejection.
5. Sample size is affected by the level of sampling risk the auditor is willing to accept from the results of the sample. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.

Answer 6A(ii)**Objective of Review of Sales and Distribution Policies and Programs are as under:**

1. To determine whether sales and distribution policies and programs are adequately documented.
2. To determine whether sales and distribution policies and programs are approved by the appropriate authority.
3. To determine that sales and distribution policies are matching with the overall corporate objective.

4. To determine whether maker checker and approver concept exist in the framing, approval and implementation of policies.
5. To check whether the distribution program is able enough to serve customers of all regions.
6. Whether controls are in place in the process to ensure accountability is established as early as possible at all points along the accountability chain.
7. Whether segregation of duties, or mitigating controls, exists within transaction processing authorization, custody, and recording functions. Separation of duties exists between the various types of transaction processing (e.g., Discount approval, section of made of transportation. Accounts receivable etc.)

Answer 6A(iii)

Doing a Compliance Audit, a stepwise approach is required. That is as follows:

1. Compliance auditor needs to have a clear Knowledge of audit's objective and scope.
2. The auditor must figure out, for each event to be tested , just what evidence signifies compliance and what evidence signifies noncompliance. The auditor may also prepare a detailed questionnaire about key compliance issues
3. If the auditor is not sufficiently experienced in very specialized compliance topics than the opinion of an expert should be sought.
4. The auditor may choose a sample of events or transactions for testing when it is not practical to examine every one that falls within the scope of audit
5. Compliance audit reports must be made in the format that is relevant to the auditee or sponsoring entity i.e. Government. Compliance audit report often indicate reasons for deviations from Standards describe implications of those deviations and recommend actions that strengthen control procedures for assuring compliance.

CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

Attempt the following questions :

(a) XB Bank Ltd. formed a SPV and issued ₹1,00,000 secured debt instruments redeemable after 10 years. However, the SPV failed to redeem some secured debt instruments. 2 investors holding ₹5,000 and ₹7,000 secured debt instruments were of the opinion to take action against such default. Discuss the legal recourse available to them and the kind of remedy available. Does it make any difference of opinion if the holding is ₹3,000 and ₹7,000 ?

(b) Consider the following data of Sunshine India Mutual Fund :

Value of investments	:	₹2,757 crores
Receivables	:	₹221 crores
Other current assets	:	₹643 crores
Liabilities	:	₹390 crores
Accrued expenses	:	₹87 crores

If the number of outstanding units is 155 crore and sales charge is 2.20% on the NAV, what would be the public offering price?

(c) "Ownership of a concern is also an important part of credit watch." Explain the term "credit watch" and relation of ownership with credit watch.

(5 marks each)

Answer 1(a)

Regulation 34 of the SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 provides the rights of investors in securities issued by special purpose distinct entity as follows –

- The trust deed or other instrument comprising the terms of issue of the securitised debt instruments issued by a special purpose distinct entity shall provide that investors holding such securitised debt instruments have such beneficial interest in the underlying debt or receivables as may have been conferred by the scheme.
- In the event of failure of the special purpose distinct entity to redeem any securitised debt instruments offered through an offer document or listed, within the time and in accordance with the conditions stated in the offer document or other terms of issue, the investors holding not less than ten per cent in nominal

value of such securitised debt instruments shall be entitled to call a meeting of all such investors.

- In such meeting, the investors may move a motion to -
 - (a) call upon the trustee and the special purpose distinct entity to wind up the scheme and distribute the realisations;
 - (b) remove the trustee;
 - (c) appoint a new trustee in place of the one removed under clause (b):

However, any such decision shall be taken by means of a special resolution of the investors of the scheme and sections 109 and 114 of the Companies Act, 2013 shall mutatis mutandis apply to such special resolution. However, the new trustee appointed is registered with SEBI or is exempted from such registration.

In the given case, both the investors together are holding more than 10% of nominal value of securitised debt instruments. Hence both the investors shall be entitled to call a meeting of all such investors.

There will not be any difference in answer if the holdings are Rs. 3000 and Rs.7000 of the investors as the percentage of holding is equal to 10% and not less than 10%.

Answer 1(b)

Net Asset Value: Market or Fair value of Investments + Current Assets - Current Liabilities and Provisions/No. of units outstanding under scheme on the valuation date.

NAV= (Total Current Assets including value of investments – Total Current Liabilities)/
Number of outstanding units

$$= [2,757+ (221+643) - (390+87)]/155 = \text{Rs.}20.2838$$

Public Offering Price = NAV/1-Sales Charge

$$= 20.2838/1-0.022$$

$$= 20.2838/0.978$$

$$= \text{Rs.}20.74$$

Answer 1(c)

Credit Watch

When a major deviation from the expected trends of the issuers business occurs, or when an event has taken place, it creates an impact on the debt servicing capability of the issuer and warrants a rating change, the rating agency may put such ratings under credit watch till the exact impact of such unanticipated development is analyzed and decision is taken regarding the rating change. The credit watch listing may also specify positive or negative outlooks. It should be noted that being under credit watch does not necessarily mean that there would be a rating change.

Ownership as a rating consideration

Ownership by a strong concern may enhance the credit rating of an entity, unless there exists a strong barrier separating the activities of the parent and the subsidiary. The important issues involved in deciding the relationship are - the mutual dependence

on each other, legal relationship, to what extent one entity has the desire and ability to influence the business of the other and how important is the operation of the subsidiary to the owner.

Rating agency keeps the information provided by the issuer confidential and completes the rating within 2 to 4 weeks. Once the rating is assigned, it is communicated to the issuer, who is given an opportunity to make one request for a review, only in case fresh facts or clarifications become relevant. After these are considered, the final rating is assigned. In India, the issuer has the option of not accepting the assigned rate in which case the rating is not disclosed by the rating agency. However, if the rating is accepted, it comes under the surveillance process of the concerned agency.

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

Question 2

Explain the following:

- (a) *Mezzanine Financing*
- (b) *Participants in Electronic Book Mechanism*
- (c) *Placement Memorandum for Angel Fund*
- (d) *Level Pay Floating Rate Notes*
- (e) *Jobber.*

(3 marks each)

OR (Alternate question to Q. No. 2)

Question 2A

- (i) *Define Treasury Bills. Find out the maturity period, auction day and notified amount in the following type of Treasury Bills :*
 - (a) *91 days T Bill*
 - (b) *182 days T Bill*
 - (c) *364 days T Bill.*
- (ii) *Sigma Ltd. is an unlisted company and is having 2,00,000 equity shares. The company does not have any past experience of any kind of initial public offer. However, the management wants to launch an IPO of 5,000 convertible debt instruments each convertible into 2 equity shares. Can the company launch its IPO without having prior public issue ? Discuss.*
- (iii) *What is Depository System ? What are the features of Depository System in India ?*

(5 marks each)

Answer 2(a)

Mezzanine Financing

A hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine financing is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.

Answer 2(b)**Participants in Electronic book mechanism**

- 1) Arranger, if any, appointed by the issuer, merchant bankers, RBI registered primary dealers or any other registered intermediaries, may act as the arranger. Arranger shall be categorised as a Category 1 Participant who may enter bids on Electronic Book Provider (EBP) either on proprietary basis or for other participants such as High Net Worth Individuals (HNIs), Institutional investors etc.
- 2) Sub-arranger appointed by the arranger, any broker registered with SEBI may act as a sub-arranger. Sub-arranger shall be categorised as a Category 1 Participant who may enter bids on EBP either on proprietary basis or for other participants such as High Net Worth Individuals (HNIs), Institutional investors etc.
- 3) Institutional investors shall be categorised as Category 2 Participants who may enter bids on proprietary basis or may participate through an arranger/sub-arranger.

Answer 2(c)**Placement Memorandum by Angel Fund**

Alternative Investment Fund and Angel Fund shall raise funds through private placement by issue of information memorandum or placement memorandum, by whatever name called. Such information memorandum or placement memorandum must contain all material information about the Alternative Investment Fund and the Manager, background of key investment team of the Manager, targeted investors, fees and all other expenses proposed to be charged, tenure of the Alternative Investment Fund or scheme, conditions or limits on redemption, investment strategy, risk management tools and parameters employed, key service providers, terms of reference of the committee constituted for approving the decisions of the Alternative Investment Fund, conflict of interest and procedures to identify and address them, disciplinary history, the terms and conditions on which the Manager offers investment services, its affiliations with other intermediaries, manner of winding up of the Alternative Investment Fund or the scheme and such other information as may be necessary for the investor to take an informed decision on whether to invest in the Alternative Investment Fund.

Answer 2(d)**Level Pay Floating Rate Notes**

Level pay floating rate notes are issued for a long period of time say 20 years, with adjustment in interest rate every five years. These notes provide for level payments for time intervals during the term of the note, with periodic interest adjustments tied to an index, and adjustments to the principal balance to reflect the difference between the portion of the payment allocable to interest and the amount of floating rate interest actually incurred. Maximum limits on upward adjustments to principal are specified at the outset to protect the lender from runaway floating exposure. The level pay note has the advantage to the issuer of having a predictable level of debt service for a period of years, thereby avoiding the uncertainties of floating debt on cash flows during that time.

Answer 2(e)**Jobber**

Member brokers of a stock exchange who specialize, by giving two way quotations, in buying and selling of securities from and to fellow members. Jobbers do not have any direct contact with the public but they serve the useful function of imparting liquidity to the market.

Answer 2A(i)

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

Treasury bills are presently issued in three tenors, namely, 91 days, 182 days and 364 days.

Maturity period, auction day and notified amount in 91 days, 182 days and 364 days Treasury Bills are given below:

- a. The maturity period is 91 days. Its auction is on every Friday of every week. The notified amount for this auction is Rs.100 crores.
- b. The maturity period is 182 days. Its auction is on every alternate Wednesday (which is not a reporting week). The notified amount for this auction is Rs. 100 crores.
- c. The maturity period is 364 days. Its auction is on every alternate Wednesday (which is a reporting week). The notified amount for this auc?ion is Rs.500 crores.

Answer 2A(ii)

According to the provisions of Regulation 9 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, an issuer can make an initial public offer of convertible debt instruments without making a prior public issue of its equity shares and listing thereof. However, the issuer is not in default of payment of interest or repayment of principal amount in respect of debt instruments issued by it to the public, if any, for a period of more than six months.

In addition to other requirements laid down in these regulations, an issuer making an initial public offer of convertible debt instruments shall also comply with the following conditions:

- The issuer has obtained credit rating from at least one credit rating agency;
- The issuer has appointed at least one debenture trustee in accordance with the provisions of the Companies Act, 2013 and the SEBI (Debenture Trustees) Regulations, 1993;
- The issuer shall create a debenture redemption reserve in accordance with the provisions of the Companies Act, 2013 and rules made thereunder;

- If the issuer proposes to create a charge or security on its assets in respect of secured convertible debt instruments, it shall ensure that such assets are sufficient to discharge the principal amount at all times and are free from any encumbrance.
- The issuer shall redeem the convertible debt instruments in terms of the offer document.

Thus, in the given case, Sigma Ltd can launch its IPO of 5,000 convertible debt instruments each convertible into 2 equity shares, without having prior public issue after complying with the requirements as stated above.

Answer 2A(iii)

A depository is an organization which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors through a registered Depository Participant. India has adopted the Depository System for securities trading in which book entry is done electronically and no paper is involved. The physical form of securities is extinguished and shares or securities are held in an electronic form.

Features of Depository System in India are given below:

1. **Multi-Depository System** : The depository model adopted in India provides for a competitive multi-depository system. A depository should be a company formed under the Companies Act, 2013 and should have been granted a certificate of registration under the Securities and Exchange Board of India Act, 1992. Presently, there are two depositories registered with SEBI, namely:
 - National Securities Depository Limited (NSDL), and
 - Central Depository Service Limited (CDSL)
2. **Depository services through depository participants** : The depositories can provide their services to investors through their agents called depository participants. These agents are appointed subject to the conditions prescribed under SEBI (Depositories and Participants) Regulations, 2018 and other applicable conditions.
3. **Dematerialisation** : The model adopted in India provides for dematerialisation of securities. This is a significant step in the direction of achieving a completely paper-free securities market. Dematerialization is a process by which physical certificates of an investor are converted into electronic form and credited to the account of the depository participant.
4. **Fungibility** : The securities held in dematerialized form do not bear any notable feature like distinctive number, folio number or certificate number. Once shares get dematerialized, they lose their identity in terms of share certificate, distinctive numbers and folio numbers. Thus, all securities in the same class are identical and interchangeable. For example, all equity shares in the class of fully paid-up shares are interchangeable.

Question 3

- (a) *Roshni Ltd. is presently an unlisted company and is proposed to be listed on*

BSE. The management is of the view to allot 50,000 equity shares on qualified institutional placement basis to a foreign depository. The floor price of shares has come down at ₹80 per share under ICDR regulations. However, the management is of the view to issue same class of shares @ ₹ 60.

As a Company Secretary of the company, you are required to comment on the validity of the pricing.

Will your answer be same, if the preferential allotment being made at ₹70 per share ?

- (b) *X has surplus cash of ₹100 crores to be deployed in a project. However, it does not require the funds at a time, but need at different intervals stated below:*

Funds available as on 1st Feb., 2021 ₹100 crores

Deployment in a project ₹100 crores

As per the requirements :

On 7th Feb., 2021 ₹25 crores

On 14th Feb., 2021 ₹10 crores

On 3rd March, 2021 ₹15 crores

On 9th March, 2021 ₹50 crores

Out of the above funds and the requirement schedule, X has mutually exclusive options for effective cash management of funds.

Option – 1: Invest the cash not required within 15 days in bank deposits.

Option – 2: Invest in Treasury Bills of various maturities depending on the fund requirements.

State clearly the implications of the two options.

- (c) *“Auto delivery facility is not applicable to all kinds of transactions.” Discuss the statement with a view of applicability as well as non-applicability.*

(5 marks each)

Answer 3(a)

Clause 6 of the Depository Receipts Scheme, 2014 provides that the price of permissible securities issued to foreign depository for the purpose of issuing depository receipts shall not be less than price if such security issued to domestic investors.

Explanation 1 : A company listed or proposed to be listed on a recognised stock exchange shall not issue equity shares on preferential allotment to a foreign depository for the purpose of issue of depository receipts at a price less than the price applicable to preferential allotment of equity shares of the same class to investors under ICDR.

Explanation 2 : Likewise, where a listed company makes a qualified institutional placement of permissible securities to a foreign depository for the purpose of issue of depository receipts, the minimum pricing norms for such placement as applicable under the ICDR shall be complied with.

In the given case, Roshni Ltd, an unlisted company, proposed to be listed on BSE. As per the provisions stated above, it cannot issue shares at a price less than Rs. 80/- under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. Hence it cannot issue at Rs. 60/- and therefore, minimum price regulation of SEBI (ICDR) Regulations, 2018 shall be complied with.

The answer will remain same as the price i.e. Rs. 70/- is still below Rs. 80/-. Therefore, in both the cases Roshni Ltd. cannot make issue.

Answer 3(b)

Implications of the two options are given below:

Option : 1: Invest the cash not required within 15 days in bank deposits

Mr. X can invest a total of Rs.65 crores only, since the balance Rs.35 crores required within the first 15 days. Assuming a rate of return of 6% paid on bank deposits for a period of 31 to 45 days, the interest earned by him works out to Rs. 38 lakhs approximately.

Option : 2 : Invest in Treasury Bills of various maturities depending on the fund requirements.

Mr. X can invest the entire Rs. 100 crores in treasury bills as treasury bills of even less than 15 days maturity are available. The return to Mr. X by this deal works out to around Rs. 62.5 lakhs, assuming returns on treasury bills in the range of 8% to 9% for the above periods.

Answer 3(c)

Auto delivery facility

Instead of issuing Delivery instructions for their securities delivery obligations in demat mode in various scrips in a settlement /auction, a facility has been made available to the member brokers of automatically generating delivery instructions on their behalf from their Clearing Member (CM) Pool accounts maintained with National Securities Depository Ltd. (NSDL) and CM Principal Accounts maintained with Central Depository Services (India) Ltd. (CDSL). This auto delivery facility is available for CRS (Normal & Auction) and for trade to trade settlements.

This facility is, however, not available for delivery of non-pari passu shares and shares having multiple International Securities Identification Number (ISINs). The member-brokers wishing to avail of this facility have to submit an authority letter to the Clearing House. This auto delivery facility is currently available for CM Pool accounts and Principal accounts maintained by the member-brokers with NSDL and CDSL respectively.

Question 4

- (a) *“SEBI shall not consider an application for the grant of approval as designated depository participant unless the applicant satisfies certain conditions.” List out such conditions. (8 marks)*

- (b) *In what cases InviT shall refund money ? What are the various provisions relating to issue of units and allotment in case InviT raises funds by way of public issue?* (7 marks)

Answer 4(a)

Regulation 11 of the SEBI (Foreign Portfolio Investors) Regulations, 2019 states that the SEBI shall not consider an application for the grant of approval as designated depository participant unless the applicant satisfies the following conditions, namely:

- 1) the applicant is a depository participant registered with the SEBI;
- 2) the applicant is a custodian registered with the SEBI;
- 3) the applicant is an Authorized Dealer Category-1 bank authorized by the RBI;
- 4) the applicant has multinational presence either through its branches or through agency relationships with intermediaries regulated in their respective home jurisdictions;
- 5) the applicant has systems and procedures to comply with the requirements of Financial Action Task Force Standards, Prevention of Money Laundering Act, 2002, Rules prescribed thereunder and the circulars issued from time to time by SEBI;
- 6) the applicant is a fit and proper person based on the criteria specified in Schedule II of the SEBI (Intermediaries) Regulations, 2008; and
- 7) any other criteria specified by SEBI from time to time.

The SEBI may consider an application from an entity, regulated in India or in its home jurisdiction, for grant of approval to act as designated depository participant, upon being satisfied that the applicant has sufficient experience in providing custodial services and that the grant of such approval is in the interest of the development of the securities market. After considering an application, SEBI may grant approval to the applicant, if it is satisfied that the applicant is eligible and fulfils the requirements including payment of fees.

An application for grant of approval to act as designated depository participant which is not complete in all respects or is false or misleading in any material particular, shall be deemed to be deficient and shall be liable to be rejected by SEBI after giving a reasonable opportunity to remove the deficiency, within the time as specified by SEBI.

Answer 4(b)

The InviT shall refund money:

- (i) To all applicants in case it fails to collect subscription of at least 90 % of the fresh issue size as specified in the offer document.
- (ii) To all applicants to the extent or over subscription in case the money received is in excess of the extent of over-subscription as specified in the final offer document, money shall be refunded to applicants to the extent of the oversubscription.

- (iii) To all applicants in case the number of subscribers to the initial public offer forming part of the public is less than 20.

If the InvIT, raises funds by way of public issue –

- it shall be by way of initial public offer ;
- any subsequent issue of units after initial public offer may be by way of follow-on offer, preferential allotment, qualified institutional placement, rights issue, bonus issue, offer for sale or any other mechanism and in the manner as may be specified by SEBI;
- minimum subscription from any investor in initial and follow-on offer shall be one lakh rupees;
- prior to initial public offer and follow-on offer, the merchant banker shall file the draft offer document along with the fee as specified in Schedule II, with the designated stock exchange(s) and SEBI not less than thirty working days before filing the offer document with the designated stock exchange and SEBI;
- the draft offer document filed with SEBI shall be made public, for comments, if any, by hosting it on the websites of SEBI, designated stock exchanges, InvIT and merchant bankers associated with the issue for a period of not less than twenty one days.
- SEBI may communicate its comments to the lead merchant banker and, in the interest of investors, may require the lead merchant banker to carry out such modifications in the draft offer document as it deems fit; the lead merchant banker shall ensure that all comments received from SEBI on the draft offer document are suitably addressed prior to the filing of the offer document with the designated stock exchanges;
- in case no observations are issued by SEBI in the draft offer document within twenty one working days from the date of receipt of satisfactory reply from the lead merchant bankers or manager, the InvIT may file the offer document or follow on offer document with SEBI and the exchange(s);
- the draft offer document and offer document shall be accompanied by a due diligence certificate signed by the lead merchant banker;
- the offer document shall be filed with the designated stock exchanges and SEBI not less than five working days before opening of the offer;
- the InvIT may open the initial public offer or follow-on offer or rights issue within a period of not more than one year from the date of issuance of observations by SEBI.

However, if the initial public offer or follow-on offer or rights issue is not made within the prescribed time period, a fresh draft offer document shall be filed.

- The InvIT may invite for subscriptions and allot units to any person, whether resident or foreign. However, in case of foreign investors, such investment shall be subject to guidelines as may be specified by RBI and the government from time to time.

- the application for subscription shall be accompanied by a statement containing the abridged version of the offer document detailing the risk factors and summary of the terms of issue;
- initial public offer and follow-on offer shall not be open for subscription for a period of more than thirty days;
- in case of over-subscriptions, the InvIT shall allot units to the applicants on a proportionate basis rounded off to the nearest integer subject to minimum subscription amount per subscriber;
- the InvIT shall allot units or refund application money, as the case may be, within twelve working days from the date of closing of the issue;
- the InvIT shall issue units in only in dematerialized form to all the applicants;
- the price of InvIT units issued by way of public issue shall be determined through the book building process or any other process in accordance with the guidelines issued by SEBI and in the manner as may be specified by SEBI.

PART B

Question 5

Critically examine the following :

- (a) The Securities Contracts (Regulation) Act, 1956 (SCRA) provides powers to recognised stock exchanges to make rules restricting voting rights etc.*
- (b) Negative net worth is not the sole criteria to delist the securities by a recognised stock exchange.*
- (c) Detailed information in Annual Report by stock exchanges may be submitted for activities during calendar year.*
- (d) A Company may request some recognised stock exchange to delist any security, but certain conditions have to be complied in case no exit opportunity is given.*
- (e) There is no mandatory provision for disclosure by issuer to its shareholder in case of preferential issue. (4 marks each)*

Answer 5(a)

Section 7A of the Securities Contracts (Regulation) Act, 1956 stipulates that a recognised stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely –

- (a) The restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting;
- (b) The regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange;
- (c) The restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange; and

- (d) Such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in clauses (a), (b) and (c).

No rules of a recognised stock exchange made or amended in relation to any matter referred in the above paragraph shall have effect until they have been approved by the Central Government and published by that Government in the Official Gazette and, in approving the rules so made or amended, the Central Government may make such modifications therein as it thinks fit, and on such publication, the rules as approved by the Central Government shall be deemed to have been validly made, notwithstanding anything to the contrary contained in the Companies Act, 2013. The powers have been delegated concurrently to SEBI also in this regard.

Answer 5(b)

Rule 21 of Securities Contracts (Regulation) Rules, 1957 deals with delisting of Securities. A recognized stock exchange may, without prejudice to any other action that may be taken under the Securities Contracts (Regulation) Act, 1956 (the Act) or under any other law for the time being in force, delist any securities listed thereon on any of the following grounds in accordance with the regulations made by SEBI, namely: —

- (a) The company has incurred losses during the preceding three consecutive years and it has negative net worth;
- (b) Trading in the securities of the company has remained suspended for a period of more than six months;
- (c) The securities of the company have remained infrequently traded during the preceding three years;
- (d) The company or any of its promoters or any of its director has been convicted for failure to comply with any of the provisions of the Act or the SEBI Act, 1992 or the Depositories Act, 1996 or rules, regulations, agreements made thereunder, as the case may be and awarded a penalty of not less than rupees one crore or imprisonment of not less than three years;
- (e) The addresses of the company or any of its promoter or any of its directors, are not known or false addresses have been furnished or the company has changed its registered office in contravention of the provisions of the Companies Act, 2013; or
- (f) Shareholding of the company held by the public has come below the minimum level applicable to the company as per the listing agreement under the Act and the company has failed to raise public holding to the required level within the time specified by the recognized stock exchange.

However, no securities shall be delisted unless the company concerned has been given a reasonable opportunity of being heard.

Answer 5(c)

Rule 17 of the Securities Contracts (Regulation) Rules, 1957 provides that every recognised stock exchange shall before the 31st day of January in each year or within such extended time as SEBI may, from time to time, allow, furnish to SEBI annually

with a report about its activities during the proceeding calendar year, which shall inter alia contain detailed information about the following matters:

- (a) Changes in rules and bye-laws, if any;
- (b) Changes in the composition of the governing body;
- (c) Any new sub-committees set up and changes in the composition of existing ones;
- (d) Admissions, re-admissions, deaths or resignations of members;
- (e) Disciplinary action against members;
- (f) Arbitration of disputes (nature and number) between members and non-members;
- (g) Defaults;
- (h) Action taken to combat any emergency in trade;
- (i) Securities listed and de-listed; and
- (j) Securities brought on or removed from the forward list.

Answer 5(d)

Regulation 6 of the SEBI (Delisting of Equity Shares) Regulations, 2009 prescribes that a company may delist its equity shares from one or more recognised stock exchanges where they are listed and continue their listing on one or more other recognised stock exchanges, if after the proposed delisting the equity shares would remain listed on any recognised stock exchange which has nationwide trading terminals, no exit opportunity needs to be given to the public shareholders.

The procedure for delisting where no exit opportunity is required is given as follow:

- (1) The proposed delisting shall be approved by a resolution of the board of directors of the company in its meeting.
- (2) The company shall give a public notice of the proposed delisting in at least one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language newspaper of the region where the concerned recognised stock exchanges are located.
- (3) The company shall make an application to the concerned recognised stock exchange for delisting its equity shares.
- (4) The fact of delisting shall be disclosed in the first annual report of the company prepared after the delisting.
- (5) The public notice shall mention the names of the recognised stock exchanges from which the equity shares of the company are intended to be delisted, the reasons for such delisting and the fact of continuation of listing of equity shares on recognised stock exchange having nationwide trading terminals.
- (6) An application for delisting shall be disposed of by the recognised stock exchange within a period not exceeding thirty working days from the date of receipt of such application complete in all respects.

Answer 5(e)

Regulation 163 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, deals with the disclosures by issuer to Shareholders in case of preferential issue.

The issuer shall in addition to the disclosures required under the Companies Act, 2013 or any other applicable law, disclose the following in the explanatory statement to the notice for the general meeting proposed for passing special resolution:

- (i) The objects of the preferential issue.
- (ii) Maximum number of specified securities to be issued.
- (iii) Intent of the promoters, directors or Key Managerial Personnel of the issuer to subscribe to the offer.
- (iv) The shareholding pattern of the issuer before and after the preferential issue.
- (v) The time frame within which the preferential issue shall be completed.
- (vi) The identity of the natural person who are the ultimate beneficial owners of the shares proposed to be allotted and/or who ultimately control the proposed allottees, the percentage of post preferential issue capital that may be held by them and change in control, if any, in the issuer consequent to the preferential issue.

However, if there is any listed company, mutual fund, bank or insurance company in the chain of ownership of the proposed allottee, no further disclosure will be necessary.

- (vii) An Undertaking that the issuer shall re-compute the price of the specified securities where it is required to do so.
- (viii) An Undertaking that if the amount payable on account of the re-computation of price is not paid within the time stipulated, the specified securities shall continue to be locked- in till the time such amount is paid by the allottees.
- (ix) Disclosures as specified, if the issuer or any of its promoters or directors is a wilful defaulter.

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

Question 6

- (a) *Prisma Ltd. is a listed company on NSE. The Board of directors is planning to float a subsidiary company. The management requests you to prepare a detailed representation regarding corporate governance requirements with respect to subsidiaries of a listed entity. (5 marks)*
- (b) *Pax Ltd. is presently an unlisted company and is planning to get listed on BSE only. Presently Board of directors consist 8 directors. The management requested you to advise on the composition of Board of directors for a listed company with specific respect to listing regulation 17(1) ? (5 marks)*
- (c) *Fox Star Ltd., a listed entity on Delhi Stock exchange, proposed to delist themselves from stock exchange. A board meeting is scheduled to be held on 28th March, 2020 for approval of the delisting.*

You as a company secretary are required to advise on the matters with reference to SEBI (Delisting of Equity shares) Regulations, 2009, which Board of directors should deal with before granting approval for delisting. (5 marks)

- (d) Can an NBFC function as a Merchant Banker ? Under what circumstances a merchant banker shall be deemed to be an associate of the issuer ? (5 marks)

OR (Alternate question to Q. No. 6)

Question 6A

Write notes on the following :

- (i) Compensation of Research Analysts.
- (ii) Principles and procedures of Fair Disclosure.
- (iii) Grievance redressal mechanism of stock exchange.
- (iv) Persons exempted from registration as investment advisor.
- (v) Eligible issuers on the Institutional Trading Platform. (4 marks each)

Answer 6(a)

**To,
The Board of Directors
Prisma Ltd.**

Sub: Detailed representation regarding corporate governance requirements with respect to subsidiaries of a listed entity.

Regulation 24 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 deals with the corporate governance requirements with respect to subsidiary of listed entity which provides that -

- 1) At least one independent director of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.
- 2) The audit committee of the listed entity shall also review the financial statements, in particular, the investments made by the unlisted subsidiary.
- 3) The minutes of the meetings of the board of directors of the unlisted subsidiary shall be placed at the meeting of the board of directors of the listed entity.
- 4) The management of the unlisted subsidiary shall periodically bring to the notice of the board of directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary.
- 5) A listed entity shall not dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than or equal to fifty percent or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal or under a resolution plan duly approved under

section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.

- 6) Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/disposal/ lease is made under a scheme of arrangement duly approved by a Court/Tribunal or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.
- 7) Where a listed entity has a listed subsidiary, which is itself a holding company, the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 shall apply to the listed subsidiary in so far as its subsidiaries are concerned.

Answer 6(b)

According to Regulation 17(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the composition of board of directors of the listed entity shall be as follows:

- (1) The board of directors shall have an optimum combination of executive and non-executive directors with at least one woman director.
- (2) At least 50% of the board of directors shall comprise of non-executive directors.
- (3) If the chairperson of the board of directors is a non-executive director, at least 1/3rd of the board of directors shall comprise of independent directors.
- (4) If the chairperson of the board of directors is not a regular non-executive, at least half of the board of directors shall comprise of independent directors.
- (5) If the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, at least half of the board of directors of the listed entity shall consist of independent directors.
- (6) The board of directors of the top 2000 listed entities (with effect from April 1, 2020) shall comprise of not less than six directors.

Answer 6(c)

Any company desirous of delisting its equity shares obtain the prior approval of the board of directors of the company in its meeting.

Prior to granting approval for delisting, the board of directors of the company shall,-

- (i) Make a disclosure to the recognized stock exchanges on which the equity shares of the company are listed that the promoters/acquirers have proposed to delist the company;
- (ii) Appoint a merchant banker to carry out due diligence and make a disclosure to this effect to the recognized stock exchanges on which the equity shares of the company are listed;

- (iii) Obtain details of trading in shares of the company for a period of two years prior to the date of board meeting by top twenty-five shareholders as on the date of the board meeting convened to consider the proposal for delisting, from the stock exchanges and details of off market transactions of such shareholders for a period of two years and furnish the information to the merchant banker for carrying out due-diligence;
- (iv) Obtain further details and furnish the information to the merchant banker.

Answer 6(d)

No, an NBFC cannot be a merchant banker.

Regulation 6 of the SEBI (Merchant Bankers) Regulations, 1992 states that the applicant shall be a body corporate other than a non-banking financial company as defined under clause (f) of section 45-I of the Reserve Bank of India Act, 1934. However, the Merchant Banker who has been granted registration by the Reserve Bank of India to act as a primary or satellite dealer may carry on such activity subject to the condition that it shall not accept or hold public deposit.

Regulation 21A of the SEBI (Merchant Bankers) Regulations, 1992 provides that a merchant banker shall not lead manage any issue or be associated with any activity undertaken under any regulations made by SEBI, if he is a promoter or a director or an associate of the issuer of securities or of any person making an offer to sell or purchase securities. However, a merchant banker who is an associate of such issuer or person may be appointed, if he is involved only in the marketing of the issue or offer.

A merchant banker shall be deemed to be an “associate of the issuer or person” if:

- (i) either of them controls, directly or indirectly through its subsidiary or holding company, not less than 15% of the voting rights in the other; or
- (ii) either of them, directly or indirectly, by itself or in combination with other persons, exercises control over the other; or
- (iii) there is a common director, excluding nominee director, amongst the issuer, its subsidiary or holding company and the merchant banker.

Answer 6A(i)

Regulation 17 of the SEBI (Research Analysts) Regulations, 2014, deals with the Compensation of Research Analysts:

- Research entity shall not pay any bonus, salary or other form of compensation to any individual employed as research analyst that is determined or based on any specific merchant banking or investment banking or brokerage services transaction.
- The compensation of all individuals employed as research analyst shall be reviewed, documented and approved annually by Board of Directors/ Committee appointed by Board of Directors of the research entity, which does not consist of representation from its merchant banking or investment banking or brokerage services divisions.

- The Board of Directors/Committee appointed by Board of Directors of the research entity approving or reviewing the compensation of individual employed as research analyst shall not take into account such individual's contribution to the research entity's investment banking or merchant banking or brokerage services business.
- An individual employed as research analyst by research entity shall not be subject to the supervision or control of any employee of the merchant banking or investment banking or brokerage services divisions of that research entity.

Answer 6A(ii)

Principles and procedures of Fair Disclosure

As laid down in Schedule A of the SEBI (Prohibition of Insider Trading) Regulations, 2015, companies will adhere to the following to ensure fair disclosure of events and occurrence that could impact price of its securities in the market:

- Prompt public disclosure of Unpublished Price Sensitive Information that would impact price discovery no sooner than credible and concrete information comes into being in order to make such information generally available.
- Uniform and universal dissemination of Unpublished Price Sensitive Information to avoid selective disclosure.
- Designation of a senior officer as a chief investor relations officer to deal with dissemination of information and disclosure of unpublished price sensitive information.
- Prompt dissemination of Unpublished Price Sensitive Information that gets disclosed selectively, inadvertently or otherwise to make such information generally available.
- Appropriate and fair response to queries on news reports and requests for verification of market rumours by regulatory authorities.
- Ensuring that information shared with analysts and research personnel is not unpublished price sensitive information.
- Developing best practices to make transcripts or records of proceedings of meetings with analysts and other investor relations conferences on the official website to ensure official confirmation and documentation of disclosures made.
- Handling of all unpublished price sensitive information on a need-to-know basis.

Answer 6A(iii)

Grievance redressal mechanism at stock exchange

- An aggrieved investor shall firstly send his/her complaint to Investor Services Cell (ISC) of Stock Exchanges (SE)/Depositories through SCORES. Stock exchanges have been advised to redress the complaint within 15 working days.
- If not satisfied, the aggrieved investor shall Approach Depository/Investor Grievance Redressal Committee (IGRC) of SEs. The complaints not redressed through ISCs also get referred to IGRCs.

- IGRC shall have statutory time period of 15 working days to amicably resolve the investor complaint and if not, IGRC to ascertain the value of the claim admissible to the investor and the amount is blocked in Investors Protection Fund (IPF). Further Members be given 7 days from the date of IGRC to inform whether he would pursue arbitration. In case of "YES", Stock exchange shall release 50% of the admissible value or 2 lakhs whichever is less is given to the investor from IPF. In other case, the stock exchange shall release the amount to the investor.
- If one party feels that satisfactory redressal of grievance has not taken place at IGRCs, he/she can opt for Arbitration (a quasi-judicial process of settlement of dispute). If arbitration is in the favour of investor and the member decides to make application in appellate arbitrator panel, then the positive difference of the following is paid from IPF of the exchange:
 - (A) 50% of the amount mentioned in the arbitration award or 3 lakhs which is less and
 - (B) Amount already released to the investor earlier.
- In case of Appellate Arbitrator Panel, if arbitration is in the favour of investor and the member decides to make application to the next higher court, then the positive difference of the following is paid from IPF of the exchange:
 - (A) 75% of the amount mentioned in the appellate award or 5 lakhs which is less and
 - (B) Amount already released to the investor earlier.
- In case of further proceeding to court, undertaking given by the investor to stock exchange to return the amount released to him, in case the proceedings are decided against the investor, or he decides not to pursue further.
- Total amount released to the investor through monetary relief shall no exceed Rs.10 lakhs in one financial year.
- In case of non-payment of the amount by the investor, trading not allowed on any stock exchange and demat account shall be frozen.

Answer 6A(iv)**Exemption from registration as Investment Advisor**

Regulation 4 of the SEBI (Investment Advisers) Regulations, 2013 provides that the following persons are exempted from the requirement of registration as Investment Advisor subject to the fulfilment of the conditions stipulated therefore-

- (a) Any person who gives general comments in good faith in regard to trends in the financial or securities market or the economic situation where such comments do not specify any particular securities or investment product.
- (b) Any insurance agent or insurance broker who offers investment advice solely in insurance products and is registered with Insurance Regulatory and Development Authority for such activity.

- (c) Any pension advisor who offers investment advice solely on pension products and is registered with Pension Fund Regulatory and Development Authority for such activity.
- (d) Any distributor of mutual funds, who is a member of a self-regulatory organisation recognised by SEBI or is registered with an association of asset management companies of mutual funds, providing any investment advice to its client's incidental to its primary activity.
- (e) Any advocate, solicitor or law firm, who provides investment advice to their clients, incidental to their legal practise.
- (f) Any member of Institute of Chartered Accountants of India, Institute of Company Secretaries of India, Institute of Cost and Works Accountants of India, Actuarial Society of India or any other professional body as may be specified by SEBI, who provides investment advice to their clients, incidental to his professional service.
- (g) Any stock broker or sub-broker registered under SEBI (Stock Brokers) Regulations, 1992, Portfolio Manager registered under SEBI (Portfolio Managers) Regulations, 1993 or merchant banker registered under SEBI (Merchant Bankers) Regulations, 1992, who provides any investment advice to its client's incidental to their primary activity. However, such intermediaries shall comply with the general obligation(s) and responsibilities as specified in Chapter III of these regulations. Further the existing portfolio manager offering only investment advisory services may apply for registration under these regulations after expiry of his current certificate of registration as a portfolio manager.
- (h) Any fund manager, by whatever name called of a mutual fund, alternative investment fund or any other intermediary or entity registered with SEBI.
- (i) Any person who provides investment advice exclusively to clients based out of India. However, persons providing investment advice to Non-Resident Indian or Person of Indian Origin shall fall within the purview of these regulations.
- (j) Any principal officer, persons associated with advice and partner of an investment adviser which is registered under these regulations. However, such principal officer, persons associated with advice and partner shall comply with these regulations.
- (k) Any other person as may be specified by SEBI.

Answer 6A(v)**Eligible issuer on the Innovators Growth Platform**

The following issuers are eligible for listing on the Innovators Growth Platform:

- (i) An issuer which is intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology or nano technology to provide products, services or business platforms with substantial value addition shall be eligible for listing on the innovators growth platform, provided that as on the date of filing of draft information document or draft offer document with the

SEBI, as the case may be, twenty five per cent of the pre-issue capital of the Issuer Company for at least a period of one year, should have been held by Qualified Institutional Buyers / Innovators Growth Platform Investors for the purpose of Innovators Growth Platform/ Foreign Portfolio Investor/ Regulated Entities / Any other class of investors as specified by SEBI from time to time.

- (ii) An issuer shall be eligible for listing on the Innovators Growth Platform, if none of the promoters or directors of the issuer company is a fugitive economic offender.

INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

PART A

1. Choose the correct leading case that defines the Factories Act, 1948 as a social legis- lation.
 - (A) J.K. Industries Vs. Chief Inspector of Factories [(1997) LLJ SC 722]
 - (B) Ravi Shanker Sharma Vs. State of Rajasthan [AIR 1993 Raj. 117]
 - (C) H. Bhiwandi Wala Vs. State of Bombay [AIR 1962 SC 29]
 - (D) None of the above
2. How many minimum number of workers be employed with the use of power in a factory to consider it as a “Factory” under the Provisions of the Factories Act, 1948 ?
 - (A) Ten
 - (B) Thirty
 - (C) Seven
 - (D) Twenty
3. Explanation of Section 2(m) of the Factories Act, 1948 relates to :
 - (A) Manufacturing process
 - (B) Exhibition of film process
 - (C) Worker
 - (D) Computation of workers
4. Under which of the sections of the Factories Act, 1948 a notice of taking the charge of ‘Occupier” be given by the Occupier ?
 - (A) Sec. 5
 - (B) Sec. 6
 - (C) Sec. 7
 - (D) Sec. 10

5. Sec. 7B of the Factories Act, 1948 provides :
 - (A) General duties of the occupier
 - (B) General duties of manufacturers
 - (C) Health of workers
 - (D) Dust and fume in factory
6. Penalty for using false certificate of fitness under the Factories Act, 1948 is :
 - (A) Upto two months or fine upto ₹1,000 or both
 - (B) Upto six months or fine upto ₹5,000 or both
 - (C) Upto two years or fine upto ₹10,000 or both
 - (D) Upto three years or fine upto ₹5,000 or both
7. Relation of first Schedule of the Factories Act, 1948 is with the :
 - (A) Sec. 2(ca)
 - (B) Sec. 2(cb)
 - (C) Sec. 2(c)
 - (D) Sec. 2(d)
8. The famous leading case under the Minimum Wages Act, 1948 Basti Ram Vs. State of AP [AIR 1969 AP 227] is related to :
 - (A) Revision of minimum wages
 - (B) Fixation of minimum rates of wages
 - (C) Minimum rate of wages
 - (D) Power of Central Government
9. An outworker who prepared goods at his residence under the control and management of his employer and supplies to his employer is.....under Minimum Wages Act, 1948.
 - (A) An employee
 - (B) Not employee
 - (C) Outsider
 - (D) None of the above
10. Sec. 13 of Minimum Wages Act, 1948 is related to :
 - (A) Advisory Board
 - (B) Payment of minimum wages
 - (C) Fixing hours for a normal working day
 - (D) None of the above

11. Payment of wages under Minimum Wages Act, 1948 is :
 - (A) Not obligatory
 - (B) Obligatory
 - (C) Depend on the income of employer
 - (D) Depend on the choice of employer
12. Offences and penalties is prescribed in Minimum Wages Act, 1948 under :
 - (A) Section 22
 - (B) Section 24
 - (C) Section 23
 - (D) Section 21
13. Section 18 of the Minimum of Wages Act, 1948 provides :
 - (A) Rate wages for piecework
 - (B) Authority and claim
 - (C) Payment of overtime
 - (D) Maintenance of register and records
14. Select the correct option :
 - (A) Payment of Wages Act, 1936 amended in 2000
 - (B) Payment of Wages Act, 1936 amended in 1999
 - (C) Payment of Wages Act, 1936 amended in 2005
 - (D) None of the above
15. Under Payment of Wages Act, 1936 the wage period shall not exceed :
 - (A) Two months
 - (B) Fifteen days
 - (C) Thirty-one days
 - (D) One month
16. Object of Payment of Wages Act, 1936 is :
 - (A) Eliminate all malpractice
 - (B) Motivation to legal practitioner
 - (C) Include to legal practitioner
 - (D) All of the above

17. Time for recovery of fine under Section 8 of Payment of Wages Act, 1936 is :
- (A) Sixty days
 - (B) Thirty days
 - (C) Ninety days
 - (D) Forty five days
18. Who appoints the Commissioner for workmen's compensation under Payment of Wages Act, 1936 ?
- (A) Central Government
 - (B) Appropriate Government
 - (C) State Government
 - (D) All of the above
19. The implementation of the Equal Remuneration Act, 1976 is done at :
- (A) Central Government
 - (B) Appropriate Government
 - (C) State Government
 - (D) All of the above
20. Section 2(d) of the Equal Remuneration Act, 1976 prescribes that man and woman means male and female human being, respectively :
- (A) Of any age
 - (B) Only Adult
 - (C) Only young
 - (D) Only old
21. Section 7 of the Equal Remuneration Act, 1976 is related to :
- (A) Penalty
 - (B) Maintenance of register
 - (C) Act to have overriding effect
 - (D) Authorities for hearing and deciding claims and complaints
22. The Equal Remuneration Act, 1976 extends to :
- (A) Whole of India except to scheduled tribes areas
 - (B) Whole of India
 - (C) Whole of India except to scheduled areas
 - (D) Whole of India except J & K

23. Who shall establish a corporation to be known as the 'Employees State Insurance Corporation' ?
- (A) Appropriate Government
 - (B) State Government
 - (C) Central and State Government both
 - (D) Central Government
24. The Employees State Insurance Act, 1948 amended in the year :
- (A) 2005
 - (B) 2008
 - (C) 2009
 - (D) 2010
25. Definition of dependent in the Employees State Insurance Act, 1948 given under:
- (A) Section 2(6A)
 - (B) Section 2(8)
 - (C) Section 2(5)
 - (D) Section 2(4)
26. Power of the Standing Committee under the Employees State Insurance Act, 1948 is :
- (A) To control the corporation
 - (B) To check the corporation
 - (C) To administer affairs of corporation
 - (D) To regulate business of the corporation
27. Who will pay contribution in the first instance under Employees State Insurance Act, 1948 ?
- (A) Principal Employer
 - (B) Employee
 - (C) Central Government
 - (D) State Government
28. Under which section of the Employees State Insurance Act, 1948 the benefits to the insured person has been prescribed ?
- (A) Section 41
 - (B) Section 43
 - (C) Section 40
 - (D) Section 46

29. Recovery of contribution under Employees State Insurance Act, 1948 can be made from :
- (A) Employee
 - (B) State Government
 - (C) Central Government
 - (D) Immediate employer
30. Who has the power to exempt any factory/ establishment from the purview of the Employees State Insurance Act, 1948 ?
- (A) High Court
 - (B) Subordinate Court
 - (C) Appropriate Government
 - (D) None of the above
31. Which one of the following is correct about the application of the Employees Provident Funds and Miscellaneous Act, 1952 ?
- (A) Factory engaged in any industry specified in schedule I
 - (B) Specified under section 4 of the Act
 - (C) Specified under any other law
 - (D) Specified under civil law of the country
32. Who is empowered to frame the scheme/s under Employees' Provident Funds and Misc. Provisions Act, 1952 ?
- (A) State Government
 - (B) Board of Provident Fund Trustees
 - (C) Local Government
 - (D) Central Government
33. Priority of payment of contributions over other debts prescribed in Employees Provident Funds and Miscellaneous Provisions Act, 1952 under :
- (A) Section 11
 - (B) Section 12
 - (C) Section 8(C)
 - (D) Section 17
34. Section 17 [A(1)] of the Employees Provident Funds and Miscellaneous Provisions Act, 1952 provides
- (A) Protection against attachment

- (B) Power to exempt
 - (C) Transfer of accounts
 - (D) All of the above
35. What are the minimum working days for getting bonus under Payment of Bonus Act, 1965?
- (A) 45 days
 - (B) 30 days
 - (C) 50 days
 - (D) 60 days
36. Payment of Bonus Act, 1965 extends to :
- (A) The whole of India except J & K
 - (B) All the employees of State Government
 - (C) All the employees of Central Government
 - (D) The whole of India
37. Section 32 of the Payment of Bonus Act, 1965 provides that :
- (A) Application of the Act
 - (B) Computation of gross profits
 - (C) Act shall not apply to certain classes of employee
 - (D) None of the above
38. Under the Payment of Bonus Act, 1965 employee means :
- (A) Any person (other than an apprentice) employed in any industry
 - (B) Only officers of the industry
 - (C) All the temporary employees
 - (D) All of the above
39. Subsistence allowance given during suspension period under the Payment of Bonus Act, 1965 is considered as :
- (A) Wages
 - (B) Not wages
 - (C) Depends on the employer to consider it wages
 - (D) Depends on the state government to consider it wages

40. Adjustment of customary or interim bonus prescribed in Payment of Bonus Act, 1965 under :
- (A) Section 16
 - (B) Section 15
 - (C) Section 14
 - (D) Section 17
41. Section 36 of Payment of Bonus Act, 1965 is related to :
- (A) Power of exemption
 - (B) Recovery of bonus
 - (C) Time limit for payment of bonus
 - (D) Deduction of certain amounts from bonus
42. The Payment of Gratuity (Amendment) Act, 2010 came into force on :
- (A) 20th May, 2011
 - (B) 1st May, 2012
 - (C) 10th May, 2010
 - (D) 24th May, 2010
43. In which Section of the Payment of Gratuity Act, 1972 provides that a shop or establishment to which the Act has become applicable once, continues to be governed by it, even if the number of persons employed therein at any time after it has become so applicable falls below ten ?
- (A) Section 4
 - (B) Section 5
 - (C) Section 3(A)
 - (D) Section 3
44. Where the first appeal can be filed against the order of controlling authority for payment of gratuity under Payment of Gratuity Act, 1972?
- (A) High Court
 - (B) Subordinate Court
 - (C) Supreme Court
 - (D) Appropriate Government
45. What is period of payment of gratuity after due date ?
- (A) Sixty days
 - (B) Thirty days
 - (C) Forty days
 - (D) Ninety days

46. Select the correct option regarding gratuity :
- (A) It cannot be attached in execution of decree passed by any Court of law in India
 - (B) It can be attached in execution of decree passed by High Court of State
 - (C) It can be attached in execution of decree passed by Supreme Court
 - (D) It can be attached in execution of decree passed by any Court of law in India
47. When did Workmen's Compensation (Amendment) Act, 2009 come into force ?
- (A) 18th February, 2010
 - (B) 18th March, 2010
 - (C) 18th January, 2010
 - (D) 18th April, 2010
48. Under Employees' Compensation Act, 1923 total disablement classified into :
- (A) Temporary total disablement and permanent total disablement
 - (B) Permanent disablement
 - (C) No disability
 - (D) None of the above
49. When is employer not liable for compensation under Employees Compensation Act, 1923 ?
- (A) Injury caused in the course of employment
 - (B) Injury does not result in disablement for a period exceeding 72 hours
 - (C) Relation of injury is in employment
 - (D) Injury takes place at a time and place when he was doing his master's job
50. Jurisdiction of civil court under Employees Compensation Act, 1923 :
- (A) is not barred
 - (B) Depends on the choice of parties
 - (C) Depends on the discretion of civil court
 - (D) is Barred
51. Workman is defined in Contract Labour (Regulation and Prevention) Act, 1970 under :
- (A) Section 2
 - (B) Section 2[(1) (i)]
 - (C) Section 2(3)
 - (D) Section 2(4) (i)

52. Who has the power to constitute Central Advisory Board under the Contract Labour (Regulation and Abolition) Act, 1970 ?
- (A) State Government
 - (B) Central Government
 - (C) Local Government
 - (D) Appropriate Government
53. Who will be the licensing officer under the Contract Labour (Regulation and Abolition) Act, 1970 ?
- (A) Any officer of any establishment
 - (B) Employer of the establishment
 - (C) Appropriate government to appoint gazetted officer
 - (D) Judiciary have power to appoint gazetted officer
54. Which Section of Contract Labour (Regulation and Abolition) Act, 1970 provides that code of criminal procedure shall apply in search and seizure ?
- (A) Section 26
 - (B) Section 28(3)
 - (C) Section 28(4)
 - (D) Section 27
55. In contravention of any of the provisions of Contract Labour (Regulation and Abolition) Act, 1970 or any rule made thereunder for which no penalty is elsewhere provided, is punishable under :
- (A) Section 24
 - (B) Section 23
 - (C) Section 22
 - (D) Section 25
56. What is period of maternity benefits to women employee under the Maternity Benefit Act, 1961 ?
- (A) 20 weeks
 - (B) 26 weeks
 - (C) 24 weeks
 - (D) 28 weeks

57. Employment of or work by women is prohibited during certain period is prescribed in Maternity Benefit Act, 1961 under :
- (A) Section 5
 - (B) Section 3
 - (C) Section 7
 - (D) Section 4
58. What is meaning of 'nursing breaks' under Maternity Benefit Act, 1961?
- (A) Two breaks daily to woman worker until child attains the age of ten months
 - (B) Two breaks daily to woman worker until child attains the age of fifteen months
 - (C) Three breaks daily to woman
 - (D) One break daily to woman worker upto two years age of child
59. How many minimum number of women employees are required in an establishment for the facility of 'Creche' be provided by the employer to the women employees under the Maternity Benefit Act, 1961 ?
- (A) 60 or more
 - (B) 40 or more
 - (C) 30 or more
 - (D) 50 or more
60. What is the meaning of child under the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 ?
- (A) Who has not completed eighteen years
 - (B) Who has not completed fourteenth years of age
 - (C) Who has not completed sixteen years
 - (D) Who has not completed twelve years
61. How many minimum number of workmen are required to be employed for the application of the Industrial Employment (Standing Orders) Act, 1946 in the establishment ?
- (A) 200 or more
 - (B) 500 or more
 - (C) 1,000 or more
 - (D) 100 or more

62. When will Standing Order come into first time operation from the date on which the authenticated copies are sent to employer and workers representatives ?
- (A) Expiry of 40 days
 - (B) Expiry of 30 days
 - (C) Expiry of 60 days
 - (D) Expiry of 45 days
63. Under the Industrial Disputes Act, 1947 in which one of the following cases, Supreme Court held that 'malis' of the garden of the company shall be workman?
- (A) JK Cotton Spinning and Weaving Mills Co. Ltd. Vs LAT [AIR 1964 SC 737]
 - (B) Burma Shell Oil Storages Distributing Co. of India Vs. Burma Shell Management Staff Association [AIR 1971 SC 922]
 - (C) Sunderamlal Vs. Government of Goa [AIR 1988 SC 1700]
 - (D) All of the above
64. Work-to-rule under Industrial Dispute Act, 1947 is a :
- (A) Kind of lockout
 - (B) Not a strike
 - (C) Tool down strike
 - (D) None of the above
65. What is the meaning of small establishment under The Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by Certain Establishment) Act, 1988 ?
- (A) Where not less than ten and not more than forty persons are employed or were employed on any day of preceding twelve months
 - (B) Where not less than twenty and not more than fifty persons are employed or were employed on any day of preceding twelve months
 - (C) Where not less than thirty and not more than sixty persons are employed or were employed on any day of preceding twelve months
 - (D) Where not less than one hundred and not more than five hundred persons are employed or were employed on any day of preceding twelve months
66. What is the meaning of establishment in private sector under the Employment Exchanges (Compulsory Notification of Vacancies) Act 1959 ?
- (A) Which is not public sector and where twenty five or more persons are employed
 - (B) Which is not public sector and where twenty or more persons are employed
 - (C) Which is not public sector and where ten or more persons are employed
 - (D) Which is not public sector and where five or more persons are employed

67. Employment Exchange (Compulsory Notification of Vacancies) Act, 1959 is not to apply in one of the following matter :
- (A) In public sector
 - (B) In all the private sectors
 - (C) In domestic services
 - (D) None of the above
68. Apprentices Act, 1961 applies in :
- (A) Private sector only
 - (B) Public sector only
 - (C) Private and public sector both
 - (D) None of the above
69. Definition of apprentice is provided in Apprenticeship Act, 1961 under :
- (A) Section 2(aa)
 - (B) Section 2(ab)
 - (C) Section 2(ac)
 - (D) Section 2(ad)
70. 'Labour' is a subject matter in the :
- (A) State list of Constitution
 - (B) Union list of Constitution
 - (C) Residuary power of Parliament
 - (D) Concurrent list of Constitution

PART B

71. How many parts are there in the Constitution of India ?
- (A) 21 Parts
 - (B) 22 Parts
 - (C) 24 Parts
 - (D) 23 Parts
72. Legal sovereignty is vested in :
- (A) The people of India
 - (B) The political leaders
 - (C) Constitution of India
 - (D) Government of India

73. When political philosophers began to think that man by birth had certain rights which were universal and inalienable and he could not be deprived of them ?
- (A) 18th Century
 - (B) 16th Century
 - (C) 19th Century
 - (D) 17th Century
74. By which amendment of the Constitution right to property is removed from the fundamental rights ?
- (A) 42nd amendment 1976
 - (B) 45th amendment 1980
 - (C) 44th amendment 1978
 - (D) 51st amendment 1984
75. Which one of the following Articles gives the teeth to the fundamental rights ?
- (A) Article 12
 - (B) Article 13
 - (C) Article 31
 - (D) Article 25
76. Which one of the following Articles of the Constitution condemns discrimination not only the substantive law but by a law of procedure ?
- (A) Article 14
 - (B) Article 19
 - (C) Article 22
 - (D) Article 27
77. Cricket Association of Bengal Vs. Ministry of Information and Broadcasting (Government of India) AIR 1995 SC 1236 is related to :
- (A) Equality of opportunity in matters of public employment
 - (B) Prohibition of discrimination on pounds of religion
 - (C) Abolition of titles
 - (D) Right to freedom of speech and expression
78. Article 21A was introduced by which Indian Constitutional Amendment ?
- (A) Eighty second amendment
 - (B) Eighty fourth amendment

- (C) Eighty seventh amendment
 - (D) Eighty sixth amendment
79. Article 25 of the Constitution begins a group of provisions ensuring equality of all religions thereby promoting :
- (A) Sovereignty
 - (B) Socialistic
 - (C) Secularism
 - (D) All of the above
80. Executive power of the Union shall be vested in the :
- (A) Prime Minister of India
 - (B) President of India
 - (C) Council of Ministers
 - (D) None of the above
81. Who said that interpretation is the process by which the courts seek to ascertain the meaning of the legislature through the medium of the authoritative forms in which it is expressed ?
- (A) Austin
 - (B) Holland
 - (C) Salmond
 - (D) Chipmangray
82. Who said that a statute has been defined as “the will of the legislature” ?
- (A) Bourier Law Dictionary
 - (B) Denning LJ
 - (C) Crawford
 - (D) Maxwell
83. In which of the following cases court said that “interpretation should not be given which would make other provisions redundant”.
- (A) Nand Prakash Vohra Vs. State of HP AIR 2000 HP 65
 - (B) Sarbajit Rick Singh Vs. Union of India (2008)2 SCC 417
 - (C) State of HP Vs. Pawan Kumar (2005) 4 SCALE 1
 - (D) Umed Singh Vs. Raj Singh AIR 1975 SC 43

84. "*Ejusdem Generis*" means :
- (A) Express mention of one thing implies the exclusion of another
 - (B) Of the same kind of species
 - (C) It is known by its associates
 - (D) The best way to give meaning to a document
85. Proviso of the section of the Interpretation of Statutes Act is the part of :
- (A) External Aids of Interpretation
 - (B) The Primary Rule of Interpretation
 - (C) Internal Aids in Interpretation
 - (D) None of the above
86. Contracts which can be specifically enforced under Specific Relief Act, 1963 under :
- (A) Section 8
 - (B) Section 9
 - (C) Section 10
 - (D) Section 11
87. 'A' is a trustee of land with power of lease it for 7 years. He enters into a contract with 'B' to grant a lease of the land for 7 years, with a covenant to renew the lease at the expiry of the term. What will be the status of this contract for the purpose of enforcement under the Provisions of Specific Relief Act, 1963 ?
- (A) It can be enforced
 - (B) Contract cannot be specifically enforced
 - (C) Neither (A) nor (B) is correct
 - (D) Depends on the fact of the case
88. Which one of the following is not the exception of rule of strict liability defined under law relating to torts ?
- (A) Damage due to natural use of the land
 - (B) Consent of the plaintiff
 - (C) Liability for inevitable accident
 - (D) Statutory authority

89. Which one of the following is correct for the purpose of limitation under the Provisions of the Limitation Act, 1963 ?
- (A) Limitation bars rights
 - (B) Limitation bars remedy
 - (C) Limitation bars claim
 - (D) Limitation bars everything
90. Which of the following section of the Limitation Act, 1963 states the time which shall be excluded in computing the time of limitation in legal proceedings ?
- (A) Section 13
 - (B) Section 12
 - (C) Section 14
 - (D) Section 15
91. The term evidence is defined in the Indian Evidence Act, 1872 under :
- (A) Section 2
 - (B) Section 1
 - (C) Section 4
 - (D) Section 3
92. Select the correct option under Law of Evidence :
- (A) Estoppel applies in statutory provisions
 - (B) There is no estoppel against statutes
 - (C) Estoppel always applies in non-legal cases
 - (D) Estoppel is a principle of morality
93. Where is it prescribed that "Civil Procedure means body of law concerned with the methods, procedures and practices used in civil litigation" ?
- (A) Law Lexicon
 - (B) Legal Dictionary
 - (C) Black's Law dictionary 6th edition
 - (D) Legal Glossary 2nd edition
94. The term 'Order' prescribed in Code of Civil Procedure 1908 under :
- (A) Section 2(10)
 - (B) Section 2(9)
 - (C) Section 2(13)
 - (D) Section 2(14)

95. Choose the correct answer under the Code of Criminal Procedure, 1973.
- (A) Inquiry under Cr.PC is different from trial
 - (B) Inquiry and investigation is same
 - (C) Inquiry and trial is same
 - (D) No provision for inquiry under criminal law
96. Limitation of time period for taking cognizance of certain offences under the Code of Criminal Procedure, 1973 has been prescribed under
- (A) Chapter XXXVI
 - (B) Chapter XXX
 - (C) Chapter XXXIV
 - (D) Chapter XXIV
97. Public Authority is defined in Right to Information Act, 2005 under :
- (A) Section 2(f)
 - (B) Section 2(a)
 - (C) Section 2(h)
 - (D) Section 2(b)
98. 'A', a warehouse-keeper, is charged with the delivery of certain goods to Z, which B takes out of A's possession. Advise, who can sue in this case ?Choose the correct answer :
- (A) Z can sue to B
 - (B) B can sue to A
 - (C) A can sue to B
 - (D) None of the above can sue
99. Article 25 of the Constitution of India gives right to :
- (A) Prohibition of employment of children
 - (B) Right to freedom of religion
 - (C) Right to travel within the territory of India
 - (D) Right to protection of life and liberty
100. Which of the following sections of Code of Civil Procedure, 1908 defines 'Res Judicata' ?
- (A) Sec.10
 - (B) Sec. 11
 - (C) Sec. 12
 - (D) Sec. 13

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