

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

JUNE 2017

MODULE 2



**THE INSTITUTE OF
Company Secretaries of India**

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

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

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(i)

EXECUTIVE PROGRAMME

UPDATING SLIP

COMPANY ACCOUNTS AND AUDITING PRACTICES

MODULE – 2 – PAPER 1

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

(ii)

UPDATING SLIP

CAPITAL MARKETS AND SECURITIES LAWS

MODULE – 2 – PAPER 2

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

EXECUTIVE PROGRAMME EXAMINATION

JUNE 2017

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) Explain the conditions for an amalgamation in the nature of merger.
(b) What are the disclosure requirements with regard to 'Significant Accounting Policies' ?
(c) Balance Sheet as on March 31, 2016 of M/s Rajvansh Ltd. :

	Note No.	₹	
I EQUITY & LIABILITIES			
(1) Shareholder's Fund			
(a) Share Capital	1	2,99,500	
(b) Reserves & Surpluses	2	48,000	
(2) Current Liabilities	3	<u>1,72,500</u>	
TOTAL		<u>5,20,000</u>	
II ASSETS			
(1) Non-Current Assets			3,00,000
(2) Current Assets (including Bank Balance of ₹1,00,000)			<u>2,20,000</u>
TOTAL		<u>5,20,000</u>	
Note 1 : Share Capital :			
2,000 Equity Shares of ₹100 each		2,00,000	
1,000 9% Redeemable Preference Shares of ₹100 each	1,00,000		
Less : Calls in Arrears ₹20 per share	<u>500</u>	<u>99,500</u>	
Total		<u>2,99,500</u>	
Note 2 : Reserves & Surpluses :			
General Reserve		30,000	
Securities Premium		<u>18,000</u>	
Total		<u>48,000</u>	
Note 3 : Current Liabilities :			
Suppliers		1,22,500	
Bills Payable		<u>50,000</u>	
Total		<u>1,72,500</u>	

The Directors forfeited the Preference Shares for non-payment of calls after giving notice to the shareholders and thereafter redeemed the Preference Shares at a premium of 10%. For the purpose, the company made a fresh issue of Equity Shares of ₹100 each at a premium of 5% for such amount as was necessary, after taking into account the utilisation of available sources to the maximum extent. All the shares were subscribed and money received in full.

Pass necessary Journal entries for the above transactions.

- (d) *ABC Ltd. had ₹10,00,000, 6% Debentures of ₹100 each as on 31st March, 2015. The company purchased in the open market following debentures for immediate cancellation :*

On 01-07-2015 — 1,000 Debentures @ ₹97/(cum-interest)

On 29-02-2016 — 1,800 Debentures @ ₹99/(ex-interest)

Debenture interest due dates are 30th September and 31st March. i.e. twice in a year.

Provide journal entries in the books of the company for the year ended 31st March, 2016.

- (e) *M Limited issued 30,00,000 equity shares of ₹10 each at par. Out of these 12,00,000 shares were issued to the promoters and the balance offered to the public were underwritten by three Underwriters A, B and C in the Ratio of 2 : 3 : 4 with a firm underwriting of 60,000, 50,000 and 70,000 shares respectively. Total subscription received 15,38,000 shares including marked applications and excluding the firm underwriting. Marked applications were as followed :*

A 3,00,000

B 3,50,000

C 5,00,000

Unmarked and surplus applications are to be distributed in the gross liability ratio. Ascertain the liability of each Underwriter. (5 marks each)

Answer 1(a)

Amalgamation in the nature of Merger

An Amalgamation is classified as an 'Amalgamation in the nature of Merger' when all the following five conditions are satisfied -

- (i) All 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 amalgamation by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of amalgamation.
- (iii) The consideration is discharged by the transferee company wholly by the issue

of equity shares in the transferee company only, 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 value 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 1(b)

Disclosure requirement with regard to significant accounting policies

To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. It would be more helpful if these disclosures are at one place instead of being scattered over several statements, schedules and notes. In respect of disclosure of accounting policies, company need to follow the following principles.

- (i) All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- (ii) The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.
- (iii) Any change in the accounting policies which has material effect in the current period of which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (iv) If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements specific disclosure is not required. If any of the fundamental accounting assumption is not followed, the fact should be disclosed.

Answer 1(c)

In the Books of M/s Rajvansh Ltd.

Journal Entries

<i>Particulars</i>		<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
(a) 9% Redeemable Preference Shares A./c	Dr.	2,500	
To Calls in Arrears			500
To Share Forfeiture A/c			2,000
(Being shares forfeited)			

<i>Particulars</i>		<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
(b) Shares Forfeiture A/c	Dr.	2,000	
To Capital Reserve			2,000
(Being balance of Share Forfeiture account transferred to Capital Reserve)			
(c) 9% Preference Share Capital A/c	Dr.	97,500	
Premium on Redemption of 9% Preference shares A/c	Dr.	9,750	
To 90% Preference Shareholders' A/c			107,250
(Being claim of 9% Preference Shareholders due)			
(d) Bank A/c	Dr.	70,875	
To Equity Share Capital			67,500
To Securities Premium A/c			3,375
(Being fresh issue done for redemption)			
(e) General Reserve A/c	Dr.	30,000	
To Capital Redemption Reserve			30,000
(Being Capital Redemption Reserve Created)			
(f) Securities Premium A/c	Dr.	9,750	
To Premium on Redemption of Preference shares A/c			9,750
(Being premium on redemption written off)			
(g) 9% Preference Shareholders' A/c	Dr.	107,250	
To Bank			107,250
(Being payment made to preference shareholders)			

Working Notes:

- (1) Number of shares forfeited: $500/20 = 25$ shares
- (2) Amount due on these shares = $25 \times 100 = 2,500$
Amount received by company i.e. forfeited by company = $25 \times 80 = 2,000$
Amount not received by company i.e., Calls in Arrears = $25 \times 20 = 500$
- (3) **Requirement of Fresh Issues:**
Face Value of Preference Shares to be Redeemed = Capital Redemption Reserve + Proceeds of Fresh Issue
 $97,500$ (975×100) = $30,000$ (General Reserve) + $67,500$ (Balancing Figure)
- (4) Premium on Redemption of 9% Preference Shares = $97,500 \times 10\% = 9,750$

Answer 1(d)**In the books of ABC Ltd.****Journal Entries**

<i>Date</i>	<i>Particulars</i>		<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
1.07.2015	Own Debentures A/c	Dr.	95500	
	Debentures Interest A/c	Dr.	1500	
	[1000 x 100 x 6%x (3/12)]			
	To Bank A/c			97000
	(Being 1000 6 % Debentures purchased @ 97 cum Interest for immediate cancellation)			
1.07.2015	6% Debentures A/c	Dr.	100,000	
	To Own Debentures A/c			95,500
	To Capital Reserve A/c			4,500
	(Profit on Cancellation of debentures)			
	(Being 1000 6% Debentures cancelled and profit thereon transferred to capital reserve account)			
30.09.2015	Debentures Interest A/c	Dr.	27,000	
	[9000x 100 x 6% x (6/12)]			27,000
	To Debentures holders A/c			
	(Being interest accrued on 9000 6% debenture for 6 months credited to debenture holders)			
30.09.2015	Debentures holders A/c	Dr.	27,000	
	To Bank A/c			27,000
	(Being the interest on 6% debenture amount paid)			
29.02.2016	Own Debentures A/c	Dr.	178,200	
	Debentures Interest A/c	Dr.	4,500	
	[1800 x 100 x 6% x (5/12)]			
	To Bank A/c			182,700
	(Purchase of 1800 own 6% Debenture @ Rs. 99 ex interest for immediate cancellation and accrued interest thereon paid to the selling debenture holders)			
29.02.2016	6% Debentures A/c	Dr.	180,000	

<i>Date</i>	<i>Particulars</i>		<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
	To own Debentures A/c			178,200
	To Capital reserve A/c			1,800
	(Profit on 1,800 cancellation on debenture)			
	(Being 1800 own 6% debenture cancelled and profit thereon transferred to capital reserve account)			
31.03.2016	Debenture interest A/c	Dr.	21,600	
	[7200 x 100 x 6% x (1/2)]			
	To Debenture holders A/c			21,600
	(Being the six monthly interest accrued on the remaining 7200 6% Debentures credited to debenture holders)			
31.03.2016	Debenture holders A/c	Dr.	21,600	
	To Bank A/c			21,600
	(Being the interest on debentures paid)			
31.03.2016	Profit and Loss A/c	Dr.	54,600	
	To Debentures interest A/c			54,600
	(Being interest on 6% debentures for the year charged to profit and loss account at the end of year)			

Answer 1(e)**Calculation of Liability of Underwriters***(In Shares)*

	<i>A</i>	<i>B</i>	<i>C</i>	<i>TOTAL</i>
Gross Liability	4,00,000	6,00,000	8,00,000	18,00,000
Less: Firm underwriting	(60,000)	(50,000)	(70,000)	180,000
	3,40,000	5,50,000	7,30,000	16,20,000
Less : Market Application received	(3,00,000)	(3,50,000)	(5,00,000)	(11,50,000)
	40,000	2,00,000	2,30,000	4,70,000
Less : Unmarked Applications (in gross liability ratio 2:3:4)	(86,222)	(129,333)	(1,72,445)	(3,88,000)
Balance	(46,222)	70,667	57555	82,000

	A	B	C	TOTAL
Excess of A distributed among B & C in the ratio 3:4	-	(19,809)	(26,413)	
Net Liability other than firm underwriting	-	50,858	31,142	82,000
Add: Firm underwriting	60,000	50,000	70,000	1,80,000
Total liability of underwriter including firm underwriting	60,000	100,858	1,01,142	2,62,000
Total liability in Amount @ Rs.10 each	6,00,000	10,08,580	10,11,420	26,20,000

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

Question 2

- (a) On 1st April, 2014 Kapil Ltd. had made an issue of 2,000, 6% debentures of ₹100 each. The Company during the year 2015-16 purchased for cancellation 500 of these debentures. The company paid ₹95 per debenture for 400 debentures and ₹98 per debenture for the rest. The expenses on purchase amounted to ₹200. Pass journal entries in the books of the company.
- (b) A Ltd. forfeited 360 shares of ₹10 each, ₹8 called-up, issued at a premium of ₹2 per share to Sanjay for non-payment of allotment money of ₹5 per share (including premium). Out of these, 320 shares were re-issued to Amit ₹8 called up for ₹10 per share fully paid up. Pass necessary journal entries.
- (c) Write a short note on valuation of shares based on Price Earning Ratio.
- (d) On March 31, 2016; the Balance Sheet of Better Feel Ltd. was as follows :

	Note No.	₹
I EQUITY & LIABILITIES		
(1) Shareholder's Fund		
(a) Share Capital	1	5,00,000
(b) Reserves & Surplus	2	1,10,000
(2) Non-Current Liabilities 5% Debentures		1,00,000
(3) Current Liabilities		1,30,000
TOTAL		<u>8,40,000</u>
II ASSETS		
(1) Non-Current Assets		
(a) Tangible Assets		6,00,000
(b) Intangible Assets — Goodwill		40,000
(2) Current Assets		2,00,000
TOTAL		<u>8,40,000</u>

Note 1 : Share Capital :

Equity Share Capital (Shares of ₹100 each)	4,00,000
Preference Share Capital (Shares of ₹10 each)	1,00,000
Total	<u>5,00,000</u>

Note 2 : Reserve & Surplus :

Profit & Loss Account	50,000
General Reserve	40,000
Securities Premium	20,000
Total	<u>1,10,000</u>

On the above date, Fixed Assets were independently valued at ₹3,50,000 and the goodwill at ₹50,000.

Find the Intrinsic Value of Equity Shares.

- (e) Explain the disclosure requirement as per Schedule III of the Companies Act 2013, with regard to 'Reserves and Surpluses'. (3 marks each)

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

- (i) Your Company intends to buy back its own shares. What are the restrictions on buy back of own shares under the Companies Act, 2013 ? (5 marks)
- (ii) Delhi Chemicals Ltd. was registered with an authorised capital of ₹15,00,000; consisting of 1,50,000 Equity shares of ₹10 each. The company issued a prospectus inviting applications for 60,000 shares at a premium of ₹2 per share, payable as under :

On application — ₹2

On allotment — ₹5 (including Premium)

On first & final call — ₹5

Applications were received for 80,000 shares. Letters of regret were sent with the refund orders to the applicants of 12,000 shares. Pro rata allotment was made on the balance. Excess money received on applications were utilised towards the allotment money.

Pass the necessary entries in the Journal of the company and also prepare the required note of 'Share Capital' in accordance with the provisions of Schedule-III of Companies Act, 2013. (5 marks)

- (iii) X Ltd. was incorporated on 1st July, 2015 to acquire a running business of Barsha & Co. with effect from 1st April, 2015. During the year 2015-16, the total sales were ₹36,00,000 of which ₹7,20,000 were for the first six months. The Gross profit of the company was ₹5,86,000. The expenses debited to the profit and loss account included :

- (a) Directors fee ₹50,000

(b) Bad debts ₹7,200

(c) Advertising ₹36,000 (under a contract amounting to ₹3,000 per month)

(d) Salaries and General Expenses ₹2,40,000

(e) Preliminary Expenses written off ₹10,000.

Prepare a Statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2016. (5 marks)

Answer 2(a)

In the books of Kapil Ltd.

Journal Entries

<i>Particulars</i>	<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
1. Own Debentures A/c (400 x 95+100 x 98+200)	Dr. 48,000	
To Bank A/c		48,000
(Being own debenture purchased)		
2 6 % Debentures A/c (500 x100)	Dr. 50,000	
To Own Debentures A/c		48,000
To Profit on cancellation of own Debentures A/c		2,000
(Being Cancellation of Own Debentures)		
3 Profit on Cancellation of Own Debentures A/c	Dr. 2,000	
To Capital Reserves A/c		2,000
(Being profit on cancellation transferred to Capital reserves account)		

Answer 2(b)

In the books of A Ltd.

Journal Entries

<i>Particulars</i>	<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
1 Share Capital A/c (360 x 8)	Dr. 2,880	
Securities Premium Reserve A/c (360 x 2)	Dr. 720	
To Share Allotment A/c (360 x 5)		1,800
To Share Forfeited A/c (360 x 5)		1,800
(Being 360 shares forfeited on which Rs. 8 is called – up, for non-payment of allotment money including premium)		

<i>Particulars</i>		<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
2	Bank A/c(320 x 8)	Dr. 2,560	
	Share Forfeited A/c (320 x 2)	Dr. 640	
	To Share Capital A/c (320 x 10)		3,200
	(Being 320 forfeited shares re-issued for Rs. 10 per share, Rs. 8 being called up)		
3	Share Forfeited A/c	Dr. 960	
	To Capital Reserves A/c		960
	(Being forfeited amount on 320 shares transferred to Capital reserves account)		

Working Note:

Amount to be transferred to capital reserve account is 960 and calculated as

Forfeited amount of 320 share = $1800/360 \times 320 = 1600$

(-) Amount utilised in reissue = (640)

Answer 2(c)**Valuation of Shares based on Price Earning Ratio**

This method is suitable for ascertaining the market value of shares which are quoted on as recognised stock exchange. According to this method, the shares are valued on the basis of earning per share multiplied by price earnings ratio. Thus,

Market value of shares = Price earnings ratio x Earning per share

Earning per share = Profit available for equity shareholders / Number of equity shares

Price earning ratio = Market value of share / Earnings per share

Answer 2(d)**Intrinsic Value of Equity Share**

= $\frac{\text{Net Asset available for Equity Shareholders at Current Values}}{\text{Number of Equity Shares}}$

= 2,70,000/4,000

= 67.5

Net Assets available for Equity Shareholders:

<i>Assets :</i>		
Non Current Assets :		
Tangible	3,50,000	
Intangible	50,000	400,000
Current assets		<u>200,000</u>
		<u>600,000</u>
 <i>Less : External Liabilities</i>		
Non Current Liability (5% Debentures)	100,000	
Current Liabilities	130,000	<u>230,000</u>
Net Assets		<u>370,000</u>
<i>Less : Preference Share Capital</i>		100,000
Net Assets available for Equity Shareholders		<u>270,000</u>

Answer 2(e)**Disclosure requirement regarding Reserve and Surplus**

- (i) Reserve and Surplus shall be classified as:
- Capital Reserves;
 - Capital Redemption Reserve;
 - Securities Premium Reserve;
 - Debenture Redemption Reserve;
 - Revaluation Reserve;
 - Share Options Outstanding Account;
 - Other Reserves – (specify the nature and purpose of each reserve and the amount in respect thereof);
 - Surplus i.e., Balance in statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to /from reserves etc. (Additions and deductions since last Balance Sheet to be shown under each of the specified heads)
- (ii) A reserve specifically represented by earmarked investments shall be termed as a 'fund'.

- (iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

Answer 2A(i)

Restrictions on Buy Back of Own Shares

- (i) No Company shall directly or indirectly purchase its own shares or other specified securities
- (a) through any subsidiary company including its own subsidiary company;
 - (b) thorough any investment company or group of Investment companies, or
 - (c) if a default is made by the company in the payment of deposits accepted either before or after the commencement of the Companies Act 2013, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder or repayment of any term loan or interest payable thereon to financial institution or banking company.

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

- (ii) No company shall directly or indirectly purchase its own shares or other specified securities, if the company has not complied with the provisions of-

Section 92 -Annual Return

Section 123 -Declaration and payment of Dividend

Section 127 -Failure to pay Dividend

Section 129 -Failure to give True and Fair Statement

Answer 2A(ii)

In the Books of Delhi Chemicals Ltd.

Journal Entries

1) Bank A/c	Dr.	160,000	
To Equity Share Application A/c			160,000
(Being Application Money Received)			
2) Equity Share Application A/c	Dr.	160,000	
To Bank A/c			24,000
To Equity Share Capital A/c			120,000
To Equity Share Allotment A/c			16,000
(Being Application Money due)			

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3) Equity share Allotment A/c		Dr.	300,000
To Equity Share Capital A/c			180,000
To Securities Premium A/c			120,000
(Being Allotment Money Due)			
4) Bank A/c		Dr.	284,000
To Equity Share Allotment A/c			284,000
(Being Allotment Money Received)			
5) Equity Share First and Final Call A/c		Dr.	300,000
To Equity share capital A/c			300,000
(Being First & Final Call due)			
6) Bank A/c		Dr.	300,000
To Equity Share First & Final Call A/c			300,000
(Being First & Final Call Received)			

Note :

1 Share Capital		
Authorised Capital		
150,000 Equity Shares of Rs.10 each	1,500,000	
Issued Subscribed & Paid up Capital		
60,000 Equity Shares of Rs.10 each, fully paid	600,000	

Answer 2A(iii)

Statement showing the calculations of profits for the pre-incorporation and post incorporation periods:

For the year ended 31st March, 2016

<i>Particulars</i>	<i>Total amount</i>	<i>Basis of Allocation</i>	<i>Pre-incorporation</i>	<i>Post-Incorporation</i>
Gross Profit	5,86,000	Sales	58,600	5,27,400
<i>Less :</i>				
Director's Fee	50,000	Post Inc.	---	50,000
Bad Debts	7,200	Sales	720	6,480
Advertisement	36,000	Time	9,000	27,000
Salaries and General Expenses	2,40,000	Time	60,000	180,000
Preliminary Expenses Written Off	10,000	Post Inc.	---	10,000
	2,42,800		11,120	2,53,920

Working Notes:

1. Sales ratio:

Sales for the period up to 30.06.2015 (7, 20,000 x 3/6) = 3,60,000

Sales between 01 .07 .2015 & 31.03.2016 (36,00,000 -3,60,000) = 32,40,000

Thus Sales ratio =3,60,000/32,40,000 = 1:9

2. Time ratio

Pre-incorporation period / Post-incorporation period = 3/9 = 1:3

Salaries and general expenses are be allocated in this ratio.

Question 3

(a) *The following are the summarised Balance Sheets of X Ltd. and Y Ltd. as at 31-03-2016 :*

<i>Particulars</i>	<i>X Ltd.</i>	<i>Y Ltd.</i>
<i>Share Capital : Equity Shares ₹10 each (fully paid up)</i>	<i>10,00,000</i>	<i>6,00,000</i>
<i>Securities Premium</i>	<i>3,00,000</i>	<i>—</i>
<i>General Reserve</i>	<i>1,80,000</i>	<i>2,50,000</i>
<i>Profit and Loss Account</i>	<i>2,00,000</i>	<i>1,60,000</i>
<i>8% Debentures</i>	<i>5,00,000</i>	<i>—</i>
<i>Unsecured Loans</i>	<i>—</i>	<i>3,00,000</i>
<i>Sundry Creditors</i>	<i>2,60,000</i>	<i>1,70,000</i>
	<u><i>24,40,000</i></u>	<u><i>14,80,000</i></u>
<i>Building</i>	<i>9,00,000</i>	<i>4,50,000</i>
<i>Plant and Machinery</i>	<i>5,00,000</i>	<i>3,80,000</i>
<i>Investment (5,000 shares of Y Ltd.)</i>	<i>80,000</i>	<i>—</i>
<i>Stock</i>	<i>5,20,000</i>	<i>3,50,000</i>
<i>Sundry Debtors</i>	<i>4,10,000</i>	<i>2,60,000</i>
<i>Cash at bank</i>	<i>30,000</i>	<i>40,000</i>
	<u><i>24,40,000</i></u>	<u><i>14,80,000</i></u>

The companies agree on a scheme of amalgamation on the following terms :

- (i) A new company is to be formed by the name XY Ltd. with the face value of ₹10 each.*
- (ii) XY Ltd. to take over all assets and liabilities of the existing companies.*

(iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under :

X Ltd. ₹18 per share

Y Ltd. ₹20 per share.

(iv) A Contingent Liability of X Ltd. of ₹60,000 is to be treated as actual liability.

(v) The shareholders of X Ltd. and Y Ltd. are to be paid by issuing sufficient number of shares of XY Ltd. at a Premium of ₹5 per share.

You are required to calculate the Purchase consideration (Number of shares to be issued to X Ltd. and Y Ltd.) (5 marks)

(b) Z Ltd. proposed to purchase the business carried on by M/s Ajay & Co. Goodwill for this purpose is agreed to be valued at three year's purchase of the weighted average profits of the past four years. The appropriate weights to be used are :

Year	Weight
2012-13	1
2013-14	2
2014-15	3
2015-16	4

The profits for these years are : 2012-13 – ₹60,600; 2013-14 – ₹74,400; 2014-15 – ₹60,000 and 2015-16 – ₹84,000.

On a scrutiny of the accounts the following matters are revealed :

(i) On 1st December, 2014 a major repair was carried out in respect of the plant incurring ₹20,000 which was charged to revenue. The said sum is agreed to be capitalised for goodwill calculation subject to the adjustment of depreciation of 10% p.a. on reducing balance method.

(ii) The closing stock for the year 2013-14 was overvalued by ₹14,000.

(iii) To cover management cost an annual charge of ₹25,000 should be made for the purpose of goodwill valuation.

Compute the value of goodwill of the firm.

(c) On June 30, 2016; following balances stood in the books of SP Ltd. :

7% Second Mortgage Debentures of ₹100 each	4,00,000
Income received on Sinking Fund Investments	14,500
Discount on issue of Debentures	25,000
Sinking Fund	3,65,500
Sinking Fund Investments :	
(a) ₹2,00,000 5% State Development Loans	1,90,000
(b) ₹1,80,000 6% National Defence Bonds	2,00,000

On the same day, the Investments were sold as follows :

- (a) the 5% State Development Loans at 90% and
 (b) 6% National Defence Bonds at par.

On July 1, 2016, all the Debentures were redeemed at a premium of 2.5%.
 Annual contribution for redemption was ₹50,000. Ignore Interest.

Prepare 7% Mortgage Debentures, Sinking Fund & Sinking Fund Investment
 Accounts. (5 marks)

Answer 3(a)

Statement showing computation of Purchase Consideration

Particulars	X Ltd.	Y Ltd.
Existing Shares	1,00,000	60,000
Less : Shares of Y Ltd. held by X Ltd.	-	5,000
	1,00,000	55,000
Value per share	Rs. 18	Rs. 20
Total Value	Rs. 18,00,000 (1,00,000 shares x Rs. 18)	Rs. 11,00,000 (55,000 shares x Rs. 20)
No. of shares to be issued @ 15 (including premium of Rs. 5)	1,20,000	73,333
Share Capital (@ Rs. 10 per share)	12,00,000	7,33,330
Add : Securities Premium @ Rs. 5 per share	6,00,000	3,66,665
	18,00,000	10,99,995
Add : Cash for Fractional Shares		0.3333 shares x 15 = Rs. 4.9995 = 5
Total Purchase Consideration	Rs. 18,00,000	Rs. 11,00,000

Answer 3(b)

Calculation of Adjusted Profits

	2012-13	2013-14	2014-15	2015-16
Profit	60,600	74,400	60,000	84,000
Less : Over Valuation of Closing Stock	---	14,000	---	---
Add : Over Valuation of Opening stock	---	---	14,000	---
Add : Capital Exp. Treated As Revenue Exp.	---	---	20,000	
Less : Depreciation	---	---	667	1933
Less : Management Expenses	25,000	25,000	25,000	25,000
Adjusted profit	35,600	35,400	68,333	57,067

Calculation of Average Profits

<i>Year Ended 31st March</i>	<i>Profits</i>	<i>Weight</i>	<i>Product</i>
2012-13	35,600	1	35,600
2013-14	35,400	2	70,800
2014-15	68,333	3	204,999
2015-16	57,067	4	2,28,268
		10	539,667

Average Profits = $539,667/10 = 53,967$

Goodwill @ 3 years Purchase = $53,967 \times 3 = 161901$

Answer 3(c)**7% Second Mortgage Debenture A/c**

<i>Date</i>	<i>Particulars</i>	<i>Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>Rs.</i>
30.06.16	To Debenture Holders A/c	400,000	30.06.16	By Balance b/d	400,000
		<u>400,000</u>			<u>400,000</u>

Sinking Fund Account

<i>Date</i>	<i>Particulars</i>	<i>Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>Rs.</i>
30.06.16	To Sinking Fund Investment A/c (5% State Development Loans)	10,000	30.06.16	By Balance b/d	3,65,500
30.06.16	To Sinking Fund Investment A/c (6% National Defence Bonds)	20,000	30.06.16	By Interest on sinking fund A/c	14,500
1.07.16	To discount on Issue of Debentures	1.07.16 25,000		By Profit & Loss A/c	50,000
1.07.16	To premium on Redemption of Debentures	10,000			
1.07.16	To General Reserve A/c	365,000			
		<u>4,30,000</u>			<u>4,30,000</u>

Sinking Fund Investment A/c

<i>Date</i>	<i>Particulars</i>	<i>Rs.</i>	<i>Date</i>	<i>Particulars</i>	<i>Rs.</i>
30.06.16	To balance b/d Rs. 3,00,000, 5% State Development Loans	1,90,000	30.06.16	By Bank A/c Rs. 2,00,000, 5% State Development Loans at 90%	1,80,000
	Rs.1,80,000, 6% National Defence Bonds	2,00,000		Rs.1,80,000, 6% National Defence Bonds at Par	1,80,000
				By Sinking Fund A/c (Loss on Sale)	30,000
		<u>3,90,000</u>			<u>3,90,000</u>

Question 4

- (a) From the following balance sheets of a holding company (H Ltd.) and its subsidiary (S Ltd.) on 31-3-2016, prepare a consolidated balance sheet :

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share Capital (₹ 10)	5,00,000	2,00,000	Goodwill	30,000	10,000
General Reserve	80,000	60,000	Machinery	3,00,000	1,50,000
Profit & Loss A/c	90,000	70,000	Stock	80,000	50,000
Sundry creditors	50,000	40,000	Debtors	1,20,000	1,60,000
Outstanding Expenses	20,000	10,000	Cash at bank	20,000	10,000
			Investments : 16,000 shares in S Ltd.	1,90,000	—
Total	<u>7,40,000</u>	<u>3,80,000</u>	Total	<u>7,40,000</u>	<u>3,80,000</u>

When control was acquired, S Ltd. had ₹40,000 in general reserve and ₹30,000 in profit and loss account. Immediately on purchase of shares, H Ltd. received ₹16,000 as dividend from S Ltd. which was credited to profit and loss account. Debtors of H Ltd. include ₹20,000 due from S Ltd. whereas creditors S Ltd. include ₹15,000 due to H Ltd. the difference being accounted for by a cheque-in-transit. (8 marks)

(b) ZED Ltd. has the following position as on March 31, 2016 :

	₹	₹
I EQUITY & LIABILITIES		
(1) Shareholder's Fund		
(a) Share Capital		
1,00,000 Equity Shares of ₹10 each fully paid	10,00,000	
(b) Reserves & Surpluses		
Profit & Loss Account	<u>(5,00,000)</u>	5,00,000
(2) Non-Current Liabilities		
4,000 10% Debentures of ₹100 each		4,00,000
(3) Current Liabilities		
Interest on 10% Debentures	40,000	
Sundry Creditors	<u>1,60,000</u>	<u>2,00,000</u>
TOTAL LIABILITIES		<u>11,00,000</u>
II ASSETS		
(1) Non-Current Assets		
(i) Tangible Assets	9,00,000	
(ii) Intangible Assets — Goodwill	2,00,000	11,00,000
TOTAL ASSETS		<u>11,00,000</u>

On the above date the Company has decided to reconstruct and the following resolutions are passed :

- (i) The equity shares are to be subdivided into shares of ₹1 each and after subdivision each shareholder shall surrender 60% of his holding, which shall be immediately cancelled by the company.
- (ii) Debenture holders will reduce their claims by ₹1,40,000 and are settled by issue of 12% Debentures of ₹100 each.
- (iii) Creditors claims are to be reduced to ₹1,00,000 and are settled by issue of Equity shares of ₹1 each.
- (iv) Goodwill and Profit & Loss account debit balances are to be written off fully.

Pass the necessary Journal entries to record the above and also prepare Balance Sheet of the company after reconstruction. (7 marks)

Answer 4(a)**Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as on
31st March, 2016**

<i>Particulars</i>	<i>Amount</i>	
Fixed Assets		
Goodwill		14,000
Plant & Machinery		
H. Ltd.	3,00,000	
S Ltd.	1,50,000	450,000
Current Assets		
Stock		
H. Ltd.	80,000	
S Ltd.	50,000	130,000
Sundry Debtors		
H. Ltd.	120,000	
S Ltd.	160,000	
	280,000	
Less : Inter Co. Owings	20,000	260,000
Cash and Bank		
H. Ltd.	20,000	
S Ltd.	10,000	
	30,000	
Cheques – in- transit	5,000	35,000
TOTAL ASSETS		889,000
Share Capital		
Issued and Subscribed Capital		
50,000 Equity Shares of Rs. 10 each fully paid up		500,000
Minority Interest		66,000
Reserve & Surplus		
General Reserve (H Ltd)	80,000	
Share in S Ltd.	16,000	96,000
Profit & Loss A/c as per Balance Sheet	90,000	
Add : Share in S Ltd.	48,000	
	138,000	

Less : Dividend Paid	16,000	122,000
Current Liabilities and Provisions		
Sundry Creditors		
H Ltd.	50,000	
S Ltd.	40,000	
	90,000	
Less : Inter Co. Owings	15,000	75,000
Outstanding Expenses		
H Ltd.	20,000	
S Ltd.	10,000	30,000
TOTAL LIABILITIES		889,000

*Working Notes:***(1) Share of H Ltd. in Capital Profit and Reserve :**

Balance in pre-acquisition reserve account		40,000
Balance in pre-acquisition Profit & Loss account	30,000	
Less : Dividends paid	(20,000)	10,000
		<u>50,000</u>
H Ltd.'s share 4/5 of Rs. 50,000		40,000

Amount of dividends has been calculated as under

Shares	Dividends
16,000	16,000
20,000	X (Suppose)

So, $X = (16,000 \times 20,000) / 16,000 = \text{Rs. } 20,000$

(2) Share of H Ltd. in Current Year's Profit :

Balance of Profit on 31-3-2016		70,000
Less : Pre acquisition profits	30,000	
Less : Dividends for 2014-15	(20,000)	(10,000)
Profit during the year		<u>60,000</u>
H Ltd.'s share 4/5 of Rs. 60,000		48,000

(3) Share of H Ltd. in General Reserve :

Balance on 31-3-2016		60,000
Less : Pre acquisition reserve		(40,000)
		<u>20,000</u>
H Ltd.'s share 4/5 of Rs. 60,000		16,000

(4) Cost of control :

Cost of investment in share of S Ltd	190,000
Less : Paidup value of shares held	<u>(160,000)</u>
	30,000
Less : Dividends from pre-acquisition profits	<u>(16,000)</u>
	14,000
Less : Share in Capital Profits of S Ltd.	<u>(40,000)</u>
Capital Reserve	26,000
Add: Goodwill	
H Ltd. 30,000	
S Ltd. 10,000	40,000
Net Goodwill	<u>14,000</u>

(5) Minority interest :

Paid – up value of the shares held	40,000
Add : 1/5 of Rs. 60,000(General Reserve)	12,000
1/5 of Rs. 70,000 (Profit & Loss A/c)	14,000
	<u>66,000</u>

Answer 4(b)**In books of Zed Ltd****Journal Entries**

- | | | | |
|---|-----|-----------|-----------|
| 1) Equity Share Capital @ 10 A/c | Dr. | 1,000,000 | |
| To Equity Share Capital @ 1 | | | 1,000,000 |
| (Being equity shares subdivided) | | | |
| 2) Equity Share Capital A/c | Dr. | 600,000 | |
| To Capital Reduction A/c | | | 600,000 |
| (Being equity shares surrendered & cancelled) | | | |
| 3) 10% Debentures A/c | Dr. | 400,000 | |
| Interest on Debentures A/c Dr. | Dr. | 40,000 | |
| To 12% Debenture A/c | | | 300,000 |
| To Capital Reduction A/c | | | 140,000 |
| (Being claim of 10% Debentures settled) | | | |

4) Sundry Creditors A/c	Dr.	160,000	
To Equity Share Capital			100,000
To Capital Reduction A/c			60,000
(Being claim of Sundry Creditors settled)			
5) Capital Reduction A/c	Dr.	700,000	
To Goodwill			200,000
To Profit and Loss account			500,000
(Being Goodwill, Profit and loss A/c written off)			

Capital Reduction A/c

<i>Dr.</i>		<i>Cr.</i>	
<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Goodwill A/c	200,000	By Equity Share Capital A/c	600,000
To Profit and Loss A/c	500,000	By 10% Debentures A/c	140,000
To Capital Reserve A/c (B/F)	100,000	By Sundry Creditors A/c	60,000
	800,000		800,000

Balance Sheet

	<i>Note No.</i>	<i>Rs.</i>
I Equity & Liabilities		
1) Shareholders' Fund		
a) Share Capital		500,000
b) Reserve and Surpluses		1,00,000
Capital Reserve		
2) Non Current Liabilities 12% Debentures of Rs. 100 each		300,000
Total		900,000
II Assets		
1) Non Current Assets		
i) Tangible Assets		900,000
Total		900,000

PART B**Question 5**

- (a) *As per SA 200, explain any five basic principles governing an audit ?*
- (b) *Distinguish between Audit and Investigation.*
- (c) *What constitute 'True and Fair' is not defined under any law. In order to show a true and fair view what is to be ensured by an auditor ? (5 marks each)*

Answer 5(a)**Basic Principle Governing Audit**

SA 200 "Basic Principals Governing an Audit", describes the basic principles which govern the auditor's professional responsibilities and which should be complied with wherever an audit is carried. They are described below:

- (i) *Integrity objectivity and independence* : An auditor should be honest, sincere, impartial and free from bias. He should be a man of high integrity and objectivity.
- (ii) *Confidentiality*: The auditor should respect confidentiality of information acquired during the course of his work and should not disclose the information without the prior permission of the client, unless there is a legal duty to disclose.
- (iii) *Skill and competence*: The auditor must acquire adequate training and experience. He should be competent, skillful and keep himself abreast of the latest developments including pronouncements of ICAI on accounting and auditing matters.
- (iv) *Work performed by others* : If the auditor delegates some work to others and uses work performed by others including that of an expert, he continues to be responsible for forming and expressing his opinion on the financial information.
- (v) *Documentation* : The auditor should document matters which are important in providing evidence to ensure that the audit was carried out in accordance with the basic principles.
- (vi) *Planning* : The auditor should plan his work to enable him to conduct the audit in an effective, efficient and timely manner. He should acquire knowledge of client's accounting system, the extent of reliance that could be placed on internal control and coordinate the work to be performed.
- (vii) *Audit evidence* : The auditor should obtain sufficient appropriate evidences through the performance of compliance and other substantive procedures to enable him to draw reasonable conclusions to form an opinion on the financial information.
- (viii) *Accounting System and Internal Control* : The management is responsible for maintaining an adequate accounting system incorporating various internal controls appropriate to the size and nature of business. He auditor should assure himself that the accounting system is adequate and all the information which should be recorded has been recorded. Internal control system contributes to such assurance.

- (ix) *Audit conclusions and reporting* : On the basis of the audit evidence, he should review and assess the audit conclusions. He should ascertain:
- (a) As whether accounting policies have been consistently applied;
 - (b) Whether financial information complies with regulations and statutory requirements; and
 - (c) There is adequate disclosure of material matters relevant to the presentation of financial information subject to statutory requirements.

The auditor's report should contain a clear written opinion on the financial information. A clean audit report indicates the auditor's satisfaction in all respects and when a qualified, adverse or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons thereof.

Answer 5(b)

Difference between Audit & Investigation

1. *Legal binding* : Audit of annual financial statements of a company is compulsory under the Companies Act, 1956. However, Investigation is not compulsory under the Companies act, 1956 but voluntary depending upon necessity.
2. *Object in view* : 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.
3. *Period covered* : Audit is conducted on annual basis. Investigation may be conducted for several years at a time, say three years.
4. *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.
5. *Documents*: Audit is not carried out of audited financial statements. Investigation may be conducted even though the accounts have been audited.
6. *Extent of work*: Audit is normally conducted on test verification basis. Investigation is a thorough examination of books of accounts.
7. *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.
8. *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.

Answer 5(c)

True and Fair View

The main object of audit is to find out whether the financial statements prepared by

a company show the true and fair view of the financial state of affairs of a company and if not then in what respect they are not showing. However, what constitutes true and fair is not defined under any law. In order to show a true and fair view the auditor should ensure that:

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

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

Question 6

- (a) *What are the disqualifications as per the Companies Act, 2013 for appointment of auditor ?*
- (b) *Write short notes on techniques of internal control system.*
- (c) *Explain the need of audit working papers. (5 marks each)*

OR (Alternative question to Q. No. 6)

Question 6A

- (i) *What steps are to be involved in verification of assets ? (5 marks)*
- (ii) *Explain the relationship between Internal Auditor and Statutory Auditor. (5 marks)*
- (iii) *With respect to up keep and custody of inventory after its purchase, certain controls are required for its security. Comment. (5 marks)*

Answer 6(a)

Disqualification of auditor U/s 141 (3)

According to the section 141 (3) of the Companies Act 2013, the following persons shall not be eligible for appointment as an auditor of a company:–

- (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;

- (b) an officer or employee of the company;
- (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
- (d) a person who, or his relative or partner—
- (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company: Provided that the relative may hold security or interest in the company of face value not exceeding rupees one lakh;
 - (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company in excess of rupees five lakh or
 - (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company in excess of one lakh rupees.
- (e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. The term “business relationship” shall be construed as any transaction entered into for a commercial purpose, except –
- commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;
 - commercial transactions which are in the ordinary course of business of the company at arm’s length price - like sale of products or services to the auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.
- (f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;
- (g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
- (h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
- (i) any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.

Answer 6(b)

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

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:

1. *Segregation of Duties*: Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions (approval), recording transactions (accounting) and handling the related asset (custody) are divided.
2. *Approvals, Authorizations, and Verifications* : Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.
3. *Security of Assets (Preventive and Detective)* : Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.

Detective Controls techniques are designed to find errors or irregularities after they have occurred. Examples of detective controls techniques are:

1. *Reviews of Performance* : Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.
2. *Reconciliations* : An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.
3. Physical Inventories
4. Internal Audits.

Answer 6(c)

The needs for Working papers are:

- (a) They aid in the planning and performance of the audit;
- (b) They aid in the supervision and review of the audit work and to review the quality of work performed, in accordance with AAS 17 "Quality Control for Audit Work";
- (c) They provide evidence of the audit work performed to support the auditor's opinion;

- (d) They document clearly and logically the schedule, results of test, etc.;
- (e) The working papers should evidence compliance with technical standards;
- (f) They document that Internal control has been appropriately studied and evaluated;
and
- (g) They document that the evidence obtained and procedures performed afford a reasonable basis for an opinion;
- (h) They retain a record of matters of continuing significance to future audits of the entity;
- (i) They enable an experienced auditor to conduct quality control reviews in accordance with Statement on Peer Review issued by the Institute of Chartered Accountants of India;
- (j) The process of preparing sufficient audit documentation contributes to the quality of an audit
- (k) They fulfil the need to document oral discussions of significant matters and communicate to those charged with governance, as discussed in AAS 27, “Communication of Audit Matters with those Charged with Governance.

Answer 6(A)(i)

Verification of assets involves the following steps:

1. Enquiry into the value placed on assets;
2. Examination of the ownership and title deeds of assets;
3. Physical inspection of the tangible assets; and
4. Confirmations regarding the charge on assets;
5. Ensuring that the assets are disclosed, classified and presented in accordance with recognized accounting policies and legal requirements.

Answer 6(A)(ii)**Relationship between internal auditor and statutory auditor**

Statutory Auditor and Internal Auditor both are independent entity. A statutory Auditor of a company cannot be the internal auditor of the same company. In certain cases, statutory auditor refers the report of internal auditor and he expresses his opinion based on the report of internal auditor. Similarly in certain cases, internal auditor also refers the report of statutory auditors. The relationship between statutory auditor and internal auditor may be summed up as given below:

1. Comment on the Internal Audit System in place : the statutory auditor has to comment upon the effectiveness and suitability of internal audit system laid down by the management. To discharge this responsibility statutory auditor should evaluate the internal audit system. He should evaluate the strength of the internal audit staff, their qualification and experience.

2. *Evaluation of the actual work of internal auditor* : After studying the internal audit system and structure actual work of the internal auditor should also be evaluated. Statutory auditor has to make use of the work of internal auditor. This he can do only when he himself puts faith in the work of internal auditor.
3. *Relying on the work of internal auditor* : Statutory auditor has to decide that up to what extent he can rely upon the work of the internal auditor. This will decide the extent of checking by statutory auditor. If he feels that internal auditor has properly done his work he can reduce the extent of his checking.
4. *No reduction in responsibility* : Relying on work of internal auditor in no way reduces the responsible for the discharge of his duties as statutory auditor. Relying on the internal auditor can only reduce the burden of the statutory auditor. For all his works statutory auditor would remain responsible.

Answer 6(A)(iii)

Once the purchases are done, it is necessary to secure the materials in a safe location. To ensure that the resources are accounted for, it is necessary to periodically verify the inventory and compare the results with the books.

To ensure security of assets, it is advisable to –

- (i) Secure goods received in a restricted area.
- (ii) Restrict inventory access to appropriate staff.
- (iii) Lock goods and materials, and provide key or combination to as few people as possible.
- (iv) Keep inventory records and periodically calculate beginning and ending inventory amounts.

If physical control over assets does not exist, it may result into theft of goods, inventory shortages, additional costs incurred for replacement of goods.

CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

Attempt the following questions :

- (a) The redemption price of a mutual fund unit is ₹48 while the front-end load and back-end load charges are 2% and 3% respectively. Compute :

(i) NAV per unit and

(ii) Public offer price of the unit. (4 marks)

- (b) What are treasury bills ? A registered society bought 91 days treasury bills on August 24, 2015 which matured on October 19, 2015. The rate quoted by seller was ₹99.0894 per ₹100 face value. Calculate YTM. (4 marks)

- (c) Calculate the value of rights if :

Number of rights shares offered (n) 3,000

No. of shares held (m) 1,800

Ex-right price (P ex) ₹24

Right offer price (P of) ₹21

Face value of shares ₹10 (2 marks)

- (d) A mutual fund had repeatedly exceeded the permissible limits of transactions through its associate brokers in terms of Regulation 25(7)(a) of SEBI (Mutual Funds) Regulations. Consequently a penalty of Rupees Two lakh was imposed by Adjudicating officer of SEBI on this mutual fund.

Mutual Fund pleaded for waiver of penalty stating that the limit was not exceeded intentionally. Is this penalty justified ? Discuss in reference of relevant case.

(5 marks)

Answer 1(a)

- (i) Computation of Net Asset Value per unit

$$\text{Redemption Price} = \text{NAV} / (1 + \text{back end load})$$

$$48 = \text{NAV} / (1 + 0.03)$$

$$\text{NAV} = \text{Rs. } 49.44$$

- (ii) Computation of Public Offer price of the unit

$$= \text{NAV} / (1 - \text{Front end load})$$

$$= 49.44 / (1 - 0.02)$$

$$= \text{Rs. } 50.45$$

Answer 1(b)

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

$$Y = \frac{(100 - P) \times 365 \times 100}{P \times D}$$

Where Y = Discounted yield

P = Price

D = Days to maturity

$$= \frac{(100 - 99.0894) \times 365 \times 100}{99.0894 \times 56}$$

$$= 5.99 \%$$

The days to maturity of Treasury bill are (August- 8 days, September -30 days, October- 18 days = 56 days)

Answer 1(c)**Calculate the value of rights**

$$V_r = n(P_{ex} - P_{of})/m$$

$$= \frac{3000}{1800} (24-21)$$

$$= \text{Rs. } 5$$

Answer 1(d)***SEBI v. Shriram Mutual Fund & Others - Appeal No. 9523-24 of 2003***

- (a) A penalty of Rs.2 lakh was imposed by Adjudicating Officer (AO) on Shriram Mutual Fund (SMF) as it had repeatedly exceeded the permissible limits of transactions through its associate broker, in terms of Regulation 25(7) (a) of SEBI (Mutual Funds) Regulations.
- (b) On an appeal by SMF, SAT vide its final judgment and order dated August 21, 2003, set aside AO's order inter-alia on the ground that the limit was not exceeded intentionally.
- (c) SEBI filed an appeal under Section 15Z of the SEBI Act in the Hon'ble Supreme Court.
- (d) The Hon'ble Supreme Court pronounced its final judgment and order on May 23, 2006. Hon'ble Supreme Court set aside the judgment of SAT and settled the issues, as under:
 - Mens rea is not an essential ingredient for contravention of the provisions of a Civil Act.

- Penalty is attracted as soon as contravention of the statutory obligation as contemplated by the Act is established, and therefore the intention of the parties committing such violation becomes immaterial.
- Unless the language of the statute indicated the need to establish the element of mens rea, it is generally sufficient to prove that a default in complying with the statute has occurred.
- Once the contravention is established, the penalty has to follow and only the quantum of penalty is discretionary

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

Question 2

Explain the following :

- (a) *Functions of Securities Market*
- (b) *Disadvantages of Fund of Funds scheme*
- (c) *Conditions for issue of IDR*
- (d) *Winding up of collective investment scheme*
- (e) *Real Estate Mutual Fund Scheme.* (3 marks each)

OR (Alternate question to Q. No. 2)

Question 2A

- (i) *“Investment in all categories of Alternative Investment Funds shall be subject to certain conditions.” Comment.* (5 marks)
- (ii) *What are the market benefits of Hedge funds ?* (5 marks)
- (iii) *What are External Commercial Borrowings (ECBs) ? Explain the various tracks and forms available under ECBs.* (5 marks)

Answer 2(a)

The following are the functions of Securities Market:-

Securities Market –

- Is a link between investment & savings
- Mobilizes & channelises savings
- Provides Liquidity to investors
- Is a market place for purchase and sale of securities

Answer 2(b)

Disadvantages of Fund of Funds Scheme

The following are the disadvantages specified below:-

- *Additional Fees*

The more diversified the fund is, the greater the likelihood that the investor will incur an incentive fee on one or more of the constituent managers, regardless of overall FoFs performance.

- *Management Risks*
Every fund manager has a particular style of diversification. This diversification style will be in perfect correlation with the number of managers involved. The views of a manager may be altogether different from the market.
- *Operational Risks*
Due diligence of a scheme in itself gives rise to operational risks. Continuous monitoring is required for knowing about performance of the funds, any possibility of a fraud and to know about the investment style of the funds and any desirable or undesirable changes in it.
- *Qualitative Risks*
These include risks associated with the management environment of the fund such as organizational structure, infrastructure, investment process, operational issues etc.
- *Regulations in India*
The fund of funds scheme was introduced in the Indian market by making suitable amendments in SEBI (Mutual Funds) (Amendment) Regulations, 2003.

Answer 2(c)**Conditions for Issue of IDR****Answer I****Companies Act, 2013**

Rule 13(2) of the Companies (Registration of Foreign Companies) Rules, 2014 stipulates that the issuing company shall not issue IDRs unless –

- (a) its pre-issue paid-up capital and free reserves are at least US\$ 50 million and it has a minimum average market capitalization (during the last three years) in its parent country of at least US\$ 100 million;
- (b) it has been continuously trading on a stock exchange in its parent or home country (the country of incorporation of such company) for at least three immediately preceding years;
- (c) it has a track record of distributable profits in terms of section 123 of the Act, for at least three out of immediately preceding five years;
- (d) it fulfills such other eligibility criteria as may be laid down by the SEBI from time to time in this behalf.

OR

Answer II**SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009**

Regulation 98 of SEBI (ICDR) Regulations, 2009 provides that an issue of IDR shall be subject to the following conditions:

- (a) issue size shall not be less than fifty crore rupees;

- (b) procedure to be followed by each class of applicant for applying shall be mentioned in the prospectus;
- (c) minimum application amount shall be twenty thousand rupees;
- (d) at least fifty per cent of the IDR issued shall be allotted to qualified institutional buyers on proportionate basis;
- (e) the balance fifty per cent may be allocated among the categories of non-institutional investors and retail individual investors including employees at the discretion of the issuer and the manner of allocation shall be disclosed in the prospectus. Allotment to investors within a category shall be on proportionate basis;
 However, atleast thirty percent of IDRs being offered in the public issue shall be available for allocation to retail individual investors and in case of under subscription in retail individual investor category. Spillover to the other categories to the extent of under subscription may be permitted.
- (f) at any given time, there shall be only one denomination of IDR of the issuing company.
- (g) the underlying equity shares against which IDR, are issued have been or will be listed in its home country before listing of IDRs in stock exchange(s).
- (h) the underlying shares of IDRs shall rank pari-passu with the existing shares of the same class.

Answer 2(d)

Winding up of Collective Investment Scheme (CIS)

According to Regulation 37 of SEBI (Collective Investment Schemes) Regulations, 1999, Collective Investment Scheme should be wound up on the expiry of duration specified in the scheme or on the accomplishment of the objective of the scheme as specified in the offer document. A scheme may be wound up:

- (a) on the happening of any event which, in the opinion of the trustee, requires the scheme to be wound up and the prior approval of SEBI is obtained; or
- (b) if unit holders of a scheme holding at least three-fourth of the nominal value of the unit capital of the scheme, pass a resolution that the scheme be wound up and the approval of SEBI is obtained thereto; or
- (c) if in the opinion of SEBI, the continuance of the scheme is prejudicial to the interests of the unit-holders; or
- (d) if in the opinion of the CIMC, the purpose of the scheme cannot be accomplished and it obtains the approval of the trustees and that of the unit holders of the scheme holding at least three-fourth of the nominal value of the unit capital of the scheme with a resolution that the scheme be wound up and the approval of SEBI is obtained thereto.

Answer 2(e)

“Real Estate Mutual Fund Scheme” means a mutual fund scheme that invests directly or indirectly in real estate assets or other permissible assets in accordance with SEBI (Mutual Funds) Regulations, 1996.[Regulation 2(sc)of SEBI (Mutual Funds) Regulations, 1996]

Salient Features of REMFs

Some of the salient features of REMFs are as under:

1. An Existing Mutual Funds are eligible to launch real estate mutual funds if they have adequate number of experienced key personnel/directors having adequate experience in real estate.
2. Sponsors seeking to set up new Mutual Funds, for launching only real estate mutual fund schemes, shall be carrying on business in real estate for a period not less than five years. They shall also fulfill all other eligibility criteria applicable for sponsoring a MF.
3. Every real estate mutual fund scheme shall be close-ended and its units shall be listed on a recognized stock exchange.
4. Net asset value (NAV) of the scheme shall be declared daily.

Answer 2A(i)

Regulation 10 of SEBI (Alternative Investment Funds) Regulations, 2012 provides that Investment in all categories of Alternative Investment Funds shall be subject to the following conditions:-

- (a) the Alternative Investment Fund may raise funds from any investor whether Indian, foreign or non-resident Indians by way of issue of units;
- (b) each scheme of the Alternative Investment Fund shall have corpus of atleast twenty crore rupees;
- (c) the Alternative Investment Fund shall not accept from an investor, an investment of value less than one crore rupees.

However, in case of investors who are employees or directors of the Alternative Investment Fund or employees or directors of the Manager, the minimum value of investment shall be 25 lakh rupees.

- (d) the Manager or Sponsor shall have a continuing interest in the Alternative Investment Fund of not less than two and half percent of the corpus or 5 crore rupees, whichever is lower, in the form of investment in the Alternative Investment Fund and such interest shall not be through the waiver of management fees.

However, for Category III Alternative Investment Fund, the continuing interest shall be not less than five percent of the corpus or ten crore rupees, whichever is lower.

- (e) the Manager or Sponsor shall disclose their investment in the Alternative Investment Fund to the investors of the Alternative Investment Fund;
- (f) no scheme of the Alternative Investment Fund shall have more than 1000 investors;

Provided that the provisions of Companies Act, 2013 shall apply to the Alternative Investment Fund, if it is formed as a company.

- (g) the fund shall not solicit or collect funds except by way of private placement.

Answer 2A(ii)**Market Benefits of Hedge Funds**

- Hedge funds can provide benefits to financial markets by contributing to market efficiency and enhance liquidity. Many hedge fund advisors take speculative trading positions on behalf of their managed hedge funds based extensive research about the true value or future value of a security.
- Hedge funds also provide liquidity to the capital markets by participating in the market.
- Hedge funds play an important role in a financial system where various risks are distributed across a variety of innovative financial instruments. They often assume risks by serving as ready counter parties to entities that wish to hedge risks.
- Hedge fund can also serve as an important risk management tool for investors by providing valuable portfolio diversification. Hedge fund strategies are typically designed to protect investment principal.
- Hedge funds frequently use investment instruments (e.g. derivatives) and techniques (e.g. short selling) to hedge against market risk and construct a conservative investment portfolio – one designed to preserve wealth.

Answer 2A(iii)

ECBs are commercial loans raised by eligible resident entities from recognised non-resident entities and should conform to parameters such as minimum maturity, permitted and non-permitted end-uses, maximum all-in-cost ceiling, etc. The parameters apply in totality and not on a standalone basis.

Tracks of ECB

The framework for raising loans through ECB comprises the following three tracks:

Track I : Medium term foreign currency denominated ECB with minimum average maturity of 3/5 years.

Track II : Long term foreign currency denominated ECB with minimum average maturity of 10 years.

Track III : Indian Rupee (INR) denominated ECB with minimum average maturity of 3/5 years.

Forms of ECB

The ECB Framework enables permitted resident entities to borrow from recognized non-resident entities in the following forms:

- Loans including bank loans;
- Securitised instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares / debentures);

- Buyers' credit;
- Suppliers' credit;
- Foreign Currency Convertible Bonds (FCCBs);
- Financial Lease; and
- Foreign Currency Exchangeable Bonds (FCEBs)

However, ECB framework is not applicable in respect of the investment in Non-convertible Debentures (NCDs) in India made by Registered Foreign Portfolio Investors (RFPIs)

Question 3

Comment on the followings :

- (a) *The investment criteria for a foreign venture capital investor. (5 marks)*
- (b) *Benefits available to a company on listing at SME Exchange. (5 marks)*
- (c) *XYZ Limited a listed company has issued Partly convertible debentures in the past. Now it is planning for roll over of non-convertible portion of these debentures. As a company Secretary advise the conditions to be fulfilled in this regard. (5 marks)*

Answer 3(a)

Investment Criteria for a Foreign Venture Capital Investor

Regulation 11 of SEBI (Foreign Venture Capital Investors) Regulations 2000 provides that all investments to be made by a foreign venture capital investors should be subject to the following conditions:

- (a) it should disclose to SEBI its investment strategy.
- (b) it can invest its total funds committed in one venture capital fund or alternative investment fund.
- (c) it shall make investments as enumerated below:
- (i) Atleast 66.67% of the investible funds should be invested in unlisted equity shares or equity linked instruments of venture capital undertaking or Investee Company.
- (ii) not more than 33.33% of the investible funds may be invested by way of:
- subscription to initial public offer of a venture capital undertaking or investee company whose shares are proposed to be listed;
 - debt or debt instrument of a venture capital undertaking or investee company in which the foreign venture capital investor has already made an investment by way of equity.
 - preferential allotment of equity shares of a listed company subject to lock in period of one year.

- Special Purpose Vehicles which are created for the purpose of facilitating or promoting investment in accordance with these Regulations.
- The investment conditions and restrictions stipulated shall be achieved by the Foreign Venture Capital Investor by the end of its life cycle.
- It shall disclose the duration of life cycle of the fund.

Answer 3(b)**Benefits of Listing on SME Exchange**

- Access to capital and future financing opportunities
- Going public would provide the MSME's with equity financing opportunities to grow their business – from expansion of operations to acquisitions.
- Companies in the growth phase tend to get over-leveraged at which point, banks are reluctant to provide further credit.
- In addition, Issuers often receive more favourable lending terms when borrowing from financial institutions. In addition, equity financing lowers the debt burden leading to lower financing costs and healthier balance sheets for the firms. The continuing requirement for adhering to the stock market rules for the issuers lower the on-going information and monitoring costs for the banks.
- Increased visibility and prestige: Going public is likely to enhance the company's visibility. Greater public awareness gained through media coverage, publicly filed documents and coverage of stock by sector investment analysts can provide the SME with greater profile and credibility. This can result in a more diversified group of investors, which may increase the demand for that company's shares leading to an increase in the company's value.
- Venture Capital (VC): A vibrant equity market would provide prove to be an added incentive for greater venture capital participation by providing an exit option leading to a reduction in their lock-in period.
- Liquidity for shareholders: Becoming a public company establishes a market for the company's shares, providing its investors with an efficient and regulated vehicle in which to trade their own shares. Greater liquidity in the public market can lead to better valuation for shares than would be seen through private transactions.
- Create employee incentive mechanisms: The employees of the SME enterprises can participate in the ownership of their own company and benefit from being a shareholder. This can serve to ensure stronger employee commitment to the company's performance and success. Share options in a public company have an immediate and tangible value to employees, especially as a recruitment incentive.
- Facilitate growth through Mergers and Acquisitions: As a public company, company's shares can be utilized as an acquisition currency to acquire target companies, instead of a direct cash offering. Using shares for an acquisition can be a tax efficient and cost effective vehicle to finance such a transaction.

- Encourages Innovation & Entrepreneurial Spirit: The ability of companies in their early stages of development to raise funds in the capital markets allows these companies to grow very quickly. This growth helps speed up the dissemination of new technologies throughout the economy.

Answer 3(c)

Roll Over of Non-Convertible Portion of Partly Convertible Debt Instruments

Regulation 21 of SEBI (ICDR) Regulations, 2009 stipulates that the non-convertible portion of partly convertible debt instruments issued by a listed issuer, the value of which exceeds fifty lakh rupees can be rolled over without change in the interest rate, subject to compliance with the provisions of Companies Act, 2013, and the following conditions–

- (a) through postal ballot, approved the rollover.
- (b) the 75% of the holders of the convertible debt instruments of the issuer have, through a resolution issuer has along with the notice for passing the resolution, sent to all holders of the convertible debt instruments, an auditors' certificate on the cash flow of the issuer and with comments on the liquidity position of the issuer.
- (c) the issuer has undertaken to redeem the non-convertible portion of the partly convertible debt instruments of all the holders of the convertible debt instruments who have not agreed to the resolution.
- (d) credit rating has been obtained from at least one credit rating agency registered with the SEBI within a period of six months prior to the due date of redemption and has been communicated to the holders of the convertible debt instruments, before the roll over.

However, the creation of fresh security and execution of fresh trust deed is not mandatory if the existing trust deed or the security documents provide for continuance of the security till redemption of secured convertible debt instruments

Further, whether the issuer is required to create fresh security and to execute fresh trust deed or not is to be decided by the debenture trustee.

Question 4

- (a) *Distinguish between the following :*
 - (i) *Listed securities and Permitted securities*
 - (ii) *Commercial bill and Commercial paper*
 - (iii) *Foreign Direct Investment and Foreign Institutional Investment.*

(3 marks each)
- (b) *Explain briefly the following :*
 - (i) *Indenture*
 - (ii) *Mutual fund costs*
 - (iii) *Negotiated Delivery System.*

(2 marks each)

Answer 4(a)**(i) Listed Securities and Permitted Securities**

The securities admitted for dealing on stock exchange after complying with all the listing requirements and played by the Board on the list of cleared securities are called Listed Securities.

The securities listed on some of the recognized stock exchanges, when permitted to be traded by those stock exchanges where they are not listed are called Permitted securities. Such permission is given if suitable provisions exist in the regulations of the concerned stock exchanges.

(ii) Commercial Bill and Commercial Paper

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

Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note. CP, as a privately placed instrument, was introduced in India in 1990 with a view to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and to provide an additional instrument to investors. Subsequently, primary dealers (PDs), and all-India financial institutions were also permitted to issue CP to enable them to meet their short-term funding requirements for their operations.

(iii) Foreign Direct Investment and Foreign Institutional Investment

<i>Foreign Direct Investment</i>	<i>Foreign Institutional Investment</i>
It is a direct investment into the production or business by a company in a country other than its domestic country.	It is an investment made by an investor in the markets of a foreign nation.
Foreign Direct Investment cannot enter and exit easily.	Foreign Institutional Investment can enter the stock market easily.
Foreign Direct Investment targets a specific enterprise.	The Foreign Institutional Investment increases capital availability in general.
The Foreign Direct Investment is considered to be more stable than Foreign Institutional Investment.	The Foreign Institutional Investment is considered to be less stable than Foreign Direct Investment.
The Foreign Direct Investment is Strategic investment.	The Foreign Institutional Investment is Portfolio investment.

Answer 4(b)(i)**Indenture**

Agreement between lender and borrower which details specific terms of the bond issuance. Specifies legal obligations of bond issuer and rights of the bondholder. Document spelling out the specific terms of a bond as well as the rights and responsibilities of both the issuer of the security and the holder.

Answer 4(b)(ii)**Mutual Fund Costs**

There are two broad categories of mutual fund costs, namely - (a) Operating expenses (b) Sales charges. These terms are explained below:

- (a) *Operating Expenses* : Costs incurred in operating mutual funds include advisory fees paid to investment managers, custodial fees, audit fees, transfer agent fees, trustee fees, agents' commission etc. The break-up of these expenses is required to be reported in the schemes offer document. When the operating expenses are divided by the average net asset, the expense ratio is arrived at.
- (b) *Sales Charges* : These are otherwise called as sales loads and are charged directly to the investors. Mutual funds use the sales loads for payment of agent's commission and expenses for distribution and marketing.

Answer 4(b)(iii)**Negotiated Dealing System**

An electronic trading platform, operated by the Reserve Bank of India, used to facilitate the exchange of government securities and other money market instruments. The negotiated dealing system will also be responsible for hosting new issues of government securities.

PART-B**Question 5**

Answer the following :

- (a) *What do you mean by 'Financial Education' ? Discuss various initiatives taken so far on Financial literacy in India. (8 marks)*
- (b) *Briefly explain the provisions relating to delisting of equity shares under SEBI Regulations. 2009. (4 marks)*
- (c) *Discuss the various powers and functions of SEBI under SEBI Act, 1992. (4 marks)*
- (d) *What are the policies required to be framed under SEBI (LODR) Regulations 2015 ? (4 marks)*

Answer 5(a)**Financial Education**

OECD defines Financial education as "the process by which financial consumers/

investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”.

Initiatives Taken So Far On Financial Literacy in India

RBI's initiatives

Reserve Bank of India has undertaken a project titled "Project Financial Literacy" to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college students, women, rural and urban poor, defense personnel and senior citizens.

SEBI Initiatives

SEBI has empanelled Resource Persons throughout India to undertake financial education to various target segments viz. school students, college students, working executives, middle income group, home makers, retired personnel, self-help groups etc. The Resource Persons are given training on various aspects of finance and equipped with the knowledge about the financial markets. These SEBI Certified Resource Persons organise workshops to these target segments on various aspects viz. savings, investment, financial planning, banking, insurance, retirement planning etc.

Ministry of Corporate Affairs (MCA) Initiatives

Ministry of Corporate Affairs (MCA) has a dedicated approach for empowering investors through education and awareness building. MCA on 27th September, 2007 launched a website www.iepf.gov.in. It provides information about IEPF and the various activities that have been undertaken/ funded by it.

IRDA's Initiatives on Financial Education

Awareness programmes have been conducted by IRDA on television and radio and simple messages about the rights and duties of policyholders, channels available for dispute redressal etc. have been disseminated through television and radio as well as the print media through sustained campaigns in English, Hindi and 11 other Indian languages. IRDA's Integrated Grievance Management System (IGMS) creates a central repository of grievances across the country and provides for various analyses of data indicative of areas of concern to the insurance policyholder.

PFRDA Initiatives on Financial Education

The PFRDA, India's youngest regulator has been engaged in spreading social security messages to the public. PFRDA has developed FAQ on pension related topics on its web, and has been associated with various non-government organizations in India in taking the pension services to the disadvantaged community. PFRDA's initiatives have become more broad-based with direct mass publicity on NPS - both as individual model through POPs and group models through Aggregators.

Market players Initiatives on Financial Education

Commercial banks have initiated various measures for creating awareness through Financial Literacy and Counseling Centers and Rural Self Employment Training Institutes on financial literacy. Similarly, many Stock Exchanges, Broking Houses and Mutual Funds have initiatives in the field of financial education that spawns conducting of

seminars, issuance of do's and don'ts, and newspaper campaigns. Insurance companies too, carry out campaigns and other educational activities for generic education in insurance.

Answer 5(b)

SEBI (Delisting of Equity Shares) Regulations, 2009 prescribe the provisions relating to Voluntary Delisting and Compulsory Delisting.

Regulation 6 provides that a company may delist its equity shares from one or more recognised stock exchanges where they are listed and continue their listing on one or more other recognised stock exchanges, if after the proposed delisting the equity shares would –

- remain listed on any recognised stock exchange which has nationwide trading terminals, no exit opportunity needs to be given to the public shareholders; and
- not remain listed on any recognised stock exchange having nationwide trading terminals, exit opportunity shall be given to all the public shareholders holding the equity shares sought to be delisted.

Further Regulation 27 of the SEBI (Delisting of Equity Shares) Regulations, 2009 provides Special Provisions for Small Companies to be delisted from all the recognised stock exchanges where they are listed.

Answer 5(c)

Powers and Functions of SEBI under SEBI Act, 1992

Chapter IV of SEBI Act, 1992 deals with the powers and functions of SEBI. Section 11 of the Act lays down that it shall be the duty of SEBI to protect the interests of the investors in securities and to promote the development of, and to regulate the securities markets by such measures as it thinks fit. Section 11(2) provides that these measures would include:

- (a) regulating the business in stock exchanges and any other securities markets;
- (b) registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner;
- (c) registering and regulating the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries as SEBI may, by notification, specify in this behalf;
- (d) registering and regulating the working of venture capital funds and collective investment schemes, including mutual funds;
- (e) promoting and regulating self-regulatory organisations;
- (f) prohibiting fraudulent and unfair trade practices relating to securities markets;
- (g) promoting investors' education and training of intermediaries of securities markets;

- (h) prohibiting insider trading in securities;
- (i) regulating substantial acquisition of shares and takeover of companies;
- (j) calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organisations in the securities market;
- (k) calling for information and records from any person including any bank or any authority or board or corporation established or constituted by or under any central or state Act, which in the opinion of SEBI, shall be relevant to any investigation or inquiry by SEBI in respect of any transaction in securities;
- (l) calling for information from or furnishing information to other authorities. Whether in India, or outside India having functions similar to those of SEBI, in the matters relating to the prevention or detection of violation in respect of securities laws, subject to the provisions of other laws for the time being in force in this regard;
- (m) performing such functions and exercising such powers under the provisions of the Securities Contracts (Regulation) Act, 1956, as may be delegated to it by the Central Government;
- (n) levying fees or other charges for carrying out the purposes of this section;
- (o) conducting research for the above purposes;
- (la) calling from or furnishing to any such agencies, as may be specified by SEBI, such information as may be considered necessary by it for the efficient discharge of its functions;
- (m) performing such other functions as may be prescribed.

Answer 5(d)

Policies required to be framed under SEBI (LODR) Regulations, 2015

- Risk Policy [Regulation 4(2) (f)]
- Policy for Preservation of documents [Regulation 9]
- Policy for determining material subsidiaries [Part D, Schedule II(3)]
- Policy on materiality of related party transactions [Explanation to Regulation 16(1)(b)(c)]
- Policy on dealing with related party transactions [Regulation 23(1)]
- Whistle Blower policy [Regulation 23 (1)]
- Policy relating to remuneration of directors, Managerial Personnel [Part D, Schedule II (1)]

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

Question 6

Answer the following :

- (a) *Success Ltd., a listed company with an authorized, issued and subscribed*

capital of ₹35 crore comprising of 3.5 crore equity shares of ₹10 each and a paid up capital of ₹34 crore decided to issue bonus shares in the ratio of 2 : 5. As a Company Secretary enumerate the steps involved in such an issue. (8 marks)

Comment on the following statements :

- (b) *“Depository system provides numerous direct and indirect benefits.” (4 marks)*
- (c) *“Listing of securities with stock exchanges is a matter of great importance for companies and investors.” (4 marks)*
- (d) *“Every Institutional Buyer is qualified institutional buyer.” (4 marks)*

OR (Alternate question to Q. No. 6)

Question 6A

Write notes on the following :

- (i) *Re-materialization*
- (ii) *Green Shoe Option*
- (iii) *Provisions relating to insider trading in Companies Act, 2013*
- (iv) *Creeping Acquisition Limit*
- (v) *Price and Price Band. (4 marks each)*

Answer 6(a)

The following are the steps involved in issue of Bonus Shares by Success Ltd.:

A listed entity issuing bonus shares should ensure that the issue is in conformity with the Regulations for bonus issue laid down by SEBI (ICDR) Regulations, 2009. The procedure for issue of bonus shares by Success Ltd. is enumerated below:

1. Ensure that bonus issue has been made out of free reserves built out of the genuine profits or securities premium collected in cash only.
2. Ensure that reserves created by revaluation of fixed assets are not capitalized.
3. Ensure that the company has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it or in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity, bonus etc.
4. Ensure that the bonus issue is not made in lieu of dividend.
5. There should be a provision in the articles of association of the company permitting issue of bonus shares; if not, steps should be taken to alter the articles suitably.
6. The share capital as increased by the proposed bonus issue should be well within the authorised capital of the company; if not, necessary steps have to be taken to increase the authorised capital.
7. Finalise the proposal and fix the date for the Board Meeting for considering the proposal and for authorizing the taking up of incidental and attendant matters.

8. The date of the Board Meeting at which the proposal for bonus issue is proposed to be considered should be notified to the Stock Exchange(s) where the company's shares are listed.
9. If there are any partly paid-up shares, ensure that these are made fully paid-up before the bonus issue is recommended by the Board of directors.
10. Hold the Board Meeting and get the proposal approved by the Board of directors.
11. The resolution to be passed at the General Meeting should also be approved by the Board of Directors in its meeting. The intention of the Board of directors regarding the rate of dividend to be declared in the year after the bonus issue should be indicated in the resolution for bonus issue to be passed by members in general meeting.
12. Immediately after the Board meeting intimate the Stock Exchange(s) regarding the outcome of the Meeting.
13. Ensure that the company has announced bonus issue after the approval of Board of Directors and did not require shareholders' approval for capitalization of profits or reserves for making bonus issue as per the Article of Association, had implemented bonus issue within fifteen days from the date of approval of the issue by the board of directors of the company and must not have the option of changing the decision. However, where the company was required to seek shareholders' approval for capitalization of profits or reserves for making bonus issue as per the Article of Association, the bonus issue has implemented within two months from the date of the meeting of the Board of Directors where in the decision to announce bonus was taken subject to shareholders' approval. As per section 63 (2) (c) of the Companies Act, 2013, every company has to take shareholders' approval for issuing bonus shares.
14. Arrangements for convening the general meeting should then be made keeping in view the requirements of the Companies Act, with regard to length of notice, explanatory statement etc. Also three copies of the notice should be sent to the Stock Exchange(s) concerned.
15. Hold the general meeting and get the resolution for issue of bonus shares passed by the members. A copy of the proceedings of the meeting is to be forwarded to the concerned Stock Exchange(s).
16. In consultation with the Regional Stock Exchange fix the date for closure of register of members or record date and get the same approved by the Board of directors. Issue a general notice under Section 91 of Companies Act, 2013 in respect of the fixation of the record date in two newspapers one in English language and other in the language of the region in which the Registered Office of the company is situated.
17. Give 7 days' notice to the Stock Exchange(s) concerned before the date of book closure/record date.
18. After the record date process the transfers received and prepare a list of members entitled to bonus shares on the basis of the register of members as updated. This list of allottees is to be approved by the Board or any Committee thereof. The list usually serves as allotment list and on this basis the allotment is to be made to the eligible members.

19. File return of allotment with the Registrar of Companies within 30 days of allotment (Section 39 of the Companies Act, 2013). Also intimate Stock Exchange(s) concerned regarding the allotments made.
20. Ensure that the allotment is made within fifteen days of the date on which the Board of directors approved the bonus issue.
21. Submit an application to the Stock Exchange(s) concerned for listing the bonus shares allotted.

Answer 6(b)

Benefits of Depository System

The depository system rids the capital market of the dangers related to handling of paper. The system provides numerous direct and indirect benefits, like:

Elimination of bad deliveries - In the depository environment, once holdings of an investor are dematerialized, the question of bad delivery does not arise i.e. they cannot be held "under objection".

Elimination of all risks associated with physical certificates - Dealing in physical securities have associated security risks of theft of stocks, mutilation of certificates, loss of certificates during movements through and from the registrars, thus exposing the investor to the cost of obtaining duplicate certificates and advertisements, etc. This problem does not arise in the depository environment.

Immediate transfer and registration of securities - In the depository environment, once the securities are credited to the investors account on pay out, he becomes the legal owner of the securities.

Faster disbursement of non-cash corporate benefits like rights, bonus, etc.– Depository system provides for direct credit of non-cash corporate entitlements to an investors account, thereby ensuring faster disbursement and avoiding risk of loss of certificates in transit.

Reduction in brokerage by many brokers for trading in dematerialized securities - Brokers provide this benefit to investors as dealing in dematerialized securities reduces their back office cost of handling paper and also eliminates the risk of being the introducing broker.

Elimination of problems related to change of address of investor, transmission, etc.- In case of change of address or transmission of demat shares, investors are saved from undergoing the entire change procedure with each company or registrar.

Elimination of problems related to selling securities on behalf of a minor - A natural guardian is not required to take court approval for selling demat securities on behalf of a minor.

Answer 6(c)

Listing of securities with stock exchange is a matter of great importance for companies and investors, because this provides the liquidity to the securities in the market. The following benefits are available when securities are listed by a company in the stock exchange–

- (1) Public image of the company is enhanced.

- (2) The liquidity of the security is ensured making it easy to buy and sell the securities in the stock exchange.
- (3) Tax concessions are made available both to the investors and the companies.
- (4) Listing procedure compels company management to disclose important information to the investors enabling them to make crucial decisions with regard to keeping or disposing of such securities.
- (5) Listed companies command better support such as loans and investments from Banks and FIs.

Answer 6(d)

Every 'Institutional buyer' is not a qualified institutional buyer (QIB). According to Regulation 2 (zd) of SEBI (ICDR) Regulations, 2009, a Qualified Institutional Buyer (QIB) is:

- (i) A mutual fund, venture capital fund, alternative investment fund and foreign venture capital investor registered with SEBI;
- (ii) A foreign portfolio investor other than Category III foreign portfolio investor registered with SEBI;
- (iii) A public financial institution as defined in section 2(72) of the Companies Act, 2013;
- (iv) A scheduled commercial bank;
- (v) A multilateral and bilateral development financial institution;
- (vi) A state industrial development corporation;
- (vii) An insurance company registered with the Insurance Regulatory and Development Authority;
- (viii) A provident fund with minimum corpus of twenty five crore rupees;
- (ix) A pension fund with minimum corpus of twenty five crore rupees;
- (x) National Investment Fund set up by the Government of India published in the Gazette of India;
- (xi) Insurance funds set up and managed by army, navy or air force of the Union of India;
- (xii) Insurance funds set up and managed by Department of Posts, India.

Answer 6A(i)

Rematerialisation means converting the shares held on electronic form to physical form. For getting the share remitted shareholders needs to follow following steps:

- Client submits Rematerialisation Request Form (RRF) in 3 copies to DP
- DP intimates Depository and depository intimates the Registrar/Issuer
- DP sends RRF to the Registrar/Issuer and registrar/issuer prints certificates and sends to Investor
- Registrar/Issuer confirms remat to Depository
- Investor's account with DP debited

Answer 6A(ii)**Green Shoe Option**

“Green Shoe Option” means an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism in accordance with the provisions of Regulation 45 of SEBI (ICDR) Regulations, 2009.

- A company desirous of availing this option, should in the resolution of the general meeting authorizing the public issue, seek authorization also for the possibility of allotment of further shares to the ‘Stabilizing Agent’ (SA) at the end of the stabilization period.
- The company should appoint one of the merchant bankers or book runners, amongst the issue management team, as the “stabilizing agent” (SA), who will be responsible for the price stabilization process, if required. The SA shall enter into an agreement with the issuer company, prior to filing of offer document with SEBI, clearly stating all the terms and conditions relating to this option including fees charged/expenses to be incurred by SA for this purpose.
- The SA should also enter into an agreement with the promoter(s) or pre-issue shareholders who will lend their shares under the provisions of this scheme, specifying the maximum number of shares that may be borrowed from the promoters or the shareholders, which shall not be in excess of 15% of the total issue size.
- The details of the agreements mentioned above should be disclosed in the draft prospectus, the draft Red Herring prospectus, Red Herring prospectus and the final prospectus. The agreements should also be included as material documents for public inspection. The lead merchant banker or the Lead Book Runner, in consultation with the SA, shall determine the amount of shares to be over-allotted with the public issue, subject to the maximum number specified above.
- SA shall maintain a register for minimum (3) years from the end of stabilisation period.
- SA shall submit a report to stock exchange on daily basis and final report to SEBI after stabilisation period.
- Promoters or any person holding 5 % or more shares may transfer share to SA in GSO.
- Stabilisation period for maximum 30 days.
- Prior to filling the draft offer document there shall be agreement between Issuer and Stabilising Agent.

Answer 6A(iii)**Provisions relating to Insider trading under Companies Act, 2013**

Section 195 of the Companies Act, 2013 deals with the provisions on prohibition on insider trading of securities. Section 195 (1) provides that any person including any director or key managerial personnel shall not enter into insider trading.

However, this sub section shall not apply in case where any communication required in the ordinary course of business or profession or employment or under any law.

Section 195(2) provides that if any person contravenes the provisions of this section, he shall be punishable with imprisonment for a term which may extend to five years or with fine which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is higher, or with both.

Answer 6A(iv)

Creeping Acquisition Limit

Regulation 3 (2) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 stipulates that an acquirer who holds 25% or more but less than maximum permissible non-public shareholding of the Target Company, can acquire such additional shares as would entitle him to exercise more than 5% of the voting rights in any financial year ending March 31 only after making a Public Announcement to acquire minimum twenty six percent shares of Target Company from the shareholders through an Open Offer.

Answer 6A(v)

Price and Price Band

Regulation 30 of SEBI (ICDR) Regulations, 2009 provides that:

- (1) The issuer can mention a price or price band in the draft prospectus (in case of a fixed price issue) and floor price or price band in the red herring prospectus (in case of a book built issue) and determine the price at a later date before registering the prospectus with the Registrar of Companies. However, the prospectus registered with the Registrar of Companies should contain only one price or the specific coupon rate, as the case may be.
- (2) The issuer should announce the floor price or price band at least 5 working days before the opening of the bid (in case of an initial public offer) and at least 1 working day before the opening of the bid (in case of a further public offer), in all the newspapers in which the pre issue advertisement was released.
- (3) The announcement should contain relevant financial ratios computed for both upper and lower end of the price band and also a statement drawing attention of the investors to the section titled “basis of issue price” in the prospectus.
The announcement and the relevant financial ratios shall be disclosed on the websites of those stock exchanges where the securities are proposed to be listed and shall also be pre-filled in the application forms available on the websites of the stock exchanges.
- (4) The cap on the price band shall be less than or equal to one hundred and twenty per cent of the floor price.
- (5) The floor price or the final price should not be less than the face value of the specified securities. “Cap on the price band” includes cap on the coupon rate in case of convertible debt instruments.

INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

PART A

1. According to Section 3(1)(b) of the Minimum Wages Act, 1948 the 'appropriate Government' may review at such intervals as it may think fit, such intervals not exceeding years, and revise the minimum rate of wages, if necessary.
 - (A) 3
 - (B) 5
 - (C) 7
 - (D) 10

2. Under the Factories Act, 1948, The Certifying Surgeon may grant or renew to any such young person, a certificate of fitness, in the prescribed form to work as a child, if, after examination, he is satisfied that such young person has completed his :
 - (A) 12th year
 - (B) 13th year
 - (C) 14th year
 - (D) 15th year

3. Under the Factories Act, 1948 whenever a new manager is appointed, the occupier shall send to the Inspector a written notice and to the Chief Inspector a copy thereof, within days from the date on which such person takes over charge.
 - (A) 30
 - (B) 21
 - (C) 15
 - (D) 7

4. Under the Factories Act, 1948, "Manufacturing processes" include :
 - (A) Stitching old gunny bags and making them fit for use
 - (B) Finished goods and packing thereof
 - (C) Industrial Institute imparting training, producing cloth, not with a view to its sale
 - (D) Preliminary packing of raw material for delivering it to the factory

5. Under the Payment of Wages Act, 1936, "Wages" means all remuneration (whether by way of salary allowances or otherwise) expressed in terms of money or capable of being so expressed and includes :
- (A) Value of any house accommodation
 - (B) Sum of travelling allowance
 - (C) Sum of termination benefit
 - (D) Receipt of payment under a scheme of profit sharing
6. Under the Minimum Wages Act, 1948, minimum wages are to be fixed on basis of standard normal working hours, namely :
- (A) 42 hours a week
 - (B) 44 hours a week
 - (C) 46 hours a week
 - (D) 48 hours a week
7. "Only a member of Board of Directors of the company can be occupier of the factory of the company. The ultimate control of factory owned by company vests in Board of Directors." This was stated in the case of in respect of occupier of a factory under the Factories Act, 1948.
- (A) Lal Mohmd. Vs. Indian Railway Construction Co. Ltd.
 - (B) Chitaman Rao Vs. State of M.P.
 - (C) Birdhichand Sharma Vs. First Civil Judge, Nagpur
 - (D) J.K. Industries Ltd. Vs. Chief Inspector of Factories
8. Where an employee is engaged in work on piece work, wages shall be paid in terms of Section 17 of the Minimum Wages Act, 1948 at :
- (A) minimum time rate
 - (B) minimum piece rate
 - (C) standard normal rate
 - (D) maximum rate
9. The Employees' Provident Funds and Miscellaneous Provisions Act, 1952 is applicable to factories and other classes of establishments engaged in specific industries employing :
- (A) 10 or more persons
 - (B) 20 or more persons
 - (C) 50 or more persons
 - (D) 100 or more persons

10. The definition of employee in the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 includes :
- (A) Part-time employee
 - (B) Full-time employee
 - (C) Employment through contract
 - (D) All of the above
11. To adjudicate disputes under the Employees, State Insurance Act, 1948, has its jurisdiction.
- (A) High Court
 - (B) District Court
 - (C) Employees' Insurance Court
 - (D) Magistrate Court
12. The present rate of contribution of insurance amount by employer under the Employees' State Insurance Act, 1948 shall be percent of the workers' wages.
- (A) 4.00
 - (B) 4.50
 - (C) 4.75
 - (D) 4.25
13. The authorities for the purpose of hearing and deciding complaints with regard to the contravention of any provisions of the Equal Remuneration Act, 1976 shall not be below the rank of a :
- (A) Welfare Officer
 - (B) Safety Officer
 - (C) Labour Officer
 - (D) Personnel Officer
14. Under the Minimum Wages Act, 1948 in fixing minimum rates of wages in respect of any scheduled employment for the first time or in revising minimum rates of wages, the appropriate Government can follow :
- (A) Advisory method
 - (B) Notification method
 - (C) Conciliation method
 - (D) Negotiation method

15. When in an accounting year, the allocable surplus exceeds the amount of maximum bonus payable to the employees then, the excess shall be, subject to a limit of of the total salary or wages of the employees employed in the establishment in that accounting year, be carried forward for being set on in the succeeding accounting year and so on up to and inclusive of the fourth accounting year to be utilized for the purpose of payment of bonus in the manner illustrated in the Fourth Schedule of the Payment of Bonus Act, 1965.
- (A) 10%
 - (B) 12.50%
 - (C) 20%
 - (D) 25%
16. If there is a dispute regarding payment of bonus pending before any authority under Section 22 of the Payment of Bonus Act, 1965 all amounts payable to an employee by way of bonus under this Act shall be paid in cash by his employer, within from the date from which the award becomes enforceable or the settlement comes into operation, in respect of such dispute.
- (A) three months
 - (B) two months
 - (C) one month
 - (D) 90 days
17. If any dispute arises between an employer and his employee with respect to the bonus payable under the Payment of Bonus Act, 1965 then, such dispute shall be deemed to be :
- (A) a dispute between the concerned employee and the employer
 - (B) a dispute between all the employees and the employer
 - (C) industrial dispute
 - (D) bonus dispute to be settled by the appropriate Government
18. As per Section 7(3A) of the Payment of the Gratuity Act, 1972 if the amount of gratuity payable under sub-section (3) is not paid by the employer within the period specified in sub-section (3) due to the fault of the employer, then the employer shall pay, from the date on which the gratuity becomes payable to the date on which it is paid, simple interest at the rate of :
- (A) 10% per annum
 - (B) 15% per annum
 - (C) 12% per annum
 - (D) 18% per annum

19. The explanation of the term 'Pay' under the Employees Provident Fund Scheme, includes cash value of :
- (A) Fuel bills concession
 - (B) Food concession
 - (C) Entertainment allowance
 - (D) Monthly Journal subsidy
20. "Justifiability of a strike is purely a question of fact. Therefore, if the strike was restored to by the workers in support of their reasonable, fair and bona fide demands in peaceful manner, then the strike will be justified. Where it was resorted to by using violence or acts of sabotage or of any ulterior purpose, then the strike will be unjustified." This was held in the case of in respect of legality of strike under the Industrial Disputes Act, 1947.
- (A) Gujarat Steel Tubes Ltd. Vs. Gujarat Steel Tubes Majdoor Sabha
 - (B) Punjab Land Development Corporation Ltd. Vs. Labour Court, Chandigarh
 - (C) Hariprasad Shivshankar Saukla Vs. A.D. Diwakar
 - (D) Parry & Co. Vs. P.C. Pal
21. Under the Payment of Gratuity Act, 1972, Gratuity can be withheld by an employer, if :
- (A) the land of the employer is not vacated by the employee
 - (B) the gratuity is assigned by the employee
 - (C) the employee is terminated for riotous conduct
 - (D) all of the above
22. Under the Payment of Gratuity Act, 1972, A nominee of an employee who is eligible for payment of gratuity in the case of death of the employee shall apply to the employer ordinarily within days from the date of the gratuity becomes payable to him.
- (A) 30
 - (B) 60
 - (C) 90
 - (D) 45
23. As per Section 7(3) of the Payment of the Gratuity Act, 1972 the employer shall arrange to pay the amount of gratuity within days from the date of its becoming payable to the person to whom it is payable.
- (A) 15
 - (B) 20
 - (C) 30
 - (D) 45

24. The Payment of Gratuity Act, 1972 does not cover for persons employed in :
- (A) Railway company
 - (B) Oil fields
 - (C) Mines
 - (D) State Government
25. The definition of employee in the Employees' Compensation Act, 1923, include:
- (A) a person recruited for work abroad by a company
 - (B) a captain or other member of the crew of an aircraft
 - (C) a master, seaman or other members of the crew of a ship
 - (D) all of the above
26. The definition of employer in the Employees's Compensation Act, 1923, include:
- (A) any managing agent of the employer
 - (B) a contractor
 - (C) a General Manager of a Railway
 - (D) all of the above
27. Part II of Schedule I of the Employees' Compensation Act, 1923 contains list of injuries deemed to result in :
- (A) Permanent partial disablement
 - (B) Permanent total disablement
 - (C) Temporary total disablement
 - (D) Temporary partial disablement
28. In the case of death of a master or seaman, where the ship has been deemed lost with all hands, what is the maximum time period to make claim for compensation by the claimant, without sufficient cause as per Section 15 of the Employees' Compensation Act, 1923 ?
- (A) 24 months
 - (B) 18 months
 - (C) 12 months
 - (D) 6 months
29. In the case of death of an employee in respect of whom Section 15B of the Employees' Compensation Act, 1923 apply, the claim for compensation shall be made, within after the news of the death has been received by the claimant, without sufficient cause.
- (A) 24 months
 - (B) 18 months
 - (C) 12 months
 - (D) 6 months

30. "Employees working in canteens in industrial establishments run by managing committee are not employees of managing committee but are employees of occupier." This was held in the case of in relation to Factories Act, 1948.
- (A) Associated Cement Co. Ltd. Vs. Sharma
 - (B) Shinde Vs. Bombay Telephones
 - (C) Harbanslal Vs. State of Karnataka
 - (D) Kanpur Suraksha Karamchari Union Vs. Union of India
31. Where an employer is in default in paying compensation under the Employees' Compensation Act, 1923, he would be liable to pay as penalty of :
- (A) interest thereon
 - (B) interest thereon and further sum not exceeding ten percent of such amount of compensation
 - (C) interest thereon and further sum not exceeding twenty percent of such amount of compensation
 - (D) interest thereon and further sum not exceeding fifty percent of such amount of compensation
32. Schedule III of the Employees' Compensation Act, 1923 contains list of :
- (A) personal injuries
 - (B) injuries caused by accidents
 - (C) occupational diseases
 - (D) all of the above
33. Schedule IV of the Employees' Compensation Act, 1923 deals with :
- (A) persons engaged in different employments/operations entitled for compensation
 - (B) manner of arriving at compensation
 - (C) a list of occupational diseases
 - (D) injuries result in permanent total disablement
34. Part I of Schedule I of the Employees' Compensation Act, 1923 contains list of:
- (A) injuries deemed to result in permanent partial disablement
 - (B) injuries deemed to result in temporary partial disablement
 - (C) injuries deemed to result in permanent total disablement
 - (D) occupational diseases

35. The Employees' Compensation Act, 1923 prescribes penalties for the contravention of the provisions of the Act which include fine upto :
- (A) Rs. 5,000
 - (B) Rs. 10,000
 - (C) Rs. 50,000
 - (D) Rs. 25,000
36. The licence issued by the licensing officer under the Central Rules of the Contract Labour (Regulation and Abolition) Act, 1970 is valid for :
- (A) 12 months
 - (B) 24 months
 - (C) 36 months
 - (D) 60 months
37. The licensing officers referred under Section 11 of the Contract Labour (Regulation and Abolition) Act, 1970 are the :
- (A) Inspectors of factories
 - (B) Welfare officers
 - (C) Safety officers
 - (D) Gazetted officers
38. The penalty provided for violation of the provisions of the Contract Labour (Regulation and Abolition) Act, 1970 and the Rules made thereunder, is the fine, or imprisonment or both in the form of :
- (A) Rs. 5,000 or imprisonment extending to 3 months
 - (B) Rs. 10,000 or imprisonment extending to 2 months
 - (C) Rs. 2,000 or imprisonment extending to 3 months
 - (D) Rs. 1,000 or imprisonment extending to 3 months
39. What is the limitation period under Section 27 of the Contract Labour (Regulation and Abolition) Act, 1970 to make complaint before the appropriate court ?
- (A) 1 month
 - (B) 2 months
 - (C) 3 months
 - (D) 45 days

40. In the case of it was held that “the government employees have no fundamental right, statutory or equitable or moral to resort to strike and they cannot take the society at ransom by going on strike, even if there is justice to some extent”.
- (A) T.K. Rangarajan Vs. Government of Tamilnadu and others
 - (B) Express Newspapers (P) Ltd. Vs. Michael Mark
 - (C) Bank of India Vs. T.S. Kalawala
 - (D) Crompton Greaves Ltd. Vs. The Workmen
41. Under the Contract Labour (Regulation and Abolition) Act, 1970, establishments employing not less than 10 persons and not more than 19 persons are required to furnish a core Return in :
- (A) Form A
 - (B) Form B
 - (C) Form C
 - (D) Form D
42. Which Section of the Contract Labour (Regulation and Abolition) Act, 1970 deals with the powers of Inspectors :
- (A) Section 26
 - (B) Section 27
 - (C) Section 28
 - (D) Section 29
43. As per section 16 of the Contract Labour (Regulation and Abolition) Act, 1970, one or more canteens shall be provided and maintained by the contractor for the use if such contract labour employed by him is :
- (A) 50 or more
 - (B) 100 or more
 - (C) 200 or more
 - (D) 20 or more
44. Section 26 of the Contract Labour (Regulation and Abolition) Act, 1970 provides that no Court shall take cognizance of any offence under this Act, except on a complaint made by, or with the previous sanction in writing of :
- (A) the management of the establishment
 - (B) the inspector
 - (C) the Central Advisory Board
 - (D) the State Advisory Board

45. Section 4 of the Maternity Benefit Act, 1961, provides that no employer shall knowingly employ a woman in any establishment during the immediately following the day of her delivery, miscarriage or medical termination of pregnancy.
- (A) four weeks
 - (B) six weeks
 - (C) eight weeks
 - (D) five weeks
46. As per the provisions of the Maternity Benefit Act, 1961, a woman shall be entitled to maternity benefit if she has actually worked in an establishment of the employer from whom she claims maternity benefit, for a period of not less than in the twelve months immediately preceding the date of her expected delivery.
- (A) 60 days
 - (B) 70 days
 - (C) 80 days
 - (D) 90 days
47. Section 21 of the Maternity Benefit Act, 1961, provides that if any employer fails to pay any amount of maternity benefit to a woman entitled under this Act or discharges or dismisses such woman during or on account of her absence from work in accordance with the provisions of the Act, he shall be punishable with fine and/or imprisonment which shall not be less than :
- (A) 3 months but may extend to 6 months
 - (B) 3 months but may extend to one year
 - (C) 6 months but may extend to 9 months
 - (D) 6 months but may extend to one year
48. Section 7 of the Child Labour (Prohibition and Regulation) Act, 1986 provides that no child shall be required or permitted to work in any establishment in a day inclusive of interval for rest in excess of :
- (A) 5 hours
 - (B) 6 hours
 - (C) 7 hours
 - (D) 8 hours

49. Section 14 of the Child Labour (Prohibition and Regulation) Act, 1986, provides that whoever employs any child or permits any child to work in contravention of the provisions of Section 3 of the Act shall be punishable with fine and/or imprisonment for a term which shall not be less than :
- (A) 6 months but may extend to one year
 - (B) 3 months but may extend to 6 months
 - (C) 3 months but may extend to 9 months
 - (D) 3 months but may extend to one year
50. In the case of it was held that “though there exists no express provision in the Contract Labour (Prohibition and Abolition) Act, 1970 for absorption of employees in establishments where contract labour system is abolished by publication of notification under Section 10(1) of the Act, the principal employer is under obligation to absorb the contract labour.”
- (A) Air India Statutory Corporation Vs. United Labour Union
 - (B) Vegolis Private Ltd. Vs. The Workmen
 - (C) GEA Vs. Union of India
 - (D) HSEB Vs. Suresh
51. As per Section 3 of Industrial Employment (Standing Orders) Act, 1946, from the date on which this Act becomes applicable, the employer of an establishment shall submit to the Certifying Officer five copies of the draft Standing Orders proposed by him for adoption in that establishment within :
- (A) 2 months
 - (B) 3 months
 - (C) 6 months
 - (D) 9 months
52. Under the provisions of Industrial Employment (Standing Orders) Act, 1946, where there are two categories of workers, daily rated and monthly rated but the certified Standing Orders are in respect of daily rated workmen only, then which Standing Orders can be applied to monthly rated workmen ?
- (A) Standard Standing Order
 - (B) Uniform Standing Order
 - (C) Model Standing Order
 - (D) Certified Standing Order

53. Section 13-A of the Industrial Employment (Standing Orders) Act, 1946 provides that the question relating to application or interpretation of a Standing Order certified under this Act, can be referred by any employer or workman or a trade union or other representative body of the workmen to any :
- (A) Civil court having the jurisdiction
 - (B) High court of the concerned State where the establishment is situated
 - (C) Labour court constituted under the Industrial Disputes Act, 1947
 - (D) District court having the jurisdiction
54. Who is a workman in reference to the provisions of Section 2(s) of the Industrial Disputes Act, 1947 ?
- (A) A Police Officer
 - (B) General Manager
 - (C) Administrative Manager
 - (D) None of the above
55. Under the Industrial Disputes Act, 1947 which of the following constitute an industrial dispute ?
- (A) No formal demands have been made by the employer, but demands were raised during conciliation proceedings
 - (B) Participation by the employer in the conciliation proceedings
 - (C) An agitation
 - (D) No demand by the workman and that demand is not complied with by the management
56. As per Section 5 of the Industrial Employment (Standing Orders) Act, 1946, the certified standing orders upon certification, will be sent by the Certified officer to both the employer and the employees association within :
- (A) 7 days
 - (B) 15 days
 - (C) 21 days
 - (D) 30 days
57. As per Section 31 of the Industrial Disputes Act, 1947 whoever contravenes any of the provisions of this Act or any rules made thereunder shall, if no other penalty is elsewhere provided by or under this Act for such contravention, be punishable with fine which may extend to :
- (A) One hundred rupees
 - (B) Two hundred rupees
 - (C) Three hundred rupees
 - (D) Five hundred rupees

58. The definition of wages under the Industrial Disputes Act, 1947 does not include:
- (A) Any travelling concession
 - (B) Any concessional supply of foodgrains
 - (C) Any value of any house accommodation
 - (D) Any bonus
59. Trade dispute under the provisions of the Trade Union Act, 1926 means any dispute of any person connected with :
- (A) employment
 - (B) non-employment
 - (C) conditions of labour
 - (D) all of the above
60. In the case of it was held that "If after the accident the worker has become disabled, and cannot do a particular job but the employer offers him another kind of job, the worker is entitled to compensation for partial disablement under the provisions of the Employees' Compensation Act, 1923".
- (A) General Manager, G.I.P. Rly Vs. Shankar
 - (B) Katras Jherriah Coal Co. Ltd. Vs. Kamakhya Paul
 - (C) Ball Vs. William Hunt & Sons Ltd.
 - (D) Mangra Palji Vs. Robinsons
61. Under the provisions of Apprentices Act, 1961, any person aggrieved by the decision of the Apprenticeship Adviser may prefer an appeal against the decision to the Apprenticeship Council from the date of communication to him of such decision within
- (A) 30 days
 - (B) 45 days
 - (C) 60 days
 - (D) 90 days
62. As per section 6 of the Act, any employer who fails to comply with the provisions of the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 shall, in the case of the second or subsequent conviction, be punishable with fine of :
- (A) not less than Rs. 5,000
 - (B) not less than Rs. 10,000
 - (C) not less than Rs. 15,000
 - (D) not less than Rs. 20,000

63. As per section 20 of the Apprentices Act, 1961 any disagreement or dispute between an employer and an apprentice arising out of the contract of apprenticeship for decision shall be referred to :
- (A) the Inspector of Factories
 - (B) the Regional Commissioner
 - (C) the Apprenticeship Council
 - (D) the Apprenticeship Adviser
64. Under the Factories Act, 1948, the definition of "Factory" does not cover :
- (A) Mines
 - (B) Railway Running Sheds
 - (C) Mobile Restaurants
 - (D) All of the above
65. As per section 6 of the Act, any employer who fails to comply with the provisions of the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 shall, in the case of the second or subsequent conviction, be punishable with imprisonment which may extend to :
- (A) 6 months
 - (B) 12 months
 - (C) 24 months
 - (D) 36 months
66. Under the Industrial Disputes Act, 1947, the meaning of retrenchment does not include :
- (A) termination of service on the ground of continued ill-health
 - (B) retirement of the workman
 - (C) termination of service due to non-renewal of contract
 - (D) All of the above
67. "Superannuation", in relation to an employee, who is the member of the Pension Scheme under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, means the attainment, by the said employee, of the age of :
- (A) 55 years
 - (B) 58 years
 - (C) 60 years
 - (D) 65 years

68. The State Governments carry out the administration of the Factories Act, inter-alia, through :
- (A) Occupier of the factories
 - (B) District Collectors
 - (C) Inspecting Staff
 - (D) District Judges
69. As per Payment of Bonus Act, 1965, An employee is entitled to be paid by his employer a bonus in an accounting year subject to the condition that he has worked for not less than working days of that year.
- (A) 90
 - (B) 30
 - (C) 60
 - (D) 120
70. The objectives of labour audit include :
- (A) avoiding of any unwarranted legal actions against the organization and its management
 - (B) better Governance
 - (C) value creation for the organisation
 - (D) all of the above

PART B

71. Subordinate legislation can take effect upon :
- (A) promulgation and publication
 - (B) promulgation only
 - (C) specific publication
 - (D) particular kind of publication
72. Writ of Certiorari is available to any :
- (A) Government
 - (B) person
 - (C) inferior courts
 - (D) corporations

73. Right to constitutional remedies is :
- (A) substantive in nature
 - (B) guaranteed
 - (C) a primary matter
 - (D) none of the above
74. Delegated legislation may take the form of :
- (A) conditional legislation
 - (B) subordinate legislation
 - (C) supplementary legislation
 - (D) all of the above
75. If there is any appearance of inconsistency between the schedule and the enactment :
- (A) the schedule shall prevail
 - (B) the enactment shall prevail
 - (C) the preamble has to be referred to
 - (D) latest decided case to be taken into consideration
76. Preamble
- (A) is part of a statute
 - (B) is not part of a statute
 - (C) contains no motives
 - (D) contains no inducements
77. Fundamental right includes :
- (A) right to privacy
 - (B) right to freedom from noise pollution
 - (C) right to travel anywhere
 - (D) all of the above
78. Article 19 is guaranteed to :
- (A) citizens
 - (B) corporations
 - (C) corporate bodies
 - (D) all of the above

79. Articles 25 of the Constitution deal with :
- (A) Right to equality
 - (B) Right to freedom
 - (C) Right to freedom of religion
 - (D) Right against exploitation
80. Reasonable restrictions can be imposed by :
- (A) the executive
 - (B) the judiciary
 - (C) an enacted law
 - (D) the President of India
81. Under the Constitution of India, the State authority includes :
- (A) Income-tax department
 - (B) Electricity Board
 - (C) University
 - (D) All of the above
82. Jurisdiction of a civil court may be of :
- (A) One kind
 - (B) Two kinds
 - (C) Three kinds
 - (D) Four kinds
83. Which of the following would come under Doctrine of "sufficient cause" ?
- (A) time taken to obtain certified copies
 - (B) wrong practice of High Court
 - (C) serious illness of the party
 - (D) all of the above
84. The Code of Criminal Procedure, 1973, provides in its Second Schedule the form of warrant of arrest in :
- (A) Form No. 1
 - (B) Form No. 2
 - (C) Form No. 3
 - (D) Form No. 4

85. The characteristics of an injunction is that
- (A) it is mutual agreement to act
 - (B) it is restraintment
 - (C) it is non-prevention of repetition
 - (D) all of the above
86. Under the Code of Criminal Procedure 1973 “summary trial” means:
- (A) total settlement
 - (B) speedy disposal
 - (C) such offences which are not punishable
 - (D) trial for bailable offences
87. Under the Code of Criminal Procedure 1973 the requisites of a “complaint” in a criminal case include :
- (A) an oral or a written allegation
 - (B) some person known or unknown has committed an offence
 - (C) it must be made with the object that the Magistrate should take action
 - (D) all of the above
88. Under the Code of Civil Procedure 1908, a suit can be filed to set aside an ex-parte decree obtained :
- (A) by fraud
 - (B) for non-service of summons
 - (C) for non-appearance
 - (D) all of the above
89. Under Section 2(14) of the Code of Civil Procedure 1908, the formal expression of any decision of a civil court means :
- (A) A decree
 - (B) An order
 - (C) An appeal
 - (D) Injunction
90. Under the Code of Civil Procedure 1908, a decree is an :
- (A) order of dismissal for default
 - (B) adjudication from which an appeal lies from an order
 - (C) formal expression of adjudication
 - (D) all of the above

91. Estoppel is a rule of evidence and does not give rise to a :
- (A) conduct
 - (B) cause of action
 - (C) representation
 - (D) inducement
92. Which of the following authorities have the power to extend the period of limitation as per section 5 of the Limitation Act, 1963 ?
- (A) Executive Authorities
 - (B) Quasi-judicial tribunals
 - (C) Labour Courts
 - (D) High Court
93. Tortious liability :
- (A) arises from the breach of duty
 - (B) primarily not fixed by law
 - (C) its breach is not redressable by an action for unliquidated damages
 - (D) all of the above
94. A contract cannot be specifically enforced, if it is :
- (A) of a determinable nature
 - (B) dependent on personal qualification of parties
 - (C) having minute details
 - (D) all of the above
95. Under the Specific Relief Act, 1963, specific performances of contract may be obtained by :
- (A) Any party thereto
 - (B) The representative in interest of any party thereto
 - (C) A reversioner in possession
 - (D) All of the above
96. Under Section 16 of the Specific Relief Act, 1963, specific performance of a contract cannot be enforced in favour of a person :
- (A) who would be entitled to recover compensation for its breach
 - (B) who has become capable of performing, or not violating any essential term of the contract on his part remains to be performed
 - (C) who fails to aver and prove that he has performed
 - (D) all of the above

97. Relief of cancellation of instruments under Section 31 of the Specific Relief Act, 1963 would be available when :
- (A) an instrument is void or voidable against the plaintiff
 - (B) where the plaintiff may apprehend serious injury if the instrument is left outstanding
 - (C) where it is proper under the circumstances of the case to grant the relief
 - (D) all of the above
98. The Right to Information Act, 2005, provides exemption to intelligence and security agencies from the ambit of the Act, as given in its :
- (A) Schedule I
 - (B) Schedule II
 - (C) Chapter 2
 - (D) Chapter 3
99. If the information concerns life or liberty of a person, then the information under the Right to Information Act, 2005, will be provided within :
- (A) 35 hours
 - (B) 48 hours
 - (C) 40 hours
 - (D) 60 hours
100. Under the Right to Information Act, 2005 "right to information" includes :
- (A) Right to take certified samples of material
 - (B) Right to obtain information in the form of video cassettes
 - (C) Right to inspect records
 - (D) All of the above.

ANSWER KEY
INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

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