

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

JUNE 2015

MODULE II



**THE INSTITUTE OF
Company Secretaries of India**

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

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

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EXECUTIVE PROGRAMME

UPDATING SLIP

COMPANY ACCOUNTS AND AUDITING PRACTICES

MODULE – II – PAPER 2

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

(ii)

UPDATING SLIP

CAPITAL MARKETS AND SECURITIES LAWS

MODULE – II – PAPER 3

<i>Examination Session</i>	<i>Question No.</i>	<i>Updating required in the answer</i>
(1)	(2)	(3)
All Previous Sessions	—	<p>All answers are based on the notified provisions of Companies Act, 2013 and the provisions of Companies Act, 1956 which are still in force.</p> <p>SEBI (ICDR) Regulations. All answers pertaining to Issue of securities to be updated according to amended Regulation.</p> <p>Answers pertaining to Corporate Governance to be updated according to New Revised Clause 49 of the Listing Agreement.</p>

EXECUTIVE PROGRAMME EXAMINATION

JUNE 2015

INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

PART A

1. Under the Factories Act, 1948, usually the term 'precincts' is known as —
 - (A) A space enclosed by walls
 - (B) Part of factory
 - (C) Subsidiary of factory
 - (D) Walls of the factory.
2. The statutory wage ceiling under the Employees' Deposit-Linked Insurance Scheme, 1976 is —
 - (A) ₹6,500 per month
 - (B) ₹10,000 per month
 - (C) ₹15,000 per month
 - (D) ₹25,000 per month.
3. Which of the following person is not included in the definition of 'workman' under the Industrial Disputes Act, 1947 —
 - (A) Who is employed in a supervisory capacity drawing more than ₹6,500 but less than ₹7,500 per month as wages
 - (B) Who is employed in a supervisory capacity drawing more than ₹1,600 but less than ₹6,500 per month as wages
 - (C) Who is employed in a supervisory capacity drawing more than ₹10,000 per month as wages
 - (D) Who is employed in a supervisory capacity drawing less than ₹1,600 per month as wages.
4. As per section 16 of the Contract Labour (Regulation and Abolition) Act, 1970 in every establishment wherein contract labour numbering 100 or more is ordinarily employed by a contractor, the contractor is required to provide and maintain for _____ the use of such contract labour.
 - (A) One or more rest rooms
 - (B) One or more canteens
 - (C) Creches
 - (D) First-aid facilities.

5. As per the Child Labour (Prohibition and Regulation) Act, 1986 domestic workers or servant are treated as —
- (A) Occupations set forth in Part-A of the Schedule
 - (B) Processes set forth in Part-B of the Schedule
 - (C) Occupations set forth in Part-B of the Schedule
 - (D) Processes set forth in Part-A of the Schedule.
6. Under the Payment of Wages Act, 1936 any premises including the precincts thereof whereon twenty or more workers are working, or were working on a day of the preceding twelve months, and in any part of which a manufacturing process is being carried on without the aid of power, or is ordinarily so carried on is known as —
- (A) Factory
 - (B) Mobile unit belonging to the armed forces
 - (C) Railway running shed
 - (D) Hotel, restaurant or eating place.
7. As per the Payment of Bonus Act, 1965 the bonus should be paid within how many months from the close of the accounting year —
- (A) One month
 - (B) Two months
 - (C) Twelve months
 - (D) Eight months.
8. Which of the following is included in the definition of 'wages' under the Industrial Disputes Act, 1947 —
- (A) Any bonus
 - (B) Any travelling concession
 - (C) Any gratuity payable on the termination of the service
 - (D) Any commission payable on the promotion of sales or business or both.
9. Which establishment is defined as 'small establishment' under the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by certain Establishments) Act, 1988 —
- (A) The establishment in which not less than 9 and not more than 20 persons are employed or were employed on any day in preceding 12 months
 - (B) The establishment in which not less than 10 and not more than 19 persons are employed or were employed on any day in preceding 12 months
 - (C) The establishment in which not more than 9 persons are employed or were employed on any day in preceding 12 months

- (D) The establishment in which not more than 10 persons are employed or were employed on any day in preceding 12 months.
- 10.** Which of the following is empowered under section 41D of the Factories Act, 1948 to appoint an Inquiry Committee in the event of the occurrence of an extraordinary situation involving a factory engaged in a hazardous process, to inquire into the standards of health and safety observed in the factory with a view to finding out the causes of any failure or neglect in the adoption of any measures or standards prescribed for the health and safety of the workers employed in the factory —
- (A) Central Government
 - (B) State Government
 - (C) Occupier of the factory
 - (D) Inspector of the factory.
- 11.** Any industrial dispute or any matter appearing to be connected with, or relevant to the dispute specified in the Second Schedule of the Industrial Disputes Act, 1947 the appropriate Government, by order in writing may make a reference for adjudication to —
- (A) Labour Court
 - (B) Court of Inquiry
 - (C) Industrial Tribunal
 - (D) National Tribunal.
- 12.** As per section 3A and 3B of the Apprentices Act, 1961 in every designated trade, training places shall not be reserved for —
- (A) Scheduled castes
 - (B) Scheduled tribes
 - (C) Other backward classes
 - (D) Minority community.
- 13.** An insured person under the Employees' State Insurance Act, 1948 is entitled to receive certain benefits. But the insured person is —
- (A) Not entitled to receive more than one benefit for the same period
 - (B) Entitled to receive more than one benefit for the same period on compassionate grounds
 - (C) Entitled to receive one benefit partly in cash and receive the other benefit in kind for the same period
 - (D) Entitled to receive more than one benefit on approval of authorities concerned.

14. Under section 2(ii) of the Child Labour (Prohibition and Regulation) Act, 1986 a person who has not completed his fourteenth year of age is defined as —
- (A) Infant
 - (B) Child
 - (C) Adolescent
 - (D) Young.
15. According to section 4 of the Minimum Wages Act, 1948 any minimum rate of wages duly fixed or revised may not consist of —
- (A) A basic rate of wages and a special allowance at a rate to be adjusted (hereinafter referred to as the cost of living allowance)
 - (B) A basic rate of wages or without the cost of living allowance and the cash value of the concession in respect of supplies of essential commodities at concessional rates where so authorized
 - (C) An all inclusive rate allowing for the basic rate, the cost of living allowance and the cash value of the concessions, if any
 - (D) An all exclusive rate not allowing for the basic rate, the cost of living allowance and the cash value of the concessions, if any.
16. Under the Payment of Bonus Act, 1965 'accounting year' in relation to a corporation means —
- (A) The year commencing on the 1st day of April
 - (B) The period in respect of which any profit and loss account of the company is laid before the annual general meeting, whether that period is a year or not
 - (C) The year ending on the day on which the books of account of the corporation are to be closed and balanced
 - (D) The year commencing on the 1st day of January.
17. Any unpaid wages due to the workers under the Chapter VII (annual leave with wages) of the Factories Act, 1948 can be recovered as delayed wages under the provisions of the —
- (A) Minimum Wages Act, 1948
 - (B) Payment of Wages Act, 1936
 - (C) Equal Remuneration Act, 1976
 - (D) Payment of Bonus Act, 1965.
18. Under the Payment of Gratuity Act, 1972 gratuity shall be payable to an employee on the termination of his employment if he has rendered continuous service for—
- (A) Not less than three years

- (B) Not less than five years
 - (C) Not less than seven years
 - (D) Not less than ten years.
- 19.** As per the Maternity Benefit Act, 1961 a woman is entitled to maternity benefit if she has actually worked in an establishment of the employer for a period of not less than —
- (A) Eighty days in the twelve months immediately preceding the date of her expected delivery
 - (B) Ninety days in the twelve months immediately preceding the date of her expected delivery
 - (C) Hundred days in the twelve months immediately preceding the date of her expected delivery
 - (D) Hundred twenty days in the twelve months immediately preceding the date of her expected delivery.
- 20.** The body, by whatever name called, to which the management of the affairs of a trade union is entrusted is defined as —
- (A) Body corporate under the Trade Union Act, 1926
 - (B) Agent under the Trade Union Act, 1926
 - (C) Office-bearer under the Trade Union Act, 1926
 - (D) Executive under the Trade Union Act, 1926.
- 21.** Under the Contract Labour (Regulation and Abolition) Act, 1970 the principal employer of an establishment can employ contract labour if —
- (A) The principal employer has not obtained the certificate of registration
 - (B) The work is of urgent nature
 - (C) The work is not of perennial nature
 - (D) The work provides instant employment to a considerable number of unemployed persons.
- 22.** As per the Industrial Employment (Standing Orders) Act, 1946 Standing Orders shall come into operation —
- (A) On the expiry of 15 days from the date on which the authenticated copies are sent to employer and workers representatives
 - (B) On the expiry of 30 days from the date on which the authenticated copies are sent to employer and workers representatives
 - (C) On the expiry of 60 days from the date on which the authenticated copies are sent to employer and workers representatives
 - (D) On the expiry of 6 weeks from the date on which the authenticated copies are sent to employer and workers representatives.

- 23.** Under section 55 of the Factories Act, 1948, an adult worker shall not work continuously for more than five hours unless he has had a rest interval of at least—
- (A) One hour
 - (B) 45 minutes
 - (C) Half an hour
 - (D) Two hours.
- 24.** If the services of an employee have been terminated for riotous or disorderly conduct or any other act of violence on his part, the gratuity payable to him under the Payment of Gratuity Act, 1972 may —
- (A) Be forfeited wholly or partially
 - (B) Not to be forfeited wholly or partially
 - (C) Be given at the discretion of employer
 - (D) Be referred to the trade union.
- 25.** Which Act, regulates employment of women in certain establishments for a certain period before and after childbirth and provides for maternity and other benefits —
- (A) The Apprentices Act, 1961
 - (B) The Industrial Employment (Standing Orders) Act, 1946
 - (C) The Maternity Benefit Act, 1961
 - (D) The Equal Remuneration Act, 1976.
- 26.** Under the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 an establishment which is not an establishment in public sector and where ordinarily twenty-five or more persons are employed to work for remuneration is defined as —
- (A) Employment exchange
 - (B) Establishment in public sector
 - (C) Establishment in private sector
 - (D) Public company.
- 27.** Under the Apprentices Act, 1961 any industry or business in which any trade, occupation or subject field in engineering or technology or any vocational course may be specified as a designated trade is defined as —
- (A) Industry
 - (B) Business
 - (C) Trade
 - (D) Designated trade.

28. The authority to hear and decide claim arising out of payment of less than the minimum rates of wages under section 20 of the Minimum Wages Act, 1948 is—
- (A) Any Commissioner for workmen's compensation
 - (B) Any officer of the local government
 - (C) Any officer of the State government below the rank of Labour Commissioner
 - (D) Employer.
29. In terms of section 25N of the Industrial Disputes Act, 1947 a workman employed in any industrial establishment shall be retrenched by the employer by giving _____ notice in writing indicating the reasons for retrenchment.
- (A) One month
 - (B) Three months
 - (C) Fifteen days
 - (D) Twenty-one days.
30. Every State Council constituted under the Apprentices Act, 1961 should be affiliated to the —
- (A) State Council
 - (B) State Apprenticeship Council
 - (C) National Council
 - (D) Central Apprenticeship Council.
31. In the case of *Workmen of Dimakuchi Tea Estate v. Dimakuchi Tea Estate*, which of the following objectives of the Industrial Disputes Act, 1947 are not laid down by the Supreme Court —
- (A) Promotion of measures of securing and preserving amity and good relations between the employer and workmen
 - (B) Investigation and settlement of industrial disputes between employers and employees
 - (C) Promotion of collective bargaining
 - (D) Promotion of lay-off and lock-outs.
32. Which of the following Act is not a Scheduled Act as specified in the First Schedule to the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 —
- (A) The Payment of Wages Act, 1936
 - (B) The Weekly Holidays Act, 1942
 - (C) The Minimum Wages Act, 1948
 - (D) The Employees' State Insurance Act, 1948.

- 33.** According to section 66 of the Factories Act, 1948 a woman shall not be allowed to work in any factory except between the hours of —
- (A) 6 A.M. and 7 P.M.
 - (B) 6 A.M. and 9 P.M.
 - (C) 8 A.M. and 9 P.M.
 - (D) 8 A.M. and 8 P.M.
- 34.** The employer's contribution rate in every wage period under the Employees' State Insurance Act, 1948 is —
- (A) 1.25% of the wages paid/payable
 - (B) 1.75% of the wages paid/payable
 - (C) 4.25% of the wages paid/payable
 - (D) 4.75% of the wages paid/payable.
- 35.** According to the Industrial Employment (Standing Orders) Act, 1946 modification of Standing Orders will not be affected until —
- (A) The expiry of 1 month from the date on which the Standing Orders were last modified or certified as the case may be
 - (B) The expiry of 2 months from the date on which the Standing Orders were last modified or certified as the case may be
 - (C) The expiry of 3 months from the date on which the Standing Orders were last modified or certified as the case may be
 - (D) The expiry of 6 months from the date on which the Standing Orders were last modified or certified as the case may be.
- 36.** Who among the following fixes the minimum rate of wages for piece work, known as minimum piece rate under section 3 of the Minimum Wages Act, 1948 —
- (A) Employer
 - (B) Contractor
 - (C) Labour Commissioner
 - (D) Appropriate government.
- 37.** Which of the following benefit is not covered under the Employees' State Insurance Act, 1948 —
- (A) Sickness benefit
 - (B) Maternity benefit
 - (C) Disablement benefit
 - (D) Recreational benefit.

- 38.** Who is eligible to become an apprentice under the Apprentices Act, 1961 —
- (A) Any person who is of 14 years or above, fulfills the basic physical and educational standards as defined in the Apprentices Act, 1961
 - (B) Any person who is of 16 years or above, fulfills the basic physical or educational standards as defined in the Apprentices Act, 1961
 - (C) Any person who is of 18 years or above, fulfills the basic physical and educational standards as defined in the Apprentices Act, 1961
 - (D) Any person who is of 21 years or above, fulfills the basic physical and educational standards as defined in the Apprentices Act, 1961.
- 39.** The Payment of Gratuity Act, 1972 does not apply to which of the following —
- (A) Every factory, mine, oilfield, plantation, port and railway company
 - (B) Every shop or establishment within the meaning of any law for the time being in force in relation to shops and establishments in a State, in which ten or more persons are employed, or were employed, on any day of the preceding twelve months
 - (C) Every shop or establishment within the meaning of any law for the time being in force in relation to shops and establishments in a State, in which less than 10 persons are employed, or were employed, on any day of the preceding twelve months
 - (D) Such other establishments or class of establishments in which ten or more employees are employed, or were employed, on any day of the preceding twelve months as the Central Government may, by notification specify in this behalf.
- 40.** Which one of the following Acts prevents discrimination against women employees while making recruitment for the same work or work of similar nature, or in any condition of service subsequent to recruitment —
- (A) The Minimum Wages Act, 1948
 - (B) The Payment of Wages Act, 1936
 - (C) The Equal Remuneration Act, 1976
 - (D) The Maternity Benefit Act, 1961.
- 41.** Section 36A of the Factories Act, 1948 provides that in any factory no portable electric light or any other electric appliance of voltage exceeding _____ shall be permitted for use inside any chamber, tank, vat, pit, pipe, flue or other confined space unless adequate safety devices are provided.
- (A) 42 Volts
 - (B) 24 Volts
 - (C) 50 Volts
 - (D) 100 Volts.

- 42.** As per the Payment of Wages Act, 1936 wage-period shall not exceed —
- (A) Half a month
 - (B) One month
 - (C) Two months
 - (D) Three months.
- 43.** Who is responsible for giving notification of vacancies to employment exchanges under the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 —
- (A) Employment exchange
 - (B) The employer
 - (C) The employee
 - (D) Establishment in private sector.
- 44.** Under the Industrial Disputes Act, 1947 which of the following matter does not fall within the jurisdiction of Labour Courts —
- (A) Hours of work and rest intervals
 - (B) The application and interpretation of standing orders
 - (C) Withdrawal of any customary concession or privilege
 - (D) The propriety or legality of an order passed by an employer under standing orders.
- 45.** A factory which is engaged in any process of blending, packing or repacking of tea or coffee for a period not exceeding seven months in a year under section 19(A) of the Employees' State Insurance Act, 1948 is known as —
- (A) Seasonal factory
 - (B) Non-seasonal factory
 - (C) Manufacturing process
 - (D) Scheduled employment.
- 46.** The Payment of Bonus Act, 1965 applies to every factory and every other establishment in which persons are employed on any day during an accounting year.
- (A) Twenty or more
 - (B) Twenty five or more
 - (C) Fifty or more
 - (D) Hundred or more.

47. Under the Industrial Disputes Act, 1947 failure, refusal or inability of an employer to give employment, to a workman whose name appears on the muster-rolls of his industrial establishment and who has not been retrenched due to breakdown of machinery is defined as —
- (A) Lay-off
 - (B) Lock out
 - (C) Retrenchment
 - (D) Termination.
48. Excluded employee under Employees' Provident Funds Scheme, 1952 means an employee drawing pay exceeding —
- (A) 6,500 per month
 - (B) 15,000 per month
 - (C) 10,000 per month
 - (D) 20,000 per month.
49. Under the Equal Remuneration Act, 1976 the basic wage or salary and any additional emoluments whatsoever payable, either in cash or in kind, to a person employed in respect of employment or work done in such employment, if the terms of the contract of employment, express or implied, were fulfilled is defined as —
- (A) Wage
 - (B) Remuneration
 - (C) Salary
 - (D) Contract of employment.
50. As per the Employees' Compensation Act, 1923 in the case of death resulting from injury, the amount of compensation payable to an employee is —
- (A) 90,000
 - (B) 1,00,000
 - (C) 1,20,000
 - (D) 1,40,000.
51. The limitation period of prosecutions under section 27 of the Contract Labour (Regulation and Abolition) Act, 1970 is —
- (A) Three years
 - (B) One year
 - (C) Nine months
 - (D) Three months.

- 52.** Which of the following body registers a Trade Union —
- (A) Controller of Trade Union
 - (B) Registrar of Trade Union
 - (C) Registrar of Societies
 - (D) Controller of Societies.
- 53.** Which one of the following Acts requires employers in industrial establishments formally to define conditions of employment under them —
- (A) The Apprentices Act, 1961
 - (B) The Industrial Employment (Standing Orders) Act, 1946
 - (C) The Contract Labour (Regulation and Abolition) Act, 1970
 - (D) The Equal Remuneration Act, 1976.
- 54.** The Contract Labour (Regulation and Abolition) Act, 1970 applies to every establishment/contractor in which _____ or more workmen are employed or were employed on any day of the preceding twelve months as contract labour —
- (A) 7
 - (B) 10
 - (C) 15
 - (D) 20.
- 55.** According to the Child Labour (Prohibition and Regulation) Act, 1986 prohibition of employment of children is not applicable to any workshop wherein any process is carried on by the occupier —
- (A) With the aid of his family
 - (B) With the aid of foreign government
 - (C) With the aid of his friends
 - (D) With the aid of public.
- 56.** In terms of section 10A of the Industrial Employment (Standing Orders) Act, 1946 where any workman is suspended by the employer pending investigation or inquiry into complaints or charges of misconduct against him, the employer shall pay to such a workman the subsistence allowance, at the rate of _____ per cent of the wages which the workman was entitled to immediately preceding the date of such suspension, for the first ninety days of suspension.
- (A) Fifty
 - (B) Sixty
 - (C) Seventy five
 - (D) Ninety.

57. Under the Employees' Compensation Act, 1923 such disablement, whether of a temporary or permanent nature, as incapacitates an employee for all work which he was capable of performing at the time of the accident resulting in such disablement is defined as —
- (A) Total disablement
 - (B) Partial disablement
 - (C) Serious bodily injury
 - (D) Fatal accident.
58. Under the Maternity Benefit Act, 1961 employment of or work by a woman is prohibited during —
- (A) Three weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy
 - (B) Six weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy
 - (C) Nine weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy
 - (D) Twelve weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy.
59. The insurance benefit under the Employees' Deposit-Linked Insurance Scheme, 1976 has increased by _____ in addition to the existing admissible benefits *w.e.f.* 1st September, 2014.
- (A) 20%
 - (B) 25%
 - (C) 50%
 - (D) 70%
60. As per Section 2(II) of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 superannuation in relation to an employee, who is the member of the Pension Scheme, means the attainment, by the said employee, of the age of —
- (A) Fifty-eight years
 - (B) Fifty-five years
 - (C) Sixty years
 - (D) Sixty-two years.
61. The minimum number of persons required for registration of a trade union are —
- (A) 2
 - (B) 5

- (C) 7
 - (D) 10.
- 62.** In the event of any dispute relating to the amount of gratuity payable, the employer shall deposit such amount as he admits to be payable by him —
- (A) With the Civil Court
 - (B) With the Revenue Court
 - (C) With the Labour Inspector
 - (D) With the Controlling Authority.
- 63.** According to section 10B of the Employees' Compensation Act, 1923 reports of fatal accidents and serious bodily injuries are required to be forwarded to the Commissioner within —
- (A) Fifteen days of the death or serious bodily injury
 - (B) Ten days of the death or serious bodily injury
 - (C) Seven days of the death or serious bodily injury
 - (D) Three days of the death or serious bodily injury.
- 64.** According to the Payment of Wages Act, 1936 where the employment of any person is terminated by or on behalf of the employer, the wages earned by him shall be paid —
- (A) Before the expiry of the second working day from the day on which his employment is terminated
 - (B) Before the expiry of the fifth working day from the day on which his employment is terminated
 - (C) Before the expiry of the seventh working day from the day on which his employment is terminated
 - (D) Before the expiry of the tenth working day from the day on which his employment is terminated.
- 65.** In which of the following cases, the employer shall not be liable to pay compensation under the Employees' Compensation Act, 1923 —
- (A) When the injury does not result in disablement for a period exceeding 3 days.
 - (B) When the injury does not result in disablement for a period not exceeding 2 days.
 - (C) When the injury does not result in disablement for a period equal to 3 days.
 - (D) When the injury does not result in disablement for a period exceeding one day.

- 66.** Section 28 of the Factories Act, 1948 provides that in a factory, every hoist and lift shall be properly maintained and thoroughly examined by a competent person at least once in every period of —
- (A) Three months
 - (B) Six months
 - (C) Nine months
 - (D) Twelve months.
- 67.** As per section 13A of the Payment of Wages Act, 1936 every register and record required to be maintained shall be preserved for a period of —
- (A) Three years after the date of the last entry made therein
 - (B) Five years after the date of the last entry made therein
 - (C) Eight years after the date of the last entry made therein
 - (D) Nine years after the date of the last entry made therein.
- 68.** Under the Equal Remuneration Act, 1976 work in respect of which the skill, effort and responsibility required are the same, when performed under similar conditions, by a man or a woman and the differences, if any, between the skill, effort and responsibility of a man and those required of a woman are not of practical importance in relation to the terms and conditions of employment is defined as—
- (A) Equal work or work of a same nature
 - (B) Equal work or work of a similar nature
 - (C) Same employment or employment of a similar nature
 - (D) Same work or work of a similar nature.
- 69.** As per section 8 of the Payment of Wages Act, 1936 no fine shall be imposed on any employed person who is under the age of —
- (A) Twenty one years
 - (B) Fifteen years
 - (C) Sixteen years
 - (D) Eighteen years.
- 70.** An employee who is employed in a seasonal establishment and who is not so employed throughout the year, the employer shall pay the gratuity under the Payment of Gratuity Act, 1972 at the rate of —
- (A) Three days' wages for each season
 - (B) Five days' wages for each season
 - (C) Seven days' wages for each season
 - (D) Ten days' wages for each season.

PART – B

- 71.** Protection of natural environment is an objective expressly stated in —
- (A) Fundamental rights
 - (B) Fundamental duties
 - (C) Directive principles of State policy
 - (D) Social measures.
- 72.** Under the Constitution of India which of the following is not a fundamental right—
- (A) Right to equality
 - (B) Right to freedom
 - (C) Right to property
 - (D) Right to freedom of religion.
- 73.** Judicial review under the Constitution of India :
- (i) is a part of the basic structure of the Constitution
 - (ii) can only be excluded by a constitutional amendment.
- Which of the statements given above is / are correct —
- (A) (i) only
 - (B) (ii) only
 - (C) Both (i) and (ii)
 - (D) Neither (i) nor (ii).
- 74.** Emergency shall be proclaimed by —
- (A) Governor on the basis of the recommendation of Chief Justice of High Court
 - (B) The President of India on the basis of the recommendation of Chief Justice of India
 - (C) The President of India on the basis of the recommendation of the Union Cabinet
 - (D) Governor on the recommendation of Chief Minister of the State.
- 75.** Which of the following writ is applicable for dispute regarding refund of money illegally collected as higher secondary education cess by income-tax authorities—
- (A) *Habeas corpus*
 - (B) *Certiorari*
 - (C) *Quo warranto*
 - (D) *Mandamus*.

76. According to which rule of interpretation, the words, phrases and sentences of a statute are ordinarily to be understood in their natural, ordinary or popular and grammatical meaning unless such a construction leads to an absurdity or the content or object of the statute suggests a different meaning —
- (A) Rule of literal construction
 - (B) Rule of reasonable construction
 - (C) Rule of harmonious construction
 - (D) Rule of *ejusdem generis*.
77. Which of the following may not be taken into account as internal aids in interpretation while interpreting a statute —
- (A) Preamble
 - (B) Heading and title of a chapter
 - (C) Dictionaries
 - (D) Marginal notes.
78. According to section 5 of the Specific Relief Act, 1963 a person, entitled to the possession of specific immovable property may recover the same in the manner provided by —
- (A) The Code of Criminal Procedure, 1973
 - (B) The Code of Civil Procedure, 1908
 - (C) The Indian Penal Code, 1860
 - (D) The Transfer of Property Act, 1882.
79. Rakesh conveys land to Amit, who bequeaths it to Sonu and dies. Thereupon Sonakshi gets possession of the land and produces a forged instrument stating that the conveyance was made to Bimal in trust for him. Who may obtain the cancellation of the forged instrument under the Specific Relief Act, 1963 —
- (A) Rakesh
 - (B) Amit
 - (C) Sonu
 - (D) Sonakshi.
80. Section 27 of the Specific Relief Act, 1963 lays down that any person interested in a contract may sue to have it rescinded, and such rescission may be adjudged by the Court where the contract is voidable by the plaintiff. Here 'contract' means —
- (A) A contract in writing
 - (B) A contract in will

- (C) A contract in oral
 - (D) A contract in spirit.
- 81.** “An infringement of a right *in rem* of a private individual gives a right of compensation at the suit of the injured party.” This statement is given by —
- (A) Salmond
 - (B) Fraser
 - (C) Winfield
 - (D) Fleming.
- 82.** Liability in tort depends upon —
- (A) Number of damages
 - (B) Quantity of injury
 - (C) Infringement of legal right
 - (D) Encroachment of interest.
- 83.** Section 5 of the Limitation Act, 1963 allows the extension of prescribed period in certain cases on sufficient cause being shown for the delay. This is known as doctrine of sufficient cause for condonation of delay. The test of ‘sufficient cause’ is purely —
- (A) An open test
 - (B) An intention test
 - (C) An objective test
 - (D) An individualistic test.
- 84.** Section 24 of the Limitation Act, 1963 deals with computation of time mentioned in the instruments. It states that all instruments shall for the purposes of the Act, be deemed to be made with reference to —
- (A) The Gregorian calendar
 - (B) The Arabian calendar
 - (C) The Greek calendar
 - (D) The Hindu calendar.
- 85.** Under the Indian Evidence Act, 1872 any matter expressed or described upon any substance by means of letters, figures or marks, or by more than one of those means, intended to be used, or which may be used, for the purpose of recording that matter is interpreted as —
- (A) Facts
 - (B) Circumstances

- (C) Document
(D) Evidence.
- 86.** Which principle/doctrine says that a man cannot approbate and reprobate, or that a man shall not say one thing at one time and later on say a different thing—
- (A) Doctrine of indoor management
(B) Doctrine of constructive notice
(C) Principle of *estoppel*
(D) Principle of equity.
- 87.** Right of appeal is a —
- (A) Natural right attached to litigation
(B) Inherent right attached to litigation
(C) Right given by the statute
(D) Normal right attached to litigation.
- 88.** Which of the following remedies is available to a defendant if an *ex-parte* decree is passed against him :
- (i) He may file an appeal against the *ex-parte* decree under section 96 of the Code of Civil Procedure, 1908.
(ii) He may file an application for review of the judgement.
(iii) He may apply for setting aside the *ex-parte* decree.
- Select the correct answer from the options given below —
- (A) (i) only
(B) (i) and (ii) only
(C) (ii) and (iii) only
(D) (i), (ii) and (iii).
- 89.** Under the Code of Civil Procedure, 1908 the defendant has to file a written statement of his defence within a period of _____ from the date of service of summons.
- (A) 30 Days
(B) 45 Days
(C) 60 Days
(D) 90 Days.

- 90.** In the case of a conflict between the doctrine of *res judicata* and the doctrine of *lis pendens* —
- (A) The doctrine of *lis pendens* prevails over the doctrine of *res judicata*
 - (B) The doctrine of *res judicata* prevails over the doctrine of *lis pendens*
 - (C) The doctrine of *res sub-judicata* prevails over the doctrine of *lis pendens*
 - (D) Only the doctrine of *lis pendens* prevails.
- 91.** According to the Code of Criminal Procedure, 1973 a case relating to an offence punishable with death, imprisonment for life or imprisonment for a term exceeding two years is defined as —
- (A) Summons case
 - (B) Sentence case
 - (C) Warrant case
 - (D) Accused.
- 92.** Every inquiry other than a trial conducted under the Code of Criminal Procedure, 1973 by a Magistrate or Court, carries the following features :
- (i) The inquiry is different from a trial in criminal matters
 - (ii) Inquiry is wider than trial
 - (iii) Inquiry stops when trial begins.
- Select the correct answer from the options given below —
- (A) (i), (ii) and (iii)
 - (B) (i) and (ii) only
 - (C) (ii) and (iii) only
 - (D) (i) only.
- 93.** Any sentence of death passed by an Additional Sessions Judge shall be subject to confirmation by the —
- (A) Sessions Judge
 - (B) Chief Judicial Magistrate
 - (C) Chief Metropolitan Magistrate
 - (D) High Court.
- 94.** An order under section 144 of the Code of Criminal Procedure, 1973 can remain in force for two months, and may be extended further by the State Government if it considers necessary for a period not exceeding —
- (A) Twelve months

- (B) Eight months
(C) Six months
(D) Five months.
- 95.** Under section 61 of the Code of Criminal Procedure, 1973 which of the following is issued by the Court, either for appearance or for producing a document or thing which may be issued to an accused person or witness —
- (A) Warrant
(B) Summons
(C) Notice
(D) Arrest order.
- 96.** As per section 29 of the Code of Criminal Procedure, 1973 a Magistrate of the First Class is authorised to pass a sentence of —
- (A) Imprisonment upto 3 years
(B) Imprisonment upto 5 years
(C) Imprisonment upto 7 years
(D) Imprisonment upto 10 years.
- 97.** The requisites of a 'complaint' to a Magistrate under the Code of Criminal Procedure, 1973 are :
- (i) An oral or a written allegation
(ii) Some person known or unknown has committed an offence
(iii) It must be made to a Magistrate
(iv) It must be made with the object that he should take action
(v) A police report.
- Select the correct answer from the options given below —
- (A) (i), (ii) and (v) only
(B) (ii), (iii) and (iv) only
(C) (i), (ii), (iii) and (v) only
(D) (i), (ii), (iii) and (iv) only.
- 98.** Which of the following is not a mode of payment of fee for seeking information under the Right to Information Act, 2005 —
- (A) Demand draft
(B) Banker's cheque

- (C) Promissory note
 - (D) Indian postal order.
- 99.** Under the Right to Information Act, 2005 the First Appellate Authority in exceptional cases shall dispose off the appeal within how many days of the receipt of the appeal —
- (A) 30
 - (B) 45
 - (C) 60
 - (D) 90
- 100.** The number of Central Information Commissioners prescribed under section 12 of the Right to Information Act, 2005 are —
- (A) Not exceeding five
 - (B) Not exceeding seven
 - (C) Not exceeding ten
 - (D) Not exceeding eleven.

ANSWER KEY
INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

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

In Q. No. 9 none of the option is correct. The correct answer is "The establishment in which not less than 10 and not more than 40 persons are employed or were employed on any day in preceeding twelve months."

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

COMPANY ACCOUNTS AND AUDITING PRACTICES

Time allowed : 3 hours

Maximum marks : 100

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

PART A

Question 1

- (a) State the order of payment to be followed by liquidator.
- (b) State the drawbacks of adopting shareholder value added (SVA) approach.
- (c) Prosperous Bank has a criterion that it will give loans to companies that have an economic value added (EVA) greater than zero for the past three years on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below :
- (i) Average operating income after tax equals to ₹25,00,000 per year for the last 3 years.
- (ii) Average total assets over the last 3 years equals ₹75,00,000.
- (iii) Weighted average cost of capital appropriate for the company is 10%, applicable for all 3 years.
- (iv) The company's average current liabilities over the past 3 years are ₹15,00,000. Does the company meet the bank's criterion for a positive EVA ? Show your workings.
- (d) State the purposes for which balance in the securities premium account may be applied.
- (e) Explain the procedure for reduction of share capital. (5 marks each)

Answer 1(a)

Order of payment to be followed by the liquidator

The amount received from the assets not specifically pledged & the amounts contributed by the contributories must be distributed by the liquidator in the following order:

- (a) Expenses of winding up including the liquidators remuneration
- (b) Preferential creditors
- (c) Creditors secured by the floating charge on the assets of the company
- (d) Unsecured creditors
- (e) Preference share capital
- (f) Surplus, if any, amongst the contributories (equity shareholders)

Answer 1(b)**Drawbacks of Adopting SVA**

- a) A limitation in the use of SVA as a performance measure is that, by nature, it is an aggregate measure. In order to analyse the underlying causes of any changes in calculated value between years, it is necessary to fully comprehend the value drivers and activities specific to a given firm.
- b) There may be certain enterprises which are subject to any degree of price regulation then it may not be possible for management to adjust output prices to achieve a commercial return in response to upward movements in input prices. Such a situation may result in SVA being reduced even though there may have been no decrease in overall efficiency.
- c) Similarly, a reduction in direct Government funding would result in a decrease in SVA.
- d) Combined with the use of traditional accounting measures, a thorough knowledge of the value drivers of the business will assist in determining the underlying causes of fluctuations in the value added measure.
- e) Again, the use of SVA is not a substitute for detailed analysis of business drivers; rather it is an additional measurement tool with an economic foundation.

Answer 1(c)

	₹
Net Profit after tax	25,00,000
Less : Cost of Capital employed	6,00,000
Economic value Added	<u>19,00,000</u>

Since EVA is greater than 0, the company qualifies for the loan, meeting the bank's criterion.

Working Note : Calculation of Cost of Capital Employed

	₹
Average Total Assets	75,00,000
Less : Average Current liabilities	15,00,000
Capital Employed	<u>60,00,000</u>
Cost of Capital @10%	6,00,000

Answer 1(d)

As per Section 52(2) of the Companies Act 2013, securities premium account may be applied by the company—

- (a) towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares;

- (b) in writing off the preliminary expenses of the company;
- (c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;
- (d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or
- (e) for the purchase of its own shares or other securities / Buy back of shares & securities;
- (f) For use of internal reconstruction of company or writing of capital reduction account.

Answer 1(e)

The procedure for reduction of share capital as given under section 100 to 105 of the Companies Act 1956, is as follows :

- (a) The company cannot reduce its share capital unless it is authorised by its articles. However, if the articles do not permit capital reduction, they may be altered by special resolution to enable the company to reduce its share capital.
- (b) The company must pass a special resolution for reduction of capital.
- (c) The company must apply to the court for an order confirming the capital reduction.
- (d) The court may make an order confirming the capital reduction on such terms and conditions as it thinks proper, if it is satisfied that every creditor of the company entitled to object capital reduction has consented to the reduction or that his debt has been discharged or secured by the company.
- (e) The court may also order the company to add the words "and reduced" to the name of the company for such period as it deems fit.
- (f) The order of the court confirming the reduction must be produced before the registrar and a certified copy of the order and of the minutes of reduction should be filed with the registrar for registration.

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

- (a) Explain the convergence of Indian Accounting Standards (IAS) with International Financial Reporting Standards (IFRS).
- (b) Differentiate between 'net assets method' and 'net payment method' of computation of purchase consideration for accounting for amalgamation.
- (c) Discuss the circumstances under which valuation of shares is necessary.
- (d) What are the key features of statement of profit and loss as per Schedule III of the Companies Act, 2013 ?
- (e) From the following particulars, calculate goodwill on the basis of 3 years purchase of super profits :
 - (i) Capital employed : ₹50,000

(ii) Trading profit (after tax) :	2011	:	₹12,200
	2012	:	₹15,000
	2013	:	₹2,000 (loss)
	2014	:	₹21,000

(iii) Normal rate of interest on investment : 10 % p.a.

(iv) Remuneration from alternative employment : ₹3,600 p.a. (included in above profit). (3 marks each)

OR (Alternate question to Q.No. 2)

Question 2A

- (i) What are the disclosure requirements as per AS-18 for a related party transaction?
- (ii) Under what circumstances, an amalgamation is classified as an 'amalgamation in the nature of merger' ?
- (iii) The following balances appeared in the books of Bright Ltd. as on 1st April, 2013:
 - (a) Sinking fund account ₹50,000
 - (b) Sinking fund investment account ₹48,000 (10% government securities, nominal value ₹45,000)
 - (c) 12% Debenture account ₹1,00,000.

The company sold ₹30,000 government securities at 110% and redeemed part of the debentures at a premium of 10% on 1st April, 2013.

Show debenture account, sinking fund account, sinking fund investment account and debentureholders account. (5 marks each)

Answer 2(a)

- (a) International Financial Reporting Standards are now becoming universal reporting language. In tune with the global trend the Government of India decided to facilitate the convergence of the Indian Accounting Standards with IFRS.
- (b) In this direction all the existing Indian Accounting Standards were revised and converged with corresponding International Accounting Standards/ International Financial Reporting Standards. These converged Accounting Standards are known as Ind AS.
- (c) As a result of this there shall be two separate sets of Accounting Standards under the Companies Act.
- (d) The first set would comprise the Indian Accounting Standards, which are converged with the IFRS and shall be applicable to some specified class of companies.
- (e) The second set would comprise the existing Indian Accounting Standards and would be applicable to other companies, including Small and Medium Companies (SMC).

Answer 2(b)

Net Assets Method: The amount of consideration or the amount of net assets is ascertained by deducting the total of liabilities taken over (at their agreed values, if any) from the total value of assets taken over (at their re-valued figures, if any).

Net payment method: The amount of consideration under this method is ascertained by adding up the total value of shares and other securities issued and the payments made in the form of cash and other assets by the transferee company to the transferor company in discharge of consideration.

Answer 2(c)

The necessity for valuation of shares arises inter alia in the following circumstances:

- (i) Assessments under the Wealth Tax, Income Tax or Gift Tax Acts.
- (ii) Purchase of a block of shares which may or may not give the holder thereof a controlling interest in the company.
- (iii) Purchase of shares by employees of the company where the retention of such shares is limited to the period of their employment.
- (iv) Formulation of schemes of amalgamation, absorption, etc.
- (v) Acquisition of interest of dissenting shareholders under a scheme of reconstruction.
- (vi) Compensating shareholders on the acquisition of their shares by the Government under a scheme of rationalisation.
- (vii) Conversion of shares, say, preference into equity.
- (viii) Advancing a loan on the security of shares.
- (ix) Resolving a deadlock in the management of a private limited company on the basis of the controlling block of shares being given to either of the parties.

Answer 2(d)**Key features Statement of Profit and Loss**

- (i) The name of 'Profit and Loss Account' has been changed to "Statement of Profit and Loss".
- (ii) This format of Statement of Profit and Loss does not mention any appropriation item on its face. Further, 'below the line' adjustments to be presented under "Reserves and Surplus" in the Balance Sheet.
- (iii) Any item of income or expense which exceeds one per cent of the revenue from operations or Rs. 100,000 (earlier 1 % of total revenue or Rs. 5,000), whichever is higher, needs to be disclosed separately.
- (iv) In respect of companies other than finance companies, revenue from operations need to be disclosed separately as revenue from (a) sale of products, (b) sale of services and (c) other operating revenues.

- (v) Net exchange gain/loss on foreign currency borrowings to the extent considered as an adjustment to interest cost needs to be disclosed separately as finance cost.
- (vi) Break-up in terms of quantitative disclosures for significant items of Statement of Profit and Loss, such as raw material consumption, stocks, purchases and sales have been simplified and replaced with the disclosure of "broad heads" only. The broad heads need to be decided based on materiality and presentation of true and fair view of the financial statements.

Answer 2(e)

Average Profit for 4 years	₹
2011	12,200
2012	15,000
2013	(2,000)
2014	21,000
Total	<u>46,200</u>
Average Profit (Total Profit / 4)	11,550
Calculation of Super Profits	₹
Average Profits	11,550
Less : Alternative Income or (Estimated cost of owners remuneration)	3,600
Average Trading Profit	7,950
Less : Normal Profit @ 10% on ₹50,000	5,000
Super Profits	<u>2,950</u>
Goodwill on 3 years purchase of super profits (₹2,950 x 3)	8,850

Alternative Answer 2(e)

(Ignoring the year 2013 as it was abnormal year)

Average Profit for 3 years	₹
2011	12,200
2012	15,000
2014	21,000
Total	<u>48,200</u>
Average Profit (Total Profit / 3)	<u>16,067</u>

Calculation of Super Profits	₹
Average Profits	16067
Less : Alternative Income or (Estimated cost of owners remuneration)	<u>3,600</u>
Average Trading Profit	12,467
Less: Normal Profit @ 10% on ₹50,000	<u>5,000</u>
Super Profits	<u>7,467</u>
Goodwill on 3 years purchase of super profits (₹7,467 x 3)	22,400

Answer 2A(i)**Disclosure requirements as per AS -18 for a related party transaction**

If there have been transactions between related parties, the reporting enterprise should disclose following:

- (i) the name of the transacting related party;
- (ii) a description of the relationship between the parties;
- (iii) description of the nature of the transactions;
- (iv) volume of transactions either as an amount or as an appropriate proportion;
- (v) any other elements of the related party transactions necessary for an understanding of the financial statements;
- (vi) the amounts or appropriate proportions of 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. Items of a similar nature may be disclosed in aggregate by type of related party.

Answer 2A(ii)**Amalgamation in the Nature of Merger**

An amalgamation is classified as 'amalgamation in the nature of merger' under following circumstances:

- (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
- (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Answer 2A(iii)

Dr.		12% Debentures Account		Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01.04.2013	To Debenture Holders A/c	30,000	01.04.2013	By Balance b/d	1,00,000
	To Balance c/d	70,000			
		<u>1,00,000</u>			<u>1,00,000</u>
				By Balance b/d	70,000

Dr.		Sinking Fund Account		Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01.04.2013	To Premium on redemption of debenture A/c	3,000	01.04.2013	By Balance b/d	50,000
	To General reserve A/c	30,000		By Sinking Fund Investment A/c (W.N.1)	1,000
	To Balance c/d	18,000			
		<u>51,000</u>			<u>51,000</u>

Dr.		Sinking Fund Investment Account		Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01.04.2013	To balance b/d	48,000	01.04.2013	By Bank	33,000
	To Sinking Fund A/c	1,000		By Balance c/d	16,000
		<u>49,000</u>			<u>49,000</u>

Dr.		Debenture Holders Account		Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01.04.2013	To Bank A/c	33,000	01.04.2013	By 12% Debentures A/c	30,000
				By Premium on Redemption of Debentures A/c	3,000
		<u>33,000</u>			<u>33,000</u>

Working Note:

Profit on Sale of Investments

Sales Proceeds of Investments (₹30,000 x 110%) = ₹ 33,000

Less : Cost of Investment (48,000/45,000 x 30,000) = ₹ 32,000

Profit on Sale ₹ 1,000**Question 3**

(a) Following is the balance sheet of Tulika Ltd. as on 31st March, 2014 :

As on 31st
March, 2014
(₹)**I. EQUITY AND LIABILITIES****(1) Shareholders' funds****(a) Share capital****Authorised capital**20,000 equity shares of ₹10 each 2,00,000**Issued, subscribed and paid-up capital**

12,000 equity shares of ₹10 each 1,20,000

Less : Calls in arrear(₹3 per share on 3,000 shares) 9,000 1,11,000**(b) Reserves and surplus**

Surplus as per last balance sheet (loss) (22,000)

Add : profit for the year 1,200 (20,800)**(2) Current liabilities****(a) Trade payables** 15,425**(b) Other current liabilities (provision for taxes)** 4,000**TOTAL**1,09,625

II. ASSETS

(1) Non-current Assets

(a) Fixed assets

(i) Tangible assets

Land and building	20,500
Machinery	50,850

(ii) Intangible assets

Goodwill	10,000
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(2) Current Assets

(a) Inventories	10,275
(b) Trade receivables	15,000
(c) Cash and cash equivalents	1,500
(d) Other current assets (preliminary expenses)	1,500
TOTAL	<u><u>1,09,625</u></u>

The directors have found that the valuation of the machinery was overvalued by ₹10,000. It is proposed to write down these assets to its true value and to extinguish the deficiency in the statement of profit and loss and to write-off goodwill and preliminary expenses by adoption of the following schemes :

- (i) Forfeit the shares on which the calls are outstanding
- (ii) Reduce the paid-up capital by ₹ 3 per share
- (iii) Re-issue of forfeited shares at ₹ 5 per share
- (iv) Utilise the provision for taxes, if necessary

The shares on which the calls were in arrear were duly forfeited and re-issued as fully paid-up shares of ₹ 7 each on payment of ₹ 5 per share.

You are required to pass necessary journal entries. (5 marks)

- (b) Green Ltd. was established on 1st August, 2013 and received its certificate of commencement of business on 1st November, 2013. The company bought the business of Purple & Co. with effect from 1st April, 2013. From the following information for the year ended on 31st March, 2014, find out the profit available for dividends :

- (i) Sales for the year ₹ 12,00,000 out of which sales upto 1st August, 2013 was ₹ 5,00,000
- (ii) Gross profit for the year was ₹ 3,60,000
- (iii) Expenses shown in the statement of profit and loss were as under :

	₹
Salaries	24,000

Rent	12,000
Audit fee	12,000
Directors' fee	9,600
Interest on debentures	10,000
Commission	19,200
Depreciation	51,000
General expenses	16,800
Bad debts (₹ 1,000 prior to incorporation)	3,000

(5 marks)

(c) Time Ltd. went into liquidation on 31st March, 2014 and its position on that date was as under :

- 50,000, 10% Preference shares of ₹10 each fully paid
- 70,000 Equity shares of ₹10 each fully paid
- 60,000 Equity shares of ₹5 each, ₹3 per share paid
- Calls-in-arrear ₹20,000
- Calls received in advance ₹17,000
- Preference dividend is in arrear for 1 year.

Amount left with the liquidator after discharging all liabilities is ₹6,27,000.
Preference dividend in arrear is to be paid in priority to the equity capital.

Prepare liquidator's final statement of accounts.

(5 marks)

Answer 3(a)**Journal Entry**

Date	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
(i)	Equity Shares Capital A/c	30,000	
	To Calls in arrears		9,000
	To Share Forfeiture A/c		21,000
	(Being forfeiture of 3,000 equity shares of ₹10 each for nonpayment of call at ₹3 per share as per board resolution dated.....)		
(ii)	Equity Shares Capital A/c	90,000	
	To Equity Share Capital A/c		63,000
	To Reconstruction A/c		27,000
	(Allotment of 9,000 fully paid equity of ₹7 each in lieu of 9,000 fully paid shares of ₹10 each as per scheme of reconstruction dated.....)		

<i>Date</i>	<i>Particulars</i>	<i>Dr. Amount (₹)</i>	<i>Cr. Amount (₹)</i>
(iii)	Bank A/c	15,000	
	Share Forfeiture A/c	6,000	
	To Equity Shares Capital A/c		21,000
	(Re-issue of 3,000 equity shares of ₹7 each as fully paid up @ ₹ 5 per share)		
(iv)	Share Forfeiture A/c	15,000	
	To Reconstruction A/c		15,000
	(Transfer of balance of forfeited shares)		
(v)	Provision for Taxation A/c	300	
	To Reconstruction A/c		300
	(Transfer of Provision for taxes to the extent necessary)		
(vi)	Reconstruction A/c	42,300	
	To Goodwill A/c		10,000
	To Machinery A/c		10,000
	To Preliminary Expenses A/c		1,500
	To Profit and Loss A/c		20,800
	(Transfer of balances as per Reconstruction scheme)		

Answer 3(b)**Statement showing allocation of Pre and Post Incorporation Profits**

<i>Particulars</i>	<i>Basis of Allocation</i>	<i>Pre-Incorporation Profits</i>	<i>Post-incorporation Profits</i>
Gross Profit	Sales	1,50,000	2,10,000
<i>Less : Expenses</i>			
Salary	Time	8,000	16,000
Rent	Time	4,000	8,000
Audit Fees	Time	4,000	8,000
Director's Fees	Post Inc	–	9,600
Interest on debentures	Post Inc	–	10,000
Commission	Sales	8,000	11,200
Depreciation	Time	17,000	34,000

<i>Particulars</i>	<i>Basis of Allocation</i>	<i>Pre-Incorporation Profits</i>	<i>Post-incorporation Profits</i>
General expenses	Time	5,600	11,200
Bad debts	Given	1,000	2,000
Total Expenses		<u>47,600</u>	<u>1,10,000</u>
Net Profit		<u>1,02,400</u>	<u>1,00,000</u>

Working Notes:

Ratio of Sales = 5,00,000 : 7,00,000 = 5:7

Ratio of Time = 4: 8

Answer 3(c)**Liquidator's Final Statement of Account**

<i>Receipt</i>	<i>Amount ₹</i>	<i>Payment</i>	<i>Amount ₹</i>
Cash	6,27,000	Calls in advance	17,000
Calls in Arrear	20,000	Preference Dividend	50,000
Contribution from Equity Shares of ₹5 each (₹1 per share)	60,000	Preference Shareholders	5,00,000
		Equity Shareholders of ₹10 each (@ ₹ 2 per share)	1,40,000
	<u>7,07,000</u>		<u>7,07,000</u>

Working Note:

(i) <i>Amount at Disposal</i>	₹	₹
Cash in Hand		6,27,000
Less : Payment of preference Dividend	50,000	
Preference shareholders	5,00,000	
Calls in Advance	<u>17,000</u>	<u>5,67,000</u>
		60,000
Add : Calls in Arrear		<u>20,000</u>
		80,000
Add : Amount to be received from Equity Shareholders of ₹5 each		1,20,000
Amount at Disposal		<u>2,00,000</u>

(ii) Number of Equivalent Equity Shares

70,000 Equity shares of ₹10 each = 1,40,000 shares of ₹5 each

60,000 Equity shares of ₹5 each = 60,000 shares of ₹5 each

Total = 2,00,000 shares of ₹5 each

Final payment to Equity Shareholders

= Total amount at disposal/Total no. of equivalent shares

= ₹2,00,000/2,00,000

= ₹1 per share

Final payment to Equity Shareholders of ₹10 each

= ₹ 2 per share

Amount to be received from Equity Shareholders of ₹5 each

= ₹ 2 per share

Amount to be paid by Equity Shareholders of ₹5 each

= ₹ 1 per share

Final amount to be received from equity Shareholders of ₹5 each

= ₹ 1 per share

Question 4

(a) Prepare the consolidated balance sheet from the following balance sheets of H. Ltd. and S. Ltd. :

	(₹ in '000)	
	H. Ltd.	S. Ltd.
I. EQUITY AND LIABILITIES		
(1) Shareholders' funds		
(a) Share capital		
Equity shares of ₹10	10,000	2,000
(b) Reserves and surplus		
Reserve fund	1,000	600
Surplus	4,000	1,200
(2) Current liabilities		
(a) Trade payables	2,000	1,200
(b) Other current liabilities (bills payable)	—	300
TOTAL	17,000	5,300

	(₹ in '000)	
	H. Ltd.	S. Ltd.
II. ASSETS		
(1) Non-current Assets		
(a) Sundry assets	8,000	1,200
(b) Investments (1,50,000 equity shares in S Ltd. at cost)	1,500	—
(2) Current Assets		
(a) Inventories	6,100	2,400
(b) Trade receivables	1,300	1,700
(c) Other current assets (bills receivables)	100	—
TOTAL	17,000	5,300

Following additional information is also given :

- (i) S. Ltd. has earned all the profits only since the above 1,50,000 shares were acquired by H. Ltd.
 - (ii) On the date of acquisition of these 1,50,000 shares by H. Ltd., S. Ltd. had balance in the reserve fund of ₹ 6,00,000.
 - (iii) The bills payable of S. Ltd. were in favour of H. Ltd. which had discounted ₹2,00,000 of them.
 - (iv) Sundry assets of S. Ltd. were undervalued by ₹ 2,00,000. Stock of H. Ltd. includes goods of ₹ 5,00,000 purchased from S. Ltd. on which S. Ltd. made a profit of 25% on cost. (8 marks)
- (b) Rose Ltd. is taking over entire business of Lily Ltd. on the basis of following balance sheets as at 31st March, 2014 :

	Rose Ltd. (₹)	Lily Ltd. (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' funds		
(a) Share capital		
Equity shares of ₹10 each, fully paid	10,80,000	8,06,600
(b) Reserves and surplus		
General reserve	1,72,000	1,09,980
Surplus	1,32,000	87,000
(2) Current liabilities		
Trade payables	88,800	1,16,400
TOTAL	14,72,800	11,19,980

	Rose Ltd. (₹)	Lily Ltd. (₹)
II. ASSETS		
(1) Non-current Assets		
(a) Fixed assets		
(i) Tangible assets (Plant)	4,20,000	3,20,000
(ii) Intangible assets (Goodwill)	1,00,000	70,000
(2) Current Assets		
(a) Inventories	1,83,000	1,65,000
(b) Trade receivables	5,73,800	3,45,800
(c) Cash and cash equivalents	1,96,000	2,19,180
TOTAL	<u>14,72,800</u>	<u>11,19,980</u>

Further Information :

- (a) Plant of Rose Ltd. and Lily Ltd. is worth ₹ 3,90,000 and ₹ 3,50,000 respectively.
- (b) Goodwill of Rose Ltd. and Lily Ltd. is to be valued at ₹ 1,50,000 and ₹ 1,00,000 respectively.
- (c) Stock of Lily Ltd. is over-valued by 10% above its cost.
- (d) Rose Ltd. is taking over Lily Ltd. by issue of shares at the intrinsic value.
- (e) All the assets and liabilities of Lily Ltd. were incorporated in the books of Rose Ltd. at fair value and assets and liabilities of Rose Ltd. have been carried at carrying values only.

You are required to prepare post absorption balance sheet of Rose Ltd.

(7 marks)

Answer 4(a)

**Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as on _____**

Particulars	Note No.	Amount (₹)
I EQUITIES AND LIABILITIES		
1 Shareholders' funds		
(a) Share Capital	(1)	100,00,000
(b) Reserve and surplus	(2)	64,00,000
2 Minority Interest (Working Note 4)		10,00,000
3 Non-current liabilities		-
4 Current Liabilities	(3)	34,00,000
TOTAL		<u>208,00,000</u>

<i>Particulars</i>	<i>Note No.</i>	<i>Amount (₹)</i>
II ASSETS		
1 Non-current Assets		
(a) Sundry Assets (80,00,000 + 12,00,000 + 2,00,000)		94,00,000
(b) Current Assets	(4)	114,00,000
TOTAL		<u>208,00,000</u>

Notes to Accounts

(1) Share Capital	₹
Authorised, Issued subscribed and paid up capital 10,00,000 Equity shares of ₹10 each, fully paid up	100,00,000
(2) Reserves and Surplus	
Reserve Fund	10,00,000
Surplus (₹40,00,000 + ₹9,00,000 – ₹1,00,000)	48,00,000
Capital reserve (W.N.6)	6,00,000
	<u>64,00,000</u>
(3) Current Liabilities	
Trade Payables	
H Ltd.	20,00,000
Add : S Ltd.	12,00,000
Add : Bills Payable (S Ltd.)	3,00,000
Less: Bills Receivable in holding company	<u>(1,00,000)</u>
	<u>34,00,000</u>
(4) Current Assets	
Inventories (₹ 61,00,000 + ₹ 24,00,000 – ₹ 1,00,000)	84,00,000
Trade Receivables (13,00,000 + 17,00,000)	30,00,000
	<u>1,14,00,000</u>

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	₹
Reserve Fund	6,00,000
H Ltd.'s share 75% (3/4 x 6,00,000)	4,50,000
Minority Interest 20% (1/4 x 6,00,000)	1,50,000

2. Profit on revaluation of Assets of S Ltd.

Net Profit on revaluation	2,00,000
H Ltd.'s share (3/4 x 2,00,000)	1,50,000
Minority Interest (1/4 x 2,00,000)	50,000

3. Post-acquisition profits of S Ltd.

Post-acquisition profits	12,00,000
H Ltd.'s share (3/4)	9,00,000
Minority Interest (1/4)	3,00,000

4. Minority Interest

Paid-up value of 50,000 shares	5,00,000
Add : 1/4th share of pre-acquisition profits and reserves	1,50,000
1/4th share of profit on revaluation	50,000
1/4th share of post-acquisition reserves	3,00,000
	<u>10,00,000</u>

5. Cost of Control or Goodwill

Paid-up value of 1,50,000 shares held by H Ltd. (1,50,000 x 10)	15,00,000
Add : 3/4th share of pre-acquisition profits and reserves	4,50,000
3/4th share of profit on revaluation	1,50,000
Intrinsic value of the shares on the date of acquisition	21,00,000
Less : Price paid by H Ltd.	15,00,000
Capital Reserve	<u>6,00,000</u>

6. Unrealised Profit on Stock = $25/125 \times 500,000 = ₹ 100,000$ **Answer 4(b)****Balance Sheet of Rose Ltd. as on 31st March 2014**

<i>Particulars</i>	<i>Note No.</i>	<i>Amount (₹)</i>
I EQUITIES AND LIABILITIES		
1 Shareholders' funds		
(a) Share Capital	(1)	18,86,600
(b) Reserve and surplus	(2)	5,45,980
2 Non-current liabilities		-

<i>Particulars</i>	<i>Note No.</i>	<i>Amount (₹)</i>
3 Current Liabilities		
(a) Trade Payables		2,05,200
TOTAL		<u>26,37,780</u>
II ASSETS		
1 Non-current Assets		
(a) Fixed Assets		
Tangible Assets	(3)	7,70,000
Intangible Assets	(4)	2,00,000
(b) Current Assets		
Inventories		3,33,000
Trade Receivable		9,19,600
Cash and Cash Equivalents		4,15,180
TOTAL		<u>26,37,780</u>

Notes to Accounts

(1) Share Capital	₹
Authorised, Issued subscribed and paid up capital	
1,88,660 Equity shares of ₹10 each, fully paid up	18,86,600
(2) Reserves and Surplus	
General Reserves (Rose Ltd)	1,72,000
Surplus (Rose Ltd)	1,32,000
Securities Premium Reserves (3 x 80,660)	2,41,980
	<u>5,45,980</u>
(3) Tangible Assets	
Plant (₹4,20,000 + ₹3,50,000)	7,70,000
(4) Intangible Assets	
Goodwill (₹1,00,000 + ₹1,00,000)	2,00,000

Calculation of shares on the basis of intrinsic value

<i>Particulars</i>	<i>Rose Ltd. ₹</i>	<i>Lily Ltd. ₹</i>
Goodwill	1,50,000	1,00,000
Plant	3,90,000	3,50,000
Debtors	5,73,800	3,45,800
Stock	1,83,000	1,50,000
Cash at bank	1,96,000	2,19,180
Total	14,92,800	11,64,980
Less : Sundry creditors	88,800	1,16,400
Net Assets	14,04,000	10,48,580
Number of shares	1,08,000	80,660
Intrinsic Value	₹ 13	₹ 13

Hence Rose Ltd. will issue 80,660 shares of ₹10 each @ ₹13 to shareholders of Lily Ltd.

PART B**Question 5**

- Explain the penal provisions applicable to auditors under the Companies Act, 2013.*
- What are the important matters which an auditor should ensure to ascertain and establish true and fair view ?*
- Differentiate between 'secretarial audit' and 'internal audit'. (5 marks each)*

Answer 5(a)

The penal provisions applicable to auditors under the Companies Act 2013 are as under-

- If an auditor of a company contravenes any of the provisions of section 139, section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees.
- If an auditor has contravened such provisions knowingly or willfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.
- Where an auditor has been convicted he shall be liable to —
 - refund the remuneration received by him to the company; and

- (ii) pay for damages to the company, statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.

Answer 5(b)

In order to show a true and fair view the auditor should ensure that:

- The final accounts (Trading and Profit and loss Account and Balance Sheet) agree with the books of accounts.
- The closing stock is physically verified and valued properly.
- Intangible assets like goodwill, patents, preliminary expenses or other deferred revenue expenses are valued and written off properly.
- Expenses/income of Capital nature is not treated as revenue and vice versa.
- Coningent liabilities are not treated as actual liabilities and vice versa.
- Provision is made for all known losses and liabilities
- Transactions are recorded on accrual basis, i.e. outstanding expenses, prepaid expenses, income accrued and advance income is recorded properly.
- The exceptional or non-recurring transactions are disclosed separately in the accounts.

Answer 5(c)

<i>Basis</i>	<i>Secretarial Audit</i>	<i>Internal Audit</i>
Definition	Secretarial Audit is an audit to check compliance of various legislations including the Companies Act and other corporate and economic laws applicable to the company.	Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.
Applicability	It is applicable to every listed company and every public company having a paid-up share capital of fifty crore rupees or more; or every public company having a turnover of two hundred fifty crore rupees or more.	It is applicable to (i) every listed company; (ii) every unlisted public company having - — paid up share capital ₹50 crores rupees during the preceding financial year; or

<i>Basis</i>	<i>Secretarial Audit</i>	<i>Internal Audit</i>
Qualifications for auditor	A Secretarial Audit has to be conducted by a Practising Company Secretary in respect of the secretarial and other records of the company.	<ul style="list-style-type: none"> — turnover ₹200 crore rupees or more during the preceding financial year; or — outstanding loans or borrowings from banks or public financial institutions > 100 crore rupees or more at any point of time during the preceding financial year; or — outstanding deposits ₹twenty five crore at any point of time during the preceding financial year; and <p>(iii) every private company having-</p> <ul style="list-style-type: none"> — turnover ₹200 crore rupees or more during the preceding financial year; or — outstanding loans or borrowings from banks or public financial institutions > 100 crore rupees or more at any point of time during the preceding financial year. <p>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.</p>
Report of the audit	A secretarial audit report shall be annexed with the Board's report of the company.	The report of internal audit shall be submitted to the Board of the company.

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

- (a) Explain the procedure of fraud reporting by an auditor as per the Companies Act, 2013.
- (b) What are the techniques of internal control system ? Discuss with examples.
- (c) What is audit in-depth ? Mention the various stages in purchase of goods.

(5 marks each)

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

- (i) What are the points for consideration in audit planning in relation to the audit engagement ?
- (ii) What precautions should be taken while adopting test checking ?
- (iii) Distinguish between 'audit' and 'investigation'.

(5 marks each)

Answer 6(a)**Reporting of frauds by auditor**

In case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure given below:

- (i) auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;
- (ii) on receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
- (iii) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.

The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same. The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number. The report shall be in the form of a statement as specified in Form ADT-4.

Answer 6(b)

There are two types of techniques used in internal control system Preventive internal control techniques and Detective internal control techniques controls.

- (I) **Preventive Controls techniques** are designed to discourage errors or irregularities from occurring. They are proactive in nature that helps to ensure departmental objectives are being met. Examples of preventive controls techniques are:
 - Segregation of Duties:
 - Approvals, Authorizations, and Verifications
 - Security of Assets (Preventive and Detective)
- (II) **Detective Controls** techniques are designed to find errors or irregularities after they have occurred. Examples of detective controls techniques are:
 - Reviews of Performance
 - Reconciliations
 - Physical Inventories
 - Internal Audits

Answer 6(c)

Audit in depth means checking a transaction extensively from origin to end. It is an audit technique which is used in investigation exercises whereby the objective is thorough examination of transactions or records. In this technique all aspects relating to the transaction are checked such as sanctity of transaction, validity of transaction, adherences of prescribed procedures, arithmetical accuracy of transaction, accounting treatment of transaction etc. It is also called vertical vouching as against horizontal vouching. For example, a purchase of goods may commence when a predetermined re-order level has been reached. The ensuing stages may be summarized as given below:-

- Authorization of Purchase requisition
- Issue of Request for quotation
- Issue of Purchase order
- Receipt of goods and entry of goods in store ledger
- Approval of payment of Supplier Invoice
- Payment of supplier invoice
- Accounting of Transaction

Answer 6A(i)

Audit planning requires a high degree of discipline on the part of the auditor. In order to make the planning more meaningful, the auditor should take into consideration the following matters in relation to the audit engagement:

- Preliminary Work to be done in addition to the real audit work

- Changes in legislation, accounting or any auditing standards or guidelines
- Analytical review of available management accounts and other management information that relate to the accounts
- Changes in the business or management
- Changes in the accounting system
- Deadlines established for the submission of audit report
- Use of Rotational Testing and Verification.

Answer 6A(ii)

While adopting the test check, the auditor must take the following precautions :

- Entries selected for test checking must be representative of all transactions.
- Selection of the items should be at random.
- Client's staff should not come to know of the entries selected for test checking.
- Period selected for test checking should differ from book to book and year to year.
- Test checking should not be adopted where the law requires thorough audit.
- Entries of the first and last month of the year must be checked thoroughly.
- Test should be so devised that a sizeable portion of the work done by each employee is checked.
- Control accounts or impersonal ledger should not be subject to test checking.
- Bank statement and entries for cash withdrawal and cash deposits should be checked in full.

Answer 6A(iii)**Difference between Audit and Investigation**

- (i) *Legal binding* : Audit of annual financial statements of a company is compulsory under the Companies Act, 2013. However, investigation is voluntary depending upon necessity.
- (ii) *Objective* : Audit is conducted to ascertain whether the financial statements show a true and fair view. Investigation is conducted with a particular object in view, viz to know financial position, earning capacity, prove fraud, invest capital, etc.
- (iii) *Period covered* : Audit is conducted on annual basis. Investigation may be conducted as and when required for several years or several months together.
- (iv) *Parties for whom conducted* : Audit is conducted on behalf of shareholders (or proprietor, or partners). Investigation is usually conducted on behalf of outsiders like prospective buyers, investors, lenders, etc.

- (v) *Documents* : Audit is not carried out of audited financial statements. Investigation may be conducted even though the accounts have been audited.
- (vi) *Extent of work* : Audit is normally conducted on test verification basis. Investigation is a thorough examination of books of accounts.
- (vii) *Report* : Audit report of a company is addressed to shareholders (or proprietors or partners). Investigation report is addressed to the party on whose instruction investigation was conducted.
- (viii) *Person performing work* : Audit is to be conducted by a person having prescribed qualification i.e. Chartered accountant, Cost accountant. No statutory qualification is prescribed for Investigation. It may be undertaken by any one.

CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

(a) Super mutual fund has launched a scheme named 'Super Bonanza'. The net asset value (NAV) of the scheme is ₹ 12.00 per unit. The redemption price is ₹11.65 per unit and offer price is ₹ 12.50 per unit. You are required to calculate—

(i) Front-end load; and

(ii) Back-end load.

(6 marks)

(b) Calculate value of 'rights' from the following information —

Number of rights shares offered	2,500
Number of shares held	1,000
Ex-rights price	₹18
Rights offer price	₹15
Face value of a share	₹10

(4 marks)

(c) "Factoring is a financial option for the management of receivables." In the light of this statement, explain the meaning and advantages of factoring. (5 marks)

Answer 1(a)

Net asset value of the Scheme 'Super Bonanza' is Rs 12.00 per unit. Redemption price is Rs. 11.65 per unit and offer price is Rs. 12.50 per unit.

(i) Front-end load charges:

Public Offer Price = NAV/ (1-front end load)

Let us assume that front-end load = x

$$\Rightarrow 12.50 = 12/1 - x$$

$$12.50 - 12.50x = 12$$

$$x = 0.50/ 12.50 = 0.04$$

Front end load = 4%

Front end load charges =Rs. 0.48/- per unit

(ii) Back-end load charges:

Redemption Price = NAV/ (1+ back end load)

Let us assume that back-end load = x

$$11.65 = 12/1+x$$

$$x = 0.35 / 11.65 = 0.03$$

Back - end load = 3%

Back - end load charges= Rs.0.36/- per unit.

Answer 1(b)

Value of right, $(P_{ex} - P_{of})$

Where n = No. of rights shares offered

m = No. of shares held

P_{ex} = Ex-rights Price

P_{of} = Rights Offer Price

$$= \frac{2500}{1000} (18 - 15)$$

$$= 2.5 \times 3 = \text{Rs } 7.5$$

Answer 1(c)

'Factoring is a financial option for the management of receivables.' In simple word it is the conversion of credit sales into cash. In factoring, a financial institution (factor) buys the accounts receivable of a company (Client) and generally pays up to 80% of the amount immediately on agreement. Factoring company pays the remaining amount (Balance 20%- Finance cost-operating cost) to the client when the customer pays the debt. Collection of debt from the customer is done either by the factor or the client depending upon the type of factoring.

The following are the advantages of factoring for a seller:

- Seller gets funds immediately after the sale is effected and on presentation of accepted sales invoices and Promissory notes.
- Major part of paper work and correspondence is taken care of by the factor.
- Follow-up, for recovery of funds, is done mainly by the factor.
- Interest rates are not as high as normal discounting.
- Increased cash flow to meet payroll.
- Immediate funding arrangements.
- No additional debt is incurred on balance sheet.
- Other assets are not encumbered.
- Approval is not based on seller's credit rating.

$$\vec{V}_r = \frac{n}{m}$$

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

Explain the following :

- (a) *Credit rating establishes a link between risk and return. (3 marks)*
- (b) *Treasury bill is a powerful instrument in the money market. (3 marks)*
- (c) *PCS (Practising Company Secretary) certification for SME platform. (3 marks)*
- (d) *All securities in the same class are identical and interchangeable. (3 marks)*
- (e) *Collective investment scheme (CIS) provides a relatively secure means of investing on the stock exchange and other financial instruments. (3 marks)*

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

- (i) *Private equity fund is an unregistered investment vehicle in which investors pool money to invest. Explain the concept of private equity fund and distinguish it from hedge fund. (5 marks)*
- (ii) *Short selling means selling a stock which the seller does not own at the time of trade. In this context, discuss the broad framework of short selling. (5 marks)*
- (iii) *“Investment advisors provide guidance about financial dealings and investments.” Comment on this statement and state the role of investment advisors in capital market. (5marks)*

Answer 2(a)

Credit rating in general sense is the evaluation of the particular securities, it never indicates the credit worthiness of an individual or of a business based on relevant factors indicating ability and willingness to pay obligations as well as net worth. Credit rating establishes a link between risk and return. An investor or any other interested person uses the rating to assess the risk level and compares the offered rate of return with his expected rate of return. Credit rating is extremely important as it not only plays a role in investor protection but also benefits industry as a whole in terms of direct mobilization of savings from individuals.

Answer 2(b)

Treasury Bills are very useful instruments to deploy short term surpluses depending upon the availability and requirement. Even funds which are kept in current accounts can be deployed in treasury bills to maximise returns. Banks do not pay any interest on fixed deposits of less than 15 days, or balances maintained in current accounts, whereas treasury bills can be purchased for any number of days depending on the requirements. This helps in deployment of idle funds for very short periods as well. Further, since every week there is a 91 days treasury bills maturing and every fortnight a 364 days treasury bills maturing, one can purchase treasury bills of different maturities as per requirements so as to match with the respective outflow of funds. At times when the liquidity in the economy is tight, the returns on treasury bills are much higher as compared to bank

deposits even for longer term. Besides, better yields and availability for very short tenors, another important advantage of treasury bills over bank deposits is that the surplus cash can be invested depending upon the staggered requirements.

Answer 2(c)

Companies seeking listing on BSE SME platform through IPO are required to comply with the quantitative eligibility norms as prescribed by BSE. Additionally, it will be desirable for the company to file a compliance certificate by a practicing company secretary as per the guidance note issued by the Institute of Company Secretaries of India as and when such a certification is made applicable by the SME platform of BSE Ltd.

Answer 2(d)

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.

Answer 2(e)

A collective investment scheme is a trust based scheme that comprises a pool of assets that is managed by a collective investment scheme manager and is governed by the Collective Investment Schemes Regulations prescribed by SEBI. Collective Investment Schemes provide a relatively secure means of investing on the Stock Exchange and other financial instruments. The sums of money that are exchanged on the Stock Exchange and in the money markets make them too pricy for most people. With a CIS, the money or funds from a group of investors are pooled or collected together to form a CIS portfolio.

OR (Alternate Question to Q. No. 2)

Answer 2A(i)

A private equity fund, like a hedge fund, is an unregistered investment vehicle in which investor's pool money to invest. Private equity funds concentrate their investments in unregistered (and typically illiquid) securities. A private equity fund may distribute cash to its investors when it sells its portfolio investment, or it may distribute the securities of a portfolio company. Private equity funds, however, differ from hedge funds in terms of the manner in which contribution to the investment pool is made by the investors. Private equity investors typically commit to invest a certain amount of money with the fund over the life of the fund, and make their contributions in response to "capital calls" from the fund's general partner.

Unlike hedge funds focused on short-term profits, Private equity funds are long term investments, provide for liquidation at the end of the term specified in the fund's governing documents and offer little, if any, opportunities for investors to redeem their investments. There is also generally a substantial difference in risk level between hedge funds and private equity funds. While both practice risk management by combining higher-risk investments with safer investments, the focus of hedge funds on achieving maximum short-term profits necessarily involves accepting a higher level of risk.

Answer 2A(ii)

“Short selling” shall be defined as selling a stock which the seller does not own at the time of trade. The following is the broad framework as laid down by SEBI with respect to short selling:

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

Answer 2A(iii)

"Investment Adviser" means any person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons and includes any person who holds out himself as an investment adviser, by whatever

name called. Investment advisers are those, who guide one about his or her financial dealings and investments.

Investment adviser serves as facilitators, making sure that all clients have many opportunities to express their financial concerns and issues. Basically Investment adviser give advice and provide services related to the investment management process. The rapid change of market conditions as well as the availability of numerous options for financial investments necessitates the existence of knowledgeable investment adviser. In order to add value, the investment adviser is called upon to apply specialized knowledge, experience and analytical resources to create and deliver focused advice to client and works to increase the investment knowledge of clients and thereby support the fiduciary obligations clients face in the management of their plan.

Question 3

- (a) *What is 'market-making' ? Discuss in brief the obligation of a market-maker.*
(5 marks)
- (b) *What is meant by demutualisation of stock exchange ? Explain the purpose of demutualisation.*
(5 marks)
- (c) *Explain the conditions for issue of shares with differential voting rights by a listed company.*
(5 marks)

Answer 3(a)

Market Making is a process whereby two way quotes are offered for the purpose of facilitating trading in respect of a certain scrip .The chief advantage of market making is that it affords much-needed liquidity to the securities. It also increases the supply of scrips in the market and also triggers demand for the scrips in the market. The main obligation of the Market Maker is to provide liquidity in the market for securities that will get listed in SME Exchange, as they may have lower levels of liquidity. The obligations of Market Maker will be as follows:

- (a) The Market Maker shall be required to provide a 2-way quote for 75% of the time in a day. The same shall be monitored by the stock exchange. Further, the Market Maker shall inform the exchange in advance for each and every black out period when the quotes are not being offered by the Market Maker.
- (b) The minimum depth of the quote shall be Rs.1,00,000/- . However, the investors with holdings of value less than Rs 1,00,000 shall be allowed to offer their holding to the Market Maker in that scrip provided that he sells his entire holding in that scrip in one lot along with a declaration to the effect to the selling broker.
- (c) Execution of the order at the quoted price and quantity must be guaranteed by the Market Maker, for the quotes given by him.
- (d) There would not be more than five Market Makers for a scrip. These would be selected on the basis of objective criteria to be evolved by the Exchange which would include capital adequacy, networth, infrastructure, minimum volume of business etc.
- (e) The Market Maker may compete with other Market Makers for better quotes to the investors;

- (f) Once registered as a Market Maker, he has to start providing quotes from the day of the listing / the day when designated as the Market Maker for the respective scrip and shall be subject to the guidelines laid down for market making by the exchange;
- (g) Once registered as a Market Maker, he has to act in that capacity for a period as mutually decided between the Merchant Banker and the market maker.
- (h) Further, the Market Maker shall be allowed to deregister by giving one month notice to the exchange, subject to (g) above.

Answer 3(b)

Demutualisation means converting a mutual non-profit body into a corporate body where management and trading activities are separated. The purpose of demutualisation is as follows:

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

Answer 3(c)

Section 43(a)(ii) of the Companies Act, 2013, authorized equity share capital with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed by the Government. Rule 4 (1) of Companies (Share Capital and Debentures) Rules, 2014 prescribes the following conditions for issue of DVRs:

No company limited by shares shall issue equity shares with differential rights as to dividend, voting or otherwise, unless it complies with the following conditions, namely:-

- (a) the articles of association of the company authorizes the issue of shares with differential rights;
- (b) the issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders;
- (c) Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot ;
- (d) the shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;

- (e) the company having consistent track record of distributable profits for the last three years;
- (f) the company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- (g) the company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- (h) the company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;
- (i) the company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

Question 4

(a) *Distinguish between the following :*

- (i) *'Debt market' and 'equity market'.*
- (ii) *'Listed securities' and 'permitted securities'.*
- (iii) *'Partly convertible debentures' and 'non-convertible debentures'.*

(3 marks each)

(b) *Explain briefly the following :*

- (i) *Infrastructure debt fund*
- (ii) *Straight through processing (STP).*

(3 marks each)

Answer 4(a)(i)

'Debt market' and 'equity market'

The Debt Market is the market where fixed income securities of various types and features are issued and traded. Debt Markets are therefore, markets for fixed income securities issued by Central and State Governments, Municipal Corporations, Govt. bodies and commercial entities like Financial Institutions, Banks, Public Sector Units, Public Ltd. companies and also structured finance instruments.

Unlike debt market, equity market allows a company to acquire funds (often for investment) without incurring debt. Equity market is market where a company raise capital by way of issue of equity shares and the equity shares represents the title to the ownership of a company. The shareholder becomes an owner of a company by subscribing

to its equity capital (whereby the shareholder will be allotted shares) or by buying its shares from its existing owner(s).

Answer 4(a)(ii)

‘Listed securities’ and ‘permitted securities’

The securities of companies, which have signed the Listing Agreement with a stock exchange, are traded as “Listed Securities” in that exchange.

To facilitate the market participants to trade in securities of such companies, which are actively traded at other stock exchanges but are not listed on an another exchange, trading in such securities is facilitated as “Permitted Securities” provided they meet the relevant norms specified by the stock exchange.

Answer 4(a)(iii)

‘Partly convertible debentures’ and ‘non-convertible debentures’

Partly Convertible Debentures (PCDs) may consist of two kinds namely -convertible and non-convertible. The convertible portion is to be converted into equity shares at the expiry of specified period. However, the non convertible portion is redeemed at the expiry of the stipulated period. If the conversion takes place at or after 18 months, the conversion is optional at the discretion of the debenture holder.

While, non-convertible debentures do not carry the option of conversion into equity shares and are therefore redeemed on the expiry of the specified period or periods i.e total amount is redeemed by the issuer.

Answer 4(b)(i)

Infrastructure debt fund

Infrastructure debt funds (IDFs) would essentially act as vehicles for refinancing existing debt of infrastructure companies, thereby creating fresh headroom for banks to lend to fresh infrastructure projects. Infrastructure Debt Funds (IDFs), can be set up either as a Trust or as a Company. A trust based IDF would normally be a Mutual Fund (MF), regulated by SEBI, while a company based IDF would normally be a NBFC regulated by the Reserve Bank. IDF-MFs can be sponsored by banks and NBFCs. Only banks and Infrastructure Finance companies can sponsor IDF-NBFCs.

Answer 4(b)(ii)

Straight through processing (STP)

Straight-through Processing (“STP”) is a mechanism that automates the end-to-end processing of transactions of the financial instruments. It involves use of a single system to process or control all elements of the work-flow of a financial transaction, including what is commonly known as the Front, Middle, and Back office, and General Ledger. In other words, STP can be defined as electronically capturing and processing transactions in one pass, from the point of first ‘deal’ to final settlement.

PART B

Question 5

- (a) *Kind Enterprises Ltd. has decided to acquire stake upto 25% of the paid-up share capital of Excel Ltd., which is a listed company and wants to proceed with*

a public offer pursuant to the provisions of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. Prepare a Board note highlighting the general obligations of Kind Enterprises Ltd. (10 marks)

- (b) *What do you mean by 'reservation on competitive basis' ? Who are the persons eligible in case of issue made through book building process ? (5 marks)*
- (c) *Briefly explain the role of a Practising Company Secretary in concurrent audit of depository participants. (5 marks)*

Answer 5(a)

To

The Board of Directors

Kind Enterprises Ltd.

Note : General Obligation while acquiring upto 25% of the paid up share capital of Excel Ltd.

While acquiring shares of Excel Ltd. (the target company), Kind Enterprises Ltd. (the acquirer) has to comply with the provisions of Regulation 25 of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 with respect to obligation of acquirer in this regard:

- Prior to making the public announcement of an open offer for acquiring shares under these regulations, the acquirer shall ensure that firm financial arrangements have been made for fulfilling the payment obligations under the open offer and that the acquirer is able to implement the open offer, subject to any statutory approvals for the open offer that may be necessary.
- In the event the acquirer has not declared an intention in the detailed public statement and the letter of offer to alienate any material assets of the target company or of any of its subsidiaries whether by way of sale, lease, encumbrance or otherwise outside the ordinary course of business, the acquirer, where he has acquired control over the target company, shall be debarred from causing such alienation for a period of two years after the offer period.
- However, in the event the target company or any of its subsidiaries is required to so alienate assets despite the intention to alienate not having been expressed by the acquirer, such alienation shall require a special resolution passed by shareholders of the target company, by way of a postal ballot and the notice for such postal ballot shall inter alia contain reasons as to why such alienation is necessary.
- The acquirer shall ensure that the contents of the public announcement, the detailed public statement, the letter of offer and the post-offer advertisement are true, fair and adequate in all material aspects and not misleading in any material particular, and are based on reliable sources, and state the source wherever necessary.
- The acquirer and persons acting in concert with him shall not sell shares of the target company held by them, during the offer period.

- The acquirer and persons acting in concert with him shall be jointly and severally responsible for fulfilment of applicable obligations under these regulations.

Mr. X
Company Secretary
Kind Enterprises Ltd.

Answer 5(b)

“Reservation on competitive basis” means reservation wherein specified securities are allotted in proportion of the number of specified securities applied for in respect of a particular reserved category to the number of specified securities reserved for that category. Regulation 42 (1) of SEBI (ICDR) Regulations, 2009 stipulates the provisions relating to reservation on competitive basis. In case of an issue made through the book building process, the issuer may make reservation on competitive basis out of the issue size excluding promoters’ contribution and net offer to public in favour of the following categories of persons:

- (a) employees; and in case of a new issuer, persons who are in the permanent and full time employment of the promoting companies excluding the promoters and an immediate relative of the promoter of such companies;
- (b) shareholders (other than promoters) of: (i) listed promoting companies, in case of a new issuer; and (ii) listed group companies, in case of an existing issuer: Provided that if the promoting companies are designated financial institutions or state and central financial institutions, the shareholders of such promoting companies shall not be eligible for the reservation on competitive basis;
- (c) persons who, as on the date of filing the draft offer document with SEBI, are associated with the issuer as depositors, bondholders or subscribers to services of the issuer making an initial public offer. However, the issuer shall not make the reservation to the issue management team, syndicate members, their promoters, directors and employees and for the group or associate companies of the issue management team and syndicate members and their promoters, directors and employees.

Answer 5(c)

National Securities Depository Limited vide its Circular No. NSDL/POLICY/ 2006/ 0021 dated June 24, 2006 provides for concurrent audit of the Depository Participants. The Circular provides that w.e.f. August 1, 2006, the process of demat account opening, control and verification of Delivery Instruction Slips (DIS) is subject to Concurrent Audit. Depository Participants have been advised to appoint a firm of qualified Chartered Accountant(s) or Company Secretary (ies) holding a certificate of practice for conducting the concurrent audit. However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors. In respect of account opening, the auditor should verify all the documents including KYC documents furnished by the Clients and verified by the officials of the Participants.

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

Question 6

Comment on the following statements :

- (a) *Dematerialisation and immobilisation are distinct activities.*

- (b) *Price sensitive information is any information which relates directly or indirectly to a company.*
- (c) Delisting is not permissible under certain circumstances.
- (d) The disclosures requirements on the acquisition of shares of a listed target company beyond certain limits are only on the acquirer and not on the target company.
- (e) An institutional placement programme shall be managed by merchant banker(s) registered with SEBI. (4 marks each)

OR (Alternate question to Q.No. 6)

Question 6A

Write notes on the following :

- (i) *Reconciliation of share capital under Regulation 55A of the SEBI (Depositories and Participants) Regulations, 1996*
- (ii) *Corporate governance compliance certificate*
- (iii) *SCORES*
- (iv) *Insider trading*
- (v) *Whistle blower policy.* (4 marks each)

Answer 6(a)

Dematerialisation and Immobilisation are distinct activities. Dematerialisation is the process by which shares in the physical/paper form are cancelled and credits in the form of electronic balances are maintained on highly secure system at the depository.

Immobilisation of securities, on the other hand, occurs when physical security certificates are stored or lodged with depository for safe custody. All subsequent transaction in these securities takes place in book-entry form. The actual owner has the right to withdraw their physical securities as and when desired. The immobilization of fresh issue may be achieved by issuing a jumbo certificate representing the entire issue in the name of depository, as nominee of the beneficial owners.

Answer 6(b)

According to SEBI (Prohibition of Insider Trading) Regulations, 1992, "Price sensitive information" means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of securities of company. The following shall be deemed to be price sensitive information:

- periodical financial results of the company;
- intended declaration of dividends (both interim and final);
- issue of securities or buy-back of securities;
- any major expansion plans or execution of new projects;
- amalgamation, mergers or takeovers;
- disposal of the whole or substantial part of the undertaking;
- any significant changes in policies, plans or operations of the company.

Explanation (b) to sub-section (1) of section 195 of the Companies Act, 2013 also defines price sensitive information which means any information which relates, directly or indirectly, to a company and which if published is likely to materially affect the price of securities of the company.

Note : Since for June 2015 examination, SEBI (Prohibition of Insider Trading) 1992 was applicable as the new regulation was notified on January, 2015.

Answer 6(c)

According to Regulation 4 of SEBI (Delisting of Equity Shares) Regulations, 2009, delisting is not permissible under following circumstances:

- Buy back of equity shares by the company; or
- Preferential allotment made by the company; or
- Unless a period of three years has elapsed since the listing of that class of equity shares; or
- Instruments which are convertible into the same class of equity shares that are sought to be delisted are outstanding;
- Delisting of convertible securities.

Answer 6(d)

In SEBI Takeover Regulations, 2011, the obligation to give the disclosures on the acquisition of certain limits is only on the acquirer and not on the Target Company. Regulation 29, 30 and 31 deals with initial, continual disclosures and disclosures relating to pledged and encumbered shares required to be made by acquirer to the Target Company and stock exchanges. Further as against the Open Offer obligations where the individual shareholding is also to be considered, the disclosure shall be of the aggregated shareholding and voting rights of the acquirer or promoter of the target company or every person acting in concert with him.

Answer 6(e)

An institutional placement programme shall be managed by merchant banker(s) registered with SEBI who shall exercise due diligence. The merchant banker is required to file a copy of offer document with SEBI and the stock exchanges. The merchant banker shall submit to SEBI a due diligence certificate, stating that the eligible securities are being issued under institutional placement programme and that the issuer complies with requirements of Chapter VIII-A of SEBI (ICDR) Regulations, 2009.

OR (Alternate Question to Q. No. 6)

Answer 6A(i)

Reconciliation of share capital under Regulation 55A of the SEBI (Depositories and Participants) Regulations, 1996

Regulation 55A of SEBI (Depositories and Participants) Regulations, 1996 provides that every issuer shall submit audit report on a quarterly basis to the concerned stock exchanges audited by a practicing Company Secretary or a qualified Chartered

Accountant, for the purposes of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in-principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital.

Answer 6A(ii)

Corporate Governance Compliance Certificate

Clause 49(XI) of the equity listing agreement deals with compliance certificate on Corporate Governance. The practising Company Secretaries have also been recognised to issue Certificate of compliance of conditions of Corporate Governance. The clause provides that the company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this

Clause and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.

Answer 6A(iii)

SCORES

SCORES (SEBI Complaints Redress System) is a web based centralized grievance redress system of SEBI (<http://scores.gov.in>). SCORES enables investors to lodge and follow up their complaints and track the status of redressal of such complaints online from the above website from anywhere. This enables the market intermediaries and listed companies to receive the complaints online from investors, redress such complaints and report redressal online. All the activities starting from lodging of a complaint till its closure by SEBI would be online in an automated environment and the complainant can view the status of his complaint online. An investor, who is not familiar with SCORES or does not have access to SCORES, can lodge complaints in physical form at any of the offices of SEBI. Such complaints would be scanned and also uploaded in SCORES for processing.

Answer 6A(iv)

Insider trading

In simple terms 'insider trading' is buying or selling a security, in breach of a fiduciary duty or other relationship of trust, and confidence, while in possession of material, non-public information about the security. SEBI has not defined Insider trading but Section 195 of the Companies Act, 2013 defines insider trading which means:

- (i) an act of subscribing, buying, selling, dealing or agreeing to subscribe, buy, sell or deal in any securities by any director or key managerial personnel or any other officer of a company either as principal or agent if such director or key managerial personnel or any other officer of the company is reasonably expected to have access to any non-public price sensitive information in respect of securities of company, or
- (ii) an act of counselling about, procuring or communicating directly or indirectly any non- public price sensitive information to any person.

Answer 6A(v)

Whistle Blower Policy

Clause 49 (II) (F) of the equity listing agreement deals with the whistle blower mechanism which provides the following:

1. The company shall establish a vigil mechanism for directors and employees to report concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy.
2. This mechanism should also provide for adequate safeguards against victimization of director(s) / employee(s) who avail of the mechanism and also provide for direct access to the Chairman of the Audit Committee in exceptional cases.
3. The details of establishment of such mechanism shall be disclosed by the company on its website and in the Board's report.
