

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

(New Syllabus)

JUNE 2021 Session

MODULE 2



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

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

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MODULE 2

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EXECUTIVE PROGRAMME EXAMINATION
JUNE 2021
CORPORATE & MANAGEMENT ACCOUNTING

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

PART I

1. For the purpose of Cash Flow Statement, 'Cash Equivalents' include :
 - (A) bank fixed deposit for 30 days
 - (B) money market instruments
 - (C) treasury bills
 - (D) All of the above

2. A Company has a Net Cash Sale of ₹6,00,000, Cash Expenses ₹ 2,80,000 and Depreciation ₹ 50,000. Cash from Operating Activity should be :
 - (A) ₹ 1,60,000
 - (B) ₹ 1,20,000
 - (C) ₹ 2,40,000
 - (D) ₹ 3,20,000

3. Cash Inflow before working capital changes is ₹ 4,80,000, decrease in inventory is ₹ 60,000, increase in receivables position is ₹80,000 and increase in payables position is ₹70,000, then cash flow from operating activity is :
 - (A) ₹5,50,000
 - (B) ₹4,30,000
 - (C) ₹5,70,000
 - (D) ₹5,30,000

4. Debentures interest paid is ₹80,000, Proposed dividend on equity shares is ₹1,50,000, Preference dividend paid is ₹1,20,000, Provision for tax is ₹90,000, then cash outflow from financing activity is :
 - (A) ₹3,50,000
 - (B) ₹4,40,000
 - (C) ₹2,00,000
 - (D) ₹ 2,80,000

5. The original cost at which an asset or liability is acquired is known as
 - (A) Carrying cost
 - (B) Replacement cost
 - (C) Amortization
 - (D) Historical cost
6. AS-11 issued by ICAI deals with
 - (A) Accounting for Government grants
 - (B) Accounting for foreign exchange transaction
 - (C) Cash Flow Statement
 - (D) Fund Flow Statement
7. Cash flows arising from the purchase and sale of dealing or trading securities are classified as :
 - (A) Operating Activities
 - (B) Investing Activities
 - (C) Financing Activities
 - (D) Extraordinary Activities
8. Ravi Ltd. purchased goods at the cost of ₹40 lakh in October, 2019. Till March 2020, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹10 Lakh. The expected sale value is ₹11 Lakh and a commission at 10% on sale is payable to the agent. What is the correct closing stock to be disclosed as at 31.3.2020 as per AS-2 ?
 - (A) 10 Lakh
 - (B) 9.9 Lakh
 - (C) 11 Lakh
 - (D) 12 Lakh
9. Ind AS-2 provides for reversal of the write-down of inventories to :
 - (A) Cost
 - (B) Replacement Cost
 - (C) Net realizable value
 - (D) Net realizable value limited to the amount of original write-down
10. The IFRS foundation has a governance structure.
 - (A) Three-tier
 - (B) Two-tier
 - (C) Four-tier
 - (D) Five-tier

11. Financial Reporting Council (UK) is a :
- (A) Company limited by guarantee
 - (B) Unlimited Company
 - (C) Subsidiary company of IFRS
 - (D) Associate company of the Institute of Chartered Accountants of England
12. A corporate balance sheet is also known as :
- (A) Statement of changes in assets and liabilities
 - (B) Statement of sources and application of funds
 - (C) Statement of financial condition
 - (D) Statement of object and reason
13. If we add 'Cost of Capital' to 'Economic Value Added' we get
- (A) Profit After Tax
 - (B) Net Operating Profit After Tax
 - (C) Gross Value Added
 - (D) Earnings before Interest and tax
14. CARO, 2016 applies to a private limited company being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than as on the balance sheet date.
- (A) ₹ 5 Crore
 - (B) ₹ 1 Crore
 - (C) ₹ 2 Crore
 - (D) ₹ 10 Crore
15. CARO, 2016 applies to a private limited company which has a total revenue as disclosed in Schedule III to the Companies Act, 2013 including revenue from discontinuing operations exceeding during the financial year as per the financial statements.
- (A) ₹ 15 Crore
 - (B) ₹ 100 Crore
 - (C) ₹ 10 Crore
 - (D) ₹ 25 Crore

16. A copy of the financial statements and Board's report duly adopted at the AGM shall be filed with the Registrar within of the date of AGM.
- (A) 60 days
 - (B) 30 days
 - (C) 90 days
 - (D) 21 days
17. As per Rule 8 of the Companies (Accounts) Rules, 2014, the Report of the Board shall contain the particulars of contracts or arrangements with related parties under Section 188 (1) in the
- (A) Form AOC-1A
 - (B) Form AOC-2
 - (C) Form AOC-3
 - (D) Form AOC-4A
18. CSR and corporate governance represent a between business and society.
- (A) Social climate
 - (B) Special contract
 - (C) Special climate
 - (D) Social contract
19. Which type of director should be the head of the Stakeholders Grievance Committee ?
- (A) Executive director
 - (B) Non-executive director
 - (C) Seniormost director
 - (D) Chairman appointed for shareholder's meetings
20. Rishabh Ltd. earns a profit after tax ₹ 3,96,000. Corporate tax is 0.4. Its capital structure consists of equity shares ₹ 9,60,000; 15% Term Loan ₹ 4,80,000; Cost of equity is 0.12. Its economic value added is
- (A) ₹ 2,66,400
 - (B) ₹ 2,80,800
 - (C) ₹ 2,08,800
 - (D) ₹ 2,80,008

21. What is the amount of the unrealized profit to be eliminated, if the parent's year-end inventory includes at ₹5,40,000 goods invoiced to it by its 60% owned subsidiary at cost plus 25% ?
- (A) ₹35,000
 - (B) ₹1,08,000
 - (C) ₹ 64,800
 - (D) ₹ 81,000
22. Pre-acquisition profit in subsidiary company is considered as :
- (A) Revenue Profit
 - (B) Capital Profit
 - (C) Goodwill
 - (D) Cost of control
23. If cost of acquisition of shares in the subsidiary company is more than intrinsic value of the shares of subsidiary company on the date of acquisition, then resultant figure will be :
- (A) Minority Interest
 - (B) Capital Reserve
 - (C) Goodwill
 - (D) Significant cost
24. Unrealized profit on goods sold and included in stock is deducted from :
- (A) Capital Profit
 - (B) Revenue Profit
 - (C) Fixed Assets
 - (D) Minority interest
25. Manager of Malabar Ltd. is entitled to a commission @ 3% on net profit after charging such commission. Calculate the commission payable to the manager. Net profit before tax and managerial remuneration is ₹ 8,80,000, Depreciation as provided in books of account is ₹1,10,000 and Depreciation as per the Companies Act, 2013 is ₹1,32,000.
- (A) ₹25,740
 - (B) ₹24,990
 - (C) ₹42,900
 - (D) ₹ 23,330

26. Computers taken on hire by a business for a period of twelve months should be classified as :
- (A) Current assets
 - (B) Intangible assets
 - (C) Deferred revenue expenditure
 - (D) Not an asset
27. The arrangement of assets and liabilities in accordance with a particular order is known as of balance sheet.
- (A) Tallying
 - (B) Marking
 - (C) Ruling
 - (D) Marshalling
28. Provisions are
- (A) Nominal accounts
 - (B) Personal accounts
 - (C) Real accounts
 - (D) Representative personal accounts
29. Which of the following is capital reserve ?
- (A) Profit prior to incorporation
 - (B) Profit on sale of fixed assets
 - (C) Profit on reissue of forfeited shares
 - (D) All of the above
30. As per the provisions of the Companies Act, 2013, companies must maintain their accounts under
- (A) Double account system
 - (B) Single entry system
 - (C) Double entry system
 - (D) Duplicate account system
31. Provisions of Corporate Social Responsibility (CSR) are applicable to the company having net profit of
- (A) ₹100 crore or more
 - (B) ₹75 crore or more

- (C) ₹50 crore or more
 - (D) ₹5 crore or more
32. shall mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy.
- (A) Provision
 - (B) Reserves
 - (C) Appropriation
 - (D) Transfer
33. Unmarked application has to be distributed to underwriters in the ratio of
- (A) Gross Liability Ratio
 - (B) Last Agreed Ratio
 - (C) Net Liability Ratio
 - (D) Equal Ratio
34. Applications bearing the stamp of the respective underwriter are called as
- (A) Firm applications
 - (B) Stamped applications
 - (C) Underwritten application
 - (D) Marked applications
35. Underwriting is a contract of :
- (A) Indemnity
 - (B) Bailment
 - (C) Guarantee
 - (D) Pledge
36. There shall be a minimum vesting period of in case of Employee Stock Option Scheme (ESOS).
- (A) 3 months
 - (B) 1 year
 - (C) 6 months
 - (D) 3 years

37. Where the right to obtain Shares or Stock options expires unexercised, the balance standing to the credit of Employee Stock Option Outstanding A/c should be transferred to :
- (A) Profit & Loss A/c
 - (B) General Reserve A/c
 - (C) Share Based Payment Reserve A/c
 - (D) Securities Premium A/c
38. Under the employees are given an option to purchase shares on the spot at a discount price.
- (A) Employees Stock Purchase Scheme
 - (B) Employee Stock Option Scheme
 - (C) Stock Appreciation Rights Scheme
 - (D) Preferential Allotment Scheme
39. "Interest accrued & due on debentures" is shown
- (A) Under debentures
 - (B) As other current liabilities
 - (C) As provisions
 - (D) As a reduction of bank balance
40. Discount on issue of debentures is a :
- (A) Revenue loss to be charged in the year of issue
 - (B) Capital loss to be written off from capital reserve
 - (C) Capital loss to be written off over the tenure of the debentures
 - (D) Capital loss to be shown as goodwill
41. Tax deducted at source on interest on debenture is shown as
- (A) Expense
 - (B) Asset
 - (C) Liability
 - (D) Income
42. T Ltd. purchased machinery from N Company for a book value of ₹ 4,00,000. The consideration was paid by issue of 10% debentures of ₹ 100 each at a premium of 25%. The debenture account was credited with
- (A) ₹ 4,00,000
 - (B) ₹ 5,00,000
 - (C) ₹ 3,20,000
 - (D) ₹ 4,80,000

43. K Ltd. issued 5,000, 12% debentures of ₹ 100 each at a premium of 10%, which are redeemable after 10 years at a premium of 20%. The amount of loss on redemption of debentures to be written off every year is
- (A) ₹ 80,000
(B) ₹ 40,000
(C) ₹ 10,000
(D) ₹ 8,000
44. As per Section 68 of the Companies Act, 2013, post buyback, debt equity ratio should not exceed
- (A) 1
(B) 1.5
(C) 2
(D) 3
45. Where a company buys back own shares or other specified securities, it shall extinguish and physically destroy the shares or securities so brought back within of the last date of completion of buy-back ?
- (A) 3 days
(B) 8 days
(C) 7 days
(D) 9 days
46. Declaration of solvency in relation to buy back of shares has to be filed in
- (A) Form SH-6
(B) Form SH-9
(C) Form SH-4
(D) Form SH-8
47. Paid-up equity shares capital of Novel Ltd. is ₹ 50,00,000 having face value of ₹10 each fully paid-up. Other details :
- General Reserve = ₹ 15,00,000
Capital Redemption Reserve = ₹ 4,00,000
Profit & Loss Account = ₹ 1,00,000
Statutory Reserve = ₹ 6,40,000
Securities Premium = ₹ 1,00,000
- The board of directors passed resolution in board meeting to buy back maximum

- number of shares as allowed by law. What is the maximum no. of shares that can be bought back ?
- (A) 55,000 shares
 - (B) 67,000 shares
 - (C) 1,25,000 shares
 - (D) 78,000 shares
48. Negi Ltd. had 90,000 equity shares of ₹ 100 each, fully paid up. The company decided to buy back 10% shares at par by the issue of sufficient number of preference shares. Company do not have any reserves. How much preference shares are required to be issued, if new preference shares are to be issued at ₹ 10 each ?
- (A) 9,00,000 shares
 - (B) 90,000 shares
 - (C) 1,00,000 shares
 - (D) 1,20,000 shares
49. Which of the following cannot be used for the purpose of creation of capital redemption reserve account ?
- (A) Profit and Loss A/c (credit balance)
 - (B) General Reserve A/c
 - (C) Dividend Equalization Reserve A/c
 - (D) Unclaimed Dividends A/c
50. According to section 52 of the Companies Act, 2013, the amount in the Securities Premium A/c cannot be used for the purpose of :
- (A) Issue of fully paid bonus shares
 - (B) Writing off losses of the company
 - (C) For purchase of own securities
 - (D) Writing off commission or discount on issue of shares
51. Which of the following statements is correct ?
- (A) Preference shares and debentures have priority right for a reward over ordinary shares
 - (B) Debentures will not receive interest in a year when the company makes an operating loss
 - (C) Preference shares will get dividend only when ordinary shares too receive them
 - (D) Ordinary shares could be paid dividend even when a company has negative retained earnings

52. Capital Redemption Reserve Account may be applied to issue
- (A) Right shares
 - (B) Bonus debentures
 - (C) Bonus to employees of the company
 - (D) Bonus shares
53. Preference shares amounting to ₹ 2,00,000 are redeemed at a premium of 5% by issue of equity shares amounting to ₹ 1,00,000 at a premium of 10%. What is the amount to be transferred to capital redemption reserve ?
- (A) ₹ 1,05,000
 - (B) ₹ 1,00,000
 - (C) ₹ 2,00,000
 - (D) ₹ 1,11,000
54. J Ltd. had 3,000, 12% Redeemable Preference Shares of ₹100 each, fully paid up. The company issued 25,000 equity shares of ₹ 10 each at par and 1,000 14% Debentures of ₹ 100 each. The amount to be transferred to Capital Redemption A/c will be
- (A) Nil
 - (B) ₹ 50,000
 - (C) ₹ 2,00,000
 - (D) ₹ 3,00,000
55. The notice relating to offer for right issue shall be dispatched through registered post or speed post or through electronic mode to all the existing shareholders at least before the opening of the issue.
- (A) 3 days
 - (B) 5 days
 - (C) 7 days
 - (D) 10 days
56. If company makes bonus issue at 2 : 3, then it means :
- (A) For every two shares three bonus shares will be allotted
 - (B) For every three shares two bonus shares will be allotted
 - (C) For every five shares three bonus shares will be allotted
 - (D) For every five shares two bonus shares will be allotted

57. are shares issued by a company free of cost to its existing shareholders.
- (A) Right shares
 - (B) Bonus shares
 - (C) Stock options
 - (D) Warrants
58. refers to that part of the authorized capital which has actually been offered to the public for subscription.
- (A) Called up capital
 - (B) Subscribed capital
 - (C) Issued capital
 - (D) Nominal or authorized capital
59. Premium on issue of shares must be treated as
- (A) Revenue Receipt
 - (B) Deferred Revenue Receipt
 - (C) Capital Receipt
 - (D) Capital Loss
60. Premium on issue of shares must be credited to a separate account called
- (A) Share Premium Account
 - (B) Securities Premium Account
 - (C) Discount on Issue of Shares
 - (D) Securities Profit Account

PART II

61. Amount received as calls-in-advance is a of the company.
- (A) right
 - (B) asset
 - (C) debt
 - (D) revenue
62. Amount due on calls made but not paid is known as
- (A) Calls-in-Advance
 - (B) Calls-in-Arrear
 - (C) Unpaid amounts
 - (D) Defaulting amounts

63. may be said to be the compulsory termination of membership by way of penalty for non-payment of allotment and/or any call money.
- (A) Surrender of shares
 - (B) Forfeiture of shares
 - (C) Transfer of shares
 - (D) Transmission of shares
64. A company has a subscribed capital of 2,00,000 equity shares of ₹ 25 each, ₹20 per share called up. The directors forfeited 200 equity held by a shareholder who failed to pay the first call made @ ₹ 10 per share. Later, the directors reissued these shares as ₹ 20 per share paid up at ₹15 per share. On reissue, amount to be transferred to capital reserve account is
- (A) ₹ 1,000
 - (B) ₹ 1,400
 - (C) ₹ 1,500
 - (D) ₹ 1,100
65. One Person Company (OPC) shall file a copy of the financial statements duly adopted by its member, along with all the documents which are required to be attached to such financial statements, within from the closure of the financial year.
- (A) 30 days
 - (B) 60 days
 - (C) 120 days
 - (D) 180 days
66. Declared dividend must be paid within of declaration.
- (A) 5 days
 - (B) 10 days
 - (C) 30 days
 - (D) 60 days
67. The following information is pertaining to A Ltd.
- | | | |
|---------------------|---|------------|
| Current ratio | : | 4 |
| Acid Test ratio | : | 2.8 |
| Current liabilities | : | 31.00 Lakh |
- Find out the value of Inventory.
- (A) ₹ 62 Lakh
 - (B) ₹ 43 Lakh
 - (C) ₹ 37.2 Lakh
 - (D) ₹ 105.4 Lakh

68. P Ltd. furnished the following information :

Cost of Goods Sold	:	₹ 6 Lakh
Net Profit	:	₹ 3 Lakh
Sales Return	:	₹ 1 Lakh

If the net profit margin of P Ltd. was 25%, then the gross profit margin was :

- (A) 55%
 - (B) 60%
 - (C) 40%
 - (D) 50%
69. Which of the following is classified as liquidity ratio ?
- (A) Return on equity
 - (B) Return on Investment
 - (C) Acid Test ratio
 - (D) Debt Equity ratio
70. A Liquid ratio lower than 1 : 1 shows :
- (A) Under trading
 - (B) Under Investment
 - (C) Over Trading
 - (D) Over Investment
71. If a concern has a very high stock turnover ratio, which of the following statement is False ?
- (A) Stock Velocity Ration is Low
 - (B) Stock has many fast moving items
 - (C) There is under trading
 - (D) Funds blocked in working capital are less
72. examine the policy of the company regarding of dividend and retain earning.
- (A) Earnings Per Share (EPS)
 - (B) Price Earnings Ratio
 - (C) Dividend Payout Ratio
 - (D) Return on Investment

73. The focus of Management accounting is on :
- (A) Tax Preparation
 - (B) External Reporting
 - (C) Internal Reporting
 - (D) Auditing
74. Cost of Goods
- (A) Opening Stock + Purchases – Direct Expenses + Closing Stock
 - (B) Opening Stock + Purchases + Direct Expenses – Closing Stock
 - (C) Sales – Opening Stock + Purchases – Direct Expenses – Closing Stock
 - (D) Opening Stock + Purchases – Direct Expenses – Closing Stock
75. S Ltd. has fixed cost of ₹ 60,000 P.A. It manufactures a single product which it sells for ₹ 20 per unit. Its P/V ratio is 40%. S. Ltd. Break-even Point in Units is:
- (A) 1800
 - (B) 3000
 - (C) 5000
 - (D) 7500
76. Activity based cost system would probably provide the greatest benefits for organization that use
- (A) Job Order Costing
 - (B) Process Costing
 - (C) Standard Costing
 - (D) Historical Costing
77. In marginal costing, stock is valued at
- (A) Fixed Cost
 - (B) Semi-variable Cost
 - (C) Variable Cost
 - (D) Market Price
78. An increase in selling price
- (A) Increase the break-even point
 - (B) Decrease the break-even point
 - (C) Does not affect the break-even point
 - (D) Optimizes the break-even point

79. Fixed Cost = ₹ 2,00,000, Sales = ₹ 8,00,000, P/V Ratio = 30%; the amount of profit is
- (A) ₹ 50,000
 - (B) ₹ 40,000
 - (C) ₹ 35,000
 - (D) ₹ 45,000
80. A Budget that gives a summary of all the functional budget and projected Profit & Loss Account is known as
- (A) Capital Budget
 - (B) Flexible Budget
 - (C) Master Budget
 - (D) Discretionary Budget
81. The difference between fixed cost and variable cost has significance in preparation of
- (A) Flexible Budget
 - (B) Master Budget
 - (C) Cash Budget
 - (D) Capital Expenditure Budget
82. Which of the following would be found in a Cash budget ?
- (A) Capital Expenditure
 - (B) Provision for doubtful debts
 - (C) Depreciation
 - (D) Accrued expenditure
83. Reliable Ltd. has given the following data :
- | | | |
|-------------------------|---|--------------|
| Budget Production | = | 800 Units |
| Standard hours per unit | = | 25 |
| Actual production | = | 576 units |
| Actual Working | = | 12,000 hours |
- What is the Efficiency Ratio ?
- (A) 110%
 - (B) 120%
 - (C) 100%
 - (D) 125%

84. When the required rate of return is equal to the coupon rate, then the market value of a bond is
- (A) Above Face Value
 - (B) Face Value
 - (C) Below Face Value
 - (D) Book Value
85. The (Beta) of a risk free stock is :
- (A) 10
 - (B) -1
 - (C) 1
 - (D) 0
86. Which of the following investment decision is required to be taken for a stock, if its intrinsic value is greater than its market value ?
- (A) Sell
 - (B) Hold
 - (C) Buy
 - (D) Indifferent
87. Earnings Per Share (EPS) is equal to :
- (A) Profit before tax/No. of shares in authorized capital
 - (B) Profit after tax/No. of shares in issued capital
 - (C) Profit after tax/Net Worth
 - (D) Profit before tax/Net Worth
88. Interest coverage ratio = 6, indicates :
- (A) Sales are 6 times of interest
 - (B) Profit after tax is 6 times of interest
 - (C) EBIT is 6 times of interest
 - (D) Interest is 6 times after tax
89. Debtors turnover ratio reflects :
- (A) Collection period
 - (B) Number of times debtors against credit sales
 - (C) Aging of the debtors
 - (D) Number of times debtors against total sales

90. XYZ. Ltd. books of accounts show profit from operation (EBDIT) at 500 Lakh. It paid 12% on a debt of 1,000 Lakh. Depreciation is ₹ 100 Lakh and Tax is 35%, PAT will be :
- (A) ₹184 Lakh
 - (B) ₹182 Lakh
 - (C) ₹178 Lakh
 - (D) ₹180 Lakh
91. The Budget sales for the next 4 quarter are – ₹1,92,000, ₹ 2,88,000, ₹ 2,88,000 and ₹ 3,36,000 respectively. It is estimated that sales will be paid for as follows: 75% of the sales will be paid in the quarter in which sales were made. Of the balance 50% will be paid in the quarter after the sales was made. The remaining 50% will be paid in the quarter after this. The amount of cash received in quarter 3rd will be
- (A) 2,76,000
 - (B) 1,44,000
 - (C) 3,24,000
 - (D) 2,40,000
92. The base of cost audit report is
- (A) Efficiency and propriety
 - (B) Profitability and liquidity
 - (C) True & Fair view
 - (D) Reliability and propriety
93. P Ltd. issue ₹ 50,000 8% Debenture at a discount of 5%. The tax rate is 50%. The cost of debt capital is
- (A) 5.42%
 - (B) 5.1%
 - (C) 4.42%
 - (D) 4.21%
94. In case of rising prices (Inflation), FIFO method will
- (A) Provide lowest value of closing stock and profit
 - (B) Provide highest value of closing stock and profit
 - (C) Provide highest value of closing stock but lowest value of profit
 - (D) Provide highest value of profit but lowest value of closing stock

95. A management consultancy recovers overheads on chargeable consulting hours. Budget overheads were ₹6,15,000 and actual consulting hours were 32,150. Overhead were under recovered by ₹35,000. If actual overhead were ₹6,94,075, what was the budgeted overhead absorption rate per hour.
- (A) ₹19.13
(B) ₹20.50
(C) ₹21.59
(D) ₹22.68
96. Every specified company including all units and branches thereof shall maintain cost records in in respect of each financial year.
- (A) Form CRA-5
(B) Form CRA-1
(C) Form CRA-4
(D) Form CRA-2
97. Cost Auditor is appointed by the
- (A) Central Government
(B) Audit Committee
(C) Board of Director
(D) Shareholders
98. Find out the goodwill of the company from the following information :
- | | | |
|---------------------------|---|------------|
| Total Capital Employed | = | ₹8,00,000 |
| Reasonable Rate of return | = | 15% |
| Profits for the year | = | ₹12,00,000 |
- Use capitalization method :
- (A) ₹82,00,000
(B) ₹12,00,000
(C) ₹72,00,000
(D) ₹42,00,000
99. Which of the following is not a method of business valuation ?
- (A) Asset Based
(B) Earning based
(C) Market based
(D) Equity based

100. Which of the following is not the method of valuation of Goodwill ?

- (A) Average profit method
- (B) Superprofit method
- (C) Capitalization method
- (D) Straight line method

ANSWER KEY
COST AND MANAGEMENT ACCOUNTING - SELECT SERIES

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

SECURITIES LAWS & CAPITAL MARKETS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART I

Question 1

- (a) R is holding 2000 units of a equity-oriented scheme of a mutual fund and 1000 units of a debt scheme of a mutual fund. On 7th June, 2020 he is interested to redeem these units. Prevailing net asset value (NAV) of these units are as under :

Date	Net Asset Value (NAV)	
	Equity-oriented scheme (in ₹)	Debt scheme (in ₹)
6th June	45	35
7th June	46	34
8th June	47	33

He makes an application for redemption of above units on 7th June, 2020 at 2:30 pm. Based on given information answer the following :

- (i) What do you mean by cut-off time ? What are the cut-off time for equity-oriented & Debt funds (except liquid funds) ?
- (ii) What will be the applicable NAV in his case ?
- (iii) What will be applicable NAV if application for redemption is made at 3:15 pm ? (3+1+1 marks)
- (b) "Audit committee may grant omnibus approval for related party transactions." Elucidate the statement. (5 marks)
- (c) You are the Company Secretary of Fortune India Limited, a listed company on the leading Stock Exchange. Your Managing Directors desires a list of yearly compliances under the listing regulations. Briefly list-out the yearly compliances. (5 marks)
- (d) "An open offer for acquiring shares once made shall not be withdrawn." Comment on the statement. (5 marks)

Answer 1(a)

- (i) The cut-off time determines the Net Asset Value (NAV) on which an investor buy or sell the units of a mutual fund scheme. Simply, the allotment and redemption of NAV depends on the time of submitting application and/or money with the

fund house for purchase or sale. This time is called cut-off time in the mutual fund world.

Net Asset Value (NAV) Cut-off Timelines

Type of Transaction	Before/After	Cut-Off Time	Applicable NAV
Equity-oriented & Debt funds (except liquid funds)			
Purchase & Switch – in (Value < ₹2 Lakhs)	3 pm	Before	Same day NAV
		After	Next Business day NAV
Purchase & Switch – in (Value > ₹2 Lakhs)	3 pm	Before After	NAC of the business day on which funds are available for utilisation
Redemption & Switch-Out	3 pm	Before	Same day NAV
		After	Next Business day NAV

- (ii) In the given case, since application is submitted before 3 pm so same day NAV (i.e. the NAV on which application for redemption has been submitted) will be applicable. Thus,

In case of equity oriented scheme = ₹46 will be applicable NAV

In case of debt scheme = ₹34 will be applicable NAV

- (iii) If application for redemption is submitted at 3:15 pm after 3 pm then next day NAV will be applicable. Thus,

In case of equity oriented scheme = ₹47 will be applicable NAV

In case of debt scheme = ₹33 will be applicable NAV

Answer 1(b)

Yes, the Audit Committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions :

- the Audit Committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature;
- the Audit Committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;
- the omnibus approval shall specify:
 - the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into;

- (ii) the indicative base price / current contracted price and the formula for variation in the price if any; and
- (iii) such other conditions as the audit committee may deem fit.

However, where the need for related party transaction cannot be foreseen and aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

- d) the Audit Committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given;
- e) such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

Answer 1(c)

Yearly Compliances as per the SEBI (LODR) Regulations, 2015

<i>SEBI (LODR) Regulations</i>	<i>Title</i>	<i>Particulars</i>	<i>Time Limit</i>
14	Annual Listing Fees	The listed entity shall pay all such fees or charges, as applicable, to the recognised stock exchange(s), in the manner specified by SEBI or the recognised Stock Exchange (s).	Within 30 days of the end of financial year
33(3)	Financial Results	The listed entity shall submit annual audited standalone financial results along with audit report and Statement on Impact of Audit Qualifications applicable only for audit report with modified opinion to the stock exchange .	Within 60 days of the end of financial year
34	Annual Report	The listed entity shall submit the annual report along with the Notice of the Annual General Meeting to the stock exchange . Amongst others, the annual report shall also consist the following: <ul style="list-style-type: none"> audited financial statements i.e. balance sheets, profit and loss accounts etc., and Statement on Impact of Audit Qualifications as stipulated in regulation 33(3)(d), if applicable 	Not later than the day of commencement of dispatch to its shareholders.

		<ul style="list-style-type: none"> business responsibility report by the top one thousand listed entities based on market capitalization (calculated as on March 31 of every financial year). 	
34(1)(b)	Changes to the Annual Report	In case any changes to the annual report, the revised copy along with the details of and explanation for the changes shall be sent	Within 48 hours after the Annual General Meeting
36	Annual report to the Securities holders	The listed entity shall send annual report to the holders of securities	Not less than 21 days before the Annual General Meeting (in soft or hard copy)

Answer 1(d)

The given statement is not correct. As per the SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 2011, an open offer for acquiring shares once made can be withdrawn under any of the following circumstances: -

- Statutory approvals required for the open offer or for effecting the acquisitions attracting the obligation to make an open offer under these regulations having been finally refused, subject to such requirements for approval having been specifically disclosed in the detailed public statement and the letter of offer;
- The acquirer, being a natural person, has died;
- Any condition stipulated in the agreement for acquisition attracting the obligation to make the open offer is not met for reasons outside the reasonable control of the acquirer, then it should be disclosed in the detailed public statement and the letter of offer;

However, an acquirer shall not withdraw an open offer pursuant to a public announcement, even if the proposed acquisition through the preferential issue is not successful.

- Such circumstances as in the opinion of the SEBI, merit withdrawal.

SEBI shall pass a reasoned order permitting withdrawal and such order shall be listed by SEBI on its official website.

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

- Suzan Limited is in top 1000 listed companies. Referring to provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Board of directors seeks your advice as a company secretary regarding the following two matters :*

- Quorum in Board meeting*

- (ii) *Maximum number of directorship in a listed entity by a director. (4 marks)*
- (b) *Briefly explain the procedures followed by the Depository Participants with regard to issuance of Delivery Instruction Slips (DIS) and verification of the same. (4 marks)*
- (c) *Differentiate between "Direct Route for ESOP" and "Trust Route for ESOP". (4 marks)*
- (d) *"Trading plan is an exception to the general rule that an insider should not trade when in possession of unpublished price sensitive information". In the light of this statement, explain the concept of trading plan and its essential elements. (4 marks)*
- (e) *Under what circumstances and how the recovery officer will proceed to recover the amount of penalty etc. imposed by adjudicating officer under the SEBI Act, 1992 ? (4 marks)*

OR (Alternate question to Q. No. 2)

Question 2A

- (i) *SEBI (LODR) Regulations, 2015 as amended imposes an obligation on every listed company to constitute Nomination & Remuneration Committee and Risk Management Committee. Briefly explain the constitution and role of these committees. (4 marks)*
- (ii) *SAARC Ltd., a company listed on nationwide two stock exchanges. It decided to delist its securities from both the stock exchanges. By complying all delisting regulations, the promoters have made an open offer to buy shares from public shareholders. Referring to the SEBI Delisting Regulations, advise the company with respect to the following matters :*
- (a) *How the payment of consideration will be made to the successful shareholders who have tendered their shares in an open offer ?*
- (b) *What are the rights of remaining shareholder who have not tendered their shares during open offer ? (4 marks)*
- (iii) *What are the recognitions given to Company Secretary in Practice for providing various certifications/reports as required under SEBI (LODR) Regulations ? Explain briefly. (4 marks)*
- (iv) *Referring to the SEBI Insider Trading Regulations, answer the following :*
- (a) *What is 'unpublished price sensitive information' ?*
- (b) *State with reasons whether the following information is price sensitive :*
- (i) *RBI has increased its Statutory Liquidity Ratio (SLR) by 15 basis points.*
- (ii) *The company is increasing its authorized share capital. (4 marks)*
- (v) *PQR Limited, a listed company, is intending to make buy-back of its equity shares. Referring to SEBI Buy-back Regulations, explain the following :*
- (i) *The manner of deposit of amount in Escrow account.*
- (ii) *How can an unregistered shareholder tender his shares for buy-back ?*
- (iii) *What is time limit for completing buy-back process ? (4 marks)*

Answer 2(a)

- (i) The quorum for every meeting of the board of directors of the top 1000 listed entities with effect from April 1, 2019 and of the top 2000 listed entities with effect from April 1, 2020 shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.

Thus, keeping in mind the above provisions, Suzan Limited is required to comply with above provisions with respect to quorum in board meeting with effect from 1st April, 2019.

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

A person shall not be a director in more than eight listed entities with effect from April 1, 2019 and in not more than seven listed entities with effect from April 1, 2020. However, a person shall not serve as an independent director in more than seven listed entities.

Further, any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities.

For the purpose of this sub-regulation, the count for the number of listed entities on which a person is a director / independent director shall be only those whose equity shares are listed on a stock exchange.

Answer 2(b)**Issuance of Delivery Instruction Slips (DIS)**

The procedure followed by the Participants with respect to:

- (a) Issuance of DIS booklets including loose slips.
- (b) Existence of controls on DIS issued to Clients including pre-stamping of Client ID and unique pre-printed serial numbers.
- (c) Record maintenance for issuance of DIS booklets (including loose slips) in the back office.

Verification of Delivery Instruction Slips (DIS)

The procedure followed by the Participants with respect to:

- (a) Date and time stamping (including late stamping) on instruction slips.
- (b) Blocking of used/reported lost/stolen instruction slips in back office system/manual record.
- (c) Blocking of slips in the back office system/manual record which are executed in DPM directly.
- (d) Two step verification for a transaction for more than ₹5 lakh, especially in case of off market transactions.
- (e) Instructions received from dormant accounts.

Answer 2(c)**Direct Route for ESOPs**

1. Company forms a compensation committee and define the eligibility criteria of ESOPs.
2. Company issue fresh shares for ESOPs.
3. After vesting period employees can exercise the option.
4. On exercise of an option company issues the shares to the eligible employees.

Trust Route for ESOPs

1. Company forms an Employee Welfare Trust.
2. Company grants loan to the trust for subscribing shares.
3. Company issues fresh shares to the Trust and option to the Eligible Employees.
4. Employees exercise the options.
5. Trust transfers the Shares to the employee upon receipt of exercise price.
6. Trust repays the loan to the company.

Answer 2(d)

An insider shall be entitled to formulate a trading plan and present it to the compliance officer for approval and public disclosure pursuant to which trades may be carried out on his behalf in accordance with such plan.

The trading plan shall:

- i. not entail commencement of trading on behalf of the insider earlier than six months from the public disclosure of the plan;
- ii. not entail trading for the period between the twentieth trading day prior to the last day of any financial period for which results are required to be announced by the issuer of the securities and the second trading day after the disclosure of such financial results;
- iii. entail trading for a period of not less than twelve months;
- iv. not entail overlap of any period for which another trading plan is already in existence;
- v. set out either the value of trades to be effected or the number of securities to be traded along with the nature of the trade and the intervals at, or dates on which such trades shall be effected; and
- vi. not entail trading in securities for market abuse.

Answer 2(e)

Section 28A of the SEBI Act, 1992 deals with recovery the amount of Penalty by Recovery Officer. If a person-

- fails to pay the penalty imposed under this act or
- fails to comply with any direction of SEBI for refund of monies or

- fails to comply with a direction of disgorgement order issued under Section 11B or
- fails to pay any fees due to SEBI, the Recovery Officer may draw up under his signature a statement in the specified form specifying the amount due from the person.

The Recovery Officer shall proceed to recover from such person the amount specified in the certificate by one or more of the following modes, namely:

- a) attachment and sale of the person's movable property;
- b) attachment of the person's bank accounts;
- c) attachment and sale of the person's immovable property;
- d) arrest of the person and his detention in prison;
- e) appointing a receiver for the management of the person's movable and immovable properties.

Answer 2A(i)

Nomination and remuneration committee [Regulation 19 of SEBI (LODR) Regulations, 2015]

- The Nomination and Remuneration committee shall comprise of at least three directors;
- All directors of the committee shall be non-executive directors;
- At least fifty percent of the directors shall be independent directors and in case of a listed entity having outstanding SR equity shares, two thirds of the nomination and remuneration committee shall comprise of independent directors;
- The Chairperson shall be an independent director;
- The quorum for a meeting of the nomination and remuneration committee shall be either two members or one third of the members of the committee, whichever is greater, including at least one independent director in attendance;
- Nomination and Remuneration Committee plays a key role in formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board of directors a policy relating to, the remuneration of the directors, key managerial personnel and other employees.

Risk Management Committee [Regulation 21 of SEBI (LODR) Regulations, 2015]

- Applicable to top 500 listed entities determined on the basis of market capitalization, as at the end of the immediate previous financial year;
- The majority of members shall consist of members of the Board of directors. However, in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise of independent directors;

- The Chairperson of the Risk management committee shall be a member of the Board of directors and senior executives of the listed entity may be members of the committee;
- The committee shall meet at least once in a year;
- The Board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit (such function shall specifically cover cyber security).

Answer 2A(ii)

a) Payment of consideration [Regulation 20]

The promoter of SAARC Ltd. shall immediately upon success of the offer, open a special account with a SEBI registered banker to an issue and transfer thereto, the entire amount due and payable as consideration in respect of equity shares tendered in the offer, from the escrow account. All the shareholders whose equity shares are verified to be genuine shall be paid the final price stated in the public announcement within ten working days from the closure of the offer.

b) Right of remaining shareholders to tender equity shares [Regulation 21]

Remaining public shareholder holding such equity shares may tender their shares to the promoter up to a period of minimum one year from the date of delisting and, in such a case, the promoter shall accept the shares tendered at the same final price at which the earlier acceptance of shares was made. The payment of consideration for shares accepted shall be made out of the balance amount lying in the escrow account.

The amount in the escrow account or the bank guarantee shall not be released to the promoter unless all payments are made in respect of shares tendered.

Answer 2A(iii)

The SEBI (LODR) Regulations, 2015 has given the following recognitions to Company Secretary in practice:

1. Certificate regarding Transfer of Securities [Regulation 40(9)]

Certification to the effect that all transfers have been completed within the stipulated time.

2. Secretarial Audit Report [Regulation 24A]

Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake Secretarial Audit and shall annex with its Annual Report, a Secretarial Audit Report, given by a Company Secretary in Practice, in such form as may be specified with effect from the year ended March 31, 2019.

3. Certificate Regarding Compliance of Conditions of Corporate Governance under SEBI (LODR) Regulations [Schedule V]

The Regulations authorize Company Secretary in Practice to issue certificate regarding compliance of conditions of Corporate Governance.

4. Certification regarding Director's Disqualification [Schedule V]

A certificate from a Company Secretary in Practice that none of the directors on the Board of the company have been debarred or disqualified from being appointed or continuing as Directors of Companies by the Board/ Ministry of Corporate Affairs or any such Statutory Authority.

Answer 2A(iv)

(a) Unpublished price sensitive information

“Unpublished price sensitive information” means any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following:

- i. Financial results;
- ii. Dividends;
- iii. Change in capital structure;
- iv. Mergers, de-mergers, acquisitions, delisting, disposals and expansion of business and such other transactions;
- v. Changes in key managerial personnel.

- (b) (i) RBI has increased its Statutory Liquidity Ratio (SLR) by 15 basis points. It is not an unpublished price sensitive information as it does not relate to any of the events defined under “Unpublished Price Sensitive Information”.
- (ii) The company is increasing its authorized capital: It is unpublished price sensitive information as it is related to change in capital structure which is defined under “Unpublished Price Sensitive Information”.

Answer 2A(v)

- (i) The company shall as and by way of security for performance of its obligations under the SEBI (Buy back of Securities) Regulations, on or before the opening of the offer, deposit in an escrow account such sum as specified under the Regulations.

The amount in the escrow shall be deposited in the following manner:

Amount of Consideration	% of amount to be deposited
Consideration not more than ₹100 crores	25 per cent of the consideration payable;
Consideration exceeds ₹100 crores	25 per cent up to ₹100 crores and 10 per cent thereafter.

- (ii) The unregistered shareholder may also tender his shares for buy-back by submitting the duly executed Transfer Deed for transfer of shares in his name,

along with the offer form and other relevant documents as required for transfer, if any.

- (iii) Every buy back shall be completed within a period of one year from the date of passing of the special resolution passed at the general meeting, or the resolution passed by the Board of directors of the company, as the case may be.

Question 3

- (a) *Actnow Edge Limited, an unlisted company, is in the process of expanding its business. For expansion, it needs funds of ₹200 crore. For raising ₹200 crore, company has decided to bring an initial public offer through book building mechanism. It has fixed a price band of ₹500 – ₹600. Referring to provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, advise the company on the following matters :*
- What should be minimum application value and minimum number of equity shares in one application ?*
 - What will be minimum sum payable on application ?*
 - What should be minimum time period for which issue should remain open for subscription ?* (5 marks)
- (b) *What do you mean by Enterprise value under SEBI Takeover code ? From the given information, calculate the Enterprise value of KRS Ltd. :*
- *Outstanding equity share capital ₹1,600 lakh (par value per share ₹2)*
 - *Market price per share on closing date (equity share) : ₹125*
 - *Reserves & Surplus ₹195 lakh, Minority interest ₹275 lakh, Preference share capital ₹4,200 lakh, Cash-in-hand ₹72 lakh, Cash equivalent ₹ 63 lakh, Other current assets ₹1,965 lakh.* (5 marks)
- (c) *Wadhvani Enterprises Limited, an unlisted company, has decided to bring an initial public offer and filed a draft offer document with SEBI. The company is not able to correctly interpret a circular issued by SEBI. The managing director of the Company wants to seek informal guidance under SEBI Informal Guidance Scheme. Ramesh, director of the company is of a view that since the company is not yet listed so company cannot seek informal guidance from SEBI. Being a company secretary, advise on the following matters :*
- Who can apply for informal guidance ? Whether company can apply for informal guidance in the given situation ?*
 - What are the matters on which informal guidance cannot be sought ?* (5 marks)

Answer 3(a)

- (i) **Application and Minimum Application Value (Regulations 47 & 143 of SEBI (ICDR) Regulations, 2018]**

The issuer shall stipulate in the offer document the minimum application size in terms of number of specified securities which shall fall within the range of minimum application value of ten thousand rupees to fifteen thousand rupees.

Thus, in the given case Actnow Edge Limited should fix the minimum number of shares in one application in such a manner that minimum application value should not cross the limit of ₹10,000 to ₹15,000. Hence, minimum number of shares in one application will be:

At lower level of price band: 20 Shares (₹10000/₹ 500) & 30 Shares (₹15000/₹500)

At higher level of price band : 17 Shares (₹10000/₹600) & 25 Shares (₹15000/₹600)

- (ii) The minimum sum payable on application per specified security shall be at least twenty five per cent of the issue price.
- (iii) **Period of Subscription [Regulations 46 & 142]**

An IPO shall be kept open for at least three working days and not more than ten working days.

In case of a revision in the price band, the issuer shall extend the bidding (issue) period disclosed in the red herring prospectus, for a minimum period of three working days.

In case of force majeure, banking strike or similar circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a minimum period of three working days.

Answer 3(b)

Enterprise value

As per SEBI Takeover Regulations, Enterprise value means the value calculated as market capitalization of a company plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Calculation of Enterprise value of KRS Ltd.

Enterprise Value	=	Market capitalization+ Debt+ Minority Interest + Preferred Shares- Total Cash and Cash Equivalents
Number of equity shares=		₹1600 lakh / ₹2 i.e. 800 lakh
Market Capitalization	=	800 lakh x ₹125 i.e. ₹1,00,000 lakh
Enterprise Value	=	₹100000 lakh + ₹275 lakh + ₹4200 lakh – (₹72 lakh + ₹ 63 lakh)
Enterprise Value	=	₹1,04,340 lakh

Answer 3(c)

- (i) The following persons may make a request for informal Guidance under the SEBI (Informal Guidance) Scheme, 2003:
- Any intermediary registered with the SEBI;
 - Any listed company;
 - Any company which intends to get any of its securities listed and which has

filed either a listing application with any stock exchange or a draft offer document with the SEBI or the Central Listing authority;

- d) Any mutual fund trustee company or asset management company;
- e) Any acquirer or prospective acquirer under the SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997. [Now the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011]

In the given case, since Wadhvani Enterprises Limited is an unlisted company and filed draft offer document with SEBI, therefore, it can apply to SEBI under informal guidance scheme.

- (ii) With respect to following matter informal guidance cannot be sought:
 - a) Those which are general and those which do not completely and sufficiently describe the factual situation;
 - b) Those which involve hypothetical situations;
 - c) Those requests in which the requestor has no direct or proximate interest;
 - d) Where the applicable legal provisions are not cited;
 - e) Where a no-action or interpretive letter has already been issued by that or any other Department on a substantially similar question involving substantially similar facts, as that to which the request relates;
 - f) Those cases in which investigation, enquiry or other enforcement action has already been initiated;
 - g) Those cases where connected issues are pending before any Tribunal or Court and on issues which are subjudice; and
 - h) Those cases where policy concerns require that the Department does not respond.

Question 4

- (a) *Portable Marketing Ltd., a listed company on stock exchange, having paid up capital ₹500 crore consisting of 50 crore equity share of ₹10 each. The Board of directors of company has recommended issuing of sweat equity shares to its promoters/directors and employees as a part of their recognition for valuable contribution to the growth of company. The board meeting was held on 1st March, 2020 and extra-ordinary general meeting was held on 27th March, 2020 for approving the issue of sweat equity shares. The details of closing market price available on stock exchange are given below :*

<i>The average of the weekly high and low of closing prices of equity shares of the company during six months</i>	<i>preceding 31st January, 2020</i>	<i>₹540</i>
	<i>preceding 26th February, 2020</i>	<i>₹550</i>
<i>The average of the weekly high and low of the closing prices of equity shares of the company during the two weeks</i>	<i>preceding the 31st January, 2020</i>	<i>₹580</i>
	<i>preceding the 26th February, 2020</i>	<i>₹575</i>
<i>The closing price of equity share of the company</i>	<i>on 27th March, 2020</i>	<i>₹578</i>

Referring to the provisions of Companies Act, 2013 and SEBI Regulations, answer the following :

- (i) *What are the conditions to be fulfilled for issue of sweat equity shares ?*
 - (ii) *Can sweat equity shares be issued to promoters ? If yes, what are the conditions to be fulfilled ?*
 - (iii) *What is the relevant date in above case ?*
 - (iv) *What should be the minimum price at which sweat equity shares should be issued ?* (8 marks)
- (b) *Karuna Ltd. made an Initial Public Offer (IPO) of equity shares in March, 2020 and was granted listing on stock exchange. Soon, thereafter, the promoters of the company started contemplating a change in the objects clause mentioned in the offer document. To give effect to the same, the company convened an extra-ordinary general meeting of shareholders in April 2020. Though the requisite resolution was passed by the company, there were, nevertheless, the dissenting shareholders too. The promoters decided to provide an exit opportunity to the dissenting shareholders. In the light of the above, answer the following :*
- (i) *Who are the dissenting shareholders ?*
 - (ii) *What is the eligibility of shareholders for availing the exit offer ?*
 - (iii) *Enumerate the conditions required to be complied with to give effect to this recourse which was availed by the promoters.*
 - (iv) *How the exit offer price will be determined ?* (7 marks)

Answer 4(a)

- (i) According to Section 54 of the Companies Act, 2013 a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled:
 - a) The issue is authorized by a special resolution passed by the company in the general meeting.
 - b) The resolution specifies the number of shares, current market price, consideration if any and the class or classes of directors or employees to whom such equity shares are to be issued.
 - c) The sweat equity shares of a company whose equity shares are listed on a recognised stock exchange are issued in accordance with the regulations made by SEBI in this regard and if they are not listed, the sweat equity shares are to be issued in accordance with the rules as prescribed under Companies Act, 2013.
- (ii) Yes, sweat equity shares can be issued to promoter's subject to following conditions:
 - a) Such issue shall be approved by simple majority of the shareholders in General Meeting.

- b) Further, the promoters to whom such Sweat Equity Shares are proposed to be issued shall not participate in such resolution and separate resolution shall be passed for each transaction of issue of Sweat Equity.
 - c) Such resolution shall be valid for a period of not more than twelve months from the date of passing of the resolution. For the purposes of passing the resolution, the explanatory statement shall contain the disclosures as specified in the Schedule.
- (iii) "Relevant date" for this purpose means the date which is thirty days prior to the date on which the meeting of the General Body of the shareholders is convened, in terms of clause (a) of sub section (1) of section 54 of the Companies Act, 2013.
- (iv) The price of sweat equity shares shall not be less than the higher of the following:
- The average of the weekly high and low of the closing prices of the related equity shares during last six months preceding the relevant date.

OR

- The average of the weekly high and low of the closing prices of the related equity shares during the two weeks preceding the relevant date.

In the given question, the meeting of the general body of shareholders of Portable Marketing Limited was held on 27th March, 2020 and therefore, the relevant date is 26th February, 2020 (that is the date which is thirty days prior to the date on which the meeting of the General Body of the shareholders is convened). Thus, minimum price at which sweat equity shares are to be issued, will be higher of the following:

1. The average of the weekly high and low of closing price of equity shares of the company during six months preceding 26th February, 2020 = ₹550.

OR

2. The average of the weekly high and low of the closing prices of equity shares of the company during the two weeks preceding the 26th February, 2020 = ₹575. Thus, Minimum price for issue of sweat equity shares should be ₹575.

Answer 4(b)

Dissenting Shareholders

- (i) "Dissenting Shareholders" mean those shareholders who have voted against the resolution for change in Objects or variation in terms of a contract, referred to in the offer document of the issuer.
- (ii) Only those dissenting shareholders of the issuer who are holding shares as on the relevant date shall be eligible to avail the exit offer.
- (iii) **Conditions for Exit Offer**

The promoters or shareholders in control of Karuna Ltd. shall make the exit offer

to the dissenting shareholders, in cases only if a public issue has opened after April 1, 2014, if :

1. The proposal for change in objects or variation in terms of a contract, referred to in the offer document is dissented by at least 10 per cent of the shareholders who voted in the general meeting; and
 2. The amount to be utilized for the objects for which the offer document was issued is less than 75 % of the amount raised (including the amount earmarked for general corporate purposes as disclosed in the offer document).
- (iv) The “exit price’ payable to the dissenting shareholders shall be the highest of the following:
- (a) The volume-weighted average price paid or payable for acquisitions, whether by the promoters or by any person acting in concert with them, during the fifty-two weeks immediately preceding the relevant date;
 - (b) The highest price paid or payable for any acquisition, whether by the promoters or by any person acting in concert with them, during the twenty six weeks immediately preceding the relevant date;
 - (c) the volume-weighted average market price of such shares for a period of sixty trading days immediately preceding the relevant date as traded on the recognised stock exchange where the maximum volume of trading in the shares of the issuer are recorded during such period, provided such shares are frequently traded;
 - (d) where the shares are not frequently traded, the price determined by the promoters or shareholders having control and the lead manager(s) taking into account valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such issuers.

PART II

Question 5

(a) *Aruna Steel Ltd. issued Bonds with the following terms :*

Issue price of the Bond : ₹1000

Coupon rate : 3%

Maturity : 5 years

Convertible into equity shares @ ₹500 per share

Ivan had purchased 20 bonds. At the time of maturity, the market price of the equity shares was ₹400.

What are the options available to Ivan on the maturity date and which option he should prefer? (5 marks)

- (b) *Good Luck Finance Ltd., a listed company issued 20 lakh equity shares of ₹180 each. The Company provided Green Shoe Option and Nishan was nominated as Stabilising Agent. On the date of listing, Corona Virus threat spread across the globe. Consequently post listing, the share price of the company fall to ₹150. From the above :*
- (i) *Compute the quantum of shares that can be bought by Nishan.*
- (ii) *State the provisions for balance of shares lying in the special account for Green Shoe Option. (5 marks)*
- (c) *ABC Limited, a public company, has come with public issue of 15,00,000 equity shares through a book building process. The price band is ₹500 - ₹600. The following table shows demand of securities at various price levels. What should be the cut-off price as per book building mechanism?*

Bid Price (₹)	Number of Investors	Demand (Number of Shares)
520	25	8,50,000
530	10	4,00,000
535	15	2,00,000
545	4	4,00,000
560	6	1,00,000
575	5	2,00,000
585	3	1,10,000
590	3	1,40,000
595	3	3,50,000
600	1	7,00,000
	<u>Total 75</u>	<u>34,50,000</u>

(5 marks)

Answer 5(a)

Ivan purchased 20 bonds @ ₹1000 per bond

Total amount invested ₹20,000. He will get interest for 5 years on the date of maturity.

After five years, he has the following options:

- i. He may claim redemption and get the bonds converted into fully paid equity shares @ 500 each.

Thus on conversion, he will get 40 equity shares (₹20000 / ₹500)

- ii. As the equity shares are also traded in stock exchange, he may buy from market at the prevailing market price of ₹400. Therefore, from the maturity proceed of ₹20000, he can buy 50 equity shares (₹20000/₹400) from the market.

It is clear from the above two options; Ivan should choose option (ii) as he will get more equity share than conversion from company.

Answer 5(b)

Green Shoe Option is a post listing price stabilising mechanism. Good Luck Finance Ltd. issued 20 lakh equity shares @ ₹180 each. As per SEBI (ICDR) Regulations, 2018, the maximum number of securities that can be borrowed for the purpose of allotment/ allocation of securities in excess of issue size shall not be more than 15% of the issue size.

Hence, Nishan (Stabilising agent) can purchase 3,00,000 equity shares (15% of 20,00,000 equity shares) to stabilise the price.

Having bought back all of the 300000 equity shares, these shares would be temporarily held in a special depository account with the depository participant (Green Shoe Demat Account), and would then be returned back to the lender shareholders, within a maximum period of two days after the stabilisation period.

Any surplus lying in the Green Shoe Escrow Account would then be transferred to the Investor Protection and Education Fund established by SEBI.

Answer 5(c)**Cut off price:**

Cut off price is the highest price at which demand for securities is fulfilled. Simply, it is the highest price at which all shares offered can be sold by the company. All those investors who have submitted their bid at price equal to or above the cut off price are known as successful bidder and they are entitled for the allotment of shares as per method prescribed in SEBI (ICDR) Regulation, 2018.

In the given question, we calculate cut off price as under:

Total number of Equity Shares for public issue: 15,00,000

Price Band: ₹500 - ₹600

Firstly, we have to arrange the demand for shares on the basis of price in descending order and cumulative demand has been calculated.

<i>S. No.</i>	<i>Demand (Number of Shares)</i>	<i>Cumulative Demand</i>	<i>Bid Price (in ₹)</i>
1.	7,00,000	7,00,000	600
2.	3,50,000	10,50,000	595
3.	1,40,000	11,90,000	590
4.	1,10,000	13,00,000	585
5.	2,00,000	15,00,000	575
6.	1,00,000	16,00,000	560
7.	4,00,000	20,00,000	545
8.	2,00,000	22,00,000	535
9.	4,00,000	26,00,000	530
10.	8,50,000	34,50,000	520

From the above table it is clear that the demand is fulfilled at a price of ₹575, so cut off price will be ₹575. Bids that are at or above the issue price only qualify for share allotment.

All those investors who have applied at ₹575 and above shall be eligible for allotment.

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

Question 6

Write short notes on the following :

- (a) Key features of Preventive Surveillance
- (b) Debenture Trustee
- (c) Margins
- (d) Trading Mechanism
- (e) Foreign Portfolio Investor. (3 marks each)

OR (Alternate question to Q. No. 6)

Question 6A

- (i) (a) What is future contract ?
 (b) Akshay buys 500 shares of PQR Limited @ ₹210 per share on the stock exchange platform. In order to hedge the position, he sells 300 futures of PQR Limited @ ₹195 each. Due to fall in the share and futures price by 5% and 3% respectively on next day, Akshay closes his position by counter transactions. Find out his profit or loss. (2+3 marks)
- (ii) What is bulk deal ? State the difference between block deal and bulk deal ? (5 marks)
- (iii) What is inflation index ? State the difference between wholesale price index (WPI) and consumer price index (CPI). (5 marks)

Answer 6(a)

Key features of Preventive Surveillance

Following are some important features or ingredients of preventive surveillance:

1. **Stringent On boarding norms for Trading Members** - Stringent net worth, back ground, viability etc. checks while on boarding Trading Members.
2. **Index circuit filters** - It brings coordinated trading halt in all equity and equity derivative markets at 3 stages of the index movement, either way viz., at 10%, 15% and 20% based on previous day closing index value.
3. **Trade Execution Range** - Orders are matched and trades take place only if the trade price is within the reference price and execution range.
4. **Order Value Limitation** - Maximum Order Value limit allowed per order.
5. **Cancel on logout** - All outstanding orders are cancelled, if the enabled user logs out.

6. **Kill switch** - All outstanding orders of that trading member are cancelled if trading member executes kill switch.
7. **Risk reduction mode** - Limits beyond which orders level risk management shall be initiated instead of trade level.
8. **Compulsory close out** - Incoming order, if it results in member crossing the margins available with the exchange, such order will be partially or fully cancelled, as the case may be, and further disallow the trading member to create fresh positions.
9. **Capital adequacy check** - Refers to monitoring of trading member's performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached.
10. **Trade for Trade Settlement** - The settlement of scrip's available in this segment is done on a trade for trade basis and no netting off is allowed.
11. **Periodic call auction** - Shifting the security form continuous to call auction method.
12. **Rumour Verification** - Any unannounced news about listed companies is tracked on online basis and letter seeking clarification is sent to the companies and the reply received is disseminated.
13. **End of day alert** – Alerts generated using statistical tools. The tool highlights stocks which have behaved abnormally from its past behaviour.
14. **Pattern recognition model** – Models designed using high end tools and trading patterns which itself identifies suspects involving in unfair trading practice.
15. **Transaction alerts for member** - As part of surveillance obligation of members the alerts are downloaded to members under 14 different heads.

Answer 6(b)

'Debenture Trustee' means a trustee appointed in respect of any issue of debentures of a body corporate.

Duties of Debenture Trustee:

It shall be the duty of every debenture trustee to-

- o satisfy itself that the prospectus or letter of offer does not contain any matter which is inconsistent with the terms of the issue of debentures or with the trust deed;
- o satisfy itself that the covenants in the trust deed are not prejudicial to the interest of the debenture holders;
- o call for periodical status/performance reports from the issuer company within 7 days of the relevant board meeting or within 45 days of the respective quarter whichever is earlier;
- o communicate promptly to the debenture holders defaults, if any, with regard to

payment of interest or redemption of debentures and action taken by the trustee therefor;

- o call for reports on the utilization of funds raised by the issue of debentures;
- o Take possession of trust property in accordance with the provisions of the trust deed;
- o Exercise due diligence to ensure compliance by the body corporate with the provisions of the Companies Act, the listing agreement of the stock exchange or the trust deed
- o To take appropriate measures for protecting the interest of the debenture holders as soon as any breach of the trust deed or law comes to his notice.
- o To ascertain that the debentures have been converted or redeemed in accordance with the provisions and conditions under which they are offered to the debenture holders.
- o Inform the SEBI immediately of any breach of trust deed or provision of any law.
- o Appoint a nominee director on the board of the body corporate when required.

Answer 6(c)

Margins : An advance payment of a portion of the value of a stock transaction. The amount of credit a broker or lender extends to a customer for stock purchase.

Margin is of two types:

1. "Initial margin" in this context means the minimum amount, calculated as a percentage of the transaction value, to be placed by the client, with the broker, before the actual purchase. The broker may advance the balance amount to meet full settlement obligations.
2. "Maintenance margin" means the minimum amount, calculated as a percentage of market value of the securities, calculated with respect to last trading day's closing price, to be maintained by client with the broker.

When the balance deposit in the client's margin account falls below the required maintenance margin, the broker shall promptly make margin calls. However, no further exposure can be granted to the client on the basis of any increase in the market value of the securities.

The broker may liquidate the securities if the client fails to meet the margin calls made by the broker or fails to deposit the cheques on the day following the day on which the margin call has been made or the cheque has been dishonoured.

Answer 6(d)

In the Indian securities market, various products are traded like equity shares, warrants, debenture, etc. The trading in the securities of the company takes place in dematerialised form in India. Dematerialization is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic

form and credited to the investor's account with his Depository Participant (DP). Trading in the securities of the company takes place on the screen based platforms provided by the Exchanges. Currently for equity shares the settlement cycle is (T+2 days) (T means trading day/ Transaction day). Any shares which are traded on the Exchange are required to be settled by the clearing corporation of the exchange on 2 working day.

In electronic trading order received are matched electronically on a strict price/time priority and hence cuts down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency. It enables market participants, irrespective of their geographical locations, to trade with one another simultaneously. It provides full anonymity by accepting orders, big or small, from brokers without revealing their identity, thus providing equal access to everybody. It also provides a perfect audit trail, which helps to resolve disputes by logging in the trade execution process in entirety.

Answer 6(e)

“Foreign Portfolio Investor” means a person who has been registered under Chapter II of SEBI (Foreign Portfolio Investors) Regulations, 2019 and shall be deemed to be an intermediary in terms of the provisions of the SEBI Act, 1992.

General Obligations and Responsibilities

The foreign portfolio investor shall –

- a) comply with the provisions of Foreign Portfolio Investors Regulations, as far as they may apply, circulars issued thereunder and any other terms and conditions specified by the SEBI from time to time;
- b) forthwith inform the Board and designated depository participant in writing, if any information or particulars previously submitted to the SEBI or designated depository participant are found to be false or misleading, in any material respect;
- c) forthwith inform the SEBI and designated depository participant in writing, if there is any material change in the information including any direct or indirect change in its structure or ownership or control, previously furnished by him to the SEBI or designated depository participant;
- d) as and when required by the SEBI or any other Government agency in India, submit any information, record or documents in relation to its activities as a foreign portfolio investor;
- e) forthwith inform the SEBI and the designated depository participant, in case of any penalty, pending litigation or proceedings, findings of inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against it;
- f) obtain a Permanent Account Number from the Income Tax Department;
- g) in relation to its activities as foreign portfolio investor, at all times, subject itself to the extant Indian laws, rules, regulations, guidelines and circulars issued from time to time;
- h) be a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008;

- i) undertake necessary KYC on its shareholders/investors in accordance with the rules applicable to it in the jurisdiction where it is organised;
- j) provide any additional information or documents including beneficiary ownership details of their clients as may be required by the designate depository participant or the SEBI or any other enforcement agency to ensure compliance with the Prevention of Money Laundering Act, 2002 and the rules and regulations specified thereunder, the Financial Action Task Force standards and circulars issued from time to time by the Board; and
- k) ensure that securities held by foreign portfolio investors are free from all encumbrances.

Answer 6A(i)

- (a) Future refers to a future contract which means an exchange traded forward contract to buy or sell a predetermined quantity of an asset on a predetermined future date at a predetermined price. Contracts are standardized and there's centralized trading ensuring liquidity. There are two positions that one can take in a future contract:
 - *Long Position* - This is when a futures contract is purchased and the buyer agrees to receive delivery of the underlying asset. (Stock/Indices/Commodities)
 - *Short Position* - This is when a futures contract is sold and the seller agrees to make delivery of the underlying asset. (stock/Indices/Commodities)
- (b) Profit or loss in case of buying 500 shares of PQR Ltd.

Buying Cost = 500 x ₹ 210	= ₹1,05,000
Selling price = 500 x [₹210 – (5% of ₹ 210)]	= ₹99,750
Loss = (₹1,05,000 – ₹99,750)	= ₹5,250
Profit or Loss in case of Future 300 shares of PQR Ltd.	
Selling Value = 300 x ₹195	= ₹58,500
Buying Value = 300 x [₹195 – (3% of ₹195)]	= ₹56,745
Profit = (₹58,500 – ₹56,745)	= ₹1,755
Net Loss = ₹5,250 – ₹1,755	= ₹3,495

Answer 6A(ii)

Bulk deal is a trade, where total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company, Bulk deal can be transacted by the normal trading window provided by brokers throughout the trading hours in a day. Bulk deals are market driven and take place throughout the trading day. The stock broker, who facilitates the trade, is required to reveal to the stock exchange about the bulk deals on a daily basis.

Bulk orders are visible to everyone. If the bulk deal happens through a single trade, it should be notified to the exchange immediately upon the execution of the order. If it happens through multiple trades, it should be notified to the exchange within one hour from the closure of the trading.

Difference between bulk deal and block deal

<i>S. No.</i>	<i>Basis of Difference</i>	<i>Bulk Deal</i>	<i>Block Deal</i>
1.	Quantity/Value of Security	Total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company.	In the block deal, the minimum order size for execution of trades shall be ₹10 Crore.
2.	Trading Window	Normal trading window.	Separate trading window.
3.	Visibility	Bulk deal are visible to everyone.	The stock exchanges disseminates the information on block deals such as the name of the scrip, name of the client, quantity of shares bought/sold, traded price, etc. to the general public on the same day, after the market hours.

Answer 6A(iii)

An inflation index is an economic tool used to measure the rate of inflation in an economy. There are several different ways to measure inflation. In India, Consumer Price Index (CPI) and Wholesale Price Index (WPI) are two major indices for measuring inflation. In United States, CPI and PPI (Producer Price Index) are two major indices. The Wholesale Price Index (WPI) was main index for measurement of inflation in India till April 2014 when RBI adopted new Consumer Price Index (CPI) (combined) as the key measure of inflation.

Key differences between WPI & CPI

- Primary use of WPI is to have inflationary trend in the economy as a whole. However, CPI is used for adjusting income and expenditure streams for changes in the cost of living.
- WPI is based on wholesale prices for primary articles, administered prices for fuel items and ex-factory prices for manufactured products. On the other hand, CPI is based on retail prices, which include all distribution costs and taxes.
- Prices for WPI are collected on voluntary basis while price data for CPI are collected by Investigators by visiting markets.
- CPI covers only consumer goods and consumer services while WPI covers all goods including goods transacted in the economy.
- WPI weights primarily based on national accounts and enterprise survey data and CPI weights are derived from consumer expenditure survey data.

ECONOMIC BUSINESS AND COMMERCIAL LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer **ALL** Questions.

PART I

Question 1

- (a) *In what way the Reserve Bank of India manages foreign exchange reserves as the custodian of the country's foreign exchange reserves, under the provisions of the Reserve Bank of India Act, 1934 ?*
- (b) *State the pre-requisites for compounding process in respect of contravention committed, under the Foreign Exchange Management (FEMA) Act, 1999.*
- (c) *Enumerate the persons who are prohibited from accepting foreign contributions under the Foreign Contribution (Regulation) Act, 2010.*
- (d) *Upto what limit an authorised dealer may release foreign exchange for business trip and medical treatment abroad, under Liberalised Remittance Scheme.*
(5 marks each)

Answer 1(a)

The Reserve Bank of India, as the custodian of the country's foreign exchange reserves, is vested with the responsibility of managing its investment. The legal provisions governing management of foreign exchange reserves are laid down in the Reserve Bank of India Act, 1934.

The Reserve Bank's reserves management function has in recent years grown both in terms of importance and sophistication for two main reasons. First, the share of foreign currency assets in the balance sheet of the Reserve Bank has substantially increased. Second, with the increased volatility in exchange and interest rates in the global market, the task of preserving the value of reserves and obtaining a reasonable return on them has become challenging. The basic parameters of the Reserve Bank's policies for foreign exchange reserves management are safety, liquidity and returns.

While safety and liquidity continue to be the twin-pillars of reserves management, return optimisation has become an embedded strategy within this framework for the Reserve Bank. The Reserve Bank has framed policy guidelines stipulating stringent eligibility criteria for issuers, counterparties, and investments to be made with them to enhance the safety and liquidity of reserves. The Reserve Bank, in consultation with the Government, continuously reviews the reserves management strategies.

Within this framework, the Reserve Bank focuses on:

- (a) Maintaining market's confidence in monetary and exchange rate policies.
- (b) Enhancing the Reserve Bank's intervention capacity to stabilise foreign exchange markets.

- (c) Limiting external vulnerability by maintaining foreign currency liquidity to absorb shocks during times of crisis, including national disasters or emergencies etc.

Answer 1(b)

Pre-requisite for Compounding Process under Foreign Exchange Management Act, 1999 are as under:

- In respect of a contravention committed by any person within a period of three years from the date on which a similar contravention committed by him was compounded under the Compounding Rules, such contraventions would not be compounded and relevant provisions of the FEMA, 1999 shall apply. Any second or subsequent contravention committed after the expiry of a period of three years from the date on which the contravention was previously compounded shall be deemed to be a first contravention.
- Contraventions relating to any transaction where proper approvals or permission from the Government or any statutory authority concerned, as the case may be, have not been obtained such contraventions would not be compounded unless the required approvals are obtained from the concerned authorities.
- Cases of contravention such as those having serious contravention suspected of money laundering, terror financing or affecting sovereignty and integrity of the nation or where the contravener fails to pay the sum for which contravention was compounded within the specified period in terms of the compounding order, shall be referred to the Directorate of Enforcement for further investigation and necessary action under FEMA, 1999 or to the authority instituted for implementation of the Prevention of Money Laundering Act 2002, or to any other agencies, for necessary action as deemed fit.
- In this connection, it is clarified that whenever a contravention is identified by the Reserve Bank or brought to its notice by the entity involved in contravention by way of a reference other than through the prescribed application for compounding, the Bank will continue to decide:
 - Whether a contravention is technical and/or minor in nature and, as such, can be dealt with by way of an administrative/ cautionary advice;
 - Whether it is material and, hence, is required to be compounded for which the necessary compounding procedure has to be followed or
 - Whether the issues involved are sensitive / serious in nature and, therefore, need to be referred to the Directorate of Enforcement (DOE). However, once a compounding application is filed by the concerned entity suo moto, admitting the contravention, the same will not be considered as 'technical' or 'minor' in nature and the compounding process shall be initiated in terms of section 15 (1) of Foreign Exchange Management Act, 1999 read with Rule 9 of Foreign Exchange (Compounding Proceedings) Rules, 2000.

Answer 1(c)

Section 3 of the Foreign Contribution (Regulation) Act, 2010 prohibits the following person from accepting foreign contribution:

- (a) Candidate for election;

- (b) Correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper;
- (c) Public Servant, Judge, government servant or employee of any entity controlled or owned by the Government;
- (d) Member of any Legislature;
- (e) Political party or office bearers thereof;
- (f) Organisations of a political nature as may be specified;
- (g) Associations or companies engaged in the production or broadcast of audio news or audio-visual news or current affairs programmes through any electronic mode or form or any other mode of mass communication;
- (h) Correspondent or columnist, cartoonist, editor, owner of the association or company referred to in (g) above.

Answer 1(d)

Followings are the limits up to which the authorised dealer may release foreign exchange for business trip and medical treatment under Liberalised Remittance Scheme (LRS):

(i) Business trip

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

However, if an employee is being deputed by an entity for any of the above and the expenses are borne by the latter, such expenses are to be treated as residual current account transactions outside LRS and may be permitted by the AD without any limit, subject to verifying the bonafides of the transaction.

(ii) Medical treatment abroad

Authorised Dealers may release foreign exchange up to an amount of USD 2, 50,000 or its equivalent per Financial Year without insisting on any estimate from a hospital/doctor. For amount exceeding the above limit, Authorised Dealers may release foreign exchange under general permission based on the estimate from the doctor in India or hospital/ doctor abroad. A person who has fallen sick after proceeding abroad may also be released foreign exchange by an Authorised Dealer (without seeking prior approval of the Reserve Bank of India) for medical treatment outside India.

In addition to the above, an amount up to USD 250,000 per financial year is allowed to a person for accompanying as attendant to a patient going abroad for medical treatment/check-up.

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

Question 2

- (a) *Discuss the market operations used by the Reserve Bank of India for operationalising the monetary policy.*

- (b) Which types of complaints and trade disputes may be raised against the exporters to maintain a good image of the country in abroad to promote export ?
- (c) When and to whom an appeal may be preferred against the order of adjudication of confiscation, under the Foreign Contribution (Regulation) Act, 2010 ?
- (d) Enumerate the situations in which the drawal of foreign exchange is prohibited under the Foreign Exchange Management (Current Account Transactions) Rules, 2000.
- (e) What is meant by Special Economic Zone (SEZ) ? State the purpose and salient features of the Special Economic Zones Act, 2005. (4 marks each)

OR (Alternate question to Q. No. 2)

Question 2A

- (i) What are the permissible sources for the funding of Overseas Direct Investment? (4 marks)
- (ii) Describe the remittances by persons other than the individuals which require prior approval of the Reserve Bank of India. (4 marks)
- (iii) State the penalties, which may be imposed on a person, who contravenes the foreign direct investment regulations. (4 marks)

Answer 2(a)

The Reserve Bank of India operationalises its monetary policy through its operations in government securities, foreign exchange and money markets.

Open Market Operations : Open Market Operations in the form of outright purchase/sale of Government securities are an important tool of the Reserve Bank's monetary management. The Bank carries out such operations in the secondary market on the electronic Negotiated Dealing System – Order Matching (NDS-OM) platform by placing bids and/or taking the offers for securities.

Liquidity Adjustment Facility Auctions : The liquidity management operations are aimed at modulating liquidity conditions such that the overnight rates in the money market remains within the informal corridor set by the repo and reverse repo rates for the liquidity adjustment facility (LAF) operations. In a repo transaction, the Reserve Bank infuses liquidity into the system by taking securities as collateral, while in a reverse repo transaction it absorbs liquidity from the system with the Reserve Bank providing securities to the counter parties.

Market Stabilisation Scheme : The Market Stabilisation Scheme (MSS) was introduced in April 2004 under which Government of India dated securities/treasury bills could be issued to absorb surplus structural/ durable liquidity created by the Reserve Bank's foreign exchange operations. MSS operations are a sterilisation tool used for offsetting the liquidity impact created by intervention in the foreign exchange markets.

Answer 2(b)

Exporters need to project a good image of the country in abroad to promote exports.

Maintaining an enduring relationship with foreign buyers is of utmost importance, and complaints or trade disputes, whenever they arise, need to be settled amicably as soon as possible. Importers too may have grievances as well.

In an endeavour to resolve such complaints or trade disputes and to create confidence in the business environment of the country, a mechanism is being laid down to address such complaints and disputes in an amicable way.

The following type of complaints may be considered:

- (a) Complaints received from foreign buyers in respect of poor quality of the products supplied by exporters from India;
- (b) Complaints of importers against foreign suppliers in respect of quality of the products supplied; and
- (c) Complaints of unethical commercial dealings categorized mainly as non-supply/partial supply of goods after confirmation of order; supplying goods other than the ones as agreed upon; non-payment; non-adherence to delivery schedules, etc.

Answer 2(c)

Section 31 of the Foreign Contribution (Regulation) Act, 2010 deals with appeals and provides that any person aggrieved by any order made under section 29 of the Act may prefer an appeal, where the order has been made by the Court of Session, to the High Court to which such Court is subordinate; or where the order has been made by any officer specified, to the Court of Session within the local limits of whose jurisdiction such order of adjudication of confiscation was made, within one month from the date of communication to such person of the order.

Further the Appellate Court may, if it is satisfied that the appellant was prevented by sufficient cause from preferring the appeal within the said period of one month, allow such appeal to be preferred within a further period of one month, but not thereafter.

Every appeal preferred under this section shall be deemed to be an appeal from an original decree and the provisions of Order XLI of the First Schedule to the Code of Civil Procedure, 1908, shall, as far as may be, apply thereto as they apply to an appeal from an original decree.

Answer 2(d)

Transactions which are prohibited under Foreign Exchange Management (Current Account Transaction) Rules are as under:

1. Remittance out of lottery winnings.
2. Remittance of income from racing/riding etc. or any other hobby.
3. Remittance for purchase of lottery tickets, banned/proscribed magazines, football pools, sweepstakes, etc.
4. Payment of commission on exports made towards equity investment in Joint Ventures / Wholly Owned Subsidiaries abroad of Indian companies.

5. Remittance of dividend by any company to which the requirement of dividend balancing is applicable.
6. Payment of commission on exports under Rupee State Credit Route, except commission up to 10% of invoice value of exports of tea and tobacco.
7. Payment related to "Call Back Services" of telephones.
8. Remittance of interest income on funds held in Non-Resident Special Rupee (Account) Scheme.

Answer 2(e)

Special Economic Zone (SEZ) is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

In order to give a long term and stable policy framework with minimum regulatory regime and to provide expeditious and single window clearance mechanism, the Government enacted Special Economic Zones Act, 2005.

The salient features and purposes of the Special Economic Zones Act, 2005 are as under:—

- (i) Matters relating to establishment of Special Economic Zone and for setting up of units therein, including requirements, obligations and entitlements;
- (ii) Matters relating to requirements for setting up of off-shore banking units and units in International Financial Service Center in Special Economic Zone, including fiscal regime governing the operation of such units;
- (iii) The fiscal regime for developers of Special Economic Zones and units set up therein;
- (iv) Single window clearance mechanism at the Zone level;
- (v) Establishment of an Authority for each Special Economic Zone set up by the Central Government to impart greater administrative autonomy; and
- (vi) Designation of special courts and single enforcement agency to ensure speedy trial and investigation of notified offences committed in Special Economic Zones.

Answer 2A(i)

Permissible Sources for Funding of Overseas Direct Investment are as under:

- Drawal of foreign exchange from an Authorised Dealer(AD) bank in India;
- Capitalisation of exports;
- Swap of shares;
- Proceeds of External Commercial Borrowings (ECBs) / Foreign Currency Convertible Bonds (FCCBs);
- In exchange of American Depository Receipts(ADRs) / Global Depository

Receipts(GDRs)issued in accordance with the Scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993, and the guidelines issued thereunder from time to time by the Government of India;

- Balances held in Exchange Earners Foreign Currency (EEFC) account of the Indian Party maintained with an authorised dealer and
- Proceeds of foreign currency funds raised through ADR / GDR issues.

Answer 2A(ii)

Remittances by persons other than individuals require prior approval of the Reserve Bank of India are as under:

- If commission per transaction to agents abroad for sale of residential flats or commercial plots in India exceeds USD 25,000 or five percent of the inward remittance whichever is more.
- If remittance exceeds USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1,000,000 per project, for other consultancy services procured from outside India.
- If remittances exceeding five per cent of investment brought into India or USD 100,000 whichever is higher, by an entity in India by way of reimbursement of pre-incorporation expenses.
- If remittances towards donations exceeding one per cent of their foreign exchange earnings during the previous three financial years or USD 5,000,000, whichever is less, for (a) creation of Chairs in reputed educational institutes, (b) contribution to funds (not being an investment fund) promoted by educational institutes; and (c) contribution to a technical institution or body or association in the field of activity of the donor Company.

Answer 2A(iii)

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

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

Answer 2A(iv)

According to Section 2(u) of the Special Economic Zones Act, 2005 Offshore Banking Unit means a branch of a bank located in a Special Economic Zone and which has obtained the permission under clause (a) of sub-section (1) of Section 23 of the Banking Regulation Act, 1949.

Section 17 of the Special Economic Zones Act, 2005 dealing with setting up and operation of offshore Banking Unit provides that an application for setting up and operation of an Offshore Banking Unit in a Special Economic Zone may be made to the Reserve Bank, in the prescribed form and manner. The Reserve Bank of India may, on being satisfied that the applicant fulfills all the specified conditions, grant permission to such applicant for setting up and operation of an Offshore Banking Unit in a Special Economic Zone. Sub-section (3) empowers the Reserve Bank to specify, by notification, the terms and conditions subject to which an Offshore Banking Unit may be set up and operated in the Special Economic Zone.

Answer 2A(v)

The Reserve Bank of India may cancel a certificate of registration granted to a non-banking financial company under Section 45-IA of the Reserve Bank of India Act, 1934, if such company—

- (i) ceases to carry on the business of a non-banking financial institution in India; or
- (ii) has failed to comply with any condition subject to which the certificate of registration had been issued to it; or
- (iii) at any time fails to fulfil any of the conditions such as adequate capital structure and earning prospects; public interest, monetary stability, and economic growth etc. or
- (iv) fails to comply with any direction issued by the Reserve Bank of India under the provisions of Chapter III B of RBI Act ; or fails to maintain accounts in accordance with the requirements of any law or any direction or order issued by the Reserve Bank of India under the provisions of Chapter III B of RBI Act ; or fails to submit or offer for inspection its books of account and other relevant documents when so demanded by an inspecting authority of the Reserve Bank of India ; or has been prohibited from accepting deposit by an order made by the Reserve Bank of India under the provisions of Chapter III B of RBI Act and such order has been in force for a period of not less than three months.

PART II**Question 3**

- (a) *Explain the concept of Cartel with reference to the Competition Act, 2002.*
- (b) *State the composition to constitute the Competition Commission of India, under the Competition Act, 2002.*
- (c) *Why competition in the market is essential ? Explain.*
- (d) *What do you understand by Vertical Agreements under the Competition Act,*

2002 ? State various types of Vertical Agreements mentioned in the Competition Act, 2002.

- (e) *What are the factors to be taken into consideration by the Competition Commission of India, for determining whether an agreement has appreciable adverse effect on competition ?* (3 marks each)

Answer 3(a)

According to Section 2(c) of the Competition Act, 2002, Cartel includes an association of producers, sellers or distributors, traders or service providers who, by agreement amongst themselves, limit control or attempt to control the production, distribution, sale or price of or, trade in goods or provision of services.

The nature of a cartel is to raise price above competitive levels, resulting in injury to consumers and to the economy. For the consumers, cartelisation results in higher prices, poor quality and less or no choice for goods or/and services.

An international cartel is said to exist, when not all of the enterprises in a cartel are based in the same country or when the cartel affects markets of more than one country.

An import cartel comprises enterprises (including an association of enterprises) that get together for the purpose of imports into the country.

An export cartel is made up of enterprises based in one country with an agreement to cartelize markets in other countries. In the Competition Act, cartels meant exclusively for exports have been excluded from the provisions relating to anti-competitive agreements. This is because such cartels do not adversely affect markets in India and are hence outside the purview of the Competition Act.

If there is effective competition in the market, cartels would find it difficult to be formed and sustained.

Answer 3(b)

According to Section 8 of the Competition Act, 2002, the composition of the Commission consists of a Chairperson and not less than two and not more than six other Members. The Chairperson and the Members are to be appointed by the Central Government.

Regarding the qualifications of the Chairman and other Members, Section 8(2) of the Act provides that they shall be person of ability, integrity and standing and who has special knowledge of and such professional experience of not less than fifteen years in international trade, economics, business, commerce, law, finance, accountancy, management, industry, public affairs or competition matters including competition law and policy which in the opinion of the Central Government, may be useful to the Commission. The Chairperson and other Members are to be appointed on whole time basis.

Answer 3(c)

Competition is now universally acknowledged as the best means of ensuring that consumers have access to the broadest range of services at the most competitive prices. Producers will have maximum incentive to innovate, reduce their costs and meet consumer

demand. Competition thus promotes allocative and productive efficiency. But all this requires healthy market conditions and governments across the globe are increasingly trying to remove market imperfections through appropriate regulations to promote competition.

Answer 3(d)

Section 3(4) of the Competition Act, 2002 provides that any agreement amongst enterprises or persons at different stages or levels of the production chain in different markets, in respect of production, supply, distribution, storage, sale or price of, or trade in goods or provision of services, shall be an agreement in contravention of section 3(1) of the Act if such agreement causes or is likely to cause an appreciable adverse effect on competition in India.

Such agreements are known as vertical agreements as they are entered into enterprises at different stages in the production or supply chain. Rule of reason is applicable to such agreements in order to find appreciable adverse effect on competition. Agreements that are likely to cause appreciable adverse effect on competition also fall under sub-section (4).

Various type of vertical agreements are as under:

- Tie-in agreement,
- Exclusive supply agreement,
- Exclusive distribution agreement
- Refusal to deal
- Resale price maintenance

Answer 3(e)

Section 19(3) of the Competition Act, 2002 provides that while determining whether an agreement has appreciable adverse effect on competition, the Commission shall give due regard to all or any of the following factors, namely—

- (a) Creation of barriers to new entrants in the market;
- (b) Driving existing competitors out of the market;
- (c) Foreclosure of competition by hindering entry into the market;
- (d) Accrual of benefits to consumers;
- (e) Improvements in production or distribution of goods or provision of services;
- (f) Promotion of technical, scientific and economic development by means of production or distribution of goods or provision of services.

Question 4

- (a) *On what matters the Competition Commission of India may direct for the division of an enterprise, enjoying dominant position to ensure that such enterprise or group does not abuse its dominant position.*

- (b) *Describe the penalties which may be imposed for non-furnishing of information and for making false statement on combination under the Competition Act, 2002.* (5 marks each)

Answer 4(a)

According to Section 28 of the Competition Act, 2002, the Competition Commission of India may, notwithstanding anything contained in any other law for the time being in force, by order in writing, direct division of an enterprise enjoying dominant position to ensure that such enterprise or group does not abuse its dominant position.

The Competition Commission of India may also order for the transfer or vesting of property, rights, liabilities or obligations; the adjustment of contracts either by discharge or reduction of any liability or obligation or otherwise; the creation, allotment, surrender or cancellation of any shares, stocks or securities etc.

Competition Act, 2002 expressly prohibits any enterprise or group from abusing its dominant position. There shall be abuse of dominant position, if an enterprise or group –

- (a) directly or indirectly imposes unfair or discriminatory;
 - (i) condition in purchase or sale of goods or services; or
 - (ii) price in purchase or sale (including predatory price) of goods or service.
- (b) limits or restricts—
 - (i) production of goods or provision of services or market therefor; or
 - (ii) technical or scientific development relating to goods or services to the prejudice of consumers; or
- (c) indulges in practice or practices resulting in denial of market access in any manner; or
- (d) makes conclusion of contracts subject to acceptance by other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts; or
- (e) uses its dominant position in one relevant market to enter into, or protect, other relevant market.

Answer 4(b)

Section 43A of the Competition Act, 2002 provides that if any person or enterprise who fails to give notice to the Competition Commission of India under section 6(2), the Competition Commission of India shall impose on such person or enterprise a penalty which may extend to one per cent of the total turnover or the assets, whichever is higher, of such a combination.

Thus, failure to file notice of combination falling under Section 5 attract deterrent penalty.

Section 44 provides that If any person, being a party to a combination, makes a statement which is false in any material particular, or knowing it to be false; or omits to

state any material particular knowing it to be material, such person shall be liable to a penalty which shall not be less than rupees fifty lakhs but which may extend to rupees one crore, as may be determined by the Competition Commission of India.

PART III

Question 5

- (a) *Rishi (the insured) purchased two life insurance policies with premium payable quarterly from ABC Insurance Company (the insurer). When the fifth premium became due, the agent of insurer met the insured and took a bearer cheque towards the premium payable by the insured in respect of the policies. The agent encashed the cheque immediately, but the amount of premium was not deposited by the agent for another four months. In the meanwhile, the insured met with a fatal accident and died. The claim of widow of the insured was repudiated by the insurer on the ground that the policies had lapsed on account of non-payment of the premium. Whether the claim of the widow may be recovered from the insurer ? Decide.*
- (b) *A contract for the sale of land has been entered into between Vishal and Akash. Akash, the transferee, has paid the price entering into possession and is willing to carry out his contractual obligations. As registration has not been effected Vishal, the transferor, seeks to evict Akash from the land. Whether Vishal can do so ? Give reasons in support of your answer.*
- (c) *Which information should be preserved by the banks under Prevention of Money Laundering Act, 2002 ?*
- (d) *Which commodities have been declared as essential commodities under the Essential Commodities Act, 1955 ?*
- (e) *Distinguish between English mortgage and Mortgage by conditional sale.*

(4 marks each)

Answer 5(a)

The present case is similar to the case of *Harshad J. Shah v. Life Insurance Corporation of India [1997(3) SCALE 423 (SC)]*. In this case Supreme Court held that the agent had no express authority to receive the premium on behalf of the Corporation. In his letter of appointment there was a condition expressly prohibiting him from collecting the premium. Nor could it be said that he had an implied authority to collect the premium, as regulation 8(4) expressly prohibited the agents from collecting premiums. Therefore, no case had been set up by the complainant before the State Commission that the Corporation by its conduct had induced the policyholders, including the insured, to believe that the agents were authorised to receive premiums on behalf of the Corporation. Nor was there any material on record that lent support to this contention. In the facts of this case there was no room to invoke the doctrine of apparent authority underlying Section 237 of the Indian Contract Act when the LIC has been careful in making an express provision in the Regulations/Rules, which are judicial in nature.

However, taking a humanitarian view of the tragedy faced by the claimants, Supreme Court directed the LIC to refund the entire amount of premium paid to the LIC on the four insurance policies along with interest.

When an agent has, without authority, done acts or incurred obligations to third persons on behalf of his principal, the principal is bound by such acts or obligations, if he has by his words or conduct induced such third persons to believe that such acts and obligations were within the scope of the agent's authority."

Therefore, in the case with facts stated in question, Rishi's (the insured) widow cannot claim any amount from insurer on the ground of apparent authority except when it may be given on humanitarian ground by the Court as was in Harshad J. Shah Case.

Answer 5(b)

Followings are the essential conditions for the operation of the doctrine of part-performance according to Section 53A of the Transfer of Property Act.

1. There must be a contract to transfer immoveable property.
2. It must be for consideration.
3. The contract should be in writing and signed by the transferor himself or on his behalf.
4. The terms necessary to constitute the transfer must be ascertainable with reasonable certainty from the contract itself.
5. The transferee should have taken the possession of the property in part performance of the contract. In case he is already in possession, he must have continued in possession in part performance of the contract and must have done something in furtherance of the contract.
6. The transferee must have fulfilled or be ready to fulfil his part of the obligation under the contract.

If all the above mentioned conditions are satisfied, then, the transferor and the persons claiming under him are debarred from exercising any right in relation to the property other than the rights expressly provided by the terms of the contract notwithstanding the fact that the instrument of transfer has not been registered or complete in the manner prescribed therefor by the law for time being in force. It should be noted that Section 53A does not confer any positive right on the transferee. It only prohibits exercise of the right of ownership in relation to the property in order to evict the transferee from the property because legal requirements have not been satisfied.

In view of the above, Vishal (transferor) cannot evict Akash (transferee) from the land. Akash will not be allowed to suffer simply because the formality of registration has not been through. The legislature grants some relief to such a transferee under Section 53A, which embodies the doctrine of part-performance.

Answer 5(c)

According to the Prevention of Money Laundering Act, 2002 requires every Bank shall—

- (a) Maintain a record of all transactions, including information relating to transactions in such manner as to enable it to reconstruct individual transactions.

- (b) Furnish to the Director within such time as may be prescribed, information relating to such transactions, whether attempted or executed, the nature and value of which may be prescribed.
- (c) Maintain record of documents evidencing identity of its clients and beneficial owners as well as account files and business correspondence relating to its clients.
- (d) Preserved information such as the nature of the transactions; the amount of the transaction and the currency in which it was denominated; the date on which the transaction was conducted; and the parties to the transaction.

Every information maintained, furnished or verified, save as otherwise provided under any law for the time being in force, shall be kept confidential.

The records shall be maintained for a period of five years from the date of transaction between a client and the reporting entity.

Answer 5(d)

Section 2A of the Essential Commodities Act, 1955 dealing with Essential commodities declaration, etc. defines the "essential commodity" as to mean a commodity specified in the Schedule.

Schedule to the Act lists out following commodities:

- (1) Drugs: The explanation clarifies that for the purposes of this Schedule, "drugs" has the meaning assigned to it in Section 3(b) of the Drugs and Cosmetics Act, 1940;
- (2) Fertilizer, whether inorganic, organic or mixed;
- (3) Foodstuffs, including edible oilseeds and oils;
- (4) Hank yarn made wholly from cotton;
- (5) Petroleum and petroleum products;
- (6) Raw jute and jute textiles;
- (7) (i) Seeds of food-crops and seeds of fruits and vegetables;
(ii) seeds of cattle fodder; and
(iii) jute seeds.

Answer 5(e)

An English mortgage looks like a mortgage by conditional sale but there are obvious differences between the two:

- 1. In English mortgage there is a personal liability undertaken by the mortgagor to pay the debt. In a mortgage by conditional sale there is no personal covenant (agreement for payment of the mortgage money and mortgagee has his remedy against the mortgaged property only);

2. In English mortgage the ownership in the mortgaged property is absolutely transferred to the creditor (i.e. mortgagee) which however, may be divested on repayment of the loan on the fixed day.

In a mortgage by conditional sale, the mortgagee gets only a qualified ownership which may, however, ripen into an absolute ownership in default of payment of the mortgage money.

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

Question 6

- (a) *Ms. Rubina was operated in General Hospital Nagpur, which was under control of the Government of Maharashtra, free of charge for family planning i.e. tubectomy. Subsequently, she gave birth to a female child. She filed a complaint against the State of Maharashtra and the doctor, who performed the operation, claiming ₹ 2 lakh for negligence in performing the operation. Rubina sought the relief of ₹ 2 lakh under the Consumer Protection Act, 1986, stating that the negligence of the doctor and the State of Maharashtra, being the controller of the hospital may be treated as deficiency in the service. Decide, whether Rubina will succeed?*
- (b) *A puts M as apprentice to B, and gives a guarantee to B for his fidelity. B promises on his part that he will, at least once a month, see M make up the cash. B omits to see this done as promised and M embezzles. State whether A is liable to B under the Indian Contract Act, 1872?*
- (c) *Explain the obligations which have been imposed upon the banks to remain cautious under the Prevention of Money Laundering Act, 2002.*
- (d) *In what manner and to whom the service of notice will be served under the Benami Transactions (Prohibition) Act, 1988 ?*
- (e) *Explain the objects and reasons for which the Real Estate (Regulation and Development) Act, 2016 has been enacted. (3 marks each)*

OR (Alternate question to Q. No. 6)

Question 6A

- (i) *A hot water bottle was bought by Shreya, who could not be expected to have special skill knowledge with regard to hot water bottles, from a chemist, who sold such articles stating that the bottle will not stand boiling water but was intended to hold hot water. While being used by Shreya, the bottle bursted and injured her. Whether seller is responsible for damages ? Give reasons in support of your answer.*
- (ii) *Which project do not require registration under the Real Estate (Regulation and Development) Act, 2016?*
- (iii) *What are the effects of non-registration of a firm under the Partnership Act, 1932 ?*
- (iv) *When perpetual injunction may be granted under the Specific Relief Act, 1963 ?*
- (v) *Explain the provisions regarding penalty for counterfeiting of seal specified under the Legal Metrology Act, 2009. (3 marks each)*

Answer 6(a)

As per Section 2(1)(d) of the Consumer Protection Act, Consumer means any person who hires or avails of any services for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any beneficiary of such services other than the person who hires or avails of the services for consideration paid or promised, or partly paid and partly promised, or under any system of deferred payment, when such services are availed of with the approval of the first mentioned person but does not include a person who avails of such services for any commercial purpose.

The term 'service' is defined under Section 2(1)(o) of the Act as to mean service of any description which is made available to potential users and includes, but not limited to the provision of facilities in connection with banking, financing, insurance, transport, processing, supply of electrical or other energy, board or lodging or both, housing construction, entertainment, amusement or the purveying of news or other information, but not include the rendering of any service free of charge or under a contract of personal service.

But in the instant case, the tubectomy is rendered free of charge which will not fall within the ambit of the definition of "service" under the Consumer Protection Act, 1986. For the same reason, Rubina is not a consumer as per the provisions of the Act. Therefore, Rubina will not succeed under the Consumer Protection Act, 1986.

Answer 6(b)

According to Section 139 of the Indian Contract Act, 1872, if the creditor does any act which is against the rights of the surety, or omits to do an act which his duty to the surety requires him to do, and the eventual remedy of the surety himself against the principal debtor is thereby impaired, the surety is discharged.

A puts M as apprentice to B, and gives a guarantee to B for M's fidelity. B promises on his part that he will, at least once a month, see M make up the cash. B omits to see this done as promised, and M embezzles.

In the instant case B (creditor), himself fails to fulfil his duty to check M once in a month making up cash. So, he being at fault can't held A (surety) liable for embezzlement by M (principal debtor). A (being surety) is not liable to B (being creditor) under the Indian Contract Act, 1872.

Answer 6(c)

The obligations which have been imposed upon banks to remain cautious under the Prevention of Money Laundering Act, 2002 are:

- (1) In terms of the provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, banks are required to follow certain customer identification procedures (KYC procedures) while undertaking a transaction either by establishing an account-based relationship or otherwise and monitor their transactions.
- (2) Banks should keep in mind that the information collected from the customer for the purpose of opening of account is to be treated as confidential and details

thereof are not to be divulged for cross selling or any other like purposes. Banks should, therefore, ensure that information sought from the customer is relevant to the perceived risk, is not intrusive, and is in conformity with the guidelines issued in this regard. Any other information from the customer should be sought separately with his/her consent and after opening the account.

- (3) Banks should ensure that the provisions of Foreign Contribution (Regulation) Act, 2010 and the Foreign Exchange Management Act, 1999 as amended from time to time, wherever applicable are strictly adhered to.
- (4) Banks should take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities.
- (5) Banks should ensure that records pertaining to the identification of the customer and his address (e.g. copies of documents like passports, identity cards, driving licenses, PAN card, utility bills etc.) obtained while opening the account and during the course of business relationship, are properly preserved. The identification records and transaction data should be made available to the competent authorities upon request.
- (6) Banks have been advised to pay special attention to all complex, unusual large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. It is further clarified that the background including all documents/office records/memorandums pertaining to such transactions and purpose thereof should, as far as possible, be examined and the findings at branch as well as Principal Officer Level should be properly recorded.

Answer 6(d)

Section 25 of the Benami Transactions (Prohibition) Act, 1988 deals with the manner of service of notice. A notice under Section 24(1) may be served on the person named therein either by post or as if it were a summons issued by a Court under the Code of Civil Procedure, 1908.

Any notice referred to above may be addressed---

- (i) in case of an individual, to such individual;
- (ii) in the case of a firm, to the managing partner or the manager of the firm;
- (iii) in the case of a Hindu undivided family, to karta or any member of such family;
- (iv) in the case of a company, to the principal officer thereof;
- (v) in the case of any other association or body of individuals, to the principal officer or any member thereof;
- (vi) in the case of any other person (not being an individual), to the person who manages or controls his affairs.

Answer 6(e)

The object and reason for which the Real Estate (Regulation and Development) Act, 2016 has been enacted are as under:

- Ensure accountability towards allottees and protect their interest

- Infuse transparency, ensure fair-play and reduce frauds & delays
- Introduce professionalism and pan India standardization
- Establish symmetry of information between the promoter and allottee
- Imposing certain responsibilities on both promoter and allottees
- Establish regulatory oversight mechanism to enforce contracts
- Establish fast-track dispute resolution mechanism
- Promote good governance in the sector which in turn would create investor confidence.

Answer 6A(i)

Ordinarily, in a contract of sale, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied.

But there is an implied condition that the goods are reasonably fit for the purpose for which they are required if:

- (i) the buyer expressly or by implication makes known to the seller the particular purpose for which the goods are required, so as to show that he relies on the seller's skill and judgement, and
- (ii) the goods are of a description which it is in the course of the seller's business to supply (whether he is the manufacturer or producer or not). There is no such condition if the goods are bought under a patent or trade name.

In the case of *Priest v. Last (1903) 2 K.B. 148*, a hot water bottle was bought by the plaintiff, a draper, who could not be expected to have special skill knowledge with regard to hot water bottles, from a chemist, who sold such articles stating that the bottle will not stand boiling water but was intended to hold hot water. While being used by the plaintiff's wife, the bottle bursted and injured her. Held, the seller was responsible for damages as the bottle was not fit for use as a hot water bottle.

In view of the above, the seller was responsible for damages as the bottle was not fit for use as a hot water bottle.

Answer 6A(ii)

The following projects do not require to be registered under the Real Estate (Regulation and Development) Act, 2016

- (a) Where the area of land proposed to be developed does not exceed five hundred square meters or the number of apartments proposed to be developed does not exceed eight inclusive of all phases:

Provided that, if the appropriate Government considers it necessary, it may, reduce the threshold below five hundred square meters or eight apartments, as the case may be, inclusive of all phases, for exemption from registration under this Act.

- (b) Where the promoter has received completion certificate for a real estate project prior to commencement of this Act.

Answer 6A(iii)

The following are the effects of non-registration of a firm under Indian Partnership Act, 1932:

Section 69(1) of the Act places a bar on the right of the partners of a firm to sue each other or the firm for enforcing any right arising from a contract or conferred by the Partnership Act, if the firm is not registered and the person suing is or has not been shown in the Register of Firms as a partner in the firm.

Further, Section 69(2) places a bar on the institution of a suit by or on behalf of a firm against a third-party if the firm is not registered and the persons suing are or have not been shown in the Register of Firms as partners in the firm.

However, there is no bar on the right of third-parties to sue the firm or any partner.

Section 69(3) states that the provisions of sub-sections (1) and (2) shall apply also to a claim of set-off or other proceeding to enforce a right arising from a contract.

Answer 6A(iv)

According to Section 38 of the Specific Relief Act, 1963, a perpetual injunction may be granted to the plaintiff to prevent the breach of an obligation existing in his favour, whether expressly or by implication.

When the defendant invades or threatens to invade the plaintiff's right to, or enjoyment of, property, the court may grant a perpetual injunction in the following cases, namely:—

- (a) Where the defendant is trustee of the property for the plaintiff;
- (b) Where there exists no standard for ascertaining the actual damage caused, or likely to be caused, by the invasion;
- (c) Where the invasion is such that compensation in money would not afford adequate relief;
- (d) Where the injunction is necessary to prevent a multiplicity of judicial proceedings.

Answer 6A(v)

Section 44 of the Legal Metrology Act, 2009 provides that whoever counterfeits any seal specified by or under this Act or the rules made thereunder, or sells or otherwise disposes of any counterfeit seal or possesses any counterfeit seal, or counterfeits or removes or tampers with any stamp, specified by or under this Act or rules made thereunder, or affixes the stamp so removed on, or inserts the same into, any other weight or measure, shall be punished with imprisonment for a term which shall not be less than six months but which may extend to one year and for the second or subsequent offence, with imprisonment for a term which shall not be less than six months but which may extend to five years.

Whoever obtains, by unlawful means, any seal specified by or under this Act or the rules made thereunder and uses, or causes to be used, any such seal for making any stamp on any weight or measure with a view to representing that the stamp made by such seal is authorised by or under this Act or the rules made thereunder shall be

punished with imprisonment for a term which shall not be less than six months but which may extend to one year and for the second or subsequent offence, with imprisonment for a term which shall not be less than six months but which may extend to five years.

Whoever, being in lawful possession of a seal specified by or under this Act or the rules made thereunder, uses, or causes to be used, such seal without any lawful authority for such use, shall be punished with imprisonment for a term which shall not be less than six months but which may extend to one year and for the second or subsequent offence, with imprisonment for a term which shall not be less than six months but which may extend to five years.

FINANCIAL AND STRATEGIC MANAGEMENT

Time allowed : 3 hours

Maximum marks : 100

PART I

1. ABC Ltd. has capital investment of ₹400 crores. After tax operating income is ₹45 crore and company has a cost of capital of 10%. Determine the “Economic Value” Added of the firm:
 - (A) ₹2 Crore
 - (B) ₹3 Crore
 - (C) ₹4 Crore
 - (D) ₹5 Crore

2. means the management of an organization maximizes the present value not only for shareholders but for all including employees, customers, suppliers and community at large.
 - (A) Profit Maximisation
 - (B) Wealth Maximisation
 - (C) EVA
 - (D) MVA

3. Financial Management is mainly concerned with :
 - (A) Acquiring and developing assets to forfeit its overall benefit
 - (B) Acquiring, financing and managing assets to accomplish the overall goal of a business enterprise
 - (C) Efficient management of the business
 - (D) Sole objective of profit maximisation

4. Which of the following need not be followed by the finance manager for measuring and maximising shareholders’ wealth ?
 - (A) Accounting profit analysis
 - (B) Cash Flow approach
 - (C) Cost benefits analysis
 - (D) Application of time value of money

5. Which of the following statement is correct, related to fixed charges like interest on debt?
- (A) Higher the fixed charges, greater the risk
 - (B) Higher the fixed charges, lower the risk
 - (C) Higher the fixed charges, no change in the risk
 - (D) Higher the fixed charges, risk may either be lower or higher
6. A company is considering a proposal to install either a semi-automatic or highly automatic machine. If the firm installs a semi-automatic machine it excludes the acceptance of proposal to install highly automatic machine. Which type of capital budgeting decision is this?
- (A) Mutually exclusive decisions
 - (B) Independent decision
 - (C) Contingent decisions
 - (D) Rejectable decisions
7. Risk Adjusted Discount Rate (RADR) is :
- (A) Risk free rate minus risk premium
 - (B) Risk free rate plus risk premium
 - (C) Risk free rate multiplied by risk premium
 - (D) Risk free rate divided by risk premium
8. Derive the formula for calculation of NPV if 'NCF' represents net cash flow, 'K' represents risk adjusted discount rate, 'I' represents initial investment, and 't' represents time period:

$$(A) \text{ NPV} = \sum_{t=0}^n \frac{\text{NCF}}{(1+k)^t} - I$$

$$(B) \text{ NPV} = \sum_{t=n}^n \frac{\text{NCF}}{(1+k)^t} - I$$

$$(C) \text{ NPV} = \sum_{t=0}^n \frac{\text{NCF}}{(1+k)^t} - I$$

$$(D) \text{ NPV} = \sum_{t=0}^n I - \frac{\text{NCF}}{(1+k)^{t-1}}$$

9. Find the amount of an annuity if payment of ₹50,000 is made annually for 7 years at interest rate of 14% compounded annually.
- (A) ₹5,36,000
 - (B) ₹5,35,000
 - (C) ₹5,36,500
 - (D) ₹5,35,000
10. A profitability index of 0.90 for a project means :
- (A) The present value of benefits is 90% greater than the project's costs
 - (B) The project's NPV is positive
 - (C) The project returns 90 cents in present value for each current rupee invested
 - (D) The payback period is less than two years
11. Which of the following statements is correct ?
- (A) If the NPV of a project is greater than 0, its PI will be negative
 - (B) If the IRR of a project is 0%, its NPV, using a discount rate, k , greater than 0, will be 0
 - (C) If the PI of a project is less than 1, its NPV should be negative
 - (D) If the IRR of a project is greater than the discount rate, k , its PI will be less than 1 and its NPV will be greater than 0
12. If the cut off rate of a project is lower than IRR, we may :
- (A) Accept the proposal
 - (B) Reject the proposal
 - (C) Be neutral about it
 - (D) Wait for the IRR to increase and match the cut off rate
13. The re-investment assumption in the case of IRR technique assumes :
- (A) Cash flows can be re-invested at the project IRR
 - (B) Cash flows can be re-invested at the weighted cost of capital
 - (C) Cash flows can be re-invested at the marginal cost of capital
 - (D) None of the above
14. For a Project, the cost benefit ratio is equal to one, then :
- (A) IRR will be greater than one
 - (B) IRR will be greater than discount rate
 - (C) IRR will be lesser than discount rate
 - (D) IRR will be equal to discount rate

15. In a capital budgeting decision, incremental cash flows mean :
- (A) Cash flows which are increasing
 - (B) Cash flows occurring over a period of time
 - (C) Cash flows directly related to the project
 - (D) Difference between cash inflows and outflows for each and every expenditure

16. Shaktiman Inc. considering a project that requires ₹4 Crore as initial investment. It is expected to generate annual after-tax cash flows of ₹60 Lakh for 12 years. Shaktiman's weighted average cost of capital (WACC) is 14%. This project's net present value (NPV) and the approximate internal rate of return (IRR) are :

	NPV	IRR
(A)	60,40,000	10%
(B)	60,40,000	14%
(C)	62,10,000	14%
(D)	62,10,000	10%

Mohan Pizza Ltd. is considering purchasing of a Pizza Oven. The expected purchase price is ₹ 2,70,000, expected annual revenues from the oven is ₹ 1,50,000, and expected annual costs are ₹ 90,000, including ₹ 22,500 of depreciation. The investment has a payback period of approximately :

- (A) 2.3 years
 - (B) 4.2 years
 - (C) 3.3 years
 - (D) 4.5 years
18. A capital budgeting technique which does not require the computation of cost of capital for decision making purposes is,
- (A) Net Present Value method
 - (B) Internal Rate of Return method
 - (C) Modified Internal Rate of Return method
 - (D) Pay back Period Method
19. When EBIT is higher than Financial Breakeven point, there would be :
- (A) Positive Financial Leverage
 - (B) No Financial Leverage
 - (C) Higher Financial Leverage
 - (D) Negative Financial Leverage

20. of an organisation refers to the composition of its long-term funds and its capital structure.
- (A) Capitalisation
 - (B) Over-capitalisation
 - (C) Under-capitalisation
 - (D) Market capitalization
21. A critical assumption of the net operating income (NOI) approach to valuation is:
- (A) That debt and equity levels remain unchanged
 - (B) That dividends increase at a constant rate
 - (C) That k_0 remains constant regardless of changes in leverage
 - (D) That interest expense and taxes are included in the calculation
22. Capital structure of ABC Ltd. consists of equity share capital ₹1,00,000 (10000 share of @ ₹10 each) and 8% debentures of ₹50,000 & earnings before interest and tax is ₹20,000. The degree of financial leverage is :
- (A) 1
 - (B) 1.25
 - (C) 2
 - (D) 2.5
23. An EBIT-EPS indifference analysis chart is used for
- (A) Evaluating the effects of business risk on EPS
 - (B) Examining EPS results for alternative financing plans at varying EBIT levels
 - (C) Determining the impact of a change in sales on EBIT
 - (D) Showing the changes in EPS quality over time
24. Degree of combined leverage is the fraction of :
- (A) Percentage change in EBIT on Percentage change in Sales
 - (B) Percentage change in EPS on Percentage change in Sales
 - (C) Percentage change in Sales on Percentage change in EPS
 - (D) Percentage change in EPS on Percentage change in EBIT
25. From the following information, calculate combined leverage :
- | | |
|---------------|------------|
| Sales | ₹20,00,000 |
| Variable Cost | 40% |
| Fixed Cost | ₹10,00,000 |

Borrowings ₹10,00,000
@ 8% p.a.

- (A) 7
(B) 0.9
(C) 9
(D) 10
26. The is the percentage change in earnings per share that results from a percentage change in operating income.
- (A) Degree of combined leverage
(B) Degree of financial leverage
(C) Break-even point
(D) Degree of operating leverage
27. Which kind of capital structure has a large proportion consisting of equity capital and retained earnings which have been ploughed back into the firm over a considerably large period of time :
- (A) Pyramid shaped Capital structure
(B) Horizontal Capital Structure
(C) Vertical Capital Structure
(D) Inverted Pyramid shaped Capital Structure
28. Which is not the main function of specialised financial institutions established by the Central and State governments?
- (A) To grant loans for a longer period to industrial establishment
(B) To help the establishment of business units that require small amount of funds and have short gestation period
(C) To provide support for the speedy development of the economy in general and backward regions in particular
(D) To offer specialized services operating in the areas of promotion, project assistance, technical assistance services and training and development of entrepreneurs
29. PQR Ltd. has expected earnings at ₹40 per share which is growing at 9% annually. Company follows fixed pay out ratio of 60%. The market price of its share is ₹ 500. What is the current cost of equity ?
- (A) 12%
(B) 12.8%
(C) 13.8%
(D) 12.1%

30. Sachin Company has sales of ₹75,00,000. Variable cost of ₹45,00,000 and fixed cost of ₹15,00,000. Operating leverage will be :
- (A) 1
 - (B) 2
 - (C) 3
 - (D) 4
31. A company has issued 50,000 equity shares of ₹100 each. Its current market price is ₹90 per share and the current dividend is ₹8 per share. The dividends are expected to grow at the rate of 10%.
Compute the cost of equity capital :
- (A) 14.07%
 - (B) 18.78%
 - (C) 19.78%
 - (D) 9.78%
32. Shyamali Limited is currently financed with ₹5,00,000 of 10% Debenture and 15,00,000 of Equity share. The equity share has a beta of 1.5, and the risk free rate is 6%, and the market risk premium is 4%. The tax rate is 20%. What is the WACC of Shyamali Limited ?
- (A) 11%
 - (B) 12%
 - (C) 13%
 - (D) 10%
33. The cost of each component of a firm's capital structure multiplied by its weight in the capital structure is called :
- (A) Marginal cost of capital
 - (B) The cost of debt
 - (C) Weighted average cost of capital
 - (D) Opportunity Cost
34. While calculating weighted average cost of capital which is not considered :
- (A) Retained earnings
 - (B) Bank borrowings for working capital
 - (C) Cost of issue shares
 - (D) Weights are based on market value or on book value

35. Venture capital means :
- (A) equity funds from internal sources used to finance high-risk projects
 - (B) capital raised from issuing equity securities in order to retire debt securities
 - (C) financing for new firms which generally entails high levels of risk
 - (D) bank loans used to pay the start-up costs of a new firm
36. In Social Cost-Benefit Analysis, a project is analysed from the point of view of the benefit, if:
- (A) It will generate for the society as a whole
 - (B) It will generate for a particular Company
 - (C) It will generate for a particular Industry
 - (D) It will generate for the customers
37. Which of the following statement is correct with respect to Gordon's model?
- (A) When IRR is greater than cost of capital, the price per share increases and dividend pay-out decreases
 - (B) When IRR is greater than cost of capital, the price per share decreases and dividend pay-out increases
 - (C) When IRR is equal to cost of capital, the price per share increases and dividend pay-out decreases
 - (D) When IRR is lower than cost of capital, the price per share increases and dividend pay-out decreases
38. What are the different options other than cash used for distributing profits to shareholders?
- (A) Bonus shares
 - (B) Stock split
 - (C) Stock dividend
 - (D) All of the above
39. According to the Walter's model, a firm should have 100% dividend pay-out ratio when :
- (A) $r = k_e$
 - (B) $r < k_e$
 - (C) $r > k_e$
 - (D) $g > k_e$
40. Modigliani and Miller, recognizing that dividends do somehow affect stock prices, suggest that positive effects of dividend increases are attributable :
- (A) Directly to the dividend policy
 - (B) Directly to the optimal capital structure

- (C) Not to the informational content but to the consistency in the payment of dividends
- (D) Not to the dividend itself but to the informational content of the dividends with respect to future earnings
41. A Company has 5,000 shares of ₹100 each. The capitalisation rate is 12%. Income before tax is ₹2,00,000. Tax rate is 30%. Dividend pay-out ratio is 50%. Find Market Price Per Share (MPS) at the end of the current year based on MM approach if dividend is paid.
- (A) ₹101
- (B) ₹100
- (C) ₹99
- (D) ₹98
42. PQR company earns ₹10 per share, is capitalised at a rate of 10 per cent and has a rate of return on investment of 20 percent. If dividend payout ratio is 50%, what should be the price per share, according to Walter's model ?
- (A) ₹200
- (B) ₹150
- (C) ₹125
- (D) ₹225
43. When the firm does not pay out fixed dividend regularly, the dividend policy is known as :
- (A) Irregular
- (B) Regular
- (C) No immediate
- (D) Liberal
44. What do you understand by the term 'factoring' with respect to management of accounts receivable ?
- (A) Use of accounts receivables as prime collateral for a secured loan
- (B) Pledging of accounts receivables to a lender
- (C) Outright sale of accounts receivables to a financial agency
- (D) Encashing accounts receivable before closure of accounts
45. Calculate maximum permissible bank finance (MPBF) as per first method suggested by the Tandon Committee, from the information given below :

Particulars	Amount (₹ lakhs)
Creditors	150
Other current liabilities	50

Debenture	400
Finished goods	500
Receivables	150
Other current assets	150

- (A) ₹150 Lakhs
 - (B) ₹200 Lakhs
 - (C) ₹350 Lakhs
 - (D) ₹450 Lakhs
46. Credit term '4/20 net 90' means :
- (A) 0.40% discount will be granted if the customer pays within 90 days
 - (B) 20% discount will be granted if the customer pays within 4 days, and if he does not avail the offer he must make payment within 90 days
 - (C) Net 90% discount will be granted if the customer pays 4 times the amount due within 20 days
 - (D) 4% discount will be granted if the customer pays within 20 days, otherwise he must make payment within 90 days
47. According to William J. Baumol's economic order quantity model with respect to cash management, optimum cash level is that level of cash where :
- (A) Carrying costs are maximum and transactions costs are minimum
 - (B) Carrying costs and transactions costs are minimum
 - (C) Carrying costs and transactions costs are maximum
 - (D) Carrying costs are minimum and transactions costs are maximum
48. Determine the economic order quantity from the following figures :
- (i) Annual requirement of inventory 1,00,000 units
 - (ii) Cost per unit (other than carrying and ordering cost) ₹20
 - (iii) Carrying cost are likely to be 10% per year
 - (iv) Cost of placing order ₹1,000 per order
- (A) 10,000 Units
 - (B) 1,000 Units
 - (C) 2,000 Units
 - (D) 5,000 Units

49. Net Operating Cycle (NOC) can be defined as sum of :
- (A) Raw Material, W.I.P. and Finished Goods Conversion period
 - (B) Raw Material, W.I.P., Finished Goods and Receivables Conversion period
 - (C) Inventory Plus Receivables Conversion period minus Deferral period
 - (D) None of the above
50. Net working capital is equal to :
- (A) Fixed Assets–Current Assets
 - (B) Current Assets–Current Liabilities
 - (C) Current Assets–Cash
 - (D) Long Term Loans–Short Term Loans
51. The intercept of Security Market Line (SML) on the Y Axis is
- (A) Risk Free Return
 - (B) Risk Premium
 - (C) Market Return
 - (D) Beta (β)
52. In, the future earning capacity is predicted with the help of accounting ratios.
- (A) Technical Analysis
 - (B) Industry Analysis
 - (C) Economic Analysis
 - (D) Company Analysis
53. Beta of the Market portfolio generally is :
- (A) Zero
 - (B) 1
 - (C) 2
 - (D) Negative
54. The main aim of portfolio is to reduce by diversification.
- (A) Risk
 - (B) Profit
 - (C) Cash flow
 - (D) Borrowing Fund

55. Suppose two portfolios have the same average return, the same standard deviation of returns, but portfolio A has a higher beta than portfolio B. According to the Sharpe measure, the performance of portfolio A.
- (A) Is the same as the performance of portfolio B
 - (B) Is better than the performance of portfolio B
 - (C) Is poorer than the performance of portfolio B
 - (D) Cannot be measured
56. Anubhav is planning to purchase a share that has a beta coefficient of 0.95. He estimates the expected market return to be 12% while T-Bills yield 7%. What rate should he expect and require on the stock according to be SML (Security Market Line) ?
- (A) 11.33%
 - (B) 12.67%
 - (C) 12.33%
 - (D) 11.75%
57. Tansen Ltd. has a beta of 0.80. If the expected market return is 21.50 and the risk free rate of return is 9.50%. Using CAPM mode to calculate the appropriate required rate of return :
- (A) 19.10%
 - (B) 20.10%
 - (C) 20.30%
 - (D) 22.00%
58. Which of the following is most closely associated with the terms 'primary trend,' 'intermediate trend,' and 'short-term trend' ?
- (A) Trend line
 - (B) Dow Theory
 - (C) Candlestick chart
 - (D) Bar chart
59. Bar chart is used to illustrate :
- (A) High, low and closing stock price on a daily basis
 - (B) Reversal in the direction of stock prices without consideration of time
 - (C) High, low, opening and closing price on a daily basis
 - (D) The candlestick line

60. Which of the following is not a basic principle of the Dow Theory?
- (A) A bear market is established when the Dow Jones Industrial Average is moving down
 - (B) There is usually a positive relationship between a trend and the volume of shares traded
 - (C) The financial market has three distinct types of movements : the primary trend, the intermediate trend, and short-term trends
 - (D) The intermediate trend has duration of three weeks to six months

PART II

61. The first ever 14 principles of 'classical management theory' was shelled out by:
- (A) George R Terry
 - (B) Henry Fayol
 - (C) Peter Drucker
 - (D) Harold Koontz
62. Which of the following is not a function of management ?
- (A) Planning
 - (B) Staffing
 - (C) Co-operation
 - (D) Controlling
63. Planning process begins with :
- (A) Establishment of objectives
 - (B) Generating alternatives
 - (C) Selecting alternatives
 - (D) Resource allocation
64. The framework within which managerial and operating tasks are performed is called :
- (A) Staffing
 - (B) Organisation structure
 - (C) Job design
 - (D) Departmentation
65. An efficient control system helps to :
- (A) Accomplish organizational objectives

- (B) Boost employees' morale
 - (C) Judge accuracy of standards
 - (D) All of the above
66. Which one of the following is not part of the Porter's Five Forces model ?
- (A) Rivalry among shareholders
 - (B) Bargaining power of suppliers
 - (C) Rivalry among present competitors
 - (D) Bargaining power of buyers
67. The fundamental purpose for the existence of any organization is described by its :
- (A) Visions
 - (B) Mission
 - (C) Objective
 - (D) Strategy
68. Which of the following is not considered as a major elements of the strategic management process?
- (A) Environmental Scanning
 - (B) Implementing strategy
 - (C) Evaluating strategy
 - (D) Assigning administrative tasks
69. Which of the following is a part of Macro Business environment ?
- (A) Suppliers
 - (B) Customers
 - (C) Competitors
 - (D) Technology
70. Threat to New Entrants to the industry is very low when :
- (A) Smaller capital is required to make an entry
 - (B) Existing firms do not have strong brand value
 - (C) There is no or little government regulation
 - (D) Customer switching costs are high
71. Rivalry among competitors in an industry is NOT intensified when :
- (A) There are several competitors

- (B) High customer loyalty is existing
 - (C) Exit barriers are high
 - (D) Products can be easily substituted
72. Which strategy is about how to compete successfully in particular markets?
- (A) Business-level strategy
 - (B) Corporate-level strategy
 - (C) Alliance-based strategy
 - (D) Operational-level strategy
73. What is the key benefit of identifying the organisation's SBUs ?
- (A) It helps the development of business level strategies
 - (B) It makes financial control easier
 - (C) It prevents a focus solely on market-based criteria
 - (D) It decreases the complexity of the organisation's structures
74. Select the incorrect statement regarding Business Strategy/Corporate Strategy:
- (A) Business Strategy can be viewed as the strategy designed by the business managers to improve the overall performance of the firm
 - (B) Corporate Strategy is the one expressed in the mission statement of the company, which describes the business type and ultimate goal of the organization
 - (C) The nature of business strategy is executive and governing, whereas the corporate strategy is deterministic and legislative
 - (D) Business strategy is a long term strategy; corporate strategy is a short term one
75. Strategic Marketing answers three 'W's except :
- (A) Which markets to compete in ?
 - (B) Where to bargain for purchase ?
 - (C) What is the basis of the firm's competitive ?
 - (D) When to compete ?
76. Which of the followings is not part of production strategies under Competitive Priorities ?
- (A) Market segmentation strategy
 - (B) Price or cost strategy

- (C) Quality strategy
 - (D) Delivery strategy
77. What strategy shall be used for the products classified as Dogs in BCG matrix?
- (A) New customer acquisition
 - (B) Divest
 - (C) Sales promotion
 - (D) Invest
78. Strategies that minimize weakness and avoid threats are represented by which cell of the TOWS Matrix?
- (A) The WT cell
 - (B) The WO cell
 - (C) The SO cell
 - (D) The ST cell
79. An organization that has a high market share position and competes in a low-growth industry is referred to as a
- (A) Dog
 - (B) Question Mark
 - (C) Star
 - (D) Cash Cows
80. 'Build,' 'Hold,' 'Harvest' and 'Divest' are the strategies explained by :
- (A) Ansoff's Product Matrix Growth
 - (B) ADL matrix
 - (C) GE McKinsey Matrix
 - (D) BCG Matrix
81. The SWOT/TOWS analysis is a very simple yet valuable technique which aids in identifying opportunities and threats from an enviroment, and analysing its strengths and weakness.
- (A) external; own
 - (B) own; own
 - (C) external; external
 - (D) own; external
82. In long run, when the growth rate slows down stars become :
- (A) Question Marks

- (B) Moon
 - (C) Dogs
 - (D) Cash Cows
83. GE Nine-cell Matrix is based on :
- (A) Market growth rate and relative market share
 - (B) Market growth rate and business strength
 - (C) Market attractiveness and relative market share
 - (D) Market attractiveness and business strength
84. Which one of the following is NOT a level of diversification prescribed in Ansoff's matrix ?
- (A) Diversification into related markets
 - (B) Conglomerate Diversification with new product
 - (C) Diversification into unrelated markets using existing resources
 - (D) Diversification into unrelated markets using new resources
85. According to Porter's generic strategy model, Mercedes-Benz C-Class could sell its cars as most expensive ones, is an example of :
- (A) The Cost Leadership Strategy
 - (B) The Differentiation Strategy
 - (C) The Focus Strategy
 - (D) Combination Strategies
86. In Porter's Generic Strategies model, a focus strategy includes :
- (A) Selling a high range of products
 - (B) Selling products that require less cost to produce
 - (C) Selling to premium customers
 - (D) Selling to a niche market
87. Which of the following is not correct related with reference to PERT ?
- (A) Compels managers to plan their projects critically in considerable detail from beginning to the end and analyse all factors affecting the progress of the plan.
 - (B) Provides management a tool for forecasting the impact of schedule changes. The likely trouble spots are located early enough to take preventive measures or corrective actions.
 - (C) A considerable amount of data may be presented in precise manner. The task relationships are presented graphically for easier evaluation.

- (D) The PERT time is based upon 5-way estimate and hence is the most objective time in the light of uncertainties and results in greater degree of accuracy in time forecasting.
88. According to MCKINSEYS 7-S framework change in strategy is implemented through change in
- (A) Systems
 - (B) Style
 - (C) Shared Values
 - (D) Skills
89. The difference between strategy formulation and strategy implementation is that:
- (A) Strategy is developed by Top Management Team and implemented by Managers
 - (B) Strategy is created by a few but implemented by all
 - (C) Strategy is customer centric and
 - (D) All of the above
90. Which of the following most suitably applies to the matrix structure ?
- (A) It encourages empowerment which results in high morale and motivation adding to quality decisions and implementation
 - (B) It incurs extra costs since each division has its own set of functional departments
 - (C) It seeks to introduce specialist functional managers into organisations
 - (D) It allows the owner to control all aspects of the business
91. Which model is based on the premise that the organization is an open system and basic task of the manager is to facilitate the change in the organization ?
- (A) Free Form Organisation
 - (B) The divisional structure
 - (C) Matrix Structure
 - (D) The functional structure
92. Which is not a correct element of strategic leadership ?
- (A) It deals with vision keeping the mission insight and with effectiveness and results
 - (B) It emphasises on transformational aspects which leads to emergence of leaders in the organization
 - (C) It inspires and motivates people to work together with a common vision and purpose

- (D) Strategic leadership has internal focus rather than external focus which helps the organization to relate with environment
93. Which strategic control techniques enables the organizations operating in a relatively unstable and turbulent environment in defining new strategic requirements and to cope with environmental realities?
- (A) Premise Control
(B) Strategic Leap Control
(C) Special Alert Control
(D) Strategic Momentum Control
94. Which of the following perspective is not a part of Balance Scorecard ?
- (A) Financial Perspective
(B) Customer Perspective
(C) Learning and Growth Perspective
(D) Creditors Perspective
95. Business Process Reengineering mainly involves :
- (A) Radical improvement of various measures of performance
(B) Fine-tuning of the production process
(C) Slight reduction in cost
(D) Recruitment of business process Engineers
96. Which is not a factor for a successful implementation of BPR as identified AIMashari and Zairi?
- (A) Change in management
(B) Management competencies
(C) Organizational structure
(D) Business network process
97. With reference to benchmarking, select the correct statement out of the following:
- (A) Finding and implementing the best business
(B) Traditional controlling is also known as benchmarking
(C) The focus of benchmarking is to identify and eliminate non-value added activities
(D) Benchmarking deals only with medium size organisation
98. Which of the practice started by Ford Motor with a slogan of 'Quality is Job 1' ?
- (A) Total Quality Management
(B) Six Sigma

- (C) Business Excellence Model
 - (D) Business Process Reengineering
99. In which Six Sigma, an individual should have a basic understanding of Six Sigma, statistical tools and DMAIC methodology?
- (A) Yellow Belt
 - (B) Green Belt
 - (C) Black Belt
 - (D) Master Black Belt
100. In 'DMAIC', with reference to Six Sigma D stands for :
- (A) Direction
 - (B) Define
 - (C) Decision
 - (D) Dignity

ANSWER KEY**FINANCIAL AND STRATEGIC MANAGEMENT - SELECT SERIES**

PART A		Qno	Ans	Qno	Ans
Qno	Ans				
		Q34	D	Q67	B
Q1	D	Q35	C	Q68	D
Q2	B	Q36	A	Q69	D
Q3	B	Q37	A	Q70	D
Q4	A	Q38	D	Q71	B
Q5	A	Q39	B	Q72	A
Q6	A	Q40	D	Q73	A
Q7	B	Q41	D	Q74	D
Q8	C	Q42	B	Q75	B
Q9	C	Q43	A	Q76	A
Q10	C	Q44	C	Q77	B
Q11	C	Q45	D	Q78	A
Q12	A	Q46	D	Q79	D
Q13	A	Q47	B	Q80	D
Q14	D	Q48	A	Q81	A
Q15	A	Q49	B	Q82	D
Q16	*	Q50	B	Q83	D
Q17	C	Q51	D	Q84	B
Q18	D	Q52	D	Q85	B
Q19	A	Q53	B	Q86	D
Q20	A	Q54	A	Q87	D
Q21	C	Q55	A	Q88	A
Q22	B	Q56	D	Q89	D
Q23	B	Q57	A	Q90	A
Q24	B	Q58	B	Q91	A
Q25	D	Q59	A	Q92	D
Q26	A	Q60	A	Q93	B
Q27	A		PART B	Q94	D
Q28	B	Q61	B	Q95	A
Q29	C	Q62	C	Q96	D
Q30	B	Q63	A	Q97	A
Q31	C	Q64	B	Q98	A
Q32	A	Q65	D	Q99	A
Q33	C	Q66	A	Q100	B

Note :

16.*The option for this question is incorrect. Hence candidates whether attempted this question or not may be awarded marks

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