GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

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)
ICSI House, 22, Institutional Area, Lodi Road, New Delhi 110 003
Phones : 41504444, 45341000; *Fax* : 011-24626727

These answers have been written by competent persons and the Institute hope that the **GUIDELINE ANSWERS** will assist the students in preparing for the Institute's examinations. It is, however, to be noted that the answers are to be treated as model answers and not as exhaustive and the Institute is not in any way responsible for the correctness or otherwise of the answers compiled and published herein.

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.

C O N T E N T S

Page

MODULE 2

EXECUTIVE PROGRAMME EXAMINATION

JUNE 2021

COMPANY ACCOUNTS AND AUDITING PRACTICES

Time allowed : 3 hours Maximum marks : 100

NOTE : 1. Answer ***ALL*** *Questions.*

2. All working notes should be shown distinctly.

PART A

Question 1

(a) What are the minimum disclosure of notes and explanatory statements should be required as per AS-25 "Interim Financial Reporting" ? (5 marks)

(b) State the conditions for payment of underwriting commission as per the Companies (Prospectus and Allotment of Securities) Rule, 2014. (5 marks)

(c) Classify the following into either operating or finance lease :

(i) Lessee has option to purchase the asset at lower than the fair value at the end of the lease term.

(ii) Lease income is being recognized in the statement of Profit and Loss Account by the lessor.

(iii) Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term.

(iv) The lessor presents the asset in its balance sheet under fixed asset.

(v) Economic life of the asset is 6 years, but the asset is of special nature and has been procured only for use of the lease. (5 marks)

(d) The following particulars are available in relation to A Ltd. :

(i) Equity Share Capital – 8,000 equity shares of ₹100 each fully paid.

(ii) 2,000, 8% Preference Shares of ₹100 each.

(iii) Reserve and Surplus – ₹2,50,000.

(iv) 10% Debentures – ₹8,00,000.

(v) Profit on revaluation of assets – ₹1,84,000.

(vi) EBDIT – ₹5,48,000.

(vii) Depreciation – ₹1,00,000.

(viii) Income tax rate is 30%.

(ix) E/P Ratio (Earning Price Ratio) in the industry is 1/8 and dividend yield is 16%.

(x) During the last three years, the company paid dividend at 20%, 19% and 27% respectively.

Calculate the market price of each equity share under Earnings Method and under Dividend Yield Method. (5 marks) *(e) R Ltd. was incorporated with an authorised capital of ₹4,00,00,000 consisting of 20,00,000 equity shares of ₹10 each and 2,00,000, 8% preference shares of ₹ 100 each. Other details were as follows :*

Issued, Subscribed and paid-up Capital :	*₹*
10,00,000 Equity Shares of ₹10 each	*1,00,00,000*
1,00,000, 8% Preference Shares of ₹100 each	*1,00,00,000*
	2,00,00,000

The Statement of Profit and Loss of the Company for the year ended 31st March, 2020 showed net profit before tax ₹60,00,000. The net profit brought forward from previous year's Balance Sheet amounted to ₹12,00,000. The Company makes a provision of 30% for income tax. The dividend distribution tax rate (including surcharge and cess) is 17.304%

The following appropriation was proposed by the company:

(a) to pay dividend on preference shares;

(b) to pay final dividend @ 20% to equity shareholders;

(c) transfered to general reserve ₹4,20,000.

You are required to show the relevant items in the Balance Sheet.

(Showing details in the 'Notes to Accounts').

(5 marks)

Answer 1(a)

Disclosure of Notes and Explanatory Statements [As per AS 25]

The following minimum disclosure of notes and explanatory statements should be made in the "Interim Financial Reporting" as per AS-25:

1. A statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statement or, if those policies have been changed, a description of the nature and effect of the change.
2. Explanatory comments about the seasonality of interim operations.
3. Unusual factors that affected assets, liabilities, equity, net income and cash flows.
4. The effects of changes in estimates.
5. Change in debt and equity through issuance, buy-back and repayments.
6. Details of dividend payment.
7. Segment revenue, segment capital employed and segment result for business segments or geographical segments, whichever is the primary basis of segment reporting.
8. The effect of changes in the composition of the enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.
9. Material changes in contingent liabilities since the last annual balance sheet date.

Answer 1(b)

Conditions for payment of Underwriting Commission

Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to the following conditions which are prescribed under Companies (Prospectus and Allotment of Securities) Rules, 2014:

1. the payment of such commission shall be authorized in the company's articles of association;

2. the commission may be paid out of proceeds of the issue or the profit of the company or both;

3. the rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorized by the articles, whichever is less, and in case of debentures, shall not exceed two and a half percent (2.5%) of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;

4. the prospects of the company shall disclose-

   — the name of the underwriters;

   — the rate and amount of the commission payable to the underwriter, and

   — the number of securities which is to be underwritten or subscribed by the underwriter absolutely or conditionally.

5. there shall not be paid commission to any underwriter on securities which are not offered to the public for subscription;

6. a copy of the contract for the payment of commission is delivered to the Registrar at the time of delivery of the prospectus for registration.

Thus, the Underwriting commission is limited to 5% of issue price in case of shares and 2.5% in case of debentures. The rates of commission given above are maximum rates. The company is free to negotiate lower rates with underwriters.

Answer 1(c)

Classification of Lease

(i) Finance lease

(ii) Operating lease

(iii) Finance lease

(iv) Operating lease

(v) Finance lease

Answer 1(d)

Calculation of Earnings of Equity Shareholders

Particulars	*Amount (Rs.)*
Earnings before depreciation, Interest and tax (EBDIT)	5,48,000
Less : Depreciation	(1,00,000)
Earnings before Interest and tax (EBIT)	4,48,000
Less : Interest on Debenture (10% of Rs. 8,00,000)	(80,000)
	3,68,000
Less : Profit on Revaluation of Assets	(1,84,000)
Operating profit before Tax	1,84,000
Less : Income tax @ 30%	(55,200)
Profit after tax (PAT)	1,28,800
Less : Preference Dividend (8% of Rs. 2,00,000)	16,000
Profit available to Equity Shareholders	1,12,800

$$\text{Expected Rate of Earning} = \frac{\text{Profit available to Equity Shareholders}}{\text{Paid up value of Equity Shares}} \times 100$$

$$= \frac{1,12,800}{8,00,000} \times 100 = 14.10\%$$

$$\text{Normal Rate of Return} = \frac{\text{Earning}}{\text{Price}} \times 100$$

$$= \frac{1}{8} \times 100 = 12.50\%$$

(i) Calculation of value per share under Earning Method

$$\text{Value of each share} = \frac{\text{Expected Rate of Earning (ERE)}}{\text{Normal Rate of Return (NRE)}} \times \text{Face Value per Share}$$

$$= \frac{14.1\%}{12.5\%} \times 100 = \text{Rs. } 112.80 \text{ per share}$$

(ii) Calculation of value per share under Dividend Yield Method

$$\text{Expected Rate of Dividend} = \frac{20\%/\ \ 19\%\ \ /\ 27\%}{3} = 22\%$$

$$\text{Value per share} = \frac{\text{Expected Rate of Dividend}}{\text{Normal Rate of Dividend}} \times \text{paid up Value}$$

$$= \frac{22\%}{16\%} \times 100 = \text{Rs. } 137.50 \text{ per share}$$

Answer 1(e)

Balance Sheet of R Ltd. as at 31st March, 2020

Particulars	*Note No.*	*Amount (Rs.)*
EQUITY AND LIABILITIES		
(1) Shareholder's Funds:		
(a) Share Capital	(1)	2,00,00,000
(b) Reserve and Surplus	(2)	21,15,488
(2) Current Liabilities:		
(a) Short-term Provisions	(3)	50,84,512
Total		2,72,00,000

Notes to Accounts:

(1) *Share Capital*	*Amount (Rs.)*
Authorised Capital:	
20,00,000 Equity Shares of Rs.10 Each	2,00,00,000
2,00,000 8% Preference Shares of Rs.100 Each	2,00,00,000
	4,00,00,000
Issued, subscribed and paid up capital	
10,00,000 Equity Shares of Rs.10 Each Fully Paid	1,00,00,000
1,00,000 8% Preference Shares of Rs.100 Each Fully Paid	1,00,00,000
Total	2,00,00,000

(2) *Reserve and Surplus*	*Amount (Rs.)*	*Amount (Rs.)*
(a) Profit carried brought forward from previous year		12,00,000
(b) Net Profit before Tax	60,00,000	
Less : Income-tax @ 30%	(18,00,000)	
Profit after tax	42,00,000	
Less : Appropriations:		
(i) Preference Dividend paid @ 8%	(8,00,000)	
(ii) Equity Dividend (Rs. 2 x10,00,000)	(20,00,000)	
(iii) Dividend Distribution Tax (17.304% of Rs.28,00,000)	(4,84,512)	
(iv) Transfer to General Reserve	(4,20,000)	4,95,488
(c) General Reserve		4,20,000
Total		21,15,488

(3) *Short-term provisions*	*Amount (Rs.)*
(i) Proposed Dividend	
(a) Preference Dividend	8,00,000
(b) Equity Dividend	20,00,000
(ii) Dividend Distribution Tax (17.304% of Rs. 28,00,000)	4,84,512
(iii) Provision for taxation (30% of Rs.60,00,000)	18,00,000
Total	50,84,512

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

Question 2

(a) Give two examples on each of the following items :

(i) Change in accounting estimate

(ii) Extra-ordinary items

(iii) Prior period items. *(3 marks)*

(b) Z Ltd. provides you the following information :

Equity Share Capital	*₹200 lakh*
8% Secured Loan	*₹40 lakh*
10% Unsecured Loan	*₹60 lakh*
Total Capital Employed	*₹300 lakh*
Profit After Tax	*₹31,66,000*
Rate of Tax	*40%*
Cost of Equity	*12%*

You are required to calculate Economic Value Added for Z Ltd. *(3 marks)*

(c) A company went into liquidation whose creditors are ₹36,000 which includes ₹6,000 on account of wages of 15 men at ₹100 per month for 4 months immediately before the date of winding up; ₹9,000 being the salaries of 5 employees at ₹300 per month for the previous 6 months; rent for godown for the last six months amounting to ₹3,000; Income-tax deducted out of Salaries of employees ₹1,000 and Directors fee ₹500. In addition it is estimated that the company would have to pay ₹5,000 as compensation to an employee for injuries suffered by him, which was contingent liability not accepted by the company and not included in the above said creditors figure. Find the amount of Preferential Creditors. *(3 marks)*

(d) State how you will treat the following transaction while preparing the final accounts of a company for the year ending 31st March, 2020.

(i) Subsidy ₹2,50,000 received from Government for installing a factory in backward area.

(ii) *The market value of the quoted investment is ₹3,00,000 as against the cost of ₹2,75,000.*

(iii) *While preparing the accounts of the previous year closing stock was taken at market price of ₹4,55,000 instead of cost price of ₹4,80,000.*

(3 marks)

(e) *The following items were extracted from the Balance Sheet of Z Ltd. as on 01.04.2019*

Particulars	*₹*
Equity share capital fully paid up	*12,00,000*
12% preference share capital	*5,00,000*
Securities premium	*6,00,000*
13% Debenture	*9,00,000*

- *Profit before interest and tax is ₹12,00,000 for the year ended 31.03.2020.*
- *The Board of Directors of the company declares a dividend of 15% on equity capital on 31.03.2020.*
- *The Company also decided to transfer for creation of general reserve @ 5% of net profit.*
- *Tax rate is 30%*

Pass necessary journal entries to incorporate the Board's recommendation.

(3 marks)

OR (Alternate question to Q. No. 2)

Question 2A

(i) *RG Ltd. had an authorised equity capital of ₹20 lakh divided into shares of ₹100 each. The paid-up capital was ₹12,50,000. Besides this, the company had 9% Redeemable Cumulative Preference Shares of ₹10 each for ₹2,50,000. Balance on other accounts were :*

Securities Premium	*₹28,000*
Profit and Loss Account	*₹72,000*
General Reserve	*₹3,40,000*

Included in Sundry Assets were investments of the face value of ₹30,000 carried in the books at a cost of ₹34,000.

The company decided to redeem the cumulative preference shares at 10% premium, partly by the issue of equity shares of the face value of ₹1,20,000 at a premium of 10%. Investments were sold at 105% of their face value. All preference shareholders were paid off except 3 holders holding 250 shares. After redemption of the Cumulative Preference Shares, fully paid bonus shares were issued in the ratio of 4 : 1. Give the necessary Journal Entries bearing in mind that the Directors wanted a minimum reduction in free reserves, while effecting the above transactions. *(5 marks)*

(ii) *Discuss the circumstances under which evaluation of Goodwill of a Joint Stock Company is necessary.* *(5 marks)*

(iii) Mohan Ltd. went into voluntary Liquidation on 31st December, 2018 when the following Balance Sheet was prepared:

Particulars	Amount (₹)
I. EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital :	
2,000, 6% Preference Shares of ₹ 100 each	*2,00,000*
4,000 Equity Shares of ₹100 each fully paid	*4,00,000*
6,000 Equity Shares of ₹100 each ₹ 50 paid	*3,00,000*
(b) Reserves and Surplus	
Profit & Loss A/c (Dr Balance)	*(2,00,000)*
(2) Non-Current Liabilities :	
6% Debentures Secured by a floating charge on all Assets	*2,00,000*
Mortagage Loan on Land and Building	*2,00,000*
(3) Current Liabilities :	
Sundry Creditors	*1,80,000*
Income-Tax	*20,000*
Total	***13,00,000***
II. ASSETS	
(1) Non-Current Assets :	
(a) Tangible Fixed Assets :	
Land and Building	*4,00,000*
Plant and Machinery	*4,40,000*
(2) Current Assets	
Stock	*2,00,000*
Debtors	*2,00,000*
Cash at Bank	*60,000*
Total	***13,00,000***

Preference Shares dividend were in arrear for three years and the arrears are payable on liquidation.

The assets were realised as follows : Land and Building ₹4,80,000; Plant and Machinery ₹ 3,60,000; Stock ₹1,40,000; Debtors ₹1,20,000.

The expenses of liquidation amounted to ₹16,000. The liquidator is entitled to a commission at 2% on all assets realised except cash and 3% on amounts distributed to unsecured creditors. All payments were made on 30th June, 2019. Show the Liquidator's Final Statement of Account. *(5 marks)*

Answer 2(a)

i. Example of Change in accounting estimates

(a) Changes in estimate of provision for doubtful debts on sundry debtors.

(b) Changes in estimate of useful life of fixed assets.

ii. Example of extra-ordinary items

(a) Loss due to earthquake/fire/flood/ strike etc.

(b) Attachment of property of the company by the government.

iii. Example of prior period items;

(a) Applying incorrect rate of depreciation in one or more prior period

(b) Omission to account for income or expenditure in one or more prior period

Answer 2(b)

Calculation of Cost of Various Funds:

(i) Cost of Secured Loan $= \dfrac{\text{Interest x (1- tax Rate)}}{\text{Loan Amount}} \text{ x } 100$

$= \dfrac{3{,}20{,}000 \text{ x } (1-.40)}{40{,}00{,}000} \text{ x } 100$

$= 4.8\%$

(ii) Cost of Unsecured Loan $= \dfrac{\text{Interest x (1- tax Rate)}}{\text{Loan Amount}} \text{ x } 100$

$= \dfrac{600{,}00 \text{ x } (1-.40)}{60{,}00{,}000} \text{ x } 100$

$= 6\%$

(iii) Cost of Equity = 12 %

Calculation of Weighted Average Cost of Capital (WACC)

Funds	*Amount (Rs.) lakh*	*Cost After tax*	*Weight*	*Weighted Cost*
Equity Share Capital	200	12%	0.667	8.0%
Secured Loan	40	4.8%	0.133	0.64%
Unsecured Loan	60	6%	0.200	1.20%
	300			9.84%

Cost of Capital (Rs.) = WACC * Capital Employed

= 9.84% * 300 lakh

= 29.52 lakh

Economic Value Added (Rs.) = Net Profit after tax – Cost of Capital

= Rs. 31,66,000 – Rs. 29,52,000

= Rs. 2,14,000

Answer 2(c)

Calculation of Preferential Creditors

Particular	*Amount (Rs.)*
Tax deducted at source on salaries	1,000
Wages (15 men for 4 months @ Rs.100 each)	6,000
Salaries (5 employees for 4 months @ Rs.300 each)	6,000
Workmen compensation	5,000
Total	18,000

Working Note:

1. Wages or salary for four months must be due within 12 months next proceeding to relevant date. The amount shall not exceed Rs. 20000 for every claimant.
2. Director's fees, rent for godawn are not included in preferential creditors.

Answer 2(d)

(i) Subsidy Rs. 2,50,000 received from Government for installing a factory in backward area should be shown as a capital reserve or as a deduction from the cost of the asset.

(ii) The market value of the quoted investment is Rs. 3,00,000 as against the cost of Rs. 2,75,000. Disclose the market value in the balance sheet, no provision need to be made for the fall in the value.

(iii) No treatment is required to be made. The method of valuation of stock is to be disclosed in the Balance Sheet.

Answer 2(e)

Particulars		*L.F.*	*Amount (Rs) (Dr.)*	*Amount (Rs) (Cr.)*
Profit and Loss A/c	Dr.		1,17,000	
To Debenture Interest A/c				1,17,000
(Being transfer of debenture interest to profit and loss account)				

Profit and Loss A/c	Dr.	3, 24,900	
To Provision for Taxation A/c			3,24,900
(Being provision for tax @ 30% made on Rs.10,83,000 (12,00,000 – 1,17,000)			
Profit and Loss A/c	Dr.	37, 905	
To General reserve A/c			37,905
(Being creation of general reserve @ 5% of net profit Rs.7,58,100 i.e. (10,83,000 -3,24,900)			
Profit and Loss A/c	Dr.	60,000	
To Preference share dividend A/c			60,000
(Being preference share dividend payable @ 12% on Rs.5,00,000)			
Profit and Loss A/c	Dr.	1, 80,000	
To Equity share dividend A/c			1, 80,000
(Being equity share dividend payable @ 15% on Rs.12,00,000			

Answer 2A(i)

In the books of RG Ltd (Journal)

Particulars	*Dr.(Rs.)*	*Cr.(Rs.)*
Bank A/c	31, 500	
Profit & Loss A/c	2,500	
To Investment A/c		34,000
(Being the sale of investment for Rs. 31,500 i.e. Rs. 30000* 105 % loss debited to P & L A/c)		
Bank A/c	1,32,000	
To Equity Share Application A/c		1,32,000
(Being application money received on 1200 equity shares @ Rs. 110 each)		
Equity Share Application A/c	1, 32,000	
To Equity Share Capital A/c		1,20,000
To Securities Premium A/c		12,000
(Being issue of 1200 equity share of Rs.100 each fully paid at a premium of 10%)		

9% Redeemable Cum. Preference Share Capital A/c	2,50,000	
Premium on Redemption of Preference Shares A/c	25,000	2,75,000
To Preference Shareholders A/c		
(Being the amount payable on redemption transferred to shareholders A/c)		
Preference Shareholders A/c	2,72,250	
To Bank A/c		2,72,250
(Being the amount payable to preference shareholders holding 24,750 shares)		
General Reserve A/c (W. No. 1)	1,30,000	
To Capital Redemption Reserve A/c		1,30,000
(Being the amount transferred to Capital Redemption Reserve account)		
Securities Premium A/c	25,000	
To Premium on redemption of preference shares A/c		25,000
(Being premium payable on redemption of preference shares charged to profit and loss account)		
Capital Redemption Reserve A/c	1,30,000	
Securities Premium A/c (28000 + 12000 - 25000)	15,000	
Profit and Loss A/c (72000 - 2500)	69,500	
General Reserve A/c	1,28,000	
To Bonus to Equity Shareholder's A/c		3,42,500
(Being the bonus dividend payable in the ratio of 4:1 to the holders of 13700 shares)		
Bonus to Equity Shareholders A/c	3,42,500	
To Equity Share Capital A/c		3,42,500
(Being the issue of bonus shares to existing shareholders in the ratio of 4:1)		

Working Note:

Amount to be transferred to Capital Redemption Reserve Account:

Face value of shares to be redeemed	Rs.2,50,000
Less : Face value of shares newly issued (Excluding Premium)	Rs.1,20,000
	Rs.1,30,000

Note : There are no sufficient profits / free reserves to issue bonus shares in the ratio of 4:1 which means 4 bonus shares for every one share held. Therefore, question has been solved assuming bonus in the ratio of 1:4 i.e. 1 bonus shares for every 4 share held. Further, it can be mentioned that there is no sufficient profit/ free reserves to issue bonus in the ratio of 4:1, therefore, such issue cannot be made.

Answer 2A(ii)

Evaluation of Goodwill of Joint Stock Company:

In the case of a joint stock company, the need for evaluating goodwill may arise in the following cases:

1. When the business or company is to be sold to another company or when the company is to be amalgamated with another company.
2. When, stock exchange quotations not being available, shares have to be valued for taxation purposes - gift tax, etc.
3. When a large block of shares has to be bought or sold so as to enable the holder to exercise control over the company concerned,
4. When the company has previously written off goodwill and wants to write it back.
5. When the company is being taken over by the government.

Answer 2A(iii)

Mohan Ltd. (In Liquidation)

Liquidator's Statement of Account for the period 1st January to 30th June, 2019

Receipts	*Amount Rs.*	*Payments*		*Amount Rs.*
Cash at Bank	60,000	Liquidation Expenses		16,000
Assets Realised		Liquidator's Remuneration		28,000
Sundry Debtors	1,20,000			
Stock-in-Trade	1,40,000			
Plant and Machinery	3,60,000			
Surplus from Land & Building (4,80,000-2,00,000)	2,80,000	Debenture holders		
		Principal	2,00000	
		Interest up to 30.06.2019	6,000	2,06,000
		Creditors:		
		Preferential		20,000
		Unsecured		1,80,000
		Return to Contributories		
		Preference Shareholders		
		Capital		2,00,000
		Arrears of preference dividend		36,000
		Equity Shareholders		
		@Rs.57.40 on 4000 shares		2,29,600
		@Rs.7.40 on 6000 shares		44,400
Total	9,60,000	Total		9,60,000

Working Notes:

(1) Liquidator's Remuneration

2% on Rs.11,00,000 realised	Rs.22,000
3 % on Rs.2,00,000 distributed among unsecured creditors	Rs. 6,000
	Rs. 28,000

(2) Debenture holders are entitled to interest upto the date of payment since the company is solvent.

(3) Preference dividend is payable for three years (2,00,000 *6%*3) = Rs. 36,000

(4) Amount Payable to Equity Shareholders

Balance available after payment to preference shareholders	2,74,000
Add : Notional payment by equity shareholders @Rs.50 on 6000 shares	3,00,000
Amount Available	5,74,000
Refund to each shareholders (Rs.5,74,000 / 10000)	57.40
Amount Payable for partly paid-up shares (Rs.57.40 - 50)	7.40

Note:

1. It is assumed that liquidator will get remuneration @ 3% on payment made to preferential creditors also considering it as a part of unsecured creditor.
2. The liquidators remuneration is calculated on 2% on All Assets realized i.e. Rs. 11,00,000 i.e. considering full value of land and building realized before payment of Mortgage loan of Rs. 2,00,000 on Land and Building. Another view may be to calculate on all net assets realized i.e. 9,00,000 i.e. considering Net value of land and building realized after payment of Mortgage loan of Rs. 2,00,000 on Land and Building.

Alternate Answer 2A(iii)

Mohan Ltd. (In Liquidation)

Liquidator's Statement of Account for the period 1st January to 30th June, 2019

Receipts	*Amount Rs.*	*Payments*		*Amount Rs.*
Cash at Bank	60,000	Liquidation Expenses		16,000
Assets Realised		Liquidator’s Remuneration		27,400
Sundry Debtors	1,20,000			
Stock-in-Trade	1,40,000			
Plant and Machinery	3,60,000			
Surplus from Land & Building (4,80,000-2,00,000)	2,80,000	Debenture holders Principal	2,00000	
		Interest up to 30.06.2019	6,000	2,06,000
		Creditors:		
		Preferential		20,000

		Unsecured	1,80,000
		Return to Contributories	
		Preference Shareholders Capital	2,00,000
		Arrears of preference dividend	36,000
		Equity Shareholders	
		@Rs.57.46 on 4000 shares	2,29,840
		@Rs.7.46 on 6000 shares	44,760
Total	9,60,000	Total	9,60,000

Working Notes:

(1) Liquidator's Remuneration

2% on Rs.11,00,000 realised	Rs.22,000
3% on Rs.2,00,000 distributed among unsecured creditors	Rs. 5,400
	Rs. 27,400

(2) Debenture holders are entitled to interest upto the date of payment since the company is solvent.

(3) Preference dividend is payable for three years (2,00,000 *6%*3) = Rs. 36,000

(4) Amount Payable to Equity Shareholders

Balance available after payment to preference shareholders	2,74,600
Add : Notional payment by equity shareholders @Rs.50 on 6000 shares	3,00,000
Amount Available	5,74,600
Refund to each shareholders (Rs.5,74,000 / 10000)	57.46
Amount Payable for partly paid-up shares (Rs.57.40 - 50)	7.46

Note:

1. It is assumed that liquidator will get remuneration @ 3% on payment made to unsecured creditors only (excluding Preferential Creditors)

2. The liquidators remuneration is calculated on 2% on All Assets realized i.e. Rs. 11,00,000 i.e. considering full value of land and building realized before payment of Mortgage loan of Rs. 2,00,000 on Land and Building. Another view may be to calculate on all net assets realized i.e. 9,00,000 i.e. considering Net value of land and building realized after payment of Mortgage loan of Rs. 2,00,000 on Land and Building.

Question 3

(a) D Ltd. furnished the following summarised Balance Sheet as at 31st March, 2020 :

Balance Sheet of D Ltd. as at 31st March, 2020.

Particulars	*Amount (₹ 000)*
I. EQUITY AND LIABILITIES	
(1) Shareholders' Funds :	
(a) Share Capital :	
Authorised Share Capital :	
2,50,000 Equity Shares of ₹10 each	*2,500*
5,000 Preference Shares of ₹100 each	*500*
	3,000
Issued & Subscribed Capital :	
2,50,000 Equity Shares of ₹10 each fully paid	*2,500*
2,000, 10% Preference Shares of ₹100 each fully paid (issued) for purpose of buy-back)	*200*
(b) Reserves and Surplus :	
Capital Reserve	*1,000*
General Reserve	*3,000*
Securities Premium	*2,200*
Profit & Loss Account	*3,500*
(2) Current Liabilities :	
(a) Other Current Liabilities	*1,400*
Total	***13,800***
II. ASSETS	
(1) Non-Current Assets :	
(a) Fixed Assets	
(i) Tangible Assets	*9,300*
(2) Current Assets :	
(a) Current Investment	*3,000*
(b) Cash and Cash Equivalents	*1,500*
Total	***13,800***

The Company passed a resolution to buy-back 20% of its equity capital @ ₹50 per share. For this purpose, it sold all of its investment for ₹22,00,000. You are required to pass necessary journal entries and prepare the Balance Sheet after buy-back. *(5 marks)*

(b) *Sai Deep Industries Private Ltd. was incorporated on 1st February, 2019. It took over the proprietary business of Sai Deep, with effect from 1st January, 2019. The Balance Sheet of Sai Deep as at 31st December 2018 is as follows :*

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital	*8,63,000*	*Sundry debtors*	*51,400*
Trade Creditors	*34,000*	*Building*	*2,20,000*
Loans	*17,000*	*Machinery*	*6,00,000*
Creditors for Expenses	*5,000*	*Loss*	*47,600*
	9,19,000		*9,19,000*

It was agreed to pay ₹9,00,000 in equity shares to Sai Deep. The company decided to close its first year's accounts as at 31st December, 2019. The following are the further details furnished to you :

Sales ₹6,00,000; Purchase ₹2,80,000; Salaries and Wages ₹80,000; General expenses ₹64,000; Freight ₹ 9,400; Interest paid ₹16,000; Inventories ₹ 44,000; Additions to building ₹76,000; Depreciation may be provided at 10% on assets including additions. The Gross Profit and all expenses are apportioned on the basis of Time Ratio. The Company has requested you to prepare :

(i) *The Journal Entries for the take-over;*

(ii) *Sai Deep's Account; and*

(iii) *Statement of Profit and Loss showing separately Pre-incorporation and Postincorporation Profits for the year ending 31st December, 2019.*

(5 marks)

(c) *Due to inadequacy of profit during the year ended 31st March, 2020, Z Ltd proposes to declare 10% dividend out of general reserve.*

From the following particulars, ascertain the amount that can be utilised from general reserves, according to the Companies (Declaration of dividend out of reserve) Rules, 2014 :

Particulars	*₹*
4,00,000 Equity shares of ₹10 each, fully paid up	*40,00,000*
8,750 9% Preference shares of ₹100 each, fully paid up	*8,75,000*
General reserve as on 1.4.2019	*12,50,000*
Capital reserve as on 1.4.2019	*1,50,000*
Revaluation reserve as on 1.4.2019	*1,75,000*
Net profit for the year ended 31st March, 2020	1,50,000
Average rate of dividend during the last 3 years	12%

(5 marks)

Answer 3(a)

In the books of D Ltd. (Journal Entries)

Particulars	*Dr. Amount Rs. ('000)*	*Cr. Amount Rs. ('000)*
Bank A/c	2,200	
Profit and Loss A/c (Loss on sale of Investment)	8,00	
To Investment A/c		3,000
(Being the sale of investments at a loss for the purpose of buy-back of shares)		
Equity Shares Capital A/c	5,00	
Securities Premium A/c	2,000	
To Equity Shareholders A/c		2, 500
(Being the amount payable to equity shareholders on buy back of 50,000 equity shares)		
Equity Shareholders A/c	2,500	
To Bank A/c (Being equity shareholders paid off against buy-back)		2,500
Securities Premium A/c	2,00	
General Reserve A/c	1,00	
To Capital Redemption Reserve A/c		3,00
(Being the necessary amount transferred to capital redemption reserve account)		

Balance Sheet as at 1st April, 2020

Particulars	*Rs. ('000)*
I. EQUITY AND LIABILITIES	
(1) Shareholders' Funds:	
(a) Share Capital:	
Authorised Share Capital:	
2,50,000 Equity Shares of Rs.10 each	2,500
5000 Preference Shares of Rs.100 each	5,00
	3,000

	Issued and Subscribed Capital:	
	2,00,000 Equity Shares of Rs. 10 each fully paid	2,000
	2,000, 10% Preference Shares of Rs. 100 each fully paid	2,00
	(b) Reserve and Surplus:	
	Capital Reserve	1,000
	Capital Redemption Reserve	3,00
	General Reserve	29,00
	Profit and Loss Account (3500–800)	2,700
(2)	**Current Liabilities:**	
	(a) Other Current Liabilities	1,400
	Total	10,500
II.	**ASSETS**	
(1)	Non- Current Assets:-	
	Fixed Assets	
	Tangible Assets	9,300
(2)	Current Assets:	
	(a) Cash and Cash Equivalents (1500+2200-2500)	1,200
Total		**10,500**

Working Notes:

Amount to be transferred to Capital Redemption Reserve Account	(Rs.'000')
Nominal Value of Shares brought back	500
Less : Proceeds from fresh issue for buy back	(200)
Transferred to CRR	300
(i) Securities Premium has been used (2200–2000)	200
(ii) General Reserve has been used (300–200)	100
Total	300

Answer 3(b)

Journal Entries in the Books of Sai Deep Industries (Pvt) Ltd.

Particulars	*Amount (Rs.)*	*Amount (Rs.)*
Goodwill A/c (Balancing Figure)	84,600	
Building A/c	2,20,000	
Machinery A/c	6,00,000	
Sundry Debtors A/c	51,400	
To Loan A/c		17,000

To Trade Creditors A/c		34,000
To Creditor for Expenses A/c		5,000
To Sai Deep (Vender) A/c		9,00,000
(Being Sundry assets and liabilities of Sai deep taken over)		
Sai Deep (Vender) A/c	9,00,000	
To Equity Share Capital A/c		9,00,000
(Being the issue of shares for satisfying purchase Consideration)		

Dr. **Sai Deep's Account** *Cr.*

Particulars	*Rs.*	*Particulars*	*Rs.*
To Share Capital A/c	9,00,000	By Sundries (Net assets taken over)	9,00,000
Total	9,00,000	Total	9,00,000

Time Ratio = 1:11

Pre incorporation period = 1 months (January 2019)

Post incorporation period =11 months (1st feb.2019 to 31st Dec.2019)

Sai Deep Industries (Pvt.) Ltd.

Statement of Profit and Loss for the year ended 31st December, 2019

Particular	*Note No.*	*Total (Rs.)*	*Pre-Incorporation (Rs.)*	*Post-Incorporation (Rs.)*
Gross Profit (A)	1	3,54,600	29,550	3,25,050
Less : Expenses (B)				
Salaries and Wages		80,000	6,667	73,333
General Expenses		64,000	5,333	58,667
Interest Paid		16,000	1,333	14,667
Depreciation on Building	2	29,600	2,467	27,133
Depreciation on Machinery		60,000	5,000	55,000
		2,49,600	20,800	2,28,800
Net Profit (A-B)		1,05,000	8,750	96, 250
			Capital Profit	Revenue Profit
			Capital Reserve	Statement of profit & Loss A/c

Working Notes:

(1) Calculation of Gross Profit

		Rs.
Sales		6,00,000
Purchase	2,80,000	
Freight	9,400	
	2,89,400	
Less: Closing Inventories	(44,000)	
		(2,45,400)
Gross Profit		3,54,600

(2) Depreciation on Building = 10% (2,20,000 + 76,000) = 29,600

Answer 3(c)

Calculation of amount that can be drawn from the general reserve for 10% dividend

Particulars		*Amount Rs.*
10% dividend on Rs.40,00,000		4,00,000
Profits available		
Current year's profit	1,50,000	
Less : Preference Dividend	(78,750)	(71,250)
Amount which can be utilized from reserves		3,28,750

Conditions as per Companies (declaration of dividend out of reserves) Rules:

Condition I : Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II : Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital + free reserves i.e., Rs.6,12,500 [10% of (40,00,000 +8,75,000 + 12,50,000)]

Condition III : The balance of reserves after withdrawals of Rs.9,21,250 (Rs.12,50,000 – Rs.3,28,750) should not fall below 15% of its paid-up capital i.e., Rs.7,31,250 (15% of Rs.48,75,000).

Since all the three conditions are fulfilled, the company can withdraw Rs.3,28,750 from accumulated reserves as per Rule.

Question 4

(a) On 31st March, 2019 A Ltd. was acquired by X Ltd., which paid ₹14,00,000 in all ₹12,00,000 in fully paid ₹10 shares and the balance in cash. There was a

contingent liability in respect of a claim for compensation under the Workman's Compensation Act. The claim was not taken over by X Ltd. and A Ltd. had to pay ultimately a sum ₹20,000 against the claim. The balance sheet of A Ltd. and X Ltd. on 31st March, 2019 were as follows :

Particulars		*A Ltd. (₹)*	*X Ltd. (₹)*
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share Capital			
Equity shares of ₹10 each		*10,00,000*	*20,00,000*
(b) Reserves and Surplus			
General Reserve		*90,000*	*2,00,000*
Workmen's Accident Compensation		*50,000*	—
Profit & Loss Account		*70,000*	*1,00,000*
(2) Non-Current Liabilities			
(a) 12% Debentures		—	*3,50,000*
(3) Current Liabilities			
(a) Trade Payables		*1,60,000*	*2,10,000*
Total		*13,70,000*	*28,60,000*
II. ASSETS			
(1) Non-Current Assets			
(a) Fixed Assets – Tangible			
(i) Land and Buildings		*2,00,000*	*6,00,000*
(ii) Plant and Machinery		*4,00,000*	*7,00,000*
(iii) Furniture and Fittings		*40,000*	*1,00,000*
(b) Intangible Assets			
(i) Goodwill		*1,90,000*	*2,20,000*
(ii) Patents and Trade Marks		*30,000*	—
(2) Current Assets			
(a) Inventories		*2,10,000*	*5,00,000*
(b) Trade Receivables			
(i) Debtors	*1,80,000*		
Less : Provision for Bad Debts	*12,000*	*1,68,000*	*3,00,000*
(c) Cash and Cash Equivalents			
(i) Cash at Bank		*1,32,000*	*4,40,000*
Total		*13,70,000*	*28,60,000*

The expenses of liquidation of A Ltd. came to ₹10,000. Draft Journal entries to *close the books of A Ltd. and in the books of X Ltd. after the amalgamation in the nature of purchase has been completed.* *(7 marks)*

(b) *The Balance Sheet of H Ltd. and S Ltd. as on 31.03.2020 were as follows:*

Balance Sheets of H Ltd. and S Ltd.
as at 31st March, 2020

Particulars	*Note No.*	*H Ltd. (₹)*	*S Ltd. (₹)*
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share Capital			
Equity share of ₹100 each		*6,00,000*	*2,50,000*
(b) Reserves and Surplus			
General Reserve		*1,00,000*	*60,000*
Profit & Loss Account		*1,50,000*	*90,000*
(2) Current Liabilities			
(a) Trade Payables – Creditors		*70,000*	*60,000*
(b) Other Current Liabilities - Income Tax		*60,000*	*70,000*
Total		*9,80,000*	*5,30,000*
II. ASSETS			
(1) Non-Current Assets :			
(a) Fixed Assets			
(i) Tangible Assets :			
Machinery		*1,50,000*	*1,08,000*
Vehicle		*1,30,000*	*50,000*
Furniture		*50,000*	*30,000*
(ii) Intangible Assets–Goodwill		*60,000*	*40,000*
(b) Non-current Investment			
2,000 Equity Shares in S Ltd. (at cost)		*3,80,000*	*—*
(2) Current Assets :			
(a) Inventories - Stock		*70,000*	*1,40,000*
(b) Trade Receivables - Debtors		*60,000*	*1,00,000*
(c) Cash and Cash Equivalents - Bank		*80,000*	*62,000*
Total		*9,80,000*	*5,30,000*

Additional Information :

(i) H Ltd. acquired 2,000 equity shares of S Ltd. on 01.04.2019.

(ii) The Profit and Loss Account of S Ltd. had a credit balance of ₹30,000 and that of General Reserve ₹50,000 on the date of acquisition.

(iii) On 01.06.2019 S Ltd. declared a dividend out of its pre-acquisition profits @ 12% on its share capital. H Ltd. credited the same to its Profit and Loss Account.

(iv) S Ltd. owned ₹20,000 for purchase of stock from H Ltd. The entire stock is held on 31.03.2020. H Ltd. made profit of 25% on cost.

(v) Machinery standing in the books of S Ltd. at ₹1,20,000 on the date of acquisition of shares, were re-valued at ₹1,44,000.

Prepare a consolidated Balance Sheet of H Ltd. and S Ltd. on 31.03.2020.
(8 marks)

Answer 4(a)

Journal Entries in the Books of A Ltd.

Particular		*Amount Dr. (Rs.)*	*Amount Cr. (Rs.)*
Realisation A/c	Dr.	13,82,000	
To Land and Building A/c			2,00,000
To Plant and Machinery Alc			4,00,000
To Furniture and Fitting A/c			40,000
To Goodwill A/c			1,90,000
To Patents and Trade Marks A/c			30,000
To Inventories A/c			2,10,000
To Trade Receivables A/c			1,80,000
To Bank A/c			1,32,000
(Transfer of the various assets to realisation account on sale of business to X Ltd)			
Trade Payables A/c	Dr.	1,60,000	
Provision for Bad Debts A/c	Dr	12,000	
To Realisation A/c			1,72,000
(Transfer of trade payables and provision for Bad Debts A/c to realisation)			

X Ltd. A/c	Dr.	14,00,000	
To Realisation A/c			14,00,000
(Amount receivable from X Ltd. for the business sold to it)			
Shares in X Ltd. A/c	Dr.	12,00,000	
Bank A/c	Dr.	2,00,000	
To X Ltd A/c			14,00,000
(Receipt of 1,20,000 Shares of Rs, 10 each and Rs. 2,00,000 in cash from X Ltd. in full settlement of the consideration for the business sold to it)			
Realisation A/c	Dr.	10,000	
To Bank A/c			10,000
(Expenses of Liquidation)			
Workmen's Accident Compensation Reserve A/c	Dr.	20,000	
To Bank A/c			20,000
(The claim for compensation for accident paid and debited to workmen's accident compensation reserve)			
Equity Share Capital A/ c	Dr.	10,00,000	
To Equity Shareholder A/c			10,00,000
(Transfer to equity share capital A/c to equity shareholder A/C)			
General Reserve A/c	Dr.	90,000	
Workmen's Accident Compensation Reserve A/c	Dr.	30,000	
Profit and Loss A/c	Dr.	70,000	
To Equity Shareholders A/c			1,90,000
(Transfer of General Reserve, Profit and Loss Account and the balance remaining in workmen's accident compensation reserve after meeting claim for accident to equity shareholders A/c)			
Realisation A/c	Dr.	1,80,000	
To Equity Shareholders A/c			1,80,000
(Profit on realisation transferred to equity shareholders a/c)			
Equity Shareholders A/c	Dr.	13, 70,000	
To Equity Share in X Ltd. A/c			12,00,000
To Bank A/c			1,70,000
(Distribution of equity shares in X Ltd. and cash to settle final claim of equity shareholders)			

Journal Entries in the Books of X Ltd.

Particular	Amount Dr. (Rs.)	Amount Cr. (Rs.)
Business Purchase A/c	14,00,000	
To Liquidator of A Ltd. A/c		14,00,000
(Consideration payable for business purchased from A Ltd.)		
Land and Buildings Alc	2,00,000	
Plant and Machinery A/c	4,00,000	
Furniture and Fittings A/c	40,000	
Patents and Trademarks A/c	30,000	
Inventories A/c	2,10,000	
Trade Receivables A/c	1,80,000	
Bank A/c	1,32,000	
Goodwill A/C (1,90,000+1,90,000)	3,80,000	
To Sundry Creditors A/c		1,60,000
To Provision for Bad Debts Alc		12,000
To Business Purchase A/c		14,00,000
(Assets and Liabilities taken over, goodwill being the excess of the cost of acquisition over the value of net assets other than goodwill)		
Liquidator of A Ltd. A/c	14,00,000	
To Equity Share Capital A/c		12,00,000
To Bank A/c		2,00,000
(Allotment of equity shares and payment of cash in satisfaction of purchase consideration of business)		

Answer 4(b)

Consolidated Balance Sheet of H Ltd. and S Ltd
As on 31st March, 2020

Particulars	Notes to Accounts	Amount Rs.
I EQUITY AND LIABILITIES		
(1) Shareholder's Funds:		
(a) Share Capital 6000 Equity shares of Rs. 100 each		6,00,000
(b) Reserves and Surplus		
(i) General Reserve (W.N.6)		1,08,000
(ii) Profit and Loss A/c (W.N. 5)		1,92,080

(2)	Minority Interest (W. No. 2)	84,320
(3)	Current Liabilities :	
	Trade Payables	
	Creditor (70000+60000-20000)	1,10,000
	Other Current liabilities (Income tax) (60000+70000)	1,30,000
Total		12,24,400
II	ASSETS	
	(1) Non – Current Assets :	
	1. Fixed Assets	
	(i) Tangible Assets	
	Machinery (W.N.4)	2,79,600
	Vehicle (130000+50000)	1,80,000
	Furniture (50000+30000)	80,000
	(ii) Intangible Assets	
	Goodwill (W.N.3)	1,96,800
	(2) Current Assets	
	Inventories – Stock (W.N. 3)	2,06,000
	Trade Receivable – Debtor (60000+100000-20000)	1,40,000
	Cash and Cash Equivalent (80000+62000)	1,42,000
Total		12,24,400

Working Notes:

(1) Degree of control (H Ltd.) = (2000 Shares)/(2500 shares) =80%

Minority = 20%

(2) Calculation of H Ltd. Share and Minority Interest

Particulars	*Total (Rs.)*	*H Ltd. Share 80%*	*Minority Interest 20%*
(a) Capital Profit			
1. Pre-acquisition Profit	30,000		
Less: 12% Dividend for 2018-19	(30,000)		
2. Pre-acquisition General Reserve	50,000		
3. Revaluation Profit (1,44,000-1,20,000)	24,000		
Total	74,000	59,200	14,800

(b)	Post-Acquisition Profit			
	Profit as per Balance Sheet	90,000		
	Less : Balance of pre- acquisition profit	Nil		
	Less : Depreciation (W.N.7)	(2400)		
	Total	87,600	70,080	17, 520
(c)	Post-Acquisition Reserve			
	General reserve as per B/S	60,000		
	Less : Pre-acquisition general reserve	(50,000)		
		10,000	8,000	2,000
(d)	Share Capital	2,50,000		
	Minority Interest (2,50,000 x 1/5)			50,000
	H Ltd. Share (2,50,000 x 4/5)		2,00,000	
	Total Minority Interest			84,320

(3) Calculation of Goodwill / Capital Reserve

Cost of Investment	3,80,000
Less : Capital Profit of H Ltd. Share	(59,200)
Less : Dividend of 2018-19 (4/5 of Rs.30,000)	(24,000)
	2,96,800
Less : Face Value of Shares held by H Ltd.	(2,00,000)
Goodwill	96,800
Add : Goodwill of H Ltd. and S Ltd. as per B/S (60,000 + 40,000)	1,00,000
Total Goodwill	1,96,800

(4) Valuation of Machinery & Stock

(a)	Machinery (1,50,000+1,08,000)	2,58,000
	Add : Revaluation Profit	24,000
		2,82,000
	Less : Under Depreciation	(2,400)
	Total	2,79,600
(b)	Stock (70,000+1,40,000)	2,10,000
	Less : Unrealised Profit on Stock 25/125 x 20,000	(4,000)
	Total	2,06,000

(5)	Profit and Loss Account	
	H Ltd.'s Profit Balance	1,50,000
	Less : Dividend of 2018-19 wrongly credited to profit and loss a/c (4/5 of Rs. 30,000)	(24,000)
		1,26,000
	Less : Unrealized Profit on Stock	(4000)
		1,22,000
	Add : Share of Profit from S Ltd.	70,080
	Total	1,92,080
(6)	General Reserve	
	H Ltd.	1,00,000
	Share from S Ltd.	8,000
	Total	1,08,000

(7) Depreciation under Charged on Machinery

(i) Depreciation charged during the year = (1,20,000 –1,08,000) =12,000

(ii) Rate of depreciation = 12000/120000 x 100 = 10 %

(iii) Depreciation under charged = 10% (1,44,000 –1,20,000) = 2,400

PART B

Question 5

(a) What do you mean by 'Efficiency Audit' ? State the objective of efficiency audit.

(b) What is Inter-Firm Comparison ? Explain the main advantage of Inter-Firm Comparison.

(c) What are the points to be considered while carrying out the internal control review of working environment, safety and security ?

(5 marks each)

Answer 5(a)

Meaning & Objectives of Efficiency Audit

Meaning of Efficiency Audit : Efficiency is a relative concept. It is measured by comparing achieved productivity with a desired norm, target, or standard. Output quantity and quality achieved and the level of service provided are also compared to targets or standards to determine to what extent they may have caused changes in efficiency. Efficiency is improved when more outputs of a given quality are produced with the same or fewer resource inputs, or when the same amount of output is produced with fewer resources.

Efficiency audit refers to comparing the actual results with the desired/projected results. It is directed towards the measurement of whether plans have been effectively executed. It is concerned with the utilisation of the resources in economic and most remunerative manner to achieve the objectives of the concern. It comprises of studying the plans of organisation, comparing actual performance with plans and investigating the reasons for variances to take remedial action.

Objectives of Efficiency Audit

The objectives of auditing efficiency can include assessing one or more of the following:

(i) the level of efficiency achieved by an organization or operation in relation to reasonable standards;

(ii) the adequacy and reliability of systems or procedures used to measure and report efficiency;

(iii) an organization's efforts to explore and exploit opportunities to improve efficiency; and

(iv) whether the management processes and information systems, operational systems, and practices of an organization help to achieve efficiency.

Answer 5(b)

Meaning and Advantages of Inter-Firm Comparison

Meaning of inter-firm comparison : It is technique of evaluating the performance, efficiency, costs and profits of firms in an industry. It consists of voluntary exchange of information/data concerning costs, prices, profits, productivity and overall efficiency among firms engaged in similar type of operations for the purpose of bringing improvement in efficiency and indicating the weaknesses. Such a comparison will be possible where uniform costing is in operation.

An inter-firm comparison indicates the efficiency of production and selling, adequacy of profits, weak spots in the organisation, etc. and thus demands from the firm's management an immediate suitable action. Inter-firm comparison may enable the management to challenge the standards which it has set for itself and to improve upon them in the light of the current information gathered from more efficient units. Such a comparison may be carried out in electrical industry, printing firms, cotton spinning firms, pharmaceuticals, cycle manufacturing, etc.

Advantages of inter - firm comparison:

The main advantages of inter-firm comparison are as under:

1. Such a comparison gives an overall view of the industry as a whole to its members the present position of the industry, progress made during the past and the future of the industry.
2. It helps a concern in knowing its strengths or weaknesses in relation to others so that remedial measures may be taken.
3. It ensures an unbiased specialized reporting on particular problems of the concern.

4. It develops cost consciousness among members of the industry.
5. It helps Government in effecting price regulation.
6. It helps to improve the quality of products manufactured and to reduce the cost of production. It is thus advantageous to the industry as well as to the society.

Answer 5(c)

Internal Control Review of Working Environment, Safety & Security

The following points to be considered while carrying out the Internal Control Review of working environment, safety and security:

1. Whether separate areas are identified for inventory storage and handling, high value part storage, shipping and receiving, vaults, toxic materials;
2. Whether entry and exit points for sensitive areas have appropriate security controls such as security personnel, gate passes, restricted access mechanisms, card keys, cameras and lighting, perimeter fencing;
3. Whether smoke detection and fire-fighting equipment are functional and provide adequate protection;
4. Whether the workers use self-protective devices at the work place;
5. Whether equipment and evacuation procedures are tested on a regular basis and documented;
6. Whether security incidents i.e. accidents/theft etc. are formally reported and tracked.

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

Question 6

(a) "An auditor appointed Under Rule 3 of the Companies (Audit and Auditors) Rules, 2014 is required to submit a Certificate and notice to the Registrar of Companies." State the matters to be covered in the Certificate and name of the form of the notice required to be submitted.

(b) What are the important points to be considered while reviewing the internal control in the area of sales return ?

(c) "Test checking is a system of sampling employed by the auditor for the purpose of reducing the volume of detail checking involved in the audit."

In view of the above statement explain the precautions should be taken by an auditor while adopting the test checking ? (5 marks each)

OR (Alternate questions to Q. No. 6)

Question 6A

(i) What are the Powers or Rights of Auditors prescribed under Section 143(1) of Companies Act 2013 ?

(ii) What are the objectives of review of "Employee Relation" and draw an internal control questionnaire on it ?

(iii) *Write briefly about 'communications with those charged with governance'–(SA-260).* *(5 marks each)*

Answer 6(a)

Matters to be covered in Certificate to Registrar of Company 'ROC'

The auditor appointed under Rule 3 the Companies (Audit and Auditors) Rules shall submit a certificate that –

1. the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made there under;
2. the proposed appointment is as per the term provided under the Act;
3. the proposed appointment is within the limits laid down by or under the authority of the Act:
4. the list of proceedings against the auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

Form of Notice : The notice to Registrar about appointment of auditor under fourth proviso to sub-section (1) of section 139 shall be in Form ADT-1.

Answer 6(b)

Review of Internal Control of Sales Return

1. Is the mechanism of schedule of authority exist for the sales return i.e. system relating to sale returns prescribe limits on the authority of managers at various levels to accept return of goods?
2. Are sale return analyzed with reference to the reason & necessary actions taken viz- a- viz reasons identified?
3. Are the returned goods inspected before acceptance? Are returned goods duly accounted in inventory records?
4. Is an inward return note prepared promptly against each sale return, indicating the quantity and specifications of the goods received back?
5. Whether credit note is issued on the basis of inward returned note. Whether a proper control over the issue of credit notes especially with regard to the authority for issuing the same. Whether credit notes are properly checked with reference to the relevant inward return note before it is approved and sent to the customer? Are appropriate entries made in the books of account promptly? Check whether the excise paid is reversed for the returned goods or not?
6. Is the sale commission paid in respect of goods returned recovered through an appropriate debit note?

Answer 6(c)

Precautions to be taken by the Auditor while adopting Test Checking:

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

1. Entries selected for test checking must be representative of all transactions.

2. The selection of the items should be at random.
3. It cannot be adopted in case of vouching the cash book.
4. Client's staff should not come to know of the entries selected for test checking.
5. Period selected for test checking should differ from book to book and year to year.
6. He should not adopt test checking where the law requires thorough audit.
7. A number of entries of the first and last month of the year must be checked thoroughly.
8. Test should be so devised that a sizeable portion of the work done by each employee is checked.
9. Control accounts or impersonal ledger should not be subject to test checking.
10. Auditor should select the test independently without regard to the suggestions of the member of the client's staff.
11. Bank statement and entries for cash withdrawal and cash deposits should be checked in full.

Answer 6A(i)

Powers or Rights of Auditors under section 143(1) of Companies Act

Section 143(1) provides for powers or rights of auditors. Every Auditor of a company shall have a right of access at all times to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place and shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor and amongst other matters inquire into the following matters, namely:

(a) Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;

(b) Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company:

(c) Where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company:

(d) Whether loans and advances made by the company have been shown as deposits;

(e) Whether personal expenses have been charged to revenue account;

(f) Where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading:

The auditor of a company which is a holding company shall also have the right of access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statements with that of its subsidiaries.

Answer 6A(ii)

Objectives of Review of Employee Relations

The employee relation area of human resources is typically responsible for addressing employees concern, designing and analyzing employee opinion surveys, assisting HR leadership with monitoring the performance management system, and representing the company in matters involving claims pertaining to unemployment compensation and unfair employment practices. A review of this functions includes reviewing the level of employee satisfaction. Employee satisfaction can be measured by turnover rate, number of employee complaints filed and resolved, the status of action plan from recent employee opinion survey, and the effectiveness of performance management system.

Points covered under the Internal Control Questionnaire:

i. Is there a system for performance evaluation?

ii. Does the system check for effectiveness of the evaluation?

iii. Is quality and quantity of work evaluated?

iv. Is performance tied to compensation?

v. Are workplace policies flexible?

vi. Are disciplinary actions for violating workplace policies flexible?

vii. Is there a process for employees to lodge complaints?

viii. Are there a variety of individuals to whom employees may lodge complaints (supervisor, HR representative)?

Answer 6A(iii)

Communication with those charged with Governance SA 260

The standard deals with the auditor's responsibility to communicate with those in charge with governance in relation to an audit of financial statements. It also describe the requirements regarding communication with those in charge with governance and regarding matter to be communicated and documentation required. This standard also spells out the distinction between the Management and those charged with Governance.

Auditor should communicate about overall scope of audit, selection/changes in significant accounting policies, potential effect on financial statements of any significant risk and exposures, such as pending litigation, adjustments to financial statements arising out of audit that have a significant effect on entity's financial statement; material uncertainties related to events and conditions that may cast significant doubt on entity's ability to continue as a going concern, disagreement with the management about matters that could be significant to entity's financial statements or, auditor's report; expected modification to auditor's report. Auditor should communicate matters of governance interest on timely basis. Auditor's communication may be made orally or in writing. In case of oral communication, auditor should document their oral communications and response thereof.

***

CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours | Maximum marks : 100

NOTE : *Answer ALL Questions.*

PART A

Question 1

Attempt the following questions :

(a) "Every scheme of collective investment does not come under the purview of SEBI Act, 1992". List the scheme or arrangement not covered under Collective Investment Scheme.

(b) Novodit earns 10% on his investments in equity shares. He is considering a recently floated scheme of a Mutual Fund where the initial expenses are 6% and annual recurring expenses are expected to be 2%. How much the Mutual Fund Scheme should earn to provide a return of 10% to Novodit ?

(c) Uriverse Airlines Ltd. a listed company is operating domestic and international flights from India. Recently a news is flashing that virus might be effecting the entire world and governments may advise people to stay at home till the situation improves. It is expected that share price will probably fall dramatically. To protect this an investor has bought the put option. He purchased one 3 months put (lot size 100 shares) with a striking price of ₹40 for ₹1 per share.

Determine the investors' ending position if the price of the stocks fall to ₹36 in 3 months. *(5 marks each)*

Answer 1(a)

As per SEBI Act, 1992, following scheme or arrangement shall not be a collective investment scheme:

(i) made or offered by a co-operative society registered under the Co-operative Societies Act, 1912 or a society being a society registered or deemed to be registered under any law relating to co-operative societies for the time being in force in any State;

(ii) under which deposits are accepted by non-banking financial companies as defined in clause (f) of section 45-I of the Reserve Bank of India Act, 1934;

(iii) being a contract of insurance to which the Insurance Act, 1938, applies;

(iv) providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employee Provident Fund and Miscellaneous Provisions Act, 1952;

(v) under which deposits are accepted under section 74 of the Companies Act, 2013;

(vi) under which deposits are accepted by a company declared as a Nidhi or a mutual benefit society under section 406 of the Companies Act, 2013;

(vii) falling within the meaning of Chit business as defined in clause (d) of section 2 of the Chit Fund Act, 1982;

(viii) under which contributions made are in the nature of subscription to a mutual fund;

(ix) such other scheme or arrangement which the Central Government may, in consultation with SEBI, notify.

Answer 1(b)

Earning of Navodit on his investment on Equity Shares = R_1

Mutual fund earning = R_2

R_2 = [I / (1-initial expenses) x R_1] + recurring expenses

The rate of return the mutual fund should earn = [1/(1-.06) x 0.1] +0.02

= 0.1264 or 12.64%

Answer 1(c)

Cost of Put Option = (₹1 per share) x (100 share put)

i.e. = ₹100

The price of the stock falls to ₹36. Since, the market price is lower than the strike price, the investor will gain as below:

= (₹4 per stock gain on put) x 100

Gain = ₹400

Net Profit = Gain minus Cost of put

= ₹400 - ₹100 or

Therefore, Net Profit = ₹300

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

Question 2

Explain the following :

(a) Debt for Equity Swap

(b) Flexi Cap Fund

(c) IPO Grading

(d) Bills rediscounting

(e) Categories of Foreign Portfolio Investors. *(3 marks each)*

OR (Alternate question to Q. No. 2)

Question 2A

(i) As a Company Secretary, You are advised by the Managing Director to put up a note on Market Making.

(ii) Briefly explain the parameters generally considered for rating of manufacturing companies.

(iii) Is it mandatory to issue delivery instructions for securities to meet delivery obligations in demat mode in various scrips in a settlement/auction ? Critically examine. *(5 marks each)*

Answer 2(a)

Debt for Equity Swap

These instruments give an offer to the debt holders to exchange the debt for equity shares of the company. The issuers offering debt for equity swaps are interested in increasing equity capital by improving their debt equity ratios and enhancing their debt issuing capacity. They reduce their interest burden and replace it with dividend burden which is payable at the discretion of the issuer. However, the issuer faces the risk of dilution of earnings per share by a sharp rise in the equity. In addition, dividends are not tax deductible. From the investors' point of view, there is potential gain from rise in the value of the equity shares. The potential rise in price of equity shares may or may not materialize.

Answer 2(b)

Flexi Cap Fund

SEBI introduced a new Category named Flexi cap fund under Equity Schemes so as to give more flexibility to the mutual funds and considered the recommendations of Mutual find Advisory Committee. Accordingly-

(i) The AMC shall ensure that a suitable benchmark is adopted for the Flexi cap fund.

(ii) Mutual funds have the option to convert an existing scheme into a Flexi Cap fund subject to Compliance with the requirement for change in fundamental attributes of the scheme.

(iii) The Minimum investment in equity and equity related instruments is 65% of total assets.

(iv) As open ended dynamic equity scheme can invest across large cap, midcap and small cap stocks.

Answer 2(c)

IPO Grading

It is a service aimed at facilitating the assessment of equity issues offered to public. The grade assigned to any individual issue represents a relative assessment of the fundamentals of that issue in relation to the universe of other listed equity securities in India. Such grading is assigned on a five point scale with a higher score indicating stronger fundamentals.

IPO Grade 1 – Poor Fundamentals

IPO Grade 2 – Below average Fundamentals

IPO Grade 3 – Average Fundamentals

IPO Grade 4 – Above average fundamentals

IPO Grade 5 – Strong fundamentals

Thus IPO Grading facilitates investors better appreciate the meaning of disclosures in the issue documents to the extent that they affect the issue's fundamentals. It serves as an additional investor information and investment guidance tool.

Answer 2(d)

Bill rediscounting

Bill rediscounting means the rediscounting of trade bills, which have already been purchased by/discounted with the bank by the customers. These trade bills arise out of supply of goods/services. Bill rediscounting is a money market instrument where the bank buys the bill (i.e. bill of exchange or promissory note) before it is due and credits the value of the bill after a discount charge to the customer's account. Now, the bank which has discounted the bill may require getting it rediscounted with some other bank to get the fund.

Features of Bill rediscounting are as under:

- The banks normally rediscount the bills that have already been discounted with them or raise usance promissory notes in convenient lots and maturities and rediscount them.
- Rediscount of bills should be for a minimum period of 15 days and for å maximum period of 90 days.
- Discount is calculated on Actual/365 days basis.
- The amount payable to the borrower is the principal amount less the discount/ interest.
- While discounting a bill the amount of discount is to be deducted at the time the bill is issued.
- The discount is rounded off to the nearest rupee.
- On maturity the borrower would repay the principal amount.

Answer 2(e)

Categories of Foreign Portfolio Investors

An applicant seeking registration as a foreign portfolio investor may apply in one of the categories mentioned below or any other category as may be specified by the SEBI from time to time –

(a) "Category I foreign portfolio investor" which shall include –

(i) Government and Government related investors such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s);

(ii) Pension funds and university funds;

(iii) Appropriately regulated entities such as insurance or reinsurance entities, banks, asset management companies, investment managers, investment advisors, portfolio managers, broker dealers and swap dealers;

(iv) Entities from the Financial Action Task Force member countries, or from any country specified by the Central Government by an order or by way of an agreement or treaty with other sovereign Governments, which are –

I. appropriately regulated funds;

II. unregulated funds whose investment manager is appropriately regulated and registered as a Category I foreign portfolio investor: Provided that the investment manager undertakes the responsibility of all the acts of commission or omission of such unregulated fund;

III. university related endowments of such universities that have been in existence for more than five years.

(v) An entity (A) whose investment manager is from the Financial Action Task Force member country and such an investment manager is registered as a Category I foreign portfolio investor; or (B) which is at least seventy-five per cent owned, directly or indirectly by another entity, eligible under sub-clause (ii), (iii) and (iv) of clause (a) of this regulation and such an eligible entity is from a Financial Action Task Force member country:

However, such an investment manager or eligible entity undertakes the responsibility of all the acts of commission or omission of the applicants seeking registration.

(b) "Category II foreign portfolio investor" shall include all the investors not eligible under Category I foreign portfolio investors such as –

(i) appropriately regulated funds not eligible as Category-I foreign portfolio investor;

(ii) endowments and foundations;

(iii) charitable organisations;

(iv) corporate bodies;

(v) family offices;

(vi) Individuals;

(vii) appropriately regulated entities investing on behalf of their client, as per conditions specified by the Board from time to time;

(viii) Unregulated funds in the form of limited partnership and trusts;

Answer 2A(i)

Note to Managing Director on Market Making

Market making is a process where the market makers offers a two way quote (both buy and sell) to increase the supply and demand of the scrip. This increase the liquidity in the stock.

Market-making is aimed at infusing liquidity in securities that are not frequently traded on stock exchanges. A market-maker is responsible for enhancing the demand supply situation in securities such as stocks and futures & options (F&O).

To understand this concept better, it would be helpful to have an idea about the existing screen based electronic trading system. In this system, orders placed by buyers and sellers are matched by a computer system (run by stock exchanges). This system is beneficial for actively-traded stocks, but not for lesser-traded ones. Investors usually ignore thinly-traded stocks despite good fundamentals due to fears that they might not be able to trade more frequently in them. The introduction of the market-making facility could be a possible means to infuse liquidity into such shares. In overseas markets, a market-maker is usually a broker or an institution. As a result, there is an incentive for the broker to recommend securities for which he creates a market.

Answer 2A(ii)

The factors generally considered for rating of manufacturing companies are as under:

- *Industry Risk*

  It is defined as the strength of the industry within the economy and relativity to the economic trends. It is evaluated on the basis of factors like business cyclicality, earnings volatility, growth prospects, demand - supply projections, entry barriers and extent of competition and nature and extent of regulation.

- *Company's industry and market position*

  The company's sales position in its major fields and its historical background of its market position is analyzed along with ability to sustain/increase market shares; brand strengths and position; price leadership and distribution and marketing strengths/weaknesses.

- Operating efficiencies

  Ability to control costs, productivity efficiencies relative to others, labour relationship, extent of forward and backward integration, access to raw materials/ markets, and technology.

- Accounting Quality

  Financial statements are adjusted for non-standard accounting treatments. Overall evaluation of the accounting policies employed and the extent to which they understate or overstate financial performance and position.

  These include analysis of auditor's qualifications, revenue recognition, depreciation policy, inventory evaluation, funding for pension liabilities, undervalued assets etc.

- Financial flexibility

  Evaluation of the company's financing needs, plans and alternatives, its flexibility to accomplish its financing programmes under stress without damaging creditworthiness.

- Earnings protection

  The key measurements which indicate the basic long term earnings power of the company including return on capital, profit margins, earnings from various business segments, sources of future earnings growth, coverage ratios etc.

- *Financial leverage*

  Relative usage of debt and levels of debt appropriate to different types of businesses, utilization of long and short term sources of funds, management of working capital.

- *Cash flow adequacy*

  It is the relationship of cash flows to leverage and the ability to internally meet all cash needs of the business. It measures the magnitude and variability of future cash flows relative to debt servicing obligations and other commitments such as group company funding. BIFR packages and contingent liabilities. This analysis goes into the inherent protective factors for expected cash flows of the company and the sensitivity of these cash flows to changes in variables like raw material costs and selling prices.

- *Management evaluation*

  The record of achievement in operations and financial results, strategic and financial planning, commitment, consistency and credibility, overall quality of management, line of succession, organisation structure and management strategies.

Answer 2A(iii)

Instead of issuing Delivery instructions for their securities delivery obligations in demat mode in various scrips in a settlement /auction, a facility has been made available to the member-brokers of automatically generating Delivery instructions on their behalf from their Clearing Member (CM) Pool accounts maintained with National Securities Depository Ltd. (NSDL) and CM Principal Accounts maintained with Central Depositories Services (India) Ltd. CDSL. This auto delivery facility is available for CRS (Normal & Auction) and for trade to trade settlements. This facility is, however, not available for delivery of non-pari passu shares and shares having multiple international Securities Identification Number (ISINS). The member-brokers wishing to avail of this facility have to submit an authority letter to the Clearing House. This auto delivery facility is currently available for CM Pool accounts and Principal accounts maintained by the member-brokers with NSDL and CDSL respectively.

Question 3

(a) "An Alternative Investment Fund which has been granted registration under a particular category cannot change its category subsequent to the registration." Elucidate the statement. *(5 marks)*

(b) What are the conditions under which a Company can make public issue of Nonconvertible Redeemable preference shares ? *(5 marks)*

(c) Explain the enhancement of overseas investment limits permitted for Mutual Funds vide SEBI's circular dated November 05, 2020. *(5 marks)*

Answer 3(a)

SEBI has issued guidelines for Alternative Investment Funds (AIFs) to change their registration categories based on risk exposure. These guidelines describe the rules and procedure regarding changes from one category of AIF registration to another. Regulation 7(2) of AIF Regulations specifies that an AIF which has been granted registration under a particular category cannot change its category Subsequent to registration, except with the approval of SEBI.

- Only AIFs that have not made any investments under their existing category would be allowed to apply for changing their categories.
- Any AIF proposing to change its category is required to make an application to the SEBI for the same along with the application fees of Rs.1 lakh. Additionally, they need to intimate the rationale for the proposed change.
- In case the AIF has raised funds prior to the application for change in category, the AIF would be required to inform all its investors providing them the option to withdraw their funds garnered without any penalties. Any fees collected from investors seeking to withdraw commitments/funds shall be returned to them. Partial withdrawal may be allowed subject to compliance with the minimum investment amount required under the AIF Regulations.
- The AIF would not make any investments other than in liquid funds/banks deposits until approval for the change in category is granted by the SEBI.
- On approval of the request from SEBI, the AIF shall send a copy of the revised placement memorandum and other relevant information to all its investors.

Answer 3(b)

A company cannot make any public issue of Non-convertible Redeemable Preference Shares (NCRPS) unless the following conditions are fulfilled:

1. The company shall not make any public issue of NCRPS if as on the date of filing of draft offer document or final offer document as provided :-
   - the company or the person in control of the company or its promoter or its director is restrained or prohibited or debarred by SEBI from accessing the securities market or dealing in securities; or
   - the company or any of its promoters or directors is a wilful defaulter or it is in default of payment of interest or repayment of principal amount in respect of NCRPS issued by it to the public, if any, for a period of more than 6 months.
2. It has made an application to one or more recognized stock exchanges for listing of such securities therein. If the application is made to more than one recognized stock exchanges, the issuer must choose one of them which has nationwide trading terminals as the designated stock exchange.
3. It has obtained in-principle approval for listing of its non-convertible redeemable preference shares.
4. Credit rating including the unaccepted ratings obtained from more than one credit rating agencies, registered with SEBI shall be disclosed in the offer document
5. The minimum tenure of the NCRPS shares shall not be less than three years.
6. The issue has been assigned a rating of not less than “AA-” or equivalent by a registered credit rating agency.

7. The Company shall create a capital redemption reserve as per Companies Act, 2013.
8. The issuer shall not issue NCRPS for providing loan to or acquisition of shares of any person of the same group other than to subsidiaries of the issuer.

Answer 3(c)

SEBI vide its circular dated 5th November, 2020 enhanced the investment limits per Mutual found as under:

1. Mutual Funds can make overseas investments subject to a maximum of US $ 600 million per Mutual fund within overall Industry limit of US $ 7 billion.
2. Mutual Funds can make investments in overseas Exchange Traded Fund subject to a maximum of US $ 200 million per Mutual Fund, within the overall industry limit of US $ 1 billion.

The allocation methodology of the aforementioned limits shall be as follows:

1. In case of above overseas investments, US $ 50 million would be reserved for each Mutual Fund individually, within the overall industry limit of US $ 7 billion.
2. A mutual fund launching a New Fund Offer (NFO) and intending to invest overseas will be required to specify the amount it will invest outside India and use the limit specified within six months.
3. For existing schemes, SEBI specified a headroom of 20% of the average assets under management (AUM) in the previous three months in overseas securities, for investment in foreign securities subject to maximum limits as specified.

Question 4

(a) Recently RBI has allowed startup to raise External Commercial Borrowings (ECB) in view of growing need of funds for startup. Explain the main features regarding ECB facilities for startups. (8 marks)

(b) Sunshine Builders Ltd. is a registered sponsor under SEBI (Infrastructure Investment Trusts) Regulations, 2014. The Company is planning for Public offer to meet the growing infrastructure demand in the country. Enumerate the guidelines regarding public issue of units of InvITs. (7 marks)

Answer 4(a)

Main features of External Commercial Borrowings (ECB) facility for Startups are as under:

AD Category-I banks are permitted to allow Startups to raise ECB under the automatic route as per the following framework:

i. *Eligibility* : An entity recognised as a Startup by the Central Government as on date of raising ECB.
ii. *Maturity* : Minimum average maturity period will be 3 years.
iii. *Recognised lender* : Lender/investor shall be a resident of a FATF compliant

country. However, foreign branches/subsidiaries of Indian banks and overseas entity in which Indian entity has made overseas direct investment as per the extant Overseas Direct Investment Policy will not be considered as recognized lenders under this framework.

iv. *Forms* : The borrowing can be in form of loans or non-convertible, optionally convertible or partially convertible preference shares.

v. *Currency* : The borrowing should be denominated in any freely convertible currency or in Indian Rupees (INR) or a combination thereof. In case of borrowing in INR, the non-resident lender, should mobilise INR through swaps/outright sale undertaken through an AD Category-I bank in India.

vi. *Amount* : The borrowing per Startup will be limited to USD 3 million or equivalent per financial year either in INR or any convertible foreign currency or a combination of both.

vii. *All-in-cost* : Shall be mutually agreed between the borrower and the lender.

viii. *End uses* : For any expenditure in connection with the business of the borrower.

ix. *Conversion into equity* : Conversion into equity is freely permitted subject to Regulations applicable for foreign investment in Startups.

x. *Security* : The choice of security to be provided to the lender is left to the borrowing entity. Security can be in the nature of movable, immovable, intangible assets (including patents, intellectual property rights), financial securities, etc. and shall comply with foreign direct investment / foreign portfolio investment / or any other norms applicable for foreign lenders / entities holding such securities. Further, issuance of corporate or personal guarantee is allowed. Guarantee issued by a non-resident(s) is allowed only if such parties qualify as lender under ECB for Startups. However, issuance of guarantee, standby letter of credit, letter of undertaking or letter of comfort by Indian banks, all India Financial Institutions and NBFCs is not permitted.

xi. *Hedging* : The overseas lender, in case of INR denominated ECB, will be eligible to hedge its INR exposure through permitted derivative products with AD Category - I banks in India. The lender can also access the domestic market through branches/ subsidiaries of Indian banks abroad or branches of foreign bank with Indian presence on a back to back basis.

xii. *Conversion rate* : In case of borrowing in INR, the foreign currency - INR conversion will be at the market rate as on the date of agreement.

xiii. *Other Provisions* : Other provisions like parking of ECB proceeds, reporting arrangements, powers delegated to AD banks, borrowing by entities under investigation, conversion of ECB into equity will be as included in the ECB framework. However, provisions on leverage ratio and ECB liability: Equity ratio will not be applicable. Further, the Start-ups as defined as well as other start-ups which do not comply with the aforesaid definition but are eligible to receive FDI, can also raise ECBs under the general ECB route/framework.

Answer 4(b)

The following are guidelines issued by the SEBI under the SEBI (Infrastructure Investment Trusts) Regulations, 2014 for public issue of units of InvITs:

- The Investment Manager on behalf of the InvIT, shall appoint one or more merchant bankers, at least one of whom shall be a lead merchant banker and shall also appoint other intermediaries, in consultation with the lead merchant banker, to carry out the obligations relating to the issue.
- After receipt of comments from public and observations from SEBI, the draft offer document shall be filed with SEBI and the designated stock exchanges.
- In an issue made through the book building process or otherwise, the allocation in the public issue shall be as follows:

  (a) not more than 75% to institutional Investors

  (b) not less than 25% to other investors
- Investment manager on behalf of the InvIT, may allocate upto 60% of the portion available for allocation to Institutional Investors to anchor investors.
- The Investment Manager on behalf of the InvIT, shall deposit, before the opening of subscription, and keep deposited with the stock exchange(s), an amount calculated at the rate of 0.5% of the amount of units offered for subscription to the public or Rs. 5 crore, whichever is lower.
- A public issue shall be kept open for at least three working days but not more than thirty days.
- Where the InvIT desires to have the issue underwritten, it shall appoint the underwriters in accordance with the SEBI (Underwriters) Regulations, 1993.
- The investment manager on behalf of the InvIT, may determine the price of units in consultation with the lead merchant banker or through the book building process.
- The InvIT shall accept bids using only the Application Supported by Blocked Amount (ASBA) facility for making payment i.e. writing their bank account numbers and authorising the banks to make payment in case of allotment, by signing the application forms. Further, the bidding process shall be done only through an electronic bidding platform provided by recognised stock exchanges.
- On receipt of the sum payable on application, the investment manager on behalf of the InvIT shall allot the units to the applicants.
- Records related to allocation process shall be maintained by the lead book runner and the book runner/s and other intermediaries associated in the book building process shall also maintain records of the book building prices.
- The lead merchant banker shall submit the following post-issue reports to SEBI:

  (a) Initial post issue report, within three working days of closure of the issue.

(b) Final post issue report, within fifteen days of the date of finalization of basis of allotment or within fifteen days of refund of money in case of failure of issue.

- The lead merchant banker shall submit a due diligence certificate along with the final post issue report.

- Any public communication including advertisement, publicity material, research reports, etc. concerned with the issue shall not contain any matter extraneous to the contents of the offer document.

- The post-issue lead merchant banker shall regularly monitor redressal of investor grievances relating to post-issue activities such as allotment, refund, etc.

- The post-issue merchant banker shall ensure that advertisement giving details relating to oversubscription, basis of allotment, number, value and percentage of all applications, number, value and percentage of successful allottees for all applications, date of completion of dispatch of refund orders or instructions to Self-Certified Syndicate Banks by the Registrar, date of dispatch of certificates and date of filing of listing application, etc. is released within ten days from the date of completion of the above activities on the website of the InvIT, sponsor, investment manager, stock exchanges and in all the newspapers in which the pre issue advertisement was released, if applicable.

- The lead merchant bankers shall exercise due diligence and satisfy himself about all the aspects of the issue including the veracity and adequacy of disclosure in the offer documents.

- The lead merchant banker shall ensure that the information contained in the offer document and the particulars as per audited financial statements in the offer document are not more than six months old from the issue opening date.

PART- B

Question 5

(a) Distinguish between Fixed Price Process and Book Building Process. (4 marks)

(b) "Depository is not permitted to carry out such activities which are not incidental to its activity as a depository." Comment. (4 marks)

(c) To strengthen the regulatory framework relating to Securities Market Intermediaries, SEBI has notified amendments regarding Eligibility criteria, implementation services and fees chargeable by them, in respect of Investment Advisors. Outline the SEBI (Investment Advisors) (Amendment) Regulation, 2020 covering the requirement of above three aspects. (4 marks)

(d) "Apart from imposing penalty for violation of insider trading regulation, SEBI is empowered to issue some directions". Comment. (4 marks)

(e) "An issuer can offer specified securities at different prices". Comment. (4 marks)

Answer 5(a)

Features	*Fixed Price Process*	*Book Building process*
Pricing	Price at which the securities are offered /allotted is known in advance to the investor.	Price at which securities will be offered / allotted is not known in advance to the investor. Only an indicative price range is known.
Demand	Demand for the securities offered is known only after the closure of the issue.	Demand for the securities offered can be known everyday as the book is built.
Payment	Payment if made at the time of subscription wherein refund is given after allocation.	Payment only after allocation

Answer 5(b)

According to the Regulation 7 of the SEBI (Depositories and Participants) Regulations, 2018, the depository shall not carry on any activity whether involving deployment of funds or otherwise without prior approval of the SEBI. However prior approval of the SEBI shall not be required in case of treasury investments if such investments are as per the investment policy approved by the governing board of depository.

However, a depository may carry out such activity not incidental to its activities as a depository, whether involving deployment of funds or otherwise, as may be assigned to the depository by the Central Government or by a regulator in the financial sector, through the establishment of Strategic Business Unit(s) specific to each activity with the prior approval of the SEBI and subject to such conditions as may be prescribed by the SEBI, including transfer of such activity to a separate company within such time as may be specified by the SEBI having regard to the matters which are relevant to the efficient and orderly function of the Depository.

Answer 5(c)

SEBI has notified amendments to SEBI (Investment Advisers) Regulations, 2013. These amendments are intended to strengthen the regulatory framework for investment advisers.

The amendments highlights in respect of the following three areas are as follows:

Eligibility Criteria for Investment Advisers

- Enhanced eligibility criteria for registration as an Investment Adviser including net worth of Rs.50 lakhs for non-individuals and Rs. 5 lakhs for individuals.
- Individual investment adviser or a principal officer of a non-individual investment adviser to have enhanced professional or post-graduate qualification in relevant subjects and relevant experience of five years while grandfathering existing Individual Investment Advisers from complying with the enhanced qualification and experience as specified by SEBI.

- Individuals registered as investment advisers whose number of clients exceed 150 in total, shall apply for registration with SEBI as non-individual investment adviser.

Implementation services

Investment Advisers are allowed to provide implementation services (Execution) through direct schemes/ products in the securities market. However, no consideration can be received directly or indirectly, at investment adviser's group or family level for these services.

Fees

The fee charged by the Investment Adviser for providing Investment Advice from a client shall be in the manner as specified by SEBI.

Answer 5(d)

In order to remove any difficulties in the interpretation or application of the provisions of SEBI (Insider Trading) Regulations, the SEBI shall have the power to issue directions through guidance notes or circulars.

However, where any direction is issued by the SEBI in a specific case relating to interpretation or application of any provision of SEBI(Insider Trading) Regulations, it shall be done only after affording a reasonable opportunity of being heard to the concerned persons and after recording reasons for the direction.

Answer 5(e)

Under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, an issuer can offer specified securities at different prices, subject to the following:

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

In other words, if the issue price to the other categories of applicants is Rs.100 the price at which the securities can be offered to the reserved categories shall not be less than Rs.90;

(b) in case of a book built issue, the price of the specified securities offered to an anchor investor should not be lower than the price offered to other applicants;

(c) in case of a composite issue, the price of the specified securities offered in the public issue can be different from the price offered in rights issue and justification for such price difference should be given in the offer document;

(d) in case the issuer opts for the alternate method of book building, the issuer may offer the specified securities to its employees at a price not lower by more than 10% of the floor price.

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

Question 6

(a) An unlisted Company is planning for an IPO of equity shares. Your Managing Director asked your advice on the SEBI regulation governing fixation of face value of the share.

(b) "The key managerial personnel or promoters may have a chance of getting Unpublished Price Sensitive Imformation (UPSI) perpetually." Is there any mechanism for trading in securities of the Company by the insiders under the SEBI Regulations ?

(c) The Adjudicating Officer appointed by SEBI to conduct an inquiry may impose penalty as he thinks fit without considering the impact of default. Examine the statement with reference to Securities Contracts (Regulations) Act, 1956.

(d) Explain briefly the scope of settlement proceedings under SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014. (5 marks each)

OR (Alternate question to Q. No. 6)

Question 6A

Write short notes on the following :

(i) Qualified Institutional Buyer

(ii) Banker to an Issue

(iii) Person is deemed to be a connected person

(iv) Powers of Securities Appellate Tribunal

(v) Investor Protection Fund of Depositories. (4 marks each)

Answer 6(a)

Regulations 27 of SEBI (ICDR) Regulations, 2018 deals with the face Value of Equity Shares which provides that the disclosure about the face value of equity shares shall be made in the draft offer document, offer document, advertisements and application forms, along with price band or the issue price in identical font size.

Answer 6(b)

In case where the key managerial personnel or promoters may have a chance of getting Unpublished Price Sensitive Information (UPSI) perpetually, they may trade in the securities by submitting Trading Plan and necessary compliance related thereto.

Regulation 5 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 states that an insider would be required to submit trading plan in advance to the compliance officer for his approval. The compliance officer is also empowered to take additional undertakings from the insiders for approval of the trading plan. Such trading plan on approval will also be disclosed to the Stock Exchanges, where the securities of the company are listed.

The trading plan shall comply with the following requirements:

- It shall be submitted for a minimum period of 12 months.
- No overlapping of plan with the existing plan submitted by Insider
- It shall 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.

- Trading can only commence only after 6 months from public disclosure of plan.
- No trading between 20th day prior to closure of financial period and 2nd trading day after disclosure of financial results.
- Compliance officer to approve the plan.
- The trading plan once approved shall be irrevocable and the insider shall mandatorily have to implement the plan, without being entitled to either deviate from it or to execute any trade in the securities outside the scope of the trading plan.
- Upon approval of the trading plan, the compliance officer shall notify the plan to the stock exchanges on which the securities are listed.

Answer 6(c)

The statement is not correct as Section 23J of the Securities Contracts (Regulation) Act, 1956 provides for the factors to be taken into account by the adjudicating office. While adjudging the quantum of penalty, the adjudicating officer shall have due regard to the following factors:

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

Answer 6(d)

Regulation 5 of the SEBI (Settlement Proceedings) Regulations, 2018 deals with the scope settlement proceedings. It provides that no application for settlement of any specified proceedings shall be considered, if:

(a) an earlier application with regard to the same alleged default had been rejected;

(b) the audit or investigation or inspection or inquiry, if any, in respect of any cause of action, is not complete, except in case of applications involving confidentiality; or

(c) monies due under an order issued under securities laws are liable for recovery under securities laws.

The SEBI may not settle any specified proceeding, if it is of the opinion that the alleged default, -

i. has market wide impact,

ii. caused losses to a large number of investors, or

iii. affected the integrity of the market.

Without prejudice to the generality of the foregoing provisions, for settling any specified proceeding the SEBI may inter alia take into account the following factors, -

(a) whether the applicant has refunded or disgorged the monies due, to the satisfaction of the Board;

(b) whether the applicant has provided an exit or purchase option to investors in compliance with;

(c) securities laws, to the satisfaction of the Board;

(d) whether the applicant is in compliance with securities laws or any order or direction passed under securities laws, to the satisfaction of the Board;

(e) any other factor as may be deemed appropriate by the Board.

The SEBI may not settle the specified proceedings where the applicant is a wilful defaulter, a fugitive economic offender or has defaulted in payment of any fees due or penalty imposed under securities laws.

Nothing contained in these regulations shall be construed to restrict the right of the Panel of Whole Time Members to consider or reject any application in respect of any specified proceeding without examination by the Internal Committee or the High Powered Advisory Committee.

[Note : Since the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 have been repealed, therefore, the scope of Settlement Proceedings under SEBI (Settlement Proceedings) Regulations, 2018 has been discussed here. However, the students who have answered on the basis of SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 were also suitably awarded]

Answer 6A(i)

Qualified Institutional Buyer (QIB) means:

(i) a mutual fund, venture capital fund, alternative investment fund and foreign venture capital investor registered with the SEBI;

(ii) a foreign portfolio investor other than individuals, corporate bodies and family offices;

(iii) a public financial institution;

(iv) a scheduled commercial bank;

(v) a multilateral and bilateral development financial institution;

(vi) a state industrial development corporation;

(vii) an insurance company registered with the Insurance Regulatory and Development Authority of India;

(viii) a provident fund with minimum corpus of twenty five crore rupees;

(ix) a pension fund with minimum corpus of twenty five crore rupees;

(x) National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India;

(xi) insurance funds set up and managed by army, navy or air force of the Union of India, and

(xii) insurance funds set up and managed by the Department of Posts, India; and

(xiii) Systemically important non-banking financial companies.

Answer 6A(ii)

Banker to an Issue means a scheduled bank carrying on all or any of the following activities:

(i) Acceptance of application and application monies;

(ii) Acceptance of allotment or call monies;

(iii) Refund of application monies;

(iv) Payment of dividend or interest warrants.

Bankers to the issue, as the name suggests, carries out all the activities of ensuring that the funds are collected and transferred to the Escrow accounts. The Banks render crucial service in mobilisation of capital for companies.

While one or more banks may function as Bankers to the Issue as well as collection banks, others may do the limited work of collecting the applications for securities along with the remittance in their numerous branches in different centres. The banks are expected to furnish prompt information and records to the company and to the lead manager for monitoring and progressing the issue work. For this purpose, the company has to enter into an agreement with different banks specifying the conditions, terms and remuneration for services to be rendered by each such bank.

Answer 6A(iii)

Person is deemed to be a connected person

The SEBI (Prohibition of Insider Trading) Regulations, 2015 states that a “Person is deemed to be a connected person”, if such person is–

(a) an immediate relative of connected persons; or

(b) a holding company or associate company or subsidiary company; or

(c) an intermediary as specified in section 12 of the SEBI Act or an employee or director thereof; or

(d) an investment company, trustee company, asset management company or an employee or director thereof; or

(e) an official of a stock exchange or of clearing house or corporation; or

(f) a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or

(g) a member of the board of directors or an employee, of a public financial institution as defined in section 2 (72) of the Companies Act, 2013; or

(h) an official or an employee of a self-regulatory organization recognised or authorized by SEBI; or

(i) a banker of the company or

(j) a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than ten percent of the holding or interest;

Answer 6A(iv)

Powers of Securities Appellate Tribunal are as under:

(a) summoning and enforcing the attendance of any person and examining him on oath;

(b) requiring the discovery and production of documents;

(c) receiving evidence on affidavits;

(d) issuing commissions for the examination of witnesses or documents;

(e) reviewing its decisions;

(f) dismissing an application for default or deciding it ex parte;

(g) setting aside any order of dismissal of any application for default or any order passed by it ex parte; and

(h) any other matter which may be prescribed.

Every proceeding before the Securities Appellate Tribunal shall be deemed to be a judicial proceeding within the meaning of sections 193 and 228, and for the purposes of section 196 of the Indian Penal Code, 1860 and the Securities Appellate Tribunal shall be deemed to be a civil court for all the purposes of section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973.

Answer 6A(v)

Investor Protection Fund of Depositories

According to the Regulation 73 of the SEBI (Depositories and Participants) Regulations, 2018 every depository shall establish and maintain an Investor Protection Fund for the protection of the interest of beneficial owners. However, this Fund shall not be used by the depository for the purpose of indemnifying the beneficial owner.

Every depository shall credit five percent or such percentage as may be specified by the SEBI, of its profits from depository operations every year to the investor Protection Fund.

The contribution to and utilization of the Investor Protection Fund shall be in accordance with the norms specified by the SEBI.

***

INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

Time allowed : 3 hours *Maximum marks : 100*

Total number of Questions : 100

PART A

1. Factory is defined in the Factories Act, 1948 :

    (A) Section 2 (m)

    (B) Section 2 (n)

    (C) Section 2 (k)

    (D) Section 2 (i)

2. Which of the following is not an essential element of a factory?

    (A) There electronic data processing units are installed

    (B) There must be ten or, more workers where the manufacturing process is being carried on with the aid of power

    (C) There must be manufacturing process being carried on at the premises

    (D) There must be a premises

3. The Factories Act, 1948 imposes which of the following obligations upon the employer in regard to his workers :

    (A) Health

    (B) Safety

    (C) Welfare

    (D) All of the above

4. As per the Factories Act, 1948, "Child" means a person who has not completed his .... year of age.

    (A) Fourteenth

    (B) Fifteenth

    (C) Seventeenth

    (D) Eighteenth

5. The Trade Union Act, 1926 also regulates the relationship between :

    (A) Workman's and employers

(B) Workman's and workman's

(C) Employers and Employers

(D) All of the above

6. Section 11 of the Trade Union Act, 1926 is related to :

(A) Registration

(B) Collecting bargaining

(C) Crime

(D) Appeal

7. Under the Trade Union Act, 1926, a separate fund for political purposes is provided:

(A) Section 15

(B) Section 16

(C) Section 17

(D) Section 18

8. In which section of the Trade Union Act, 1926 the 'Trade Union' is defined ?

(A) Section 2(e)

(B) Section 2(h)

(C) Section 3

(D) Section 4

9. The purpose of the Industrial Disputes Act, 1947 is :

(A) To hire Industrial workers

(B) Investigation and Settlement of Industrial Disputes

(C) Giving guideline to the Government

(D) Shut down Industrial activity

10. Who is not the Authority in the Industrial Disputes Act, 1947?

(A) Conciliation officer

(B) Boards of Conciliation

(C) Labour Court

(D) Session Court

11. Under the Industrial Dispute Act, 1947 the National Tribunal shall consist of :

(A) One person

(B) Five persons

(C) Two persons

(D) Ten persons

12. Industry is defined under :

    (A) Section 2 (a) of the Industrial Disputes Act, 1947

    (B) Section 2 (j) of the Industrial Disputes Act, 1947

    (C) Section 2 (K) of the Factories Act, 1948

    (D) Section 2 (n) of the Trade Union Act, 1926

13. Which of the following Sections of Industrial Disputes Act, 1947 impose restrictions on the Commencement of Strike ?

    (A) Section 22

    (B) Section 23

    (C) Section 22, 23

    (D) Section 22, 23, 24

14. Under which Schedule of Industrial Disputes Act, 1947 Public Utility Services have been listed out ?

    (A) First Schedule

    (B) Second Schedule

    (C) Fourth Schedule

    (D) Third Schedule

15. Under Workmen's Compensation Act, 1923, which of the following are considered as dependent of deceased workman for the purpose of paying compensation ?

    (i) A minor brother or an unmarried sister or a widowed sister

    (ii) A widowed doughter-in-law

    (iii) A minor child of a pre-deceased son

    (iv) A minor child of a pre-deceased doughter where no parent of the child is alive

    (v) A paternal grandparent if no parent of the workman is alive

    (A) (i), (ii) and (v)

    (B) (i), (ii), (iii) and (iv)

    (C) (i), (ii), (iii) and (v)

    (D) (i), (ii), (iii), (iv) and (v)

16. The Industrial Employment (Standing Orders) Act, 1946 applies to every establishment employing :

    (A) 100 or more workmen

    (B) 150 or more workmen

    (C) 100 or more workmen on any day during preceding 12 months

    (D) 150 or more workmen on any day during preceding 12 months

17. The appeal on the certified standing orders may be preferred within .... days before the appellate authority.

    (A) 15

    (B) 30

    (C) 60

    (D) 90

18. The objections, which the workmen may desire to make to the draft standing orders to be submitted to the certifying officer within .... days from the receipt of draft standing order from the certifying officer.

    (A) 12

    (B) 15

    (C) 9

    (D) 20

19. The principle of 'equal pay for equal work' is contained in which Articles of the Indian Constitution ?

    (A) Article 10

    (B) Article 36

    (C) Article 39

    (D) Article 44

20. Which of the following is not included under the definition of wages given under the Payment of Wages Act, 1936 ?

    (A) Basic Wage

    (B) Dearness Allowance

    (C) Remuneration for overtime work

    (D) Gratuity

21. Which of the following is not a method for fixing Minimum Wages under the Minimum Wages Act, 1948 ?
    - (A) Bargaining Method
    - (B) Notification Method
    - (C) Committee Method
    - (D) None of the above

22. The Minimum Wages Act, 1948 has ....
    - (A) One schedule covering different types of industries
    - (B) One schedule covering different types of industries, shops and establishments
    - (C) One schedule covering shops and establishments
    - (D) Two schedule covering industries, establishments and agriculture

23. Under Minimum Wages Act, 1948 Government may, by notification in the official Gazette, appoint an Authority to hear and decide claim except :
    - (A) Any Commissioner for worker's Compensation
    - (B) Any officer of Central Government exercising functions as Labour Commissioner
    - (C) Employer of Company
    - (D) Any officer of State Government not below the rank of Labour Commissioner

24. Which Article of the Indian Constitution is related to Maternity Benefit Act, 1961?
    - (A) Article 40
    - (B) Article 42
    - (C) Article 39
    - (D) Article 47

25. Section 21 of the Maternity Benefit Act, 1961 deals with :
    - (A) Penalty for violation of the Act by the employer
    - (B) Cognizance of offences
    - (C) Registers
    - (D) All of the above

26. Under the Maternity Benefit Act, 1961 woman who returns to duty after delivery, shall be allowed in the course of her daily work two additional breaks (Nursing break) until the child attains the age of :
    - (A) 9 Months

(B) 12 Months

(C) 15 Months

(D) 17 Months

27. Under Section 25 of the Employees State Insurance Act, 1948 Employees State Insurance Corporation is empowered to appoint authorities well equipped with powers and functions. Which of the following are such authorities ?

(A) Regional Boards

(B) Local Committees

(C) Regional and Local Medical Benefit Councils

(D) All of the above

28. An employee is eligible to get bonus under the Payment of Bonus Act, 1965 if he had worked for not less than .... days in the preceding year.

(A) 30

(B) 160

(C) 190

(D) 240

29. Under the Payment of Bonus Act, 1965 bonus should be paid in cash within -............ months from the close of the accounting year.

(A) 03

(B) 06

(C) 08

(D) 12

30. The minimum bonus which an employee is required to pay even if he suffers losses during the accounting year or there is no allocable surplus, is .... % of the salary or wages during the accounting year.

(A) 6.33%

(B) 8.33%

(C) 9.00%

(D) 10.00%

31. Which of the following Section of Payment of Gratuity Act, 1972 deals with recovery of gratuity ?

(A) Section 08

(B) Section 09

(C) Section 10

(D) Section 11

32. What is the qualifying service to claim gratuity ?

(A) 05 Years

(B) 10 Years

(C) 15 Years

(D) None of the above

33. Payment of Gratuity Act, 1972 is applicable to every shop or, establishment within the meaning of any law for the time being in force in relation to shops and establishment in a state, in which .... persons are or were employed on any day in the preceding 12 months.

(A) 10 or more

(B) 15 or more

(C) 20 or more

(D) 25 or more

34. Under the Contract Labour (Regulation and Abolition) Act, 1970 the Chairman of the State Advisory Contract Labour Board is appointed by :

(A) The Governor of the state

(B) The State Government

(C) The Employers of the establishments by a secret ballot

(D) The Labour Commissioner of the state

35. As per Contract Labour (Regulation and Abolition) Act, 1970 what is the minimum number of contract labourers ordinarily to be employed by a contractor so that the employer must provide canteen ?

(A) 100

(B) 150

(C) 250

(D) 500

36. The Contract Labour (Regulation and Abolition) Act, 1970 excludes from the definition of 'Contractor' one who :

(A) Undertakes to produce a given result for an establishment through Contract Labour.

(B) Supplies Contract Labour for any work of the establishment

(C) Supplies goods and article for manufacture to an establishment

(D) Subcontractor

37. No court shall take cognizance of an offence under the Contract Labour (Regulation and Abolition) Act, 1970, except on a complaint by or with the previous sanction in writing of:

(A) Appropriate Government

(B) Labour Commissioner

(C) The Inspector

(D) An officer not below the rank of class one gazetted officer of the government

38. Part III of the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 deals with :

(A) Technical Advisory Committee

(B) Child Labour and Adolescent Labour Rehabilitation Fund

(C) Regulation of Conditions of work

(D) Power to amend the schedule

39. As per the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 in which of the following types of occupations, a child can be employed ?

(A) Automobile workshops and garages

(B) Audio-Visual entertainment

(C) Transport of passengers, goods or mails by railways

(D) Restaurants, hotels, motels, tea-shops

40. Which one of the following is the maximum spread over of the daily hours of work including interval for rest, time spent in waiting for work under the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986?

(A) Three hours

(B) Four hours

(C) Five hours

(D) Six hours

41. According to section 2(d) of the Labour Laws (Simplification of Procedure for Purnishing Returns and Maintaining Registers by Certain Establishment) Act, 1988, which of the following is not the subject of the first schedule?

(A) Apprentices Act, 1961

(B) The Weekly Holidays Act, 1942

(C) The Factories Act, 1948

(D) The Equal Remuneration Act, 1976

42. Which section of Apprentices Act, 1961 related to provisions for "Apprentices contract" ?

(A) Section 2 (d)

(B) Section 4

(C) Section 2 (c)

(D) Section 25

43. Which Section of the Employment Exchange(Compulsory Notification of Vacancies) Act,1959 has provision for "Right to access to Records or Documents?

(A) Section 04

(B) Section 05

(C) Section 06

(D) Section 07

44. What type of vacancies are not applicable as per Employment Exchange (Compulsory Notification of Vacancies) Act, 1959 ?

(A) Agriculture

(B) Horticulture

(C) Domestic Service

(D) All of the above

45. The provision of "No discrimination to bemade while recruiting men and women workers" is from which section of the Equal Remuneration Act, 1976 ?

(A) Section 04

(B) Section 05

(C) Section 06

(D) Section 07

46. Which section of the Equal Remuneration Act, 1976 defines 'Remuneration' ?

(A) Section 2 (a)

(B) Section 2 (d)

(C) Section 2 (h)

(D) Section 2 (g)

47. Under Employees Provident Funds and Miscellaneous Provisions Act, 1952 "Insurance Fund" means ....

(A) Medical Insurance Fund

(B) Deposit Linked Insurance Scheme

(C) Unit Linked Insurance Plan

(D) Employees Group Accident Insurance

48. Which section provides power to exempt under Employees Provident Funds and Miscellaneous Provisions Act, 1952 ?

(A) Section 17

(B) Section 17 (A)

(C) Section 17 (B)

(D) Section 18

49. Employees Provident Fund and Miscellaneous Provisions Act, 1952 is applied to establishments employing, not less than :

(A) 10 employees

(B) 20 employees

(C) 50 employees

(D) 100 employees

50. Under the Employees' Compensation Act, 1923 if there is willful removal or disregard by the workman of any safety guard or other device which he knew to have been provided for the purpose of securing safety of workman.

(A) Employer is liable to pay Compensation

(B) Employer is not liable to pay Compensation

(C) Appropriate Government is liable to pay Compensation

(D) The Trade Union is liable to pay Compensation

51. Compensation is defined under .... of the Employees' Compensation Act, 1923.

(A) Section 2 (1-a)

(B) Section 2 (1-b)

(C) Section 2 (1-c)

(D) Section 2 (1-d)

52. Under Employees' Compensation Act, 1923 employer shall not be liable to pay compensation in respect of any injury which does not result in the total or partial disablement of the workman for a period exceeding .... days.

(A) 2

(B) 3

(C) 5

(D) 7

53. Commissioner means a commissioner for Wrokmen's Compensation appointed under ....

(A) Section 20

(B) Section 21

(C) Section 22

(D) Section 23

54. Fixation of wage period is covered under .... of Payment of Wages Act, 1936.

(A) Section 04

(B) Section 05

(C) Section 14

(D) Section 15

55. Under Factories Act, 1948 an adult means a person who has completed a certain age :

(A) Fifteenth years

(B) Sixteenth years

(C) Eighteenth years

(D) Nineteen years

56. The age for being eligible as an adolescent under the Child Labour (Prohibition and Regulation) Act, 1986 upto :

(A) 12 Years

(B) 14 Years

(C) 16 Years

(D) 18 Years

57. The Industrial Disputes Act, 1947 provides for a Working Committee under :

(A) Section 03

(B) Section 05

(C) Section 08

(D) Section 11

58. 'Health and Safety' is provided under the Factories Act, 1948 :

(A) Chapter 3 and 4

(B) Chapter 4 and 5

(C) Chapter 6

(D) All of the above

59. Under the Industrial Disputes Act, 1947 Industry means :

    (A) Business, Trade

    (B) Undertaking, Manufacture

    (C) Manufacture or calling of employers

    (D) All of the above

60. Strike may be called by :

    (A) The Employer

    (B) The Magistrate

    (C) The Workmen

    (D) The Conciliation Officer

61. 'Lockout' is defined under :

    (A) The Trade Union Act, 1926

    (B) The Industrial Disputes Act, 1947

    (C) The Lockout Act, 1985

    (D) The Factories Act, 1948

62. 'Workman' is defined under :

    (A) Section 2 (s) Industrial Disputes Act, 1947

    (B) Section 2 (m) Industrial Disputes Act, 1947

    (C) Section 2 (n) Industrial Disputes Act, 1947

    (D) Section 2 (d) Industrial Disputes Act, 1947

63. Which of the following matter is not required to be provided under the Industrial Employment (Standing Orders) Act, 1946 ?

    (A) Classification of workmen

    (B) Shift working

    (C) Attendance and late coming

    (D) Rate of wages

64. What is limitation period for filing appeal before Appellate Tribunal against order of Certifying Officer under the Industrial Employment (Standing Orders) Act, 1946?

    (A) 14 days

    (B) 30 days

    (C) 60 days

    (D) 45 days

65. Under the second schedule of the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 From-I deals with :

(A) Annual Return

(B) Register of persons employed-cumemployment card

(C) Muster roll-cum-wage register

(D) All of the above

66. Under the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 Very Small Establishment means an establishment in which not more than .... persons are employed.

(A) 9

(B) 10

(C) 12

(D) 15

67. If the factory employs more than 1000 workers, they should appoint qualified .... to carry out the prescribed duties.

(A) Safety officer

(B) Welfare officer

(C) Medical officer

(D) None of the above

68. Under the Payment of Wages Act, 1936 wages means :

(A) Remuneration of which the persons employed is entitled in respect of overtime work

(B) Remuneration of payable under any award or settlement between parties

(C) Additional remuneration payable under terms of employment

(D) All of the above

69. Fixing or, Revising Minimum Rates wages under section 3 of the Minimum Wages Act, 1948 minimum rates of wages may be fixed by ....

(A) The hours

(B) The days

(C) The months

(D) All of the above

70. Which section of the Maternity Benefit Act, 1961 states the conditions for eligibility of benefits ?

(A) Section 05

(B) Section 08

(C) Section 10

(D) Section 18

PART B

71. Which of the following is a fact ?

(A) That there are certain objects arranged in certain order in a certain place

(B) That a man heard or saw something

(C) That a man said certain words

(D) All of the above

72. The Concept of Fundamental rights was borrowed from the :

(A) British Constitution

(B) US Constitution

(C) Australian Constitution

(D) Canadian Constitution

73. Which Constitutional amendment is known as mini Constitution ?

(A) 31st Amendment

(B) 42nd Amendment

(C) 44th Amendment

(D) 91st Amendment

74. The concept of 'equal protection of laws' enshrined under Article 14 of the Indian Constitution finds its root from the :

(A) British Constitution

(B) American Constitution

(C) German Constitution

(D) Australian Constitution

75. As per Article 77 of the Indian Constitution all executive actions of the Government of India shall be expressed to be taken in the name of the :

(A) Government of India

(B) Union of India

(C) President

(D) Prime Minister

76. What is the minimum number of Judges who are to sit for the purpose of deciding any case involving substantial question of law as to the interpretation of the Constitution ?

(A) 3 Judges bench

(B) 5 Judges bench

(C) 7 Judges bench

(D) 9 Judges bench

77. In which Article the doctrine of 'Due Process of Law' is included ?

(A) Article 13

(B) Article 14

(C) Article 21

(D) Article 256

78. The 'Rule of Law' means :

(1) Supremacy of the Judiciary

(2) Supremacy of the law

(3) Equality before the law

(4) Supremacy of the Parliament

Select the correct answer using the codes given below :

(A) and (3)

(B) and (4)

(C) and (4)

(D) (2) and (3)

79. In which of the following Articles the principle of collective responsibility has been incorporated ?

(A) Article 53

(B) Article 74

(C) Article 75

(D) Article 105

80. "Constitution of State Information Commission" is under section .... of the Right to Information Act, 2005.

(A) 13

(B) 14

(C) 15

(D) 16

81. Chapter .... of the Right to Information Act, 2005 related to powers and functions of the Information commissions, appeal and penalties.

(A) 4

(B) 5

(C) 6

(D) 4 and 6

82. According to section 24 of the Right to Information Act, 2005 which is not a subject of the second schedule :

(A) Intelligence Bureau

(B) Narcotics Control Bureau

(C) Border Security Force

(D) Court

83. Under the Right to Information Act, 2005 the members of Central Information Commission are appointed by a committee. Who shall be the Chairman of this Committee ?

(A) President of India

(B) Prime Minister of India

(C) The leader of opposition in the Parliament

(D) Any designated member of the Parliament

84. The Rule of 'Strict Liability' was propounded by :

(A) Justice Blackburn

(B) Lord Devlin

(C) Lord Atkin

(D) Justice hold

85. The maxim 'damnum sine injuria' means :

(A) damage without infringement of legal right

(B) damage with infringement of legal right

(C) infringement of legal right without damage

(D) All of the above

86. A Confession under section 164 of Criminal Procedure Code, 1973 can be recorded by the:

(A) Metropolitan/Judicial magistrate

(B) Executive Magistrate

(C) Police officer whom the power of a magistrate has been conferred

(D) Either (A) or (B)

87. The Code of Criminal Procedure, 1973 was made effective from :

(A) 1st March, 1975

(B) 15th November, 1973

(C) 26th January, 1973

(D) 1st April, 1974

88. .... of Criminal Procedure Code, 1973 deals with power of courts.

(A) Chapter II

(B) Chapter III

(C) Chapter IV

(D) Chapter V

89. When a Court issues a warrant for the arrest of a suspected person, it must ensure :

(A) The number of sureties

(B) The amount in which the sureties are bound

(C) The time and date at which the accused person is required to attend the court

(D) All of the above

90. In case of a suspect concealing himself to avoid arrest, the court can issue :

(A) An order of attachment

(B) An order of proclamation

(C) An order of publication of warrant

(D) All of the above

91. The Principle of 'Res Judicata' is dealt under section of Civil Procedure Code, 1908 :

(A) Section 9

(B) Section 10

(C) Section 11

(D) Section 12

92. Under the Civil Procedure Code, 1908 a caveat shall not remain in force after the expiry of :

(A) 30 days

(B) 60 days

(C) 90 days

(D) 180 days

93. The definition of 'Judgement debtor' given in section .... of Code of Civil Procedure 1908.

(A) Section 2(11)

(B) Section 2(13)

(C) Section 2(10)

(D) Section 2(12)

94. Which provision under the Civil Procedure Code, 1908 deals with substituted service of summons upon the defendant ?

(A) Order 5 Rule 19A

(B) Order 5 Rule 19

(C) Order 5 Rule 20

(D) Order 5 Rule 21

95. Which of the following Article of Indian Constitution represent the Doctrine of Eclipse ?

(A) Article 13(1)

(B) Article 14(1)

(C) Article 15(1)

(D) Article 16(2)

96. Which of the following case propounded the Doctrine of Prospective Overruling ?

(A) I.C. Golakhnath Vs. State of Punjab AIR 1957 S.C. (1643)

(B) Sageer Ahmad Vs. State of Uttar Pradesh AIR 1955 SC (278)

(C) Shambhoo Nath Vs. State of Ajmer AIR 1956 SC (404)

(D) Abdul Lateef Vs. Abadi Bagam AIR 1934 SC (188)

97. Which of the following is used as external aid to the interpretation of statutes ?

(A) Proviso

(B) Illustrations

(C) Exception Clauses

(D) Dictionaries

98. "Better for a thing to have an effect than to be maid void" concept is :

(A) Generalia speci libus non-dergent

(B) Reddendo Singula Singulis

(C) Jus decere and jus dare

(D) Utres megis valeat quan pereat

99. Preventive Relief under the Specific Relief

(A) Act, 1963 is given under :

(B) Sections 31-40

(C) Sections 35-42

(D) Sections 36-42

(E) Sections 35-45

100. India that is Bharat, shall be a :

(A) Federation of states

(B) Quasi federal

(C) Union of states

(D) Unitary state of a special type

ANSWER KEY

INDUSTRIAL LABOUR AND GENERAL LAWS - SELECT SERIES

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