

# GUIDELINE ANSWERS

## EXECUTIVE PROGRAMME

*(New Syllabus)*

DECEMBER 2020

**MODULE 2**



**THE INSTITUTE OF  
Company Secretaries of India**

**भारतीय कम्पनी सचिव संस्थान**

**IN PURSUIT OF PROFESSIONAL EXCELLENCE**

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

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

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**EXECUTIVE PROGRAMME EXAMINATION**  
**DECEMBER 2020**  
**CORPORATE & MANAGEMENT ACCOUNTING**

*Time allowed : 3 hours*

*Maximum marks : 100*

*Total number of Questions : 100*

**PART I**

1. Current Assets are those assets :
  - (A) Which can be converted into cash within 12 months
  - (B) Which can be converted into cash within a period normally not exceeding 12 months
  - (C) Which can be converted into cash within an operating cycle which normally does not exceed 12 months.
  - (D) Which are held for their conversion into cash within an operating cycle or a period of 12 months
2. The figures appearing in the Financial Statements may be rounded off to the nearest crore, only if Turnover is .....
  - (A) less than ₹100 crore
  - (B) ₹100 crore or more
  - (C) more than ₹100 crore
  - (D) more than ₹500 crore
3. Which of the following is correct?
  - (A) The company shall not issue sweat equity shares for more than 15% of the existing paid up equity share capital in a year or shares of the issue value of rupees five crore, whichever is higher.
  - (B) The company shall not issue sweat equity shares for more than 15% of the existing paid up equity share capital in a year or shares of the issue value of rupees 5 crore, whichever is lower.
  - (C) The company shall not issue sweat equity shares for more than 25% of the existing paid up equity share capital in a year or shares of the issue value of rupees 5 crore, whichever is higher.
  - (D) The company shall not issue sweat equity shares for more than 25% of the existing paid up equity share capital in a year or shares of the issue value of rupees 5 crore, whichever is lower.
4. Financial statements are used by:
  - (A) Investors
  - (B) Creditors
  - (C) Regulators
  - (D) All of the above

5. The Escrow account under Regulation 9(xi) of SEBI (Buy back of securities) Regulations, 2018 does not include :
- (A) Cash deposited with a scheduled commercial bank
  - (B) Bank guarantee in favour of the merchant banker
  - (C) Deposit of acceptable securities with appropriate margin, with the merchant banker
  - (D) Deposits of acceptable securities with appropriate margin, with the company
6. Every Company having Net Worth of ₹ ..... shall constitute a corporate social responsibility committee of the Board.
- (A) 100 crore or more
  - (B) 200 crore or more
  - (C) 500 crore or more
  - (D) 1000 crore or more
7. On 30th June, 2018, two-third of the shares of S Ltd. (with total capital of ₹ 48,00,000) was acquired by H Ltd. The balance sheet of S Ltd. showed a debit balance ₹ 24,00,000 on 1st January, 2018 and a credit balance of ₹ 14,40,000 on 31st December, 2018. The investment by H Ltd. in shares of S Ltd. is ₹ 36,00,000. Calculate the “cost of control” in this acquisition :
- (A) ₹7,20,000
  - (B) ₹6,20,000
  - (C) ₹3,60,000
  - (D) ₹1,80,000
8. CARO 2016 is applicable to :
- (A) Banking Companies and Insurance Companies
  - (B) One Person Company and Small Companies
  - (C) Companies registered for Charitable Purposes
  - (D) Foreign Companies
9. On 31st March, 2019, X Ltd. has 8% fixed Deposit (Date of FD 1st March, 2019, maturing on 31st May, 2019) of ₹3,00,000. Interest is received on monthly basis. While preparing Cash Flow Statement as per AS-3 :
- (A) ₹2,000 (interest) will be added to net profit while calculating net cash inflow after tax from operating activities
  - (B) ₹3,00,000 will be treated as cash outflow in investing activities
  - (C) Both (A) and (B)
  - (D) None of the above

10. Which of the following is a Small and Medium Sized Company (SMC) as per the Companies (Accounting standards) Rules, 2006 :
- (A) X Ltd. has appointed Merchant bankers to prepare a Red-herring prospectus for the purpose of filing the same with SEBI
  - (B) Y Pvt. Ltd. engaged only in insurance broking business has a turnover of ₹55 crore (including other income of ₹5 crore), GST collected of ₹1 crore and shown as Unsecured Loan and Secured Loan from bank of ₹9 crore and public deposits of ₹1 crore.
  - (C) Z Pvt. Ltd., acquired 51% equity in a listed company. It has a turnover of ₹50 crore and borrowings of ₹10 crore.
  - (D) W Pvt. Ltd. has a turnover of ₹55 crore (including other income of ₹5 crore) and took Secured Loan from bank of ₹10 crore and public deposits of ₹1 crore which were fully paid before the end of the financial year.
11. “Satyam Vada, Dharam Chara” is :
- (A) Motto of the ICSI
  - (B) Vision Statement of the ICSI
  - (C) Mission Statement of the ICSI
  - (D) Objective of the ICSI
12. Under Ind AS 1 , presentation of any items of income or expense as extraordinary item is :
- (A) Separately disclosed
  - (B) Shown as a part of statement of profit and loss
  - (C) Prohibited
  - (D) None of the above
13. A person who owes money to the business is a .....
- (A) Debtor
  - (B) Creditor
  - (C) Investor
  - (D) Promoter
14. A Company shall disclose by way of notes, additional information regarding aggregate expenditure and income on any item of income or expenditure which exceeds :
- (A) 1% of the revenue from operations or ₹1,00,000, whichever is higher
  - (B) 1% of the revenue from operations or ₹1,00,000, whichever is lower
  - (C) 1% of the revenue from operations or ₹10,00,000, whichever is higher
  - (D) 1% of the revenue from operations or ₹10,00,000, whichever is lower

15. If the Articles of Association are silent regarding interest on calls-in-arrears, the minimum rate of interest which can be charged on calls-in-arrears is :
- (A) 12% p.m.
  - (B) 10% p.a.
  - (C) 12% p.a.
  - (D) None of the above
16. Which of the following is not a method of redemption of debentures ?
- (A) By payment in lumpsum
  - (B) By payment in Instalments
  - (C) By purchase in open market
  - (D) By conversion into short term loans
17. Every company required to create/maintain Debenture Redemption Reserve shall before the 30th day of April of each year, deposit or invest (as the case may be) at least ..... % of the amount of its debentures maturing during the year ending on the 31st day of March next year in the prescribed mode.
- (A) 5
  - (B) 10
  - (C) 15
  - (D) 25
18. Every non-listed public company must have at least one woman director, if it has:
- (A) paid up share capital of at least ₹100 crore
  - (B) turnover of at least ₹100 crore
  - (C) in aggregate, outstanding loans/ borrowings/debentures/deposits of at least ₹50 crore
  - (D) None of the above
19. The areas of corporate governance included in Companies Act, 2013 are :
- (A) Independent directors and woman director and Corporate Social Responsibility Committee
  - (B) Audit Committee, Internal Audit and Serious Fraud Investigation office
  - (C) Nomination and Remuneration Committee and Stakeholder relationship Committee
  - (D) All of the above

20. Which of the following is not a cash flow for a company?
- (A) Dividends
  - (B) Proceeds from issuance of share capital
  - (C) Amortisation of preliminary expenses
  - (D) Interest payments
21. AS 3 and AS 17 are not applicable in their entirety to :
- (A) Level II Entities
  - (B) Level III Entities
  - (C) SMCs
  - (D) All of the above
22. IASB stands for :
- (A) Indian Accounting Standard Board
  - (B) International Auditing Standard Board
  - (C) International Accounting Standard Board
  - (D) International Assurance Service Board
23. The structure of IFRS Foundation consists of :
- (A) International Accounting Standards Board (IASB), IFRS Foundation Trustees and IFRS Foundation Monitoring Board
  - (B) IFRS Foundation Trustees, IFRS Foundation Monitoring Board and IFRS Advisory Council
  - (C) IFRS Foundation Monitoring Board, IFRS Advisory Council, International Accounting Standards Board (IASB)
  - (D) International Accounting Standards Board (IASB), IFRS Foundation Trustees and IFRS Advisory Council
24. Ind AS 20 requires government grants of the nature of promoters contribution :
- (A) to be credited directly to capital reserve and treated as a part of shareholders funds
  - (B) to be recognized as income over the periods
  - (C) Not to be recognized
  - (D) Either (A) or (B)
25. Provision is :
- (A) an unknown liability but its amount and due date are determinate
  - (B) an unknown liability and its amount and due date are indeterminate

- (C) a known liability and its amount and due date are determinate  
 (D) a known liability but its amount and due date are indeterminate
26. A balance sheet has two parts to it, i.e.
- I. Equity and Liabilities and
  - II. ....
- (A) Shareholder's fund  
 (B) Trade receivables  
 (C) Inventories  
 (D) Assets
27. The maximum amount of capital a company can issue is called .....
- (A) Issued Capital  
 (B) Paid up Capital  
 (C) Authorized Capital  
 (D) Called up Capital
28. Neel Ltd. purchased a building worth ₹99,00,000 and issued 12% Debentures of ₹100 each at a premium of 10%. What will be the amount of premium ?
- (A) ₹8,00,000  
 (B) ₹9,90,000  
 (C) ₹9,00,000  
 (D) ₹10,00,000
29. The Chief Accountant of TT Ltd. gives the following data regarding its six segments:

₹ in crore

Particulars	M	N	O	P	Q	R	Total
Segment Assets	9	9	55	9	9	9	100
Segment Results	-19	-162	18	10	-19	10	-162
Segment Revenue	161	29	29	28	27	26	300

The Reportable Segments as per AS 17 are :

- (A) M, N  
 (B) M, N, O  
 (C) M, N, O, P  
 (D) M, N, O, P, R



30. Market Value Added is :
- (A) = Market Value of equity – Book value of equity
  - (B) = Present value of all future EVA
  - (C) = Shareholder Value Added (SVA)
  - (D) = Both (A) and (B)
31. What is the full form of CARO ?
- (A) Company Account's Repository Order
  - (B) Company Account's Reports Order
  - (C) Company Auditor's Report Order
  - (D) Company Assets Revaluation Order
32. Cash payments to and on behalf of employees is an example of.....
- (A) Cash flow from operating activities
  - (B) Cash flow from investing activities
  - (C) Cash flow from financing activities
  - (D) None of the above
33. AS 18 and AS 24 are not applicable in their entirety to :
- (A) Level II Entities
  - (B) Level III Entities
  - (C) SMCs
  - (D) All of the above
34. AS-7 issued by ICAI deals with .....
- (A) Disclosure of accounting policies
  - (B) Revenue Recognition
  - (C) Construction contracts
  - (D) Government grants
35. The Advisory Council is the formal advisory body to the :
- (A) International Accounting Standards Board
  - (B) Trustees of the IFRS Foundation.
  - (C) IFRS Foundation Monitoring Board
  - (D) Both (A) and (B)

36. Ind AS 11 requires contract revenue to be measured at.....
- (A) Net realisable value
  - (B) Fair value of consideration received/ receivable
  - (C) Consideration received/receivable
  - (D) None of the above
37. Share Options Outstanding Account will be shown in the Balance Sheet of a company under the heading
- (A) Share Capital
  - (B) Reserves & Surplus
  - (C) Non-current Liabilities
  - (D) Current Liabilities
38. Forfeited shares can be re-issued at .....
- (A) Par
  - (B) Premium
  - (C) Discount
  - (D) Any of the above
39. Saket Ltd. purchased a machinery worth ₹1,20,000 and building worth ₹2,00,000 from Rashmi Ltd. for an agreed purchase consideration of ₹3,00,000 to be satisfied by the issue of 3,000, 10% debentures of ₹100 each. Calculate the amount to be transferred to capital reserve A/c:
- (A) ₹ 10,000
  - (B) ₹ 20,000
  - (C) ₹ 30,000
  - (D) ₹ 40,000
40. Ind AS 34 requires the following in the contents of an interim financial report in addition to what was required under previous standard AS 25:
- (A) A condensed balance sheet
  - (B) A condensed statement of profit and loss
  - (C) A condensed cash flow statement
  - (D) A condensed statement of changes in equity
41. Shareholder Value Added (SVA) is:
- (A) = Economic profits of a business – minimum return required by all providers of capital
  - (B) = Economic profits of a business – minimum return required by all Shareholders only

- (C) = Economic profits of a business – minimum return required by Equity Shareholders only
- (D) = Book value of equity – Cost of equity
42. In case of a financial enterprise, Interest received on Debentures held as Investment is .....
- (A) Operating activity
- (B) Investing activity
- (C) Financing activity
- (D) None of the above
43. GAAP stands for :
- (A) Generally accepted accounting principles
- (B) Generally accumulated adherence policy
- (C) Generally accounting adherence policy
- (D) Generally assisted accounting principles
44. .... are set of accounting standards notified by the Ministry of Corporate Affairs which are converged with International Financial Reporting Standards.
- (A) International Accounting Standards
- (B) Indian Accounting Standard
- (C) Indian Auditing Standard
- (D) International Auditing Standards
45. Public Interest Committee (PIC) established by IPSASB consists of individuals from the :
- (A) International Monetary Fund
- (B) International Organization of Supreme Audit Institutions
- (C) Organization for Economic Cooperation and Development and the World Bank Group
- (D) All of the above
46. No issue of bonus shares shall be made by a company out of :
- (A) Its free reserves
- (B) The securities premium account
- (C) Capitalizing reserves created by revaluation of assets
- (D) The capital redemption reserve account

47. The Association of International Certified Professional Accountants launched in 2017, bringing together the expertise and capabilities of the :
- (A) AICPA and CIMA
  - (B) AICPA and FASB
  - (C) IFRS Foundation and FASB
  - (D) CIMA and FASB
48. Preliminary expense is a ..... asset.
- (A) Current
  - (B) Fixed
  - (C) Tangible
  - (D) Fictitious
49. Ind AS 113 deals with :
- (A) Fair value measurement
  - (B) Joint arrangements
  - (C) Financial instruments
  - (D) Insurance contract
50. The words 'To Balance b/f' or 'By Balance b/f' are recorded in the 'Particulars Column' at the time of posting of :
- (A) all compound entries
  - (B) an opening entry
  - (C) a closing entry
  - (D) an adjusting entry
51. Five years ago X Ltd. had issued 12% Debentures of ₹ 30 lakh (redeemable in six equal annual Installments). These Debentures will be shown in the Balance Sheet of a company under the heading :
- (A) Non-current Assets
  - (B) Non-current Liabilities
  - (C) Current Assets
  - (D) Current Liabilities
52. The Institute of Chartered Accountants in Australia and the New Zealand Institute of Chartered Accountants amalgamated to become one body :
- (A) CA ANZ
  - (B) ICA ANZ

- (C) ANZ CA  
(D) ANZ ICA
53. Loans from banks repayable on demand will be classified in the Balance Sheet of a company as :
- (A) Short-term borrowings  
(B) Long-term borrowings  
(C) Other Current Liabilities  
(D) Other Long-term Liabilities
54. X Ltd. has 5,000 AC in stock on 31st March, 2019. The cost of each AC amount to ₹10,000. There is firm commitment of sale of 1,000 AC by the company in April, 2019 @ ₹15,000 per AC. However, the general price of this AC at year end amounts to ₹ 9,500 per AC. Calculate the Value of Closing Stock as per AS-2.
- (A) ₹ 480 lakh  
(B) ₹ 475 lakh  
(C) ₹ 530 lakh  
(D) None of the above
55. .... prescribes the basis for presentation of general purpose financial statement to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.
- (A) Ind AS 1  
(B) Ind AS 2  
(C) Ind AS 3  
(D) Ind AS 4
56. In the Balance Sheet of a company which item shall be sub-classified as :
- (i) Secured, considered good;  
(ii) Unsecured, considered good;  
(iii) Doubtful.
- (A) Long-term and Short-term Trade Receivables  
(B) Long-term loans and advances  
(C) Short-term loans and advances  
(D) All of the above

57. External Reporting Board (XRB) belongs to :
- (A) New Zealand
  - (B) Australia
  - (C) USA
  - (D) UK
58. The total capital of subsidiary company is ₹3,00,000 and out of this, ₹2,40,000 is owned by holding company. What is the amount of minority interest, if % of outside shareholder is 20% ?
- (A) ₹ 2,40,000
  - (B) ₹ 60,000
  - (C) ₹ 48,000
  - (D) None of the above
59. Profit on revaluation of assets to be shown as ..... in the consolidated Balance Sheet.
- (A) General Reserve
  - (B) Capital Reserve
  - (C) Goodwill
  - (D) None of the above
60. The Board of Directors of the Company, who has to form a Corporate Social Responsibility Committee, shall make sure that the company spends in every financial year, minimum ..... % of the average net profits made during the 3 immediately preceding financial years as per the CSR policy.
- (A) 1
  - (B) 2
  - (C) 5
  - (D) 10

**PART II**

61. Which of the following is the social purpose of Cost Audit ?
- (A) Detection and correction of abnormal losses
  - (B) Detection of errors and frauds
  - (C) Determination of inventory valuation
  - (D) Pinpointing areas of inefficiency and mismanagement for the benefit of shareholders and consumers

62. Following is not an advantage of effective Management reporting system :
- (A) Improves decision making
  - (B) Improves responsiveness to issue
  - (C) Improves efficiency of resources
  - (D) None of the above
63. A company has Profit/Volume (P/V) Ratio 40 percent. By what percentage must variable cost be decreased to offset 25% reduction in selling price, so as to maintain the same P/V Ratio ?
- (A) 15%
  - (B) 25%
  - (C) 33.33%
  - (D) 41.67%
64. MOON Ltd. is developing a new production process. During the financial year ended 31st March, 2018, the total expenditure incurred on the process was ₹ 60 lakh. The production process met the criteria for recognition as an intangible asset on 1st December, 2017. Expenditure incurred till this date was ₹ 32 lakh. Further expenditure incurred on the process for the financial year ending 31st March, 2019 was ₹ 90 lakh. As on 31st March, 2019, the recoverable amount of know-how embodied in the process is estimated to be ₹82 lakh. This includes estimates of future cash outflows and inflows. The expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2019 is ..... lakh. (Ignore depreciation).
- (A) ₹118
  - (B) ₹ 82
  - (C) ₹36
  - (D) None of the above
65. Risk-Free Rate of Interest on Govt. Treasury Bonds 5.5%, Average Return on Market Portfolio 18%. Beta is 1.8. Security is said to be overpriced, if actual return is :
- (A) 29%
  - (B) 28%
  - (C) 27%
  - (D) None of the above
66. Production 11,000 units @ ₹11.50 per unit, Closing Stock of finished Goods

- 3,000 units. Opening Stock 2,000 units @ ₹14 per unit, Selling and Distribution Expenses 20% of Cost of Sales, Profit @ 25% on Sales. Calculate Profit per unit :
- (A) 15 per unit
  - (B) ₹10 per unit
  - (C) ₹ 5 per unit
  - (D) None of the above
67. Which section of the Companies Act, 2013 deals with audit of cost accounting records ?
- (A) Section 158
  - (B) Section 139
  - (C) Section 168
  - (D) Section 148
68. Sales Management is more concerned with :
- (A) Ageing Schedule of Debtors
  - (B) Product Cost Variance Analysis
  - (C) Capital Expenditure and Forward Commitments
  - (D) None of the above
69. XYZ Ltd. manufactures three products X, Y and Z. The Sales Value Mix Ratio of these products are 20%, 30% and 50% respectively. The corresponding Variable Cost to Sales Ratio is 50%, 30% and 20%. The total fixed costs are ₹35,500. Calculate Overall Break Even Point (in Value) :
- (A) ₹50,000
  - (B) ₹ 60,000
  - (C) ₹71,000
  - (D) None of the above
70. Risk-Free Rate of Interest on Govt. Treasury Bonds 5%, Average Return on Market Portfolio 17.5%. What must be the beta, if the security is correctly priced with actual return of 25%?
- (A) 1.2
  - (B) 1.3
  - (C) 1.5
  - (D) 1.6



71. Cost Audit Report is required to be prepared in :
- (A) Form CRA-1
  - (B) Form CRA-2
  - (C) Form CRA-3
  - (D) Form CRA-4
72. Which of the following is not a method of Transfer Pricing?
- (A) Market based transfer pricing
  - (B) Cost based transfer pricing
  - (C) Negotiated transfer pricing
  - (D) None of the above
73. Top Management is more concerned with :
- (A) Ageing Schedule of Debtors
  - (B) Product Cost Variance Analysis
  - (C) Capital Expenditure and Forward Commitments
  - (D) None of the above
74. Sales (in units) : Jan. 1,000, Feb. 2,000, Mar. 3,000, Apr. 4,000. 20% of the Sales are on cash basis and the balance on credit basis. Uniform Selling Price— ₹ 20 per unit. 50% of credit sales are collected in the month following the sales, 50% of the remaining in the second month and the balance in the third month. Calculate the total amount of Cash Sales and Collection from Debtors during the month of April :
- (A) ₹52,000
  - (B) ₹36,000
  - (C) ₹ 50,000
  - (D) None of the above
75. Sales (in units): Jan. 1,000, Feb. 2,000, Mar. 3,000, Apr. 4,000, May 5,000. 25% of the Purchases are on cash basis and the balance on credit basis. Uniform Selling Price — ₹ 20 per unit. This price was fixed after adding 25% to cost. No stock remains at the end of a month. Purchases are made one month in advance and 50% of Credit purchases are paid within one month and the balance in two months. Calculate the total amount of Cash Purchases and Payment to Creditors during the month of April :
- (A) ₹ 62,000
  - (B) ₹ 46,000
  - (C) ₹ 50,000
  - (D) None of the above

76. A company sells two products, J and K. The sales mix is 4 units of J and 3 units of K. The contribution margin per unit are ₹ 40 for J and ₹ 20 for K. Fixed costs are ₹ 3,08,000 per month. Compute the individual break-even point of product J and product K :
- (A) 800 units and 600 units  
(B) 600 units and 800 units  
(C) 5600 units and 4200 units  
(D) 4200 units and 5600 units
77. Which of the following is true ?
- (A) The main stress of Zero base budgeting is on why a unit needs to spend.  
(B) Zero base budgeting facilitates the introduction and implementation of the system of MBO.  
(C) Performance Budgeting requires Establishment of Responsibility Centres.  
(D) All of the above
78. Under section 247 of The Companies Act, 2013, a Registered Valuer shall be appointed by the Company's :
- (A) Board of Directors only  
(B) Company Secretary only  
(C) Director Finance and Accounts only  
(D) None of the above
79. SEBI (Share Based Employee Benefits) Regulations, 2014 apply to the :
- (A) Employee stock option schemes and employee stock purchase schemes only  
(B) stock appreciation rights schemes only  
(C) general employee benefits schemes and retirement benefit schemes only  
(D) All of the above
80. P purchased business from Q on 30th June, 2019. Profit earned by Q for the preceding years ending on 31st December every year were :
- 2016—₹ 41,000, 2017—₹ 40,000 and 2018—₹ 42,000. It was ascertained that profits of 2017 included a non-recurring item of ₹ 1,500 and profit of 2018 was reduced by ₹ 2,000 due to an extraordinary loss on account of theft. The annual premium was ₹ 200 per annum. P at the time of purchasing the business, was employed with Sufitel Associates and was getting ₹ 500 p.m. He intends to replace the manager who at the present is getting ₹ 350 p.m. The goodwill is calculated at 2 years purchase of the average profits. Calculate the goodwill of the business:

- (A) ₹ 84,000
  - (B) ₹ 78,334
  - (C) ₹ 75,455
  - (D) ₹ 85,445
81. The relationship between the risk and return established by the security market line is called .....
- (A) Earning based model
  - (B) Arbitrage pricing theory
  - (C) Economic value added
  - (D) Capital asset pricing model
82. Ind AS 33 deals with .....
- (A) Earning per share
  - (B) Financial Instrument Presentation
  - (C) Fair Value Measurement
  - (D) None of the above
83. Which of the following is not an objective of Activity Based Costing ?
- (A) Activity Based Costing is a two-stage product costing method
  - (B) The cost pools in the two-stage approach now accumulate product related cost
  - (C) It is based on the concept that products consume activities and activities consume resources
  - (D) None of the above
84. Which of the following is also known as working capital ratio ?
- (A) Current ratio
  - (B) Liquid ratio
  - (C) Debtor turnover ratio
  - (D) Cash reserve ratio
85. A ..... is a booklet specifying the objectives of an organisation in relation to its spending strategy.
- (A) Budgetary control
  - (B) Budget manual
  - (C) Key factor
  - (D) Budget controller

86. From the following information, calculate net profit ratio :
- Gross Profit is  $\frac{1}{4}$ th of cost and sales is ₹ 2,00,000. Indirect expenses is ₹ 12,000:
- (A) 19%
- (B) 20%
- (C) 14%
- (D) 25%
87. Beta of Market portfolio is always .....
- (A) 0
- (B) 1
- (C) Less than 1
- (D) More than 1
88. Average profit of a firm is ₹ 48,000. The rate of capitalisation is 12%. Assets and liabilities of the firm are ₹4,00,000 and ₹1,70,000 respectively. Find value of Goodwill :
- (A) ₹ 2,30,000
- (B) ₹ 4,00,000
- (C) ₹ 1,70,000
- (D) ₹ 1,90,000
89. Value of share based on earning basis method is calculated as :
- (A) (Possible rate of dividend/Normal rate of dividend) \* Paid up value per share
- (B) (Normal rate of dividend/possible rate of dividend) \* Paid up value per share
- (C) (Normal rate of dividend/dividend per share) \* Paid up value per share
- (D) None of the above
90. Selling price of a product is ₹ 32/unit. Variable cost ratio is 50%. Fixed cost is ₹ 96,000. Units sold are 10,000. Calculate Margin of Safety in percentage :
- (A) 40%
- (B) 60%
- (C) 50%
- (D) Cannot be determined

91. From the following, calculate production for the 4th quarter :

	<b>Units Sold</b>
Q <sub>1</sub>	12,000
Q <sub>2</sub>	15,000
Q <sub>3</sub>	16,500
Q <sub>4</sub>	18,000

Opening units 10,000 at the beginning of Q1 and closing units 12,500 at the end of Q4. Production is 2/3rd of current quarter requirement and 1/3rd of next quarter requirement:

- (A) 12,000 units  
(B) 20,500 units  
(C) 18,500 units  
(D) 18,000 units
92. .... is regarded as a specialised branch of accounting which involves classification, accumulation, assignment and control of costs.
- (A) Costing  
(B) Cost Accounting  
(C) Cost Accountancy  
(D) Cost
93. Margin of Safety may be improved by :
- (A) Lowering Fixed Cost  
(B) Increasing Volume of Sales  
(C) Increasing Selling Price  
(D) All of the above
94. Primary packaging material is an example of :
- (A) Direct material  
(B) Indirect material  
(C) Direct expenses  
(D) Indirect expenses
95. If sales in an organisation is ₹1,00,000, fixed cost is ₹ 12,000 and profit is ₹ 8,000, Profit/ Volume ratio is .....
- (A) 80%

- (B) 8%
  - (C) 20%
  - (D) 12%
96. What is the General information attached in the Annexure to Cost Audit Report?
- (A) Distribution of Earnings
  - (B) Cost Accounting Policy
  - (C) Details of Industry Specific Operating Expenses
  - (D) Reconciliation of Indirect Taxes
97. Current ratio is 2.5 : 1 and Liquid ratio is 1 : 1. Stock is ₹ 60,000. Calculate current liability::
- (A) ₹ 40,000
  - (B) ₹ 60,000
  - (C) ₹ 1,00,000
  - (D) Cannot be determined
98. Monsoon is an example of key factor in which of the following industries ?
- (A) Motor car
  - (B) Aluminium
  - (C) Electro-optics
  - (D) Hydropower generation
99. Activity Based Costing assigns costs to products by tracing expenses to .....
- (A) Products
  - (B) Sales
  - (C) Activities
  - (D) Profits
100. With reference to Ind AS 102, what does SBP stand for ?
- (A) Share based payment
  - (B) Share based proportion
  - (C) Sum based payment
  - (D) Shareholder based pricing

**ANSWER KEY**  
**COST AND MANAGEMENT ACCOUNTING - SELECT SERIES**

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

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## SECURITIES LAWS & CAPITAL MARKETS

Time allowed : 3 hours

Maximum marks : 100

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

### PART I

#### Question 1

(a) The information relating to one Equity Oriented Mutual Fund is given below :

	As on 2 <sup>nd</sup> January, 2019	As on 3 <sup>rd</sup> January, 2019
	(₹ in thousand)	
Market Value of Fund's Portfolio (₹)	19,300	19,800
Receivables (₹)	200	200
Other Accrued Income (₹)	150	150
Accrued Expenses (₹)	50	50
Other Payables (₹)	100	100
Units of Mutual Fund	5,00,000	5,00,000

Face value per unit is ₹10.

You are required to calculate :

- (i) NAV of the fund on 2nd January, 2019 and 3rd January, 2019.
- (ii) Ramesh invested ₹1,95,000 in this Fund on 2nd January, 2019 at 02:00 PM, through Internet Banking Payment System. Calculate the number of mutual fund units allotted to him. Assume that there is no transaction cost. (5 marks)
- (b) Hope Ltd. makes an issue worth ₹125 crore to the public, out of which ₹20 crore was for sale to existing shareholders. Explain the provisions regarding the utilisation of proceeds and state whether any exception is available. (5 marks)
- (c) The following is an extract of Balance Sheet of Alpha Ltd.:

Equity Shares Capital — 50,000 Equity Share of ₹10 each.

10% Debenture Capital — 20,000 Debenture of ₹10 each.

On 21st April, 2018, the Board of directors decided to buy-back 5,000 equity shares for which they would call Extra-ordinary General Meeting. In the year 2016, the company has defaulted in payment of interest on secured loan to Bank amounted to ₹25 crore, which was remedied in the year 2017. Comment on the above situation. (5 marks)



(d) *Romeo International Limited, an Indian public limited company, is listed on BSE. On Friday i.e. 14th December, 2018 one of the shareholders of the Company, Ganesh, who was already holding 30% stake in the company, made a public announcement for an open offer for the acquisition of 13 crore equity shares (Face value ₹10 each), constituting 26% of the equity share capital of the Romeo International Limited. The offer price per share according to Takeover Regulations is arrived at ₹500 per share.*

*Explain the following with reference to SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011:*

(a) *What is the time limit for depositing amount in escrow account and explain with the relevant provisions, what amount should be deposited in escrow account in this case?*

(b) *Explain the forms of maintaining the escrow account. (5 marks)*

#### Answer 1(a)

##### (i) Calculation of NAV of Mutual Fund Scheme

	<i>As on January 02, 2019</i>	<i>As on January 03, 2019</i>
Market Value of Funds Portfolio	19,300	19,800
Add : Receivables	200	200
Add : Other Accrued Income	150	150
Less : Accrued Expenses	50	50
Less : other Payables	100	100
Net Asset of Scheme (in thousands)	19,500	20,000
Units outstanding (in thousands)	500	500
NAV per Unit	₹39	₹40

(ii) In case, the Equity Oriented Mutual Fund is purchased before 3:00 PM on a trading day, the NAV of same day is applicable.

Here, Ramesh invested on January 02, 20219 at 2:00 PM so the NAV of the same day is applicable. Number of mutual fund units allotted to him will be calculated using the NAV of same day i.e January 02, 2019.

Number of Units to be allotted = Amount invested /applicable NAV per unit

**Hence, the number of units allotted to Ramesh will be ₹1,95,000/ ₹39 = 5000**

#### Answer 1(b)

Regulations 41 and 137 of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, prescribes the role of Monitoring agency to track the end use of proceeds of IPO. As per Regulation "if the issue size excluding the size of offer for sale

by selling shareholders exceeds ₹100 crore, the issuer shall ensure that the use of proceeds of the issue is monitored by a public financial institutions or by one of the scheduled commercial banks named in the offer document as a banker to the issuer’.

In the given case, the issue exceeds ₹100 crore i.e ₹5 crore excluding ₹20 crore by selling shareholders. Hence, a monitoring agency should be appointed to track the issue proceeds. Further the monitoring agency shall submit its report to the issuer in the format specified in the ICDR Regulations, 2018 on a quarterly basis, till at least 95% of the proceeds of the issue excluding the proceeds raised for general corporate purposes, have been utilised. The Board of Directors and the management of the issues shall provide their comments on the findings of the monitoring agency. The issuer shall, within 45 days from the end of the each quarter, publicly disseminate the report of the monitoring agency by uploading the same on its website as well as submitting the same to the stock exchange(s) on which its equity shares are listed. However, the above mentioned rule is not applicable if the issuer is a bank or a public financial institution or an insurance company.

#### **Answer 1(c)**

As per SEBI (Buy-Back of Securities) Regulations, 2018, the Company shall not directly or indirectly purchase its own shares or other specified securities if a default is made by the company in the repayment of deposits accepted either before or after the commencement of the Companies Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company.

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

In the given case, Alpha Ltd, defaulted the payment of interest on secured loan to Bank in the year 2016. Although the company has made good the default in year 2017 but the statutory period of three years has not lapsed. Hence, the company cannot proceed to buy-back the shares.

#### **Answer 1(d)**

- (a) The acquirer shall create an escrow account towards security for performance of his obligations under SEBI (SAST) Regulations, 2011, not later than 2 working days prior to the date of the detailed public statement of the open offer for acquiring shares.

In the given case the escrow account should be created on or before December 12, 2018. The deposit in escrow account shall be calculated as below based on consideration payable under the Open offer:

- i. On the first ₹500 crores -an amount equal to 25% of the consideration
- ii. On the balance consideration - An additional amount equal to 10% of the balance consideration

Consideration payable in given case = 13 crore equity shares x ₹500 = ₹6500 crore

Amount to be deposited in Escrow Account:

$$(\text{₹}500 \text{ crore} \times 25\%) + (\text{₹}6000 \text{ crore} \times 10\%) = 125 + 600 = \text{₹}725 \text{ Crore.}$$

- (b) The escrow account may be in the form of:
- Cash deposited with any scheduled commercial bank;
  - Bank guarantee issued in favour of the manager to the open offer by any scheduled commercial bank; or
  - Deposit of frequently traded and freely transferable equity shares or other freely transferable securities with appropriate margin.

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

**Question 2**

- (a) *Tango Trading Ltd. is a public company which has its equity shares listed on NSE. The Company wants to implement Employee Stock Option Plan (ESOP) for its employees. ESOP Plan will be operated through a trust in accordance with the SEBI (Share Based Employee Benefits) Regulations, 2014. The company is willing to issue shares under ESOP scheme to one of its whole time director, Irfan. Irfan holds 12% of the outstanding equity shares of the company. In view of the above facts, answer the following questions :*
- Can the company issue shares to its director, Irfan under ESOP scheme ?*
  - Prepare a brief note on the process of implementation of ESOP scheme through Trust route. (4 marks)*
- (b) *“SEBI may take any of the measures either pending investigation or inquiry or on completion of such investigation.”*  
*Enumerate such measures in the light of the provisions of the SEBI Act. (4 marks)*
- (c) *“Co-ordination of Trustee and Collective Investment Management Company is absolutely necessary for success of a Collective Investment Scheme.” Explain in this context, the rights available to the trustee. (4 marks)*
- (d) *Young Ltd. is a company incorporated under the provisions of the Companies Act, 2013. The Company is listed on National Stock Exchange since 1st January, 2017. The promoters of the Company are now exploring the possibility to voluntarily delist the Company on or before 1st October, 2019 under the SEBI (Delisting of Equity Shares) Regulations, 2009 by providing an exit opportunity to all the public shareholders. Assume that you are a legal advisor of the Company and accordingly, answer the following questions :*
- Is the Company eligible for voluntary delisting in terms of the Delisting Regulations ?*
  - What are the circumstances/conditions under which equity shares of a company cannot be delisted as per the Delisting Regulations ? (4 marks)*
- (e) *Diamond Company Ltd. entered into listing agreement on 21st May, 2018 as per SEBI (LODR) Regulations, 2015 with Bombay Stock Exchange (BSE). The Company is planning to conduct a Board Meeting of its Directors on 28th June,*

2018 for consideration of its Annual Financial Results. Whether the company needs to give prior intimation to the BSE ?

Explain the matters for which prior intimation of the Board Meeting shall be given to the BSE under SEBI Regulations. (4 marks)

**OR (Alternate question to Q. No. 2)**

**Question 2A**

- (i) As a Company Secretary in employment of Delux Ltd., a listed company, what will be your role in monitoring trading window under SEBI (Prohibition of Insider Trading) Regulations, 2015. (4 marks)
- (ii) Govind Ltd. proposes to issue 20 lakh share warrants to its promoters. The share warrant gives an option to buy shares at a predetermined price. The price trend of the Company's share in the stock market is given below:
- Closing price on the relevant date: ₹250.
  - The average weekly high and low of the closing price during the 26 weeks preceding to the relevant date: ₹275.
  - The average weekly high and low of the closing price during the 2 weeks preceding to the relevant date: ₹280.

You are required to:

- (a) Identify the minimum price at which share warrants should be issued; and  
(b) Calculate the amount payable by the promoters at the time of allotment of the warrants. (4 marks)
- (iii) "Increase in voting rights in a target company by any shareholder pursuant to buyback is exempted from the obligation to make an open offer subject to certain conditions". In the light of the statement, you are required to enumerate these conditions. (4 marks)
- (iv) "The holding of securities in dematerialise form is not mandatory". Explain the relevant provisions with reference to the Depositories Act. (4 marks)
- (v) SEBI has imposed a penalty of ₹25 crore on Sunset Company Ltd. However, due to problem of liquidity, the company is unable to pay the amount of penalty. Explain, how the amount can be recovered under the provisions of SEBI Act, 1992. (4 marks)

**Answer 2(a)**

- (i) A company can issue shares through employee stock option scheme (ESOP) to its
- a. permanent employees (India or outside India)
  - b. a director whether whole time director or not (excluding independent director)
  - c. an employee as defined in clauses (a) or (b) of a subsidiary, in India or Outside India or of a holding company but excluding following:
    - i. An Employee who is a promoter or a person belongs to the promoter group

- ii. A director who either himself or through his relative or through anybody corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the company.

In the given case, Irfan holds more than 10% of stake in Tango Trading Ltd. Hence, he is not eligible to participate in the ESOP scheme.

- (ii) The process of implementation of ESOPs scheme through Trust Route is as under:
- The company creates an Employee Welfare Trust specifically for the purpose of running the ESOP schemes.
  - Company grants loan to the trust for subscribing its shares
  - Company issues fresh shares to the trust and option to employees.
  - Where the employees decide to exercise the option to acquire the shares, trust transfers the shares in the name of the employees
  - Trust repays the loan to the company from the proceeds on sale of shares to employee.

#### **Answer 2(b)**

As per Section 11(4) of SEBI Act, 1992, the SEBI may, by an order or for reasons to be recorded in writing, in the interest of investors or securities market take any of the following measures either pending investigation or inquiry or on completion of such investigation or inquiry namely:

- a. suspend the trading of any security in a recognised Stock Exchange
- b. restrain persons from accessing the securities market and prohibit any person associated with securities market to buy, sell or deal in securities.
- c. suspend any office-bearer of any stock exchange or self-regulatory organisation from holding such position.
- d. impound and retain the proceeds or securities in respect of any transaction which is under investigation
- e. attach, for a period not exceeding 90 days, bank accounts for other property of any intermediary or any person associated with the securities market in any manner involved in violation of any of the provisions of this Act, or the rules or regulations made thereunder;
- f. direct any intermediary or any person associated with the securities market in any manner not to dispose of or alienate an asset forming part of any transaction which is under investigation.

#### **Answer 2(c)**

The trustees have a right to obtain from Collective Investment Management Company (CIMC) such information as is considered necessary by the trustee and to inspect the books of accounts and other records relating to the Scheme. The trustee should ensure that the CIMC has:

- i. the necessary office infrastructure;

- ii. appointed all key personnel including managers for the schemes and submitted their bio-data which shall contain the educational qualifications and past experiences in the areas relevant for fulfilling the objectives of the schemes;
- iii. appointed auditors from the list of auditors approved by SEBI to audit the accounts of the scheme;
- iv. appointed a compliance officer to comply with the provisions of the Act and these regulations and to redress investor grievances;
- v. appointed registrars to an issue and share transfer agent;
- vi. prepared a compliance manual and designed internal control mechanisms including internal audit systems;
- vii. taken adequate insurance for the assets of the scheme;
- viii. not given any undue or unfair advantage to any associates of the company or dealt with any of the associates in any manner detrimental to the interest of the unit holders;
- ix. operated the scheme in accordance with the provisions of the trust deed, these regulations and the offer document of the scheme(s);
- x. undertaken the activity of managing schemes only;
- xi. taken adequate steps to ensure that the interest of investors of one scheme is not compromised with the object of promoting the interest of investors of any other scheme;
- xii. maintained minimum net worth on a continuous basis and shall inform the SEBI immediately of any shortfall;
- xiii. been diligent in empanelling the marketing agents and in monitoring their activities.

**Answer 2(d)**

- (i) As per SEBI (Delisting of Equity Shares) Regulations, 2009, no company shall apply for and no recognised stock exchange shall permit delisting of equity shares of a company unless a period of three years has elapsed since the listing of that class of equity shares on any recognised stock exchange.

In the given case, Young Limited was listed on 1st January 2017 and the period of three years has not elapsed hence, the company is not eligible for voluntary delisting.

- (ii) As per SEBI (Delisting of Equity Shares Regulations), 2009, no company shall apply for and no recognised stock exchange shall permit delisting of equity shares of a company, -
  - a. pursuant to a buyback of equity shares by the company; or
  - b. Pursuant to a preferential allotment made by the company; or
  - c. unless a period of three years has elapsed since the listing of that class of equity shares on any recognised stock exchange; or

- d. if any instruments issued by the company, which are convertible into the same class of equity shares that are sought to be delisted, are outstanding.

**Answer 2(e)**

**Prior Intimations (Regulation 29 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015)**

Yes, Diamond Company Limited shall give prior intimation to BSE about its annual financial results.

As per Regulation 29, the matters for which the prior intimation of the Board Meeting shall be given to the BSE are as follows:

- a) Financial Result viz. quarterly, half yearly or annual;
- b) Proposal for Buy-back of Securities
- c) Proposal for Voluntary delisting by the listed entity from the stock exchange(s)
- d) Fund raising by way of FPO, Right Issue, ADR, GDR, QIP, FCCB, Preferential Issue, debt issue or any other method and for determination of issue price. However, intimation shall also be given in case of any annual general meeting or extraordinary general meeting or postal ballot that is proposed to be held for obtaining shareholder approval for further fund raising indicating type of issuance.
- e) Declaration/recommendation of dividend
- f) Proposal for declaration of Bonus securities etc.

**Answer 2A(i)**

- (i) Role of Company Secretary in monitoring trading window under SEBI (Prohibition of Insider Trading) Regulations, 2015 is as under:
  - To ensure that the trading window shall be closed when a designated person or class of designated persons can reasonably be expected to have possession of unpublished price sensitive information. Such closure shall be imposed in relation to such securities to which such unpublished price sensitive information relates.
  - To ensure that the trading window is closed at the time of
    - a) declaration of Financial results
    - b) declaration of dividends;
    - c) change in capital structure;
    - d) mergers, de-mergers, acquisitions, de-listings, disposals and expansion of business and such other transactions;
    - e) changes in key managerial personnel
- (ii) To ensure that designated persons and their immediate relatives shall not trade in securities when the trading window is closed.

- (iii) To ensure that no trading shall between 20th day prior to closer of financial period and 2nd trading day after disclosure of financial results.
- (iv) To approve the trading plan and after the approval of trading plan, as compliance officer shall notify the plan to the stock exchanges on which the securities are listed.
- (v) To keep records of period specified as 'close period' and the 'trading window'.
- (vi) To ensure that the trading restrictions are strictly observed and all directors/ officers/ designated employees conduct all their dealings in the securities of the company only in a valid trading window and do not deal in the company's securities during the period when the trading window is closed.
- (vii) The timing for re-opening of the trading window shall be determined by the compliance officer taking into account various factors including the unpublished price sensitive information in question becoming generally available and being capable of assimilation by the market, which in any event shall not be earlier than forty-eight hours after the information becomes generally available.

#### Answer 2A(ii)

- (a) **Pricing of frequently traded shares [Regulation 164(1) of SEBI (ICDR) Regulations, 2018]** : If equity shares of the issuer have been listed on a recognised stock exchange for a period of 26 weeks or more as on the relevant date, the price of equity shares to be allotted pursuant to the preferential issue shall be not less than higher of the following:
- a. the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the 26 weeks preceding the relevant date i.e ₹. 275; or
  - b. the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the 2 weeks preceding the relevant date i.e ₹ 280

So, the price of warrant should not be less than ₹280 per share warrant.

- b) The price or formula for determination of exercise price of the warrants shall be determined upfront and disclosed in the offer document and at least 25 per cent of the consideration amount based on the exercise price shall also be received upfront. However, in case the exercise price of warrants is based on a formula, 25 per cent consideration amount based on the cap price of the price band determined for the linked equity shares or convertible securities shall be received upfront.

Hence, the promoters are liable to pay at least **25% of the share warrant i.e ₹ 70** per share warrant. This amount should be paid on the date of the allotment of share warrant by the promoters.

Amount to be payable by the promoters at the time of allotment of the warrants  
 = 20,00,000 shares x ₹70 = ₹14 crore.



**Answer 2A(iii)**

As per Regulation 10 of SEBI (SAST) Regulations, 2011, certain acquisitions are exempt from the obligation to make an open offer. Increase in voting rights in a target company by any shareholder pursuant to buy-back is exempted from the obligation to make an open offer subject to the following conditions:

- Such shareholder has not voted in favour of the resolution authorising the buy-back of securities under section 68 of the Companies Act 2013;
- In the case of shareholder resolution, voting is by way of postal ballot;
- Where a resolution of shareholders is not required for the buy-back, such shareholder in his capacity as a director, or any other interested director has not voted in favour of the resolution of the board of directors of the target company authorising the buyback of securities under section 68 of the Companies Act 2013; and
- the increase in voting rights does not result in an acquisition of control by such shareholder over the target company. However, where the aforesaid conditions are not met, in the event such shareholder reduces his shareholding such that his voting rights fall below the level at which the obligation to make an open offer would be attracted within 90 days from the date of closure of the buy-back offer by the target company, the shareholder shall be exempt from the obligation to make an Open offer.

**Answer 2A(iv)**

Depositories Act, 1996 gives the option to investors to receive securities in physical form or in the dematerialized mode.

It is not necessary that all eligible securities must be in the depository mode. In the scheme of the Depositories legislation, the investor has been given supremacy. The investor has the choice of holding physical securities or opt for a depository-based ownership record.

However, in case of fresh issue of securities, all securities issued have to be in dematerialized form. However, after that, investor will also have the freedom to switch from depository mode to Physical mode and vice versa. The decision as to whether or not to hold securities within the depository mode and if in depository mode, which depository or participant, would be entirely with the investor.

According to the Depositories Act, 1996, an investor has the option to hold securities either in physical or electronic form. Part of holding can be in physical form and part in demat form. However, SEBI has notified that settlement of market trades in listing securities should take place only in the demat mode.

**Answer 2A(v)**

Section 28A (1) of the SEBI Act, 1992 deals with recovery of amounts. If a person:

- i. fails to pay the penalty imposed by adjudicating officer or
- ii. fails to comply with any direction of SEBI for refund of monies or

- iii. fails to comply with a direction of disgorgement order under Section 11 B) or
- iv. fails to pay any fees due to SEBI,

The Recovery Officer may draw up under his signature a statement in a specified form specifying the amount due from the person and shall proceed to recover from such person the amount specified in the certificate by one or more of the following modes, namely:-

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

### Question 3

- (a) *GK Ltd. is a listed company having paid up equity share of ₹8 crore, preference share capital of ₹5 crore and net worth of ₹15 crore as on 31st March, 2019. The management intends to implement a "Code of Conduct" for Board of directors and senior management under SEBI (LODR) Regulations, 2015. You are required to prepare a draft agenda for the Board meeting on the applicability of above provisions. Also advise on the situation, if equity share capital increase to ₹15 crore, preference share capital to ₹ 8 crore and net worth to ₹35 crore.*

(5 marks)

- (b) *RP Ltd. is planning to issue an IPO in 2019 for which a draft offer document is proposed to be filed in September, 2019. The following data is available regarding the company:*

	(₹ in crore)		
	2015-16	2016-17	2017-18
Net Tangible Assets	5.00	8.00	7.00
Monetary Assets	1.00	3.00	3.00
Net Worth	3.00	4.00	5.00

- (i) *Advice the company whether they can proceed with the IPO*
  - (ii) *Will your answer be different if value of monetary assets is ₹ 4 crore in 2016-17?*
  - (iii) *How will you deal with the situation, if company has monetary assets of ₹5 crore in the year 2017-18 ?*
- (5 marks)
- (c) *Nova Industries Ltd. ('Nova') is an Indian company engaged in the business of manufacturing of Automotive Equipments. The equity shares of the 'Nova' are listed on NSE. Star Investment Ventures Ltd. ('Star') owns 16% stake in the*

*Nova. Moon Investment Company Pvt. Ltd. ('Moon') owns 14% stake in the Nova. Star and Moon have also been classified as promoters of the Nova in its shareholding pattern for over 5 years. As decided by the management of Star and Moon, it is proposed that Moon will be absorbed by Star through a scheme of arrangement, pursuant to which Star's shareholding in the Nova will increase from 16% to 30% as the shares held by Moon will be transferred to Star and vested in Star and their shareholders will become shareholders of Star. The entire consideration for the amalgamation would be discharged by Star by the issue of its shares. The scheme is likely to be completed and approved by the National Company Law Tribunal sometime during the financial year 2019-2020.*

- (i) *Explain the provisions and conditions given under regulation 10(1)(d)(iii) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 for availing the exemption.*
- (ii) *Would the transfer and vesting of shares of the Nova in Star, be exempt from open offer obligations ? (5 marks)*

### **Answer 3(a)**

As per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, corporate governance provisions shall apply to listed companies subject to certain exceptions.

Corporate governance provisions as specified in Regulations 17 to 27 and clauses (b) to (i) of Regulation 46(2) and para C, D and E of Schedule V shall not apply, in respect of following:

The listed entity having:

- paid up equity share capital not exceeding rupees 10 crore and
- Net worth not exceeding rupees 25 crore, as on the last day of the previous financial year.

In the given case -

#### **Situation –I**

- Paid up equity share capital is ₹8 Crore i.e. not exceeding ₹10 Crores AND
- Net worth is ₹15 Crores i.e. not exceeding 25 Crores.

Hence, regulation 17(5) for Code of Conduct of Board of Directors & Senior Management does not apply to GK Ltd.

#### **Situation-II**

If paid up equity share capital is increased to ₹15 Crores and Net worth is increased to ₹35 Crores, the regulation 17(5) for Code of Conduct for Board of Directors & Senior Management shall become applicable as it will exceed the criteria of share capital and net worth.

*Note: Preference share capital do not have any bearing on the instant case.*

**Answer 3(b)**

Regulation 6 of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 deals with the eligibility requirement of an IPO. The provisions pertaining to Net tangible Assets, Monetary Assets and Net worth as per SEBI (ICDR) Regulations are as under:

- a) the issuer has net tangible assets of at least ₹3 crores on a restated and consolidated basis, in each of the preceding three full years of (12 months each) of which not more than 50% is held in monetary assets;
- b) the issuer has a net worth of at least 1 crore in each of the preceding three full years, calculated on a restated and consolidated basis;

In the given case, RP Ltd. has net tangible assets of at least ₹3 crores in three years and Net worth of at least ₹1 crores. Monetary assets are also within the threshold limit of 50% in each year, thereby satisfying all the conditions. Therefore, RP Ltd. can proceed with the IPO.

- (ii) A company can proceed for IPO, if value of monetary assets is upto 50% of the Net Tangible Assets. In case monetary assets is ₹4 crores in 2016-2017 i.e. 50% of Net Tangible Asset. Hence, RP Ltd. can still proceed for IPO.
- (iii) As per SEBI regulation, if more than 50% of the net tangible assets are held in monetary assets, the issuer has utilized or made firm commitment to utilize such excess monetary assets in its business or project. Therefore, if monetary assets are ₹5 corers in 2017-2018, the company should have made firm commitment to utilize such excess monetary assets in its business or project, otherwise the company will not be able to proceed for IPO.

**Answer 3(c)**

- (i) Regulation 10(1)(d)(iii) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the acquisition of shares of the Target company pursuant to a scheme of arrangement sanctioned by the National Company Law Tribunal provides an exemption to an acquirer from making an open offer subject to the following conditions:
  - a. The consideration paid in terms of cash and cash equivalents is less than 25% of the consideration paid under the scheme; and
  - b. Post implementation of the scheme, the persons holding at least 33% of voting rights in the combined entity are the same as the persons who held the entire voting rights before the implementation of the scheme.
- (ii) **Star is eligible to avail this exemption** under Regulation 10(1)(d)(iii) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 since:
  - (i) The acquisition of shares of the Target Company is being made pursuant to a scheme of arrangement sanctioned by the NCLT.
  - (ii) The entire consideration is being discharged by Star by issue of its shares, there is no portion of the consideration being paid in terms of cash and cash equivalents.

- (iii) Post-merger, since Star will issue its shares to the shareholders of Moon, such shareholders will hold more than 33% stake in Star.

**Question 4**

- (a) *An Ombudsman has issued an award in a complaint proceeding to your Company. Aggrieved by the award of Ombudsman, directors of your company have decided to file petition before the SEBI. As a company secretary, advise the Board of directors of your company regarding provisions and procedures to be adopted for filing such petition under the SEBI (Ombudsman) Regulations, 2003.*  
(8 marks)
- (b) *Mr. X, Mr. Y and Mr. Z are the promoters of KP Ltd. They submitted the documents for delisting of shares from BSE. The company received the delisting order on 31st July, 2019. The management hired a practising company secretary for the successful completion of the delisting process. You are required to prepare a board note as to what information should be given in public announcement.*  
(7 marks)

**Answer 4(a)**

SEBI (Ombudsman) Regulations, 2003 provides that in case the matter is not resolved by mutually acceptable agreement within a period of one month of the receipt of the complaint or such extended period as may be permitted by the Ombudsman, he may, based upon the material placed before him and after giving opportunity of being heard to the parties, give his award in writing or pass any other directions or orders as he may consider appropriate. Such award shall be made within a period of three months from the date of the filing of the complaint. The Ombudsman should send his award to the parties to the adjudication to perform their obligations under the award.

An award given by the Ombudsman shall be final and binding on the parties and persons claiming under them respectively. Any party aggrieved by the award on adjudication may file a petition before SEBI within one month from the receipt of the award or corrected award setting out the grounds for review of the award.

The SEBI may review the award if there is substantial mis-carriage of justice, or there is an error apparent on the face of the award. Where a petition for review of the award, such petition shall not be entertained by the SEBI unless the party filing the petition has deposited with SEBI seventy-five percent of the amount mentioned in the award. The SEBI may review the award and pass such order as it may deem appropriate, within a period of forty five days of the filing of the petition for review.

**Answer 4(b)**

To  
The Board of Directors  
KP Ltd.

**Sub : Delisting of shares**

The Board is hereby informed that as the company received the delisting order, the acquirer or promoters of the company within one working day from the date of receipt of in- principle approval for delisting from the recognized stock exchange are required to

make a public announcement in at least one English national daily with wide circulation, one Hindi national daily with wide circulation and one regional language newspaper of the region where the concerned recognized stock exchange is located.

The public announcement should contain the following information:

1. The floor price and the offer price and how they were arrived at.
2. The dates of opening and closing of the offer.
3. The name of the exchange from which the equity shares are sought to be delisted.
4. The manner in which the offer can be accepted by the shareholders.
5. Disclosure regarding the minimum acceptance condition for success of the offer.
6. The names of the merchant banker and other intermediaries together with the helpline number for the shareholders.
7. The specified date fixed as per sub-regulation (3) of regulation 10.
8. The object of the proposed delisting.
9. The proposed time table from opening of the offer till the payment of consideration or return of equity shares.
10. Details of the escrow account and the amount deposited therein.
11. Listing details and stock market data
  - (a) high, low and average market prices of the equity shares of the company during the preceding three years;
  - (b) monthly high and low prices for the six months preceding the date of the public announcement; and,
  - (c) the volume of equity shares traded in each month during the six months preceding the date of public announcement.
12. Present capital structure and shareholding pattern.
13. The likely post-delisting shareholding pattern.
14. The aggregate shareholding of the promoter together with persons acting in concert and of the directors of the promoter where the promoter is a company and of persons who are in control of the company.
15. A statement, certified to be true by the board of directors of the company, disclosing material deviation, if any, in utilisation of proceeds of issues of securities made during the five years immediately preceding the date of public announcement, from the stated object of the issue.
16. A statement by the board of directors of the company confirming that all material information which is required to be disclosed under the provisions of continuous listing requirement have been disclosed to the stock exchanges.
17. A statement by the board of directors of the company certifying that:-
  - a) the company is in compliance with the applicable provisions of securities laws;
  - b) the acquirer or promoter or promoter group or their related entities have not carried out any transaction during the aforesaid period to facilitate the success of the delisting offer;

- c) the delisting is in the interest of the shareholders.
18. Name of compliance officer of the company.
19. It should be signed and dated by the promoter. Where the promoter is a company, the public announcement shall be dated and signed on behalf of the board of directors of the company by its manager or secretary, if any, and by not less than two directors of the company, one of whom shall be a managing director where there is one.

## PART II

### Question 5

- (a) *The Nifty Index was trading at 11025 on 1st February, 2019 on NSE. The put option of 10800 with expiry date of 28th February, 2019 was available at ₹50 per lot and the call option of 11300 with same expiry date was available at ₹30 per lot. The size of one lot of Nifty is 75.*

*Ganesh who is regular trader in stock market purchased 2 lots of put options of 10800 and one lot of call option of 11300. On 22nd February, 2019, the Nifty Index was trading at 10850. Ganesh decided to square off all these transactions. At the time of squaring off, the call option of 10800 could be sold at ₹80 and put option could be sold at ₹5.*

*Calculate the Net gain/loss from this transaction considering the transaction charges including brokerage is fixed at ₹100 per lot (buy or sale). (5 marks)*

- (b) *“Debenture Trustee should exercise due diligence to ensure compliances with the provisions of the Companies Act, listing agreement of stock exchange and the trust deed.” In the light of the above statement, enumerate the various responsibilities of Debenture trustee as per SEBI (Debenture Trustees) Regulations, 1993. (5 marks)*
- (c) *Raman Ltd. issued 50 Lakh equity shares at a price of ₹200 per share. The company provided Green Shoe Option for stabilizing the post listing price of the shares. The issue was oversubscribed and it was decided that stabilizing agent would borrow maximum number of shares permitted by SEBI (ICDR) regulations. Due to rise in price during Green Shoe Option period, only 5 Lakh shares could be bought back at the price of ₹180. You are required to :*
- (i) *Calculate the number of shares that the stabilizing agent needs to borrow in this case at the time of allotment and explain the same with relevant provisions.*
  - (ii) *Explain the responsibility of Issuer Company in the above case with respect to shortfall while exercising Green Shoe Option.*
  - (iii) *Calculate the amount if any, to be transferred to Investor Protection and Education Fund. (5 marks)*

**Answer 5(a)****Computation of Profit and loss for Ganesh**

<i>Sale Proceeds</i>	<i>(in ₹)</i>	<i>(in ₹)</i>
Put option: 5 x 2 x 75	750	
Call option : 80 x 1 x 75	6000	
	6750	6750
<b>Cost of options</b>		
Put option: 50 x 2 x 75	7500	
Call option : 30 x 1 x 75	2250	(-)9750
<b>Gross loss</b>	(A)	-3000
<i>Add</i> : Transaction cost (100 x 3 x 2)	(B)	-600
<b>Net Loss</b>	<b>(A+B)</b>	<b>-3600</b>

**Answer 5(b)**

Debenture Trustee' means a trustee of a trust deed for securing any issue of debentures of a body corporate. The various responsibilities of Debenture trustee as per SEBI (Debenture Trustees) Regulations, 1993 are as follow:

- Call for periodical reports from the body corporate, i.e., issuer of debentures.
- Take possession of trust property in accordance with the provisions of the trust deed.
- Enforce security in the interest of the debenture holders.
- Ensure on a continuous basis that the property charged to the debenture is available and adequate at all times to discharge the interest and principal amount payable in respect of the debentures and that such property is free from any other encumbrances except those which are specifically agreed with the debenture trustee.
- Exercise due diligence to ensure compliance by the body corporate with the provisions of the Companies Act, the listing agreement of the stock exchange or the trust deed.
- To take appropriate measures for protecting the interest of the debenture holders as soon as any breach of the trust deed or law comes to his notice.
- To ascertain that the debentures have been converted or redeemed in accordance with the provisions and conditions under which they are offered to the debenture holders.
- Inform the SEBI immediately of any breach of trust deed or provision of any law.
- Appoint a nominee director on the board of the body corporate when required.



**Answer 5(c)**

- (i) As per SEBI (ICDR) Regulations, 2018, the maximum number of shares that can be borrowed by the stabilizing agent shall not be in excess of 15% of the issue size.

In the given case, stabilizing agent can borrow 7.5 Lakh shares (15% of 50 Lakh shares).

- (ii) The issuer company would allot the differential 2.5 Lakhs shares into the Green Shoe Demat Account to cover up the shortfall, and the Stabilising Agent would discharge his obligation to the lending shareholder(s) by returning the 7.5 Lakhs shares that had been borrowed from them.

The issuer company would need to apply to the exchanges for obtaining listing/trading permissions for the incremental shares allotted by them, pursuant to the Green Shoe mechanism.

- (iii) The Amount which should be transferred to Investor Protection and Education Fund will be calculated as follows:

$$= 5,00,000 (200-180) = ₹1,00,00,000$$

**Question 6**

*Write short notes on the following:*

- (a) *Bankers to an issue*  
 (b) *Custodians of Securities*  
 (c) *Foreign Currency Convertible Bonds*  
 (d) *Indian Depository Receipts*  
 (e) *Self-Certified Syndicate Bank.* (3 marks each)

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

**Question 6A**

- (i) *What do you know about Market Surveillance? Enumerate different ways of Preventive Surveillance.*
- (ii) *The Registrar to an Issue and Share Transfer Agents constitute an important category of intermediaries in the securities market. List out the 'pre-issue' and 'post-issue' work undertaken by them.*
- (iii) *The Companies Act, 2013 has authorised equity share capital with differential rights as to dividend, voting or otherwise read with rules under Companies (Share Capital and Debentures) Rules, 2014. Briefly explain the conditions for issue of shares with differential voting rights under the Act.* (5 marks each)

**Answer 6(a)****Bankers to an Issue**

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. 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 as well as to the lead manager for monitoring and progressing the issue work.

**Answer 6(b)****Custodians of Securities**

A custodian is a person who carries on or propose to carry on the business of providing custodial services to the client. The custodian keeps the custody of the securities of the client. The custodian also provides incidental services such as maintaining the accounts of securities of the client, collecting the benefits or rights accruing to the client in respect of securities.

Custodians of Securities carrying the following activities:

- Administrate and protect the assets of the clients.
- Open a separate custody account and deposit account in the name of each client.
- Record assets.
- Conduct registration of securities.

**Answer 6(c)****Foreign Currency Convertible Bonds (FCCBs)**

The FCCBs are unsecured instruments which carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company. Interest and redemption price (if conversion option is not exercised) is payable in dollars. FCCBs shall be denominated in any freely convertible Foreign Currency. However, it must be kept in mind that FCCB, issue proceeds need to conform to ECB end use requirements.

Foreign investors also prefer FCCBs because of the Dollar denominated servicing, the conversion option and, the arbitrage opportunities presented by conversion of the

FCCBs into equity shares at a discount on prevailing Indian market price. In addition, 25% of the FCCB proceeds can be used for general corporate restructuring.

#### **Answer 6(d)**

##### **Indian Depository Receipts**

According to Section 2(48) of the Companies Act, 2013 “Indian Depository Receipt” means any instrument in the form of a depository receipt created by a domestic depository in India and authorised by a company incorporated outside India making an issue of such depository receipts.

An IDR is an instrument denominated in Indian Rupee in the form of a depository receipt created by a domestic depository (Custodian of securities registered with SEBI) against the underlying equity of issuing company to enable foreign companies to raise funds from Indian Securities Markets.

In an IDR, foreign companies would issue shares, to a domestic (Indian) depository, which would in turn issue depository receipts to investors in India. The actual shares underlying the IDRs would be held by an Overseas Custodian, which shall authorize the Indian depository to issue the IDRs. To that extent, IDRs are derivative instruments because they derive their value from the underlying shares

#### **Answer 6(e)**

##### **Self-Certified Syndicate Bank**

Self-Certified Syndicate Bank (SCSB) is a bank which offers the facility of applying through the ASBA process. A bank desirous of offering ASBA facility shall submit a certificate to SEBI as per the prescribed format for inclusion of its name in SEBI's list of SCSBs.

A SCSB shall identify its Designated Branches (DBs) at which an ASBA investor shall submit ASBA and shall also identify the Controlling Branch (CB) which shall act as a coordinating branch for the Registrar of the issue, Stock Exchanges and Merchant Bankers. The SCSB, its DBs and CB shall continue to act as such, for all issues to which ASBA process is applicable. The SCSB may identify new DBs for the purpose of ASBA process and intimate details of the same to SEBI, after which SEBI will add the DB to the list of SCSBs maintained by it. The SCSB shall communicate the following details to Stock Exchanges for making it available on their respective websites; these details shall also be made available by the SCSB on its website:

- (i) Name and address of all the SCSB.
- (ii) Addresses of DBs and CB and other details such as telephone number, fax number and email ids.
- (iii) Name and contacts details of a nodal officer at a senior level from the CB.

#### **Answer 6A(i)**

Market Surveillance plays a vital role in ensuring market integrity which is the core objective of regulators. Market integrity is achieved through combination of surveillance, inspection, investigation and enforcement of relevant laws and rules. Exchange adopt

automated surveillance tools that analyse trading patterns and are installed with a comparative alert management system.

#### **Preventive Surveillance –**

- *Stringent on boarding norms for Trading Members* - Stringent net worth, back ground, viability etc. checks while on boarding Trading Members.
- *Index circuit filters* - It brings coordinated trading halt in all equity and equity derivative markets at 3 stages of the index movement, either way viz., at 10%, 15% and 20% based on previous day closing index value.
- *Trade Execution Range* - Orders are matched and trades take place only if the trade price is within the reference price and execution range.
- *Order Value Limitation* - Maximum Order Value limit allowed per order.
- *Cancel on logout* - All outstanding orders are cancelled, if the enabled user logs out.
- *Kill switch* - All outstanding orders of that trading member are cancelled if trading member executes kill switch.
- *Risk reduction mode* - Limits beyond which orders level risk management shall be initiated instead of trade level.
- *Compulsory close out* - Incoming order, if it results in member crossing the margins available with the exchange, such order will be partially or fully cancelled, as the case may be, and further disallow the trading member to create fresh positions.
- *Capital adequacy check* - Refers to monitoring of trading member's performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached
- *Fixed Price Band / Dynamic Price band* - Limits applied within which securities shall move; so that volatility is curbed orderliness is brought about. For non-derivative securities price band is 5%, 10% & 20%. For Derivative products an operating range of 10% is set and subsequently flexed based on market conditions.
- *Trade for Trade Settlement* - The settlement of scrip's available in this segment is done on a trade for trade basis and no netting off is allowed.
- *Periodic call auction* - Shifting the security form continuous to call auction method
- *Rumour Verification* - Any unannounced news about listed companies is tracked on online basis and letter seeking clarification is sent to the companies and the reply received is disseminated.

#### **Answer 6A(ii)**

The Registrar to an Issue and Share Transfer Agents undertake the following activities with respect to issue:

#### **Pre-Issue Work**

- Sending instructions to Banks for reporting of collection figures and collection of applications.

- Providing Practical inputs to the Lead Manager and Printers regarding the design of the Bid cum-application form.
- Facilitate and establish information flow system between clients, Banks and Managers to the issue.
- Liaison with Regulatory Authorities such as SEBI & Stock Exchanges.

**Post-Issue Work**

- Data capturing & validation
- Reconciliation
- Provide Allotment Alternatives in consultation with Client / Merchant Banker and Stock Exchanges
- Facilitating Listing
- Uploading of data to the Depositories for crediting of securities electronically
- Dispatch of Refund orders / Share Certificates / Credit Advise
- Periodic Report submission to Regulatory Authorities
- Reconciliation of Refund payments
- Attending to post issue Investor queries
- Web-based investor enquiry system for allotment / refund details

**Answer 6A(iii)****Shares with Differential Voting Rights (DVRs)**

Section 43(a)(ii) of the Companies Act, 2013, authorized equity share capital with differential rights as to dividend, voting or otherwise in accordance with rule 4 of Companies (Share Capital and Debentures) Rules, 2014 which prescribes the following conditions for issue of DVRs :

- a. the articles of association of the company authorizes the issue of shares with differential rights;
- b. the issue of shares is authorized by ordinary resolution passed at a general meeting of the shareholders. Where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot at a general meeting;
- c. the voting power in respect of shares with differential rights of the company shall not exceed seventy four per cent of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;
- d. the company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;

- e. the company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- f. the company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or state level financial institution or scheduled bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government. However, a company may issue equity shares with differential rights upon expiry of five years from the end of the financial year in which such default was made good;
- g. the company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, Securities and Exchange Board of India Act, 1992, Securities Contracts (Regulation) Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act under which such companies being regulated by sectoral regulators;
- h. The explanatory statement to be annexed to the notice of the general meeting in pursuance of section 102 or of a postal ballot in pursuance of section 110 of the Companies Act, 2013 shall contain the disclosures as mentioned in the rules;
- i. The company shall not convert its existing share capital with voting rights into equity share capital carrying differential voting rights and vice-versa;
- j. The Board of Directors shall disclose in the Board's Report for the financial year in which the issue of equity shares with differential rights was completed, the details as mentioned in the rules;
- k. The holders of the equity shares with differential rights shall enjoy all other rights such as bonus shares, rights shares etc., which the holders of equity shares are entitled to, subject to the differential rights with which such shares have been issued;
- l. The register of members maintained under section 88 of the Companies Act, 2013, shall contain all the relevant particulars of the shares so issued along with details of the shareholders.

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## ECONOMIC BUSINESS AND COMMERCIAL LAWS

Time allowed : 3 hours

Maximum marks : 100

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

### PART I

#### Question 1

- (a) *“Reserve Bank of India, being the custodian of country’s foreign exchange reserves, is vested with the responsibility of managing its investments”.* Comment.
- (b) *Discuss the circumstances in which the Foreign Contribution (Regulation) Act, 2010 does not apply.*
- (c) *Name any five permissible current account transactions made by an individual under Liberalized Remittance Scheme (LRS).*
- (d) *Discuss the provisions relating to mode of acquiring immovable property outside India by a person resident in India under the Foreign Exchange Management Act, 1999 (FEMA) and Foreign Exchange Management (Acquisition and Transfer of Immovable Property Outside India) Regulations, 2015. (5 marks each)*

#### Answer 1(a)

The Reserve Bank, as the custodian of the country’s foreign exchange reserves, is vested with the responsibility of managing its investment. The basic parameters of the Reserve Bank’s policies for foreign exchange reserves management are safety, liquidity and returns. Within this framework, the Reserve Bank focuses on:

- (a) Maintaining market’s confidence in monetary and exchange rate policies.
- (b) Enhancing the Reserve Bank’s intervention capacity to stabilise foreign exchange markets.
- (c) Limiting external vulnerability by maintaining foreign currency liquidity to absorb shocks during times of crisis, including national disasters or emergencies.
- (d) Providing confidence to the markets that external obligations can always be met, thus reducing the costs at which foreign exchange resources are available to market participants.
- (e) Adding to the comfort of market participants by demonstrating the backing of domestic currency by external assets.

While safety and liquidity continue to be the twin-pillars of reserves management, return optimisation has become an embedded strategy within this framework for the Reserve Bank. The Reserve Bank, in consultation with the Government, continuously reviews the reserves management strategies.

**Answer 1(b)**

According to Section 4 of the Foreign Contribution (Regulation) Act, 2010 prohibition regarding acceptance of foreign contribution does not apply to any foreign contribution where such contribution is accepted by a person specified under section 3 of the Act, subject to the provisions of section 10,—

- (a) by way of salary, wages or other remuneration due to him or to any group of persons working under him, from any foreign source or by way of payment in the ordinary course of business transacted in India by such foreign source; or
- (b) by way of payment, in the course of international trade or commerce, or in the ordinary course of business transacted by him outside India; or
- (c) as an agent of a foreign source in relation to any transaction made by such foreign source with the Central Government or State Government; or
- (d) by way of a gift or presentation made to him as a member of any Indian delegation, provided that such gift or present was accepted in accordance with the rules made by the Central Government with regard to the acceptance or retention of such gift or presentation; or
- (e) from his relative; or
- (f) by way of remittance received, in the ordinary course of business through any official channel, post office, or any authorised person in foreign exchange under the Foreign Exchange Management Act, 1999; or
- (g) by way of any scholarship, stipend or any payment of like nature:

**Answer 1(c)**

Followings are the permissible current account transactions made by an individual under Liberalised Remittance Scheme (LRS):

- (i) For Private visits to any country (except Nepal and Bhutan), resident individual can obtain foreign exchange upto an aggregate amount of USD 2, 50, 000.
- (ii) Any resident individual may remit upto USD 2, 50, 000 as gift or donation to a person residing outside India or organisation outside India, as the case may be.
- (iii) A person going abroad for employment can draw foreign exchange upto USD 2, 50, 000.
- (iv) For the purpose of emigration, a person can draw foreign exchange upto USD 2, 50, 000.
- (v) A resident individual can remit upto USD 2, 50, 000 towards maintenance of close relatives abroad.
- (vi) Drawal of amount upto USD 2, 50, 000 for travel for business, or attending an international conference, seminar or specialised training or apprentice training etc.
- (vii) Expenses in connection with medical treatment abroad (Foreign Exchange upto



USD 2, 50, 000 without insisting on any estimate from hospital doctor and remittance exceeding USD 2, 50, 000 based on estimate received from hospital/ doctor).

- (viii) Studies abroad (Foreign Exchange upto USD 2, 50, 000 without insisting on any estimate from foreign university and remittance exceeding USD 2, 50, 000 based on estimate received from the institution abroad).

### **Answer 1(d)**

According to section 6(4) of the Foreign Exchange Management Act, 1999 read with Foreign Exchange Management (Acquisition and transfer of immovable property outside India) Regulations, 2015:

1. A resident can acquire immovable property outside India by way of gift or inheritance from: (a) a person resident in India can hold, own, transfer or invest in any immovable property situated outside India if such property was acquired, held or owned by him/ her when he/ she was resident outside India or inherited from a person resident outside India.; or (b) a person resident in India who had acquired such property on or before July 8, 1947 and continued to be held by him with the permission of the Reserve Bank. (c) a person resident in India who has acquired such property in accordance with the foreign exchange provisions in force at the time of such acquisition.
2. A resident can purchase immovable property outside India out of foreign exchange held in his/ her Resident Foreign Currency (RFC) account.
3. A resident can acquire immovable property outside India jointly with a relative who is a person resident outside India, provided there is no outflow of funds from India.

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

### **Question 2**

- (a) *In which cases the Systematically Important Non-Deposit Taking Company and Deposit Taking Company (Reserve Bank) Directions, 2016 shall apply to the Non-Banking Financial Company.*
- (b) *Explain the following instruments which Reserve Bank of India uses for implementing its monetary policy :*
  - (i) *Cash Reserve Ratio (CRR)*
  - (ii) *Statutory Liquidity Ratio (SLR)*
  - (iii) *Reverse Repo Rate (RRR)*
  - (iv) *Repo Rate (RR).*
- (c) *State the obligations of an Indian person who has made direct investment outside India, under the provisions of the Foreign Exchange Management Act, 1999.*
- (d) *Discuss various modes of payment allowed for receiving Foreign Direct Investment (FDI) to an Indian Company.*

- (e) Explain the procedure for raising external commercial borrowings under approval route of RBI by the borrower. (4 marks each)

**OR (Alternate question to Q. No. 2)**

**Question 2A**

- (i) Explain briefly scope and procedure for compounding of contravention under Foreign Exchange Management Act, 1999.
- (ii) The import and export of which is prohibited under Foreign Trade Policy and Procedure ? How can those items be imported and exported ?
- (iii) Discuss the categories of items which are not eligible for Merchandise Exports from India Scheme (MEIS) under the Foreign Trade Policy and Procedure.
- (iv) Discuss the transactions which are prohibited under “Liberalised Remittance Scheme”.
- (v) Discuss the functions of Authority constituted under Special Economic Zone Act, 2005. (4 marks each)

**Answer 2(a)**

“Systemically important non-deposit taking non-banking financial company” and deposit taking non-banking financial company (Reserve Bank) Directions, 2016 shall apply to the Non-Banking Financial Companies in the following circumstances:

- Systemically important non-deposit taking non-banking financial company registered with Reserve Bank under the provisions of RBI Act, 1934
- Deposit taking non-banking financial company registered with Reserve Bank under the provisions of RBI Act, 1934
- “Non-Banking Financial Company - Factor (NBFC-Factor) granted a certificate of registration under section 3 of the Factoring Regulation Act, 2011 and having an asset size of Rs. 500 crores and above
- “Infrastructure Debt Fund-Non-Banking Financial Company” or “IDF-NBFC” registered with Reserve Bank under the provisions of RBI Act, 1934
- Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI) registered with Reserve Bank under the provisions of RBI Act, 1934 and having an asset size of Rs. 500 crores and above

**Answer 2(b)**

- (i) *Cash Reserve Ratio (CRR)* : The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net Demand and Time Liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.
- (ii) *Statutory Liquidity Ratio (SLR)* : The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.

- (iii) *Reverse Repo Rate* : The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the Liquidity Adjustment Facility (LAF).
- (iv) *Repo Rate* : The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the Liquidity Adjustment Facility (LAF)

**Answer 2(c)**

An Indian Party which has made direct investment outside India is required to comply with the following:-

- (i) Receive share certificates or any other documentary evidence of investment in the foreign Joint Venture(JV)/ Wholly Owned Subsidiary(WOS) as an evidence of investment and submit the same to the designated Authorised Dealer within 6 months;
- (ii) Repatriate to India, all dues receivable from the foreign JV / WOS, like dividend, royalty, technical fees etc.
- (iii) Submit to the Reserve Bank through the designated Authorized Dealer, every year, an Annual Performance Report in respect of each JV or WOS outside India set up or acquired by the Indian party.

**Answer 2(d)**

Modes of payment allowed for receiving Foreign Direct Investment to an Indian company are as under:

- (a) Inward remittance through normal banking channels;
- (b) Debit to NRE/ FCNR (B) account of a person concerned maintained with an Authorised Dealer (AD) Category I bank;
- (c) Debit to non-interest bearing escrow account in Indian Rupees in India which is opened with the approval from AD Category – I bank and is maintained with the AD Category I bank on behalf of residents and non-residents towards payment of share purchase consideration;
- (d) Conversion of royalty/ lump sum/ technical know-how fee due for payment or conversion of ECB;
- (e) Conversion of pre-incorporation/ pre-operative expenses incurred by the a non-resident entity up to a limit of five percent of its capital or USD 500,000 whichever is less;
- (f) Conversion of import payables/ pre incorporation expenses/ can be treated as consideration for issue of shares with the approval of competent authority;
- (g) Against any other funds payable to a person resident outside India, the remittance of which does not require the prior approval of the Reserve Bank or the Government of India: and
- (h) Swap of capital instruments, provided where the Indian investee company is

engaged in a Government route sector, prior Government approval shall be required.

**Answer 2(e)**

Procedure of raising External Commercial Borrowings under approval route of RBI are as under:

- The borrowers may approach the RBI with an application in prescribed format (Form ECB) for examination through their AD Category I bank.
- Such cases shall be considered keeping in view the overall guidelines, macroeconomic situation and merits of the specific proposals.
- ECB proposals received in the Reserve Bank above certain threshold limit (refixed from time to time) would be placed before the Empowered Committee set up by the Reserve Bank.
- The Empowered Committee will have external as well as internal members and the Reserve Bank will take a final decision in the cases taking into account recommendation of the Empowered Committee.

**Answer 2A(i)**

Scope for Compounding of contravention under Foreign Exchange Management Act, 1999 are as under:

Any person who contravenes any provision of the FEMA, 1999 except section 3(a) or contravenes any rule, regulation, notification, direction or order issued in exercise of the powers under this Act or contravenes any condition subject to which an authorization is issued by the Reserve Bank, can apply for compounding to the Reserve Bank.

Applications seeking compounding of contraventions under section 3(a) of FEMA, 1999 may be submitted to the Directorate of Enforcement. Wilful, malafide and fraudulent transactions are, however, viewed seriously, which will not be compounded by the Reserve Bank.

Procedure for Compounding of contravention under Foreign Exchange Management Act, 1999 are as under:

1. On receipt of the application for compounding, the Reserve Bank shall examine the application based on the documents and submissions made in the application and assess whether contravention is quantifiable and, if so, the quantifiable amount of contravention.
2. The Compounding Authority may call for any information, record or any other documents relevant to the compounding proceedings. In case the contravener fails to submit the additional information/ documents called for within the specified period, the application for compounding will be liable for rejection.
3. The following factors, which are only indicative, may be taken into consideration for the purpose of passing compounding order and adjudging the quantum of sum on payment of which contravention shall be compounded:
  - the amount of gain of unfair advantage, wherever quantifiable, made as a result of the contravention;

- the amount of loss caused to any authority/ agency/ exchequer as a result of the contravention;
- economic benefits accruing to the contravener from delayed compliance or compliance avoided;
- the repetitive nature of the contravention, the track record and/or history of non-compliance of the contravener;
- contravener's conduct in undertaking the transaction and in disclosure of full facts in the application and submissions made during the personal hearing; and any other factor as considered relevant and appropriate.

### **Answer 2A(ii)**

Importability/Exportability of items that are prohibited under Foreign Trade Policy and Procedure are as under:

- (i) No export or import of an item shall be allowed under Advance Authorisation/ Duty Free Import Authorisation, if the item is prohibited for exports or imports respectively. Export of a prohibited item may be allowed under Advance Authorisation provided it is separately so notified, subject to the conditions given therein.
- (ii) Items reserved for imports by State Trading Enterprises cannot be imported against Advance Authorisation/DFIA. However those items can be procured from STEs against Advance Release Order (ARO) or Invalidation letter. STEs are also allowed to sell goods on High Sea Sale basis to holders of Advance Authorisation/DFIA holder. State Trading Enterprise are also permitted to issue "No Objection Certificate (NOC)" for import by Advance Authorisation / Duty Free Import Authorisation holder. Authorisation Holder would be required to file Quarterly Returns of imports effected against such NOC to concerned STE and STE would submit half-yearly import figures of such imports to concerned administrative Department for monitoring with a copy endorsed to DGFT.
- (iii) Items reserved for export by STE can be exported under Advance Authorisation/ Duty Free Import Authorisation (DFIA) only after obtaining a 'No Objection Certificate' from the concerned STE.
- (iv) Import of restricted items shall be allowed under Advance Authorisation/ Duty Free Import Authorisation (DFIA).
- (v) Export of restricted/Special Chemicals, Organisms, Materials, Equipment and Technology (SCOMET) items however, shall be subject to all conditionalities or requirements of export authorisation or permission, as may be required, under Schedule 2 of ITC (HS).

### **Answer 2A(iii)**

The following categories of items shall be ineligible for Merchandise Exports from India Scheme (MEIS) under Foreign Trade Policy and Procedure:

- (i) Export Oriented Units (EOUs)/Electronic Hardware Technology Park (EHTPs)/ Biotechnology Parks (BTPs)/ Software Technology Parks (STPs) who are availing direct tax benefits/exemption;

- (ii) Supplies made from Domestic Tariff Area (DTA) units to Special Economic Zone (SEZ);
- (iii) Export of imported goods covered;
- (iv) Exports through trans-shipment, meaning thereby exports that are originating in third country but transhipped through India;
- (v) Deemed Exports;
- (vi) SEZ/EOU/EHTP/BPT/ Free Trade and Warehousing Zone products exported through DTA units;
- (vii) Items, which are restricted or prohibited for export under Schedule-2 of Export Policy in ITC (HS), unless specifically notified in Appendix 3B of FTP and Procedure;
- (viii) Service Export;
- (ix) Red sanders and beach sand;
- (x) Export products which are subject to Minimum export price or export duty;
- (xi) Diamond Gold, Silver, Platinum, other precious metal in any form including plain and studded jewellery and other precious and semi-precious stones;
- (xii) Ores and concentrates of all types and in all formations;
- (xiii) Cereals of all types;
- (xiv) Sugar of all types and all forms;
- (xv) Crude/petroleum oil and crude/primary and base products of all types and all formulations.
- (xvi) Export of milk and milk products;
- (xvii) Export of Meat and Meat Products;
- (xviii) Products wherein precious metal/diamond are used or Articles which are studded with precious stones;
- (xix) Exports made by units in Free Trade and Warehousing Zone (FTWZ).

**Answer 2A(iv)**

Transactions which are prohibited under Liberalised Remittance Scheme (LRS) are as under:

1. Remittance out of lottery winnings.
2. Remittance of income from racing/riding etc. or any other hobby.
3. Remittance for purchase of lottery tickets, banned /proscribed magazines, football pools, sweepstakes, etc.
4. Payment of commission on exports made towards equity investment in Joint Ventures / Wholly Owned Subsidiaries abroad of Indian companies.
5. Remittance of dividend by any company to which the requirement of dividend balancing is applicable.
6. Payment of commission on exports under Rupee State Credit Route, except commission up to 10% of invoice value of exports of tea and tobacco.

7. Payment related to "Call Back Services" of telephones.
8. Remittance of interest income on funds held in Non-Resident Special Rupee (Account) Scheme.

**Answer 2A(v)**

Section 34 of the Special Economic Zones Act, 2005 casts upon the Authority a duty to undertake such measures as it thinks fit for the development, operation and management of the respective Special Economic Zone. They are as under:

- (a) the development of infrastructure in the Special Economic Zone;
- (b) promoting exports from the Special Economic Zone;
- (c) reviewing the functioning and performance of the Special Economic Zone;
- (d) levy user or service charges or fees or rent for the use of properties belonging to the Authority;
- (e) performing such other functions as may be prescribed.

**PART II**

**Question 3**

- (a) *Describe the jurisdiction of Competition Commission of India to inquire and pass orders in respect of acts and agreement taking place outside India which are likely to have an appreciable adverse effect on competition in relevant market in India.*
- (b) *Discuss the functions and powers of Director-General under the Competition Act, 2002.*
- (c) *What are the objectives of Competition Act, 2002?*
- (d) *What is predatory pricing? Explain.*
- (e) *What do you understand by "Anti-Competitive Agreement" under Competition Act, 2002? (3 marks each)*

**Answer 3(a)**

The Competition Commission of India has the power to inquire and pass orders in respect of acts and agreements taking place outside India which are likely to have appreciable adverse effect on competition in relevant market in India.

Section 32 of the Competition Act, 2002 extends the jurisdiction of Competition Commission of India to inquire and pass orders in accordance with the provisions of the Act into an agreement or dominant position or combination, which is likely to have, an appreciable adverse effect on competition in relevant market in India, notwithstanding that,

- (a) an agreement referred to in Section 3 has been entered into outside India; or
- (b) any party to such agreement is outside India; or
- (c) any enterprise abusing the dominant position is outside India; or

- (d) a combination has taken place outside India; or
- (e) any party to combination is outside India; or
- (f) any other matter or practice or action arising out of such agreement or dominant position or combination is outside India.

The above clearly demonstrates that acts taking place outside India but having or likely to have an appreciable adverse effect on competition in India will be subject to the jurisdiction of Commission. The Competition Commission of India will have jurisdiction even if both the parties to an agreement are outside India but only if the agreement, dominant position or combination entered into by them has an appreciable adverse effect on competition in the relevant market of India.

### **Answer 3(b)**

The Competition Act provides that the Director General when so directed by the Competition Commission of India, is to assist the Commission in investigation into any contravention of the provisions of the Act.

The Director General is bound to comply with such a direction to render requisite assistance to the Commission. The Director General, in order to effectively discharge his functions, has been given the same powers as are conferred upon the Commission under section 36(2). Under section 36(2) the Commission is having same powers as are vested in Civil Court under the Code of Civil Procedure 1908 while trying a suit, in respect of the following matters, namely;

- (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) subject to the provisions of Sections 123 and 124 of the Indian Evidence Act, 1872, requisitioning any public record or document or copy of such record or document from any office;
- (f) the power *inter-alia* includes search and seizure of the record of any person in respect of which an investigation has been directed by the Commission.

### **Answer 3(c)**

The objectives of the Competition Act, 2002 are as under:

- To promote and sustain competition in the markets in India
- To protect the interest of consumers and to ensure freedom of trade carried on by other participant in the markets in India and for matters connected therewith or incidental thereto.
- Establishment of Competition Commission of India to prevent practices having adverse effect on competition.



**Answer 3(d)**

The term “predatory price” has been defined under the Competition Act, 2002 as the sale of goods or provision of services, at a price which is below the cost, as may be determined by regulations, of production of goods or provision of services, with a view to reduce competition or eliminate the competitors.

Thus, the two conditions precedent to bring a case with the ambit of predatory pricing are:

- (i) selling goods or provision of service at a price which is below its cost of production; and
- (ii) that practice is resorted to eliminate the competitors or to reduce competition.

**Answer 3(e)**

An anti-competitive agreement under the Competition Act, 2002 is an agreement having appreciable adverse effect on competition. Anti-competitive agreements include, but are not limited to:-

- agreement to limit production and/or supply;
- agreement to allocate markets;
- agreement to fix price;
- bid rigging or collusive bidding;
- conditional purchase/ sale (tie-in arrangement);
- exclusive supply / distribution arrangement;
- resale price maintenance; and
- refusal to deal.

**Question 4**

- (a) *Discuss the duties of Director General under Competition Act, 2002. If a person fails to comply without reasonable cause with a directions given by the Commission or the Director-General, what punishment can be given under the Competition Act, 2002.*
- (b) *Elite Club is a club of eight Indian banks. The club covers entire Indian territory for its operations and dealings. The club covered entire India with a view of fixing rates of deposits, lending and other rates on banking facilities. The club covered all banking products and services and members of the club fixed interest rates for loans and savings for private/household including commercial customers; as well as the fees consumers had to pay for certain services. The club also provides services for money transfers and export financing. One of the customers of a ‘Bank’, which is a member of the club, made a complaint against the club acting as a ‘cartel’ to the Competition Commission of India. Examine the validity of the complaint. (5 marks each)*

**Answer 4(a)**

The Competition Act, 2002 provides that the Director General when so directed by the Competition Commission of India, is to assist the Commission in investigation into any contravention of the provisions of the Act.

Section 42 Competition Act provides that if any person, without reasonable cause, fails to comply with the orders or directions of the Commission issued under sections 27, 28, 31, 32, 33, 42A and 43A of the Act, he shall be punishable with fine which may extend to rupees one lakh for each day during which such non-compliance occurs, subject to a maximum of rupees ten crore, as the Commission may determine.

Further, if any person does not comply with the orders or directions issued, or fails to pay the fine imposed above, he shall, without prejudice to any proceeding under section 39, be punishable with imprisonment for a term which may extend to three years, or with fine which may extend to rupees twenty-five crore, or with both, as the Chief Metropolitan Magistrate, Delhi may deem fit.

According to Section 43 of the Competition Act, if any person fails to comply, without reasonable cause, with a direction given by—(a) the Commission under sub-sections (2) and (4) of section 36; or (b) the Director General while exercising powers referred to in sub-section(2)of section 41, such person shall be punishable with fine which may extend to rupees one lakh for each day during which such failure continues subject to a maximum of rupees one crore, as may be determined by the Commission.

**Answer 4(b)**

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

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

Certain conditions which could be conducive to cartelization are history of collusion, high dependence of the consumers on the products or services, high concentration-few competitors, high entry and exit barriers, homogeneity of the products (similar products), similar production costs, excess capacity etc.

Coming to the factual matrix provided in the present case, certain banks have come together under the forum of a Club and are together by agreement amongst themselves, fixing the rate of deposits, lending, fees and other rates on banking facilities including loans and savings for private/household including commercial customers thereby limiting control or attempting to control the price of such services.

Keeping in view of the definition of the term cartel stated above it may be said that the activities of limiting control or attempting to control the price of banking services would constitute cartel. The complaint made by the customer is therefore, prima facie valid.

**PART III****Question 5**

- (a) X gives to Y property worth only ₹5,000 and adds a condition that Y should sell property for ₹75,000 and not below that amount, this condition will at once become invalid for no one will buy the property which is only worth ₹5,000 for ₹75,000 Similarly X gives property to Y worth ₹75,000 and stipulates that if Y wants to sell the property he should sell it to Z for ₹2,000. Decide with help of case law whether it is an absolute restraint under law relating to Transfer of Property Act, 1882. (4 marks)
- (b) What do you understand by “Benami Transaction” under the Benami Transactions (Prohibition) Act, 1988 ? (4 marks)
- (c) A shopkeeper sold a packet of pre-packed chillies which does not bear the declarations required to be made by the manufacturers on pre-packaged commodities. Whether the shopkeeper has committed any act punishable under the Legal Metrology Act, 2009 ? Discuss. (4 marks)
- (d) Amit’s son absconded. He sent Suresh, his servant in search of the boy. When Suresh had left, Amit, by hand bills, offered to pay ₹5,001 to anyone finding his son. Suresh found the son and after coming to know about the offer, claimed the amount. Examine the validity of claim raised by Suresh. (4 marks)
- (e) Define and distinguish the terms “Confiscation and Seizure” in the context of the Essential Commodities Act, 1955. (4 marks)

**Answer 5(a)**

Section 10 of the Transfer of Property Act, 1882 says that when property is transferred, the transferee should not be restrained absolutely from alienating the property. One may give property to another subject to a condition, but the condition should not be one which absolutely prevents the transferee from alienating the property. Such a condition, if provided is invalid.

In *Trichinopoly Varthaga Sangum v. Shunmoga Sunderam*, (1939) Madras 954, there was a partition between a Hindu father and his five sons. The deed of partition provided that if any one of the sons wanted to sell his share, he should not sell it to a stranger but to one of his brothers who should have the option to buy for a sum not exceeding ₹1,000. It was held by the Court that the condition absolutely prevented the son from selling the property to any one for good value. In this case the market value of the property of the son was far greater than ₹1,000. Hence, the condition was declared invalid and absolute restraint.

Coming to the factual matrix provided in the present case, the conditions stipulated therein are in the nature of absolute restraint under the provisions of the Transfer of Property Act, 1882.

**Answer 5(b)**

As per Section 2 (9) of the Benami Transactions (Prohibition) Act, 1988 “benami transaction” means-

(A) a transaction or an arrangement—

(a) where a property is transferred to, or is held by, a person, and the

consideration for such property has been provided, or paid by, another person;  
and

- (b) the property is held for the immediate or future benefit, direct or indirect, of the person who has provided the consideration, except when the property is held by—
  - (i) a Karta, or a member of a Hindu undivided family, as the case may be, and the property is held for his benefit or benefit of other members in the family and the consideration for such property has been provided or paid out of the known sources of the Hindu undivided family;
  - (ii) a person standing in a fiduciary capacity for the benefit of another person towards whom he stands in such capacity and includes a trustee, executor, partner, director of a company, a depository or a participant as an agent of a depository under the Depositories Act, 1996 and any other person as may be notified by the Central Government for this purpose;
  - (iii) any person being an individual in the name of his spouse or in the name of any child of such individual and the consideration for such property has been provided or paid out of the known sources of the individual;
  - (iv) any person in the name of his brother or sister or lineal ascendant or descendant, where the names of brother or sister or lineal ascendant or descendant and the individual appear as joint owners in any document, and the consideration for such property has been provided or paid out of the known sources of the individual; or
- (B) a transaction or an arrangement in respect of a property carried out or made in a fictitious name; or
- (C) a transaction or an arrangement in respect of a property where the owner of the property is not aware of, or, denies knowledge of, such ownership;
- (D) a transaction or an arrangement in respect of a property where the person providing the consideration is not traceable or is fictitious.

**Answer 5(c)**

Section 18 of the Legal Metrology Act, 2009 states that no person shall manufacture, pack, sell, import, distribute, deliver, offer, expose or possess for sale any pre-packaged commodity unless such package is in such standard quantities or number and bears thereon such declarations and particulars in such manner as may be prescribed. Any advertisement mentioning the retail sale price of a pre-packaged commodity shall contain a declaration as to the net quantity or number of the commodity contained in the package in such form and manner as may be prescribed.

Under section 36 of the Legal Metrology Act, 2009 whoever manufactures, packs, imports, sells, distributes, delivers or otherwise transfers, offers, exposes or possesses for sale, or causes to be sold, distributed, delivered or otherwise transferred, offered, exposed for sale any pre-packaged commodity which does not conform to the declarations on the package as provided in the Act, shall be punished with fine which may extend to

twenty-five thousand rupees, for the second offence, with fine which may extend to fifty thousand rupees and for the subsequent offence, with fine which shall not be less than fifty thousand rupees but which may extend to one lakh rupees or with imprisonment for a term which may extend to one year or with both.

Accordingly, the shopkeeper has sold pre packed chillies which do not bear the declarations required to be made on pre-packaged commodities, the said shopkeeper has committed an act punishable under Section 36 read with Section 18 of the Legal Metrology Act, 2009.

**Answer 5(d)**

One of the cardinal principle of the Law of Contract is that an acceptance must be given within a reasonable time and before the offer lapses or is revoked. An offer becomes irrevocable by acceptance.

An acceptance never precedes an offer. There can be no acceptance of an offer which is not communicated. Similarly, performance of conditions of an offer without the knowledge of the specific offer, is no acceptance. Thus in *Lalman Shukla v. Gauri Dutt (1913)*, where a servant brought the boy without knowing of the reward, he was held not entitled to reward because he did not know about the offer.

In this case Suresh had no knowledge of the offer, so he will fail to claim the same.

**Answer 5(e)**

Essential Commodities Act uses the expressions 'confiscation' and 'seizure' in Section 6A and under this section a commodity which has been seized in pursuance of an order under Section 3 can be confiscated under the circumstances mentioned in Section 6A.

'Confiscation' according to Wharton's Law Lexicon, is condemnation and adjudication of property to the public treasury as of goods seized under the Customs Act. Confiscation, according to Stroud's judicial Dictionary, must be an act done in some way on the part of the Government of the country where it takes place and in some way beneficial to that Government, though the proceeds may not strictly speaking be brought into its treasury.

The expression 'seize' means to take possession contrary to the wishes of the owner of the property and that such action is unilateral action of the person seizing. The person from whom anything is seized loses, from the moment of seizure, the right or power to control or regulate the use of that thing.

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

**Question 6**

- (a) What do you understand by the term "Unpaid Seller" ? Explain unpaid seller's right to lien. (3 marks)
- (b) What do you understand by the term 'Caveat Emptor' ? Enumerate its exceptions. (3 marks)
- (c) Define the term "Money Laundering". What is the punishment for money laundering? (3 marks)

- (d) Discuss the functions of Real Estate Agent under the Real Estate (Regulation and Development) Act, 2016. (3 marks)
- (e) Describe the contracts which cannot be specifically enforced under Specific Relief Act, 1963. (3 marks)

**OR (Alternative question to Q. No. 6)**

**Question 6A**

- (i) What are the duties and functions of Real Estate Regulatory Authority ?
- (ii) Right conferred by section 53-A of the Transfer of Property Act, 1882 is available to defend and to protect possession but does not create any title ? Comment.
- (iii) 'A', an individual, by a transaction, purchased a house in the name of his wife. Consideration of transaction was paid by 'A' out of his known sources. Government seized the house claiming it to be a benami property. Decide, whether the action of the Government is justified ?
- (iv) Enumerate the circumstances in which perpetual injunction can be granted under Specific Relief Act, 1963.
- (v) What are essentials of promissory note ? (3 marks each)

**Answer 6(a)**

The seller of goods is deemed to be unpaid seller:

- (a) When the whole of the price has not been paid or tendered; or
- (b) When a conditional payment was made by a bill of exchange or other negotiable instrument, and the instrument has been dishonoured.

*Right of Lien* : An unpaid seller in possession of goods sold, may exercise his lien on the goods, i.e., keep the goods in his possession and refuse to deliver them to the buyer until the fulfilment or tender of the price in cases where:

- (i) the goods have been sold without stipulation as to credit; or
- (ii) the goods have been sold on credit, but the term of credit has expired; or
- (iii) the buyer becomes insolvent.

The lien depends on physical possession. The seller's lien is possessory lien, so that it can be exercised only so long as the seller is in possession of the goods. It can only be exercised for the non-payment of the price and not for any other charges.

**Answer 6(b)**

The term "caveat emptor" is a Latin word which means "let the buyer beware". This principle states that it is for the buyer to satisfy himself that the goods which he is purchasing are of the quality which he requires. If he buys goods for a particular purpose, he must satisfy himself that they are fit for that purpose. The doctrine of caveat emptor is embodied in Section 16 of the Sale of Goods Act, 1930 which states that "subject to the provisions of this Act and of any other law for the time being in force, there is no

implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a contract of sale”.

*Exceptions* : Section 16 lays down the following exceptions to the doctrine of Caveat Emptor:

- (1) Where the seller makes a false representation and the buyer relies on it.
- (2) When the seller actively conceals a defect in the goods which is not visible on a reasonable examination of the same.
- (3) When the buyer, relying upon the skill and judgement of the seller, has expressly or impliedly communicated to him the purpose for which the goods are required.
- (4) Where goods are bought by description from a seller who deals in goods of that description.

#### **Answer 6(c)**

According to Section 2(1) (p) of the Prevention of Money Laundering Act, 2002 "money-laundering" has the meaning assigned to it in section 3 of the Act.

Section 3 of the Prevention of Money Laundering Act, 2002 states that whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or actually involved in any process or activity connected with the proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it is an untainted property shall be guilty of offence of money laundering.

Section 4 provides that any person who commits the offence of money laundering shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years and also liable to fine. However, where the proceeds of crime involved in money laundering relates to any offence specified under the Narcotic Drugs and Psychotropic Substances Act, the punishment may extend to rigorous imprisonment for ten years.

#### **Answer 6(d)**

According to Real Estate (Regulation and Development) Act, 2016, every real estate agent which or who is not registered with the Authority shall not facilitate the sale or purchase of any plot, apartment or building, as the case may be, in a real estate project or part of it, being sold by the promoter in any planning area. Therefore, the Real Estate Agents are required to register themselves with the authority. Every real estate agent shall be required to maintain and preserve such books of account, records and documents as may prescribed.

Every real estate agent not to involve himself in any unfair trade practices, namely:–

- (i) the practice of making any statement, whether orally or in writing or by visible representation which–
  - falsely represents that the services are of a particular standard or grade;
  - represents that the promoter or himself has approval or affiliation which such promoter or himself does not have;
  - makes a false or misleading representation concerning the services;

- (ii) permitting the publication of any advertisement whether in any newspaper or otherwise of services that are not intended to be offered.

Every real estate agent shall facilitate the possession of all the information and documents, as the allottee, is entitled to, at the time of booking of any plot, apartment or building, as the case may be and discharge such other functions as may be prescribed.

**Answer 6(e)**

Section 14 of the Specific Relief Act, 1963 lays down the contracts which cannot be specifically enforced. The following contracts cannot be specifically enforced, namely:—

- (a) where a party to the contract has obtained substituted performance of contract in accordance with the provisions of section 20;
- (b) a contract, the performance of which involves the performance of a continuous duty which the court cannot supervise;
- (c) a contract which is so dependent on the personal qualifications of the parties that the court cannot enforce specific performance of its material terms; and
- (d) a contract which is in its nature determinable.

**Answer 6A(i)**

The duties and functions of the Real Estate Regulatory Authority shall include:

- to register and regulate real estate projects and real estate agents registered under the Real Estate (Regulation and Development) Act, 2016;
- to publish and maintain a website of records, for public viewing, of all real estate projects for which registration has been given, with such details as may be prescribed, including information provided in the application for which registration has been granted;
- to maintain a database, on its website, for public viewing, and enter the names and photographs of promoters as defaulters including the project details, registration for which has been revoked or have been penalised under the Act, with reasons therefor, for access to the general public;
- to maintain a database, on its website, for public viewing, and enter the names and photographs of real estate agents who have applied and registered under the Act, with such details as may be prescribed, including those whose registration has been rejected or revoked;
- to fix through regulations for each areas under its jurisdiction the standard fees to be levied on the allottees or the promoter or the real estate agent, as the case may be;
- to ensure compliance of the obligations cast upon the promoters, the allottees and the real estate agents under the Act and the rules and regulations made thereunder;
- to ensure compliance of its regulations or orders or directions made in exercise of its powers under the Act;



- to perform such other functions as may be entrusted to the Authority by the appropriate Government as may be necessary to carry out the provisions of the Act.

#### **Answer 6A(ii)**

Following are the essential conditions for the operation of the doctrine of part-performance according to Section 53A of the Transfer of Property Act, 1882.

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

Section 53A does not confer any positive right on the transferee. It only prohibits exercise of the right of ownership in relation to the property in order to evict the transferee from the property because legal requirements have not been satisfied. However, the doctrine of part-performance will not affect the right of a subsequent transferee for consideration without notice of the earlier contract and of its being partly performed.

#### **Answer 6A(iii)**

According to Section 2 (8) of the Benami Transactions (Prohibition) Act, 1988 Benami Property means any property which is the subject matter of a benami transaction and also includes the proceeds from such property.

As per Section 2 (9)(A) of the Benami Transactions (Prohibition) Act, 1988 “benami transaction” means—a transaction or an arrangement—

- (a) where a property is transferred to, or is held by, a person, and the consideration for such property has been provided, or paid by, another person; and
- (b) the property is held for the immediate or future benefit, direct or indirect, of the person who has provided the consideration, except when the property is held by—
  - (iii) any person being an individual in the name of his spouse or in the name of any child of such individual and the consideration for such property has been provided or paid out of the known sources of the individual;

In the present case transaction falls in the category of Section 2 (9)(A)(b)(iii) of the Benami Transactions (Prohibition) Act, 1988 and is an exception to what constitutes

Benami Transaction. Therefore, the house purchased by A in the name of his wife known sources does not fall in the Benami Transaction. So the action of seizure of the house by the Government is not justified.

**Answer 6A(iv)**

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

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

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

**Answer 6A(v)**

To be a promissory note, an instrument must possess the following essentials:

- (a) It must be in writing. An oral promise to pay will not do.
- (b) It must contain an express promise or clear undertaking to pay.
- (c) The promise or undertaking to pay must be unconditional.
- (d) The maker must sign the promissory note in token of an undertaking to pay to the payee or his order.
- (e) The maker must be a certain person, i.e., the note must show clearly who the person is engaging himself to pay.
- (f) The payee must be certain. The promissory note must contain a promise to pay to some person or persons ascertained by name or designation or to their order.
- (g) The sum payable must be certain and the amount must not be capable of contingent additions or subtractions.
- (h) Payment must be in legal money of the country. Thus, a promise to pay Rs. 500 and deliver 10 quintals of rice is not a promissory note.
- (i) It must be properly stamped in accordance with the provisions of the Indian Stamp Act, 1899. Each stamp must be duly cancelled by maker's signature or initials.
- (j) It must contain the name of place, number and the date on which it is made. However, their omission will not render the instrument invalid, e.g. if it is undated, it is deemed to be dated on the date of delivery.

## FINANCIAL AND STRATEGIC MANAGEMENT

*Time allowed : 3 hours*

*Maximum marks : 100*

### PART I

1. Find the correct statement regarding the profit maximisation :
  - (A) Profit maximization considers the firm's risk level.
  - (B) Profit maximization will not lead to increasing short-term profits at the expense of lowering expected future profits.
  - (C) Profit maximization does consider the impact on individual shareholder's EPS.
  - (D) Profit maximization is concerned more with maximizing net income than the stock price.
2. From which of the following, Economic Value Added (EVA) will not increase :
  - (A) Operating profits grow without employing additional capital
  - (B) Unproductive capital is liquidated
  - (C) Cash flow generated by a business equal to the cost of the capital
  - (D) Additional capital is invested in the projects, that give higher returns than the cost of procuring new capital
3. .... is the most appropriate goal of the firm.
  - (A) Shareholder wealth maximization
  - (B) Profit maximization
  - (C) Stakeholder maximization
  - (D) EPS maximization
4. Earnings per share can be calculated as :
  - (A) Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value.
  - (B) Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding if no preference shares are outstanding.
  - (C) Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding.

- (D) Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value.
5. Investment Decision in Financial Management does not include :
- (A) Dividend Payout Decision
  - (B) Capital Budgeting Decision
  - (C) Working Capital Management
  - (D) Re-allocation of Capital
6. The main function of a financial manager include the following except :
- (A) Asset Management
  - (B) Capital Structure Planning
  - (C) Fund Management
  - (D) Internal Control and Audit
7. The present value of ₹1,000 to be received after one year at the rate of 8% per annum is ₹926, if discounted half yearly, the present value would be :
- (A) ₹924.55
  - (B) ₹930.00
  - (C) ₹600.96
  - (D) ₹934.00
8. What is the present value of the maturity value of ₹10,000 which has been given on 15% interest for five years while required rate of return is 10% ? (FV @ 15% after 5 years is 2.01136, FV @ 10% after 5 years is 1.61051)
- (A) ₹12,488.94
  - (B) ₹12,494.88
  - (C) ₹21,494.88
  - (D) ₹21,488.94
9. MNP Ltd. is considering purchasing of an Asset costing ₹80,000 and having a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are ₹25,000 per annum and for the last two years ₹20,000 per annum. What is the Payback period for this investment ?
- (A) 3.2 years
  - (B) 3.5 years
  - (C) 4.0 years
  - (D) Cannot be determined from this information

10. ABC project has the following cash inflows for 4 years as ₹34,444; ₹39,877; ₹25,000; and ₹52,800 respectively. The initial Investment is ₹1,04,000. Find the correct statement from the following :

Present value of an annuity of rupee one on various discounting factor in 4th year is :

9%	3.2397
13%	2.9745
15%	2.8550
16%	2.7982
17%	2.7432
18%	2.6901

- (A) The IRR is less than 9%.
- (B) The IRR is greater than or equal to 9%, but less than 13%.
- (C) The IRR is greater than 16%, but less than 18%.
- (D) The IRR is greater than or equal to 17%.
11. A firm expects an NPV of ₹8,000 if the economy is exceptionally strong (30% probability), an NPV of ₹4,000 if the economy is normal (40% probability), and an NPV of ₹2,000 if the economy is exceptionally weak (30% probability). Expected Net present value is .....
- (A) ₹5,200
- (B) ₹6,000
- (C) ₹5,000
- (D) ₹4,600
12. Calculate the value of the firm MNP Ltd. according to the Net Income Approach. The company expects a net operating income of ₹80,000. It has ₹2,00,000, 8% Debentures. The equity capitalization rate of the company is 10%. (ignore the Income Tax).
- (A) ₹8,40,000
- (B) ₹8,60,000
- (C) ₹8,80,000
- (D) ₹8,90,000
13. ABC Ltd. expects a net operating income of ₹1,00,000. It has ₹5,00,000, 6% Debentures. The overall capitalization is 10%. Calculate cost of equity according to the Net Operating Income Approach.
- (A) 14%

- (B) 21%
- (C) 18%
- (D) 21.8%
14. Compute the average cost of capital by using market value as weights from the following information :
- Net Operating Income ₹2,00,000, Total Investment ₹10,00,000, if the firm uses 5% debenture of ₹4,00,000 and equity capitalization rate is 11%.
- (A) 20%
- (B) 9.9%
- (C) 9.82%
- (D) 11%
15. A company PQR Ltd. has EBIT of ₹2,00,000. Expected return on its Investment @ of 12%. What is the total value of the firm according to Miller-Modigliani theory ?
- (A) ₹16,66,667
- (B) ₹17,85,714
- (C) ₹20,00,000
- (D) ₹22,40,000
16. A firm has EBIT of ₹50,000. Market value of debt is ₹80,000 and overall capitalization rate is 20%. Market value of equity under NOI Approach is :
- (A) ₹1,70,000
- (B) ₹2,50,000
- (C) ₹30,000
- (D) ₹1,30,000
17. X company has sales of ₹12,00,000, Variable Cost is 50% and fixed cost ₹2,50,000. Operating leverage of the company is :
- (A) 1.33
- (B) 1.67
- (C) 1.71
- (D) 2
18. A Ltd. issues ₹50,000 8% debentures at a discount of 5%. The tax rate is 50%. The cost of debt capital is :
- (A) 5.42%

- (B) 5.1%
- (C) 4.42%
- (D) 4.21%
19. A company issues 10,000 10% Preference Shares of ₹100 each redeemable after 10 years at a premium of 5%. The cost of issue is ₹2 per share. The cost of preference capital is :
- (A) 10.14%
- (B) 10.34%
- (C) 10.74%
- (D) 10.54%
20. Number of existing equity share = 8 crore, Market value of existing share = ₹55, Net earnings = ₹80 crore. Cost of equity on basis of Earning-price Ratio approach is :
- (A) 5.55%
- (B) 5.15%
- (C) 18.18%
- (D) 18.02%
21. ABC Ltd. has the following capital structure :
- Equity share capital ₹10,00,000, 10% preference share capital ₹5,00,000, 8% Debenture ₹15,00,000. Cost of equity is estimated to be 15%. Calculate the Weighted Average Cost of Capital, assuming tax rate is 50%.
- (A) 6.67%
- (B) 8.67%
- (C) 9.67%
- (D) 7.67%
22. Find the correct statements regarding the risk-adjusted discount rate (RADR) approach ?
- (A) Under the RADR approach, we should accept a project if its net present value (NPV) calculated using a risk-adjusted discount rate is positive.
- (B) Adjusting the firm's overall cost of capital upward is required if the project or group are of higher than average risk.
- (C) Under the RADR approach, we would still compare a project's internal rate of return (IRR) to the firm's overall weighted-average cost of capital in order to decide acceptance/rejection.
- (D) Adjusting the firm's overall cost of capital downward is required if the project or group are of lower than average risk.

23. PQR Ltd. keeps a perpetual fixed amount of debenture with coupon rate of 16% in its books. Debenture sells at par (face value ₹100) in the market and company pays 40% tax. What is the cost of debenture, if sold at 10% premium in the market ?
- (A) 8.82%  
(B) 8.72%  
(C) 8.27%  
(D) 9.10%
26. A company has currently 2,000 equity shares of ₹100 each and its earnings are ₹ 20,000. Its current market price is ₹110 and the growth rate of EPS is expected to be 5%. The cost of equity is .....
- (A) 10.94%  
(B) 9.55%  
(C) 9.95%  
(D) 11.60%
24. ANT Corporation common stock has a beta, ( $\beta$ ), of 1.5. The risk-free rate is 8%, and the market return is 12%. Determine the cost of equity shares using the CAPM.
- (A) 14%  
(B) 11%  
(C) 12%  
(D) 13%
25. MNP Ltd. has a target capital structure of 60 percent common stock, 10 percent preferred stock, and 30 percent debt. Its cost of equity is 15 percent, the cost of preferred stock is 7 percent, and the cost of debt is 10 percent. The relevant tax rate is 40 percent. What is its WACC ?
- (A) 11.3%  
(B) 11.5%  
(C) 11.7%  
(D) 12.1%
27. A firm provides the following information :
- Sold 2,00,000 units @ ₹30 per unit; Variable cost ₹15 per unit, fixed cost ₹10,00,000 and debt of ₹10,00,000 at 10% rate of interest. Calculate the degree of Financial leverage.
- (A) 1.5



- (B) 0.66
- (C) 1.053
- (D) Insufficient information
28. SKY Ltd. is considering three different financing alternatives — debt, preferred stock and common equity. The firm has created an EBIT-EPS chart that shows several indifference points. What does each indifference point show the firm ?
- (A) The level of EBIT that generates identical EPS under different alternative financing plans.
- (B) The level of sales that generates identical EBIT and EPS figures.
- (C) It shows the level of EBIT and EPS at which DFL is identical under different alternative financing plans.
- (D) None of the above
29. Which one is not a characteristics of Little-Mireless (L-M) approach ?
- (A) Domestic currency is used as numeraire
- (B) Uncommitted social income is the measurement base
- (C) At one place all SCBA objectives are fulfilled
- (D) International price is used as numeraire
30. Different aspects of UNIDO approach of social cost benefit analysis are examined in how many stages ?
- (A) 2
- (B) 3
- (C) 4
- (D) 5
31. The earning per share of a company is ₹10. It has an internal rate of return of 15% and the capitalization rate of the same risk class is 12.5%. If Walter's model is used, what should be the price of a share at optimum payout ?
- (A) 92
- (B) 94
- (C) 96
- (D) 98
32. From the following information find the market value per share as per Walter's model :
- Earnings of the Company ₹5,00,000, Dividend Payout ratio 60%, No. of shares

- outstanding 1,00,000, Equity capitalization rate is 12% and Rate of return on investment is 15%.
- (A) 45.83
- (B) 48.53
- (C) 49.27
- (D) 47.19
33. Modigliani and Miller argue that the dividend decision .....
- (A) Is irrelevant as the value of the firm is based on the earning power of its assets
- (B) Is relevant as the value of the firm is not based just on the earning power of its assets
- (C) Is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway
- (D) Is relevant as cash outflow always influences other firm decisions
34. Determine the market price of a share of XYZ Ltd. as per Gordon's Model, given equity capitalisation rate = 11%, Expected Earning = ₹20, rate of return on investment = 10% and retention ratio = 30%.
- (A) ₹165
- (B) ₹175
- (C) ₹185
- (D) ₹195
35. A Company Ltd., has 50,000 shares outstanding. The current market price of the shares is ₹50 each. The company expects the net profit of ₹1,00,000 during the year and it belongs to a risk class for which the appropriate capitalisation rate has been estimated to be 25%. The company is considering dividend of ₹10 per share for the current year. What will be the price of the share at the end of the year, if the dividend is not paid ?
- (A) ₹60.5
- (B) ₹62.5
- (C) ₹72.5
- (D) ₹52.5
36. Which of the following statements is not true in the context of M-M's dividend theory ?
- (A) The firm operates in perfect capital markets
- (B) All investors are rational

- (C) There is no fixed investment policy of the firm
- (D) The dividend policy of the firm is irrelevant
37. The annual cash requirement of A Ltd. is ₹25 lakh. Cost of conversion of marketable securities per lot is ₹2,500. The company can earn 5% annual yield on its securities. What will be the economic lot size according to the Baumol Model ?
- (A) ₹1,00,000
- (B) ₹2,50,000
- (C) ₹5,00,000
- (D) ₹4,75,000
38. The following details are available in respect of a firm : Annual requirement of inventory 20,000 units, Cost per unit (other than carrying and ordering cost) is ₹10, Carrying cost are likely to be 10% per year, Cost of placing an order is ₹500 per order. The economic ordering quantity is :
- (A) 4472 Units
- (B) 4274 Units
- (C) 5270 Units
- (D) 4760 Units
39. What will be the operating cycle period if raw materials are in store for 2 months, processing time 2½ months finished goods remain in store for 15 days, debtors are allowed 60 days' credit and credit received from suppliers of raw material is 1 month :
- (A) 7 months
- (B) 6 months
- (C) 6½ months
- (D) 5 months
40. Current assets are twice the current liabilities. If the net working capital is ₹60,000, current assets would be :
- (A) ₹60,000
- (B) ₹1,00,000
- (C) ₹1,20,000
- (D) ₹1,10,000
41. Concept of Maximum Permissible Bank financial was introduced by :
- (A) Kannan Committee

- (B) Chore Committee
  - (C) Nayak Committee
  - (D) Tandon Committee
42. Reorder level + Reorder Quantity – (Minimum Consumption × Minimum delivery period) determines which stock level :
- (A) Reorder level
  - (B) Maximum level
  - (C) Minimum level
  - (D) Average level
43. Efficiency of a credit control system does not get influenced by :
- (A) Timely billing
  - (B) Accurate billing
  - (C) Compliance with the specified credit policy
  - (D) Cash discount availed by the customers
44. Before taking investment decision, an investor makes a comparison of the ..... available from each avenue and elements of ..... involved in it.
- (A) Gross profit, Management
  - (B) Returns, Management
  - (C) Returns, Risk
  - (D) Risk, Returns
45. Speculator is a person :
- (A) Who acts in a risky financial transaction, in the hope of substantial profit
  - (B) Who acts in a less risky financial transaction, in the hope of substantial profit
  - (C) Who uses only his own fund to make profit
  - (D) Who analyse the performance of the company but does not make any transaction
46. An investor is holding 100 shares of PQR Ltd. The current rate of dividend paid by the company is ₹10 per share. The long-term growth rate is expected to be 10% and the expected rate of return is 20%. Current market price of the share is :
- (A) ₹110
  - (B) ₹112
  - (C) ₹120
  - (D) ₹111

47. According to ..... theory, it is futile to engage in Technical analysis.
- (A) Dow Jones theory
  - (B) Random Walk theory
  - (C) Efficient Market theory
  - (D) None of the above
48. Which of the following statement defines the efficient market ?
- (A) Information is fully reflected on the stock prices
  - (B) The stock exchange is fully automated
  - (C) The market is monitored by the regulation authorities
  - (D) Free entry and exit of the investors
49. .... focus more on past price movements of firm's stock than on the underlying determinants of future profitability.
- (A) Fundamental Analysts
  - (B) System Analysts
  - (C) Credit Analysts
  - (D) Technical Analysts
50. If the markets are efficient, the security price provides :
- (A) Inadequate return for taking up risk
  - (B) Normal return for the level of risk taken
  - (C) High return for the level of risk taken
  - (D) Both (B) and (C)
51. Consider a graph with standard deviation on the horizontal axis and expected return on the vertical axis. The line that connects the risk-free rate and the optimal risky portfolio is called :
- (A) The indifference curve
  - (B) The security market line
  - (C) The capital market line
  - (D) The characteristic line
52. If the standard deviation of a portfolio return is 15% and risk tolerance level for the investor is 40. What will be the risk penalty for the investor ?
- (A) 4.5%
  - (B) 2.67%

- (C) 6.32%
- (D) 5.625%
53. Which of the following is the equation of the Security Market Line (SML) ?
- (A)  $R_i + R_F(R_m - R_F)$
- (B)  $R_i = R_F(R_m - R_F)$
- (C)  $R_i = R_F + \beta_i(R_F - R_m)$
- (D)  $R_i = R_F + \beta_i(R_m - R_F)$
54. Capital Asset Pricing Model (CAPM) Account for .....
- (A) Unsystematic risk
- (B) Systematic risk
- (C) Both (A) and (B)
- (D) Not used for risk analysis
55. When a portfolio comprises investment in three shares (Share A — 40%, Share B — 25% and Share C — 35%) whose beta factors are 1.3, 1.6 and 1.2, respectively, the portfolio beta is :
- (A) 1.34
- (B) 1.43
- (C) 1.24
- (D) 1.42
56. If the risk free rate of interest is 11% and expected return on market portfolio is 18%, ascertain expected return of the portfolio if  $\beta$  of portfolio is 0.90.
- (A) 17.1%
- (B) 17.2%
- (C) 17.3%
- (D) 18.1%
57. The unsystematic risk is explained :
- (A) By variance of the index
- (B) By unexplained variance of the index
- (C) By explained variance of the index
- (D) Not affected by variance

58. The standard deviation of market returns is 15. The return of stock X is 25%. The riskless rate of interest is 5%. The risk premium of the X stock is :
- (A) 1.33
  - (B) 5
  - (C) 15
  - (D) 20
59. The Sharpe index assigns the high value to funds that have :
- (A) Low standard deviations
  - (B) Higher returns
  - (C) Higher risk adjusted returns
  - (D) Higher risk premium
60. JP Limited has earned 10% return on total assets of ₹18,00,000 and has a net profit ratio of 8%. Find out sales of the company.
- (A) ₹14,40,000
  - (B) ₹25,00,000
  - (C) ₹27,50,000
  - (D) ₹22,50,000

## PART II

61. Generally in what order managers perform their managerial functions ?
- (A) Organising, planning, controlling, leading
  - (B) Organising, leading, planning, controlling
  - (C) Planning, organising, leading, controlling
  - (D) Planning, organising, controlling, leading
62. The famous book “The Management Theory of Jungle” is written by :
- (A) Harold Koontz
  - (B) Henri Fayol
  - (C) Peter Drucker
  - (D) George Terry
63. At what level of an organisation does a corporate manager operate ?
- (A) Functional
  - (B) Operational
  - (C) Middle level
  - (D) Top level

64. Consider the following statements :
- Planning involves
- (1) Establishment of objectives
  - (2) Choose of alternative courses of action
  - (3) Delegation of authority
  - (4) Decision only by production manager
- Out of these statements :
- (A) (1), (2), (3) and (4) are correct
  - (B) (1), (3) and (4) are correct
  - (C) (1) and (2) are correct
  - (D) (2) and (3) are correct
65. When a manager monitors the work performance of workers in his department to determine if the quality of their work is 'up to standard', this manager is engaging in which function ?
- (A) Planning
  - (B) Controlling
  - (C) Organising
  - (D) Leading
66. Following are controlling functions of the management ?
- (1) Analysis of variances
  - (2) Initiating corrective action
  - (3) Measurement of Actual performance
  - (4) Establishment of standards
- Correct sequence is :
- (A) (4), (2), (3), (1)
  - (B) (2), (3), (1), (4)
  - (C) (4), (1), (2), (3)
  - (D) (4), (3), (1), (2)
67. .... is a conscious attempt made by the executive to influence the role of individual and group behaviours.
- (A) Direction
  - (B) Motivation



- (C) Leadership
- (D) Controlling
68. What is the term for the action in which managers at an organisation analyse the current situation of their organisation and then develop plans to accomplish its mission and achieve its goals ?
- (A) Synergy planning
- (B) Strategy formulation
- (C) Functional planning
- (D) SWOT analysis
69. Match the following Porter's five forces factors :
- |   |  |
|---|--|
| (a) Brand reputation and Government regulation            | (1) Buyer power                        |
| (b) Materials scarcity and Threat of integrating forward  | (2) Rivalry among existing competitors |
| (c) Price sensitivity and Threat of backward integration  | (3) Threat of new entry                |
| (d) Customer loyalty and Threat of horizontal integration | (4) Supplier power                     |
- The correct order is :
- (A) (a)-(2), (b)-(3), (c)-(1), (d)-(4)
- (B) (a)-(3), (b)-(1), (c)-(4), (d)-(2)
- (C) (a)-(3), (b)-(4), (c)-(1), (d)-(2)
- (D) (a)-(2), (b)-(4), (c)-(1), (d)-(3)
70. In the business, Macro environment factor, what does PEST stand for ?
- (A) Political, environmental, strategic, testing
- (B) Political, environmental, strategic, technological
- (C) Political, economic, strategic, technological
- (D) Political, economic, social, technological
71. Profitability stemming from how well a firm positions itself in the market is a key feature of which writer's view on strategy ?
- (A) Peter Drucker
- (B) Jay Barney
- (C) Michael Porter
- (D) Henry Mintzberg

72. Porter's Value Chain is essentially a tool for :
- (A) Calculating what a firm is worth
  - (B) Advising firms on how to price their products
  - (C) Identifying the competitive forces within an industry
  - (D) Diagnosing and enhancing sources of competitive advantage within an organisation
73. .... refers to key strategic leadership roles in which a leader quickly and clearly works through the complexity of key issues problem and opportunities to affect actions.
- (A) Navigator
  - (B) Strategist
  - (C) Captivator
  - (D) Enterprise Guardian
74. The ..... answers the question "Where do we aim to be" ? Whereas ..... answers the questions "What we do ? What makes us different ?"
- (A) vision statement; mission statement
  - (B) short-term objectives; long-term objectives
  - (C) objectives; strategies
  - (D) mission; vision
75. Large organizations create ....., which assume the role of a separate company and create their own strategies and plans in order to achieve their corporate goals and contribution to the overall organization. (A) marketing objectives
- (B) strategic business units
  - (C) marketing activities
  - (D) business development units
76. Guidelines developed by an organization to govern the actions of those who are a part of it, is known as :
- (A) Business Policy
  - (B) Marketing strategy
  - (C) Formulation strategy
  - (D) Values

77. The ..... process commences at corporate level. Here the organization sets out its overall mission, purpose, and values.
- (A) Researching
  - (B) Strategic planning
  - (C) Controlling
  - (D) Managing
78. The marketing strategy emphasises price as the key to good value; operations runs with tight cost control; development focuses on cost reduction. Which of the competitive strategies is illustrated here ?
- (A) Divisionalisation
  - (B) Differentiation focus
  - (C) Differentiation
  - (D) Cost leadership
79. Which of the following statements are correct ?
- (1) Supply chain management is a narrower concept than logistics management.
  - (2) Reduction of inventory is a key objective of logistics management.
  - (3) Outbound logistics is also called upstream logistics.
  - (4) Logistical Network includes various facilities like manufacturing plants, warehouses, distribution centres.

Codes :

- (A) (1), (2), (3) and (4) are correct
  - (B) (1), (3) and (4) are correct
  - (C) (2) and (3) are correct
  - (D) (2) and (4) are correct
80. **Statement (I)** : Stars operate in low growth industries and maintain high market share.
- Statement (II)** : “Dogs” have weak market share in high-growth market.
- Codes :**
- (A) Statement (I) is correct but (II) is incorrect
  - (B) Statement (II) is correct but (I) is incorrect
  - (C) Both the statements (I) and (II) are correct
  - (D) Both the statements (I) and (II) are incorrect

81. Which of the following is the Strategy of TOWS ?
- (A) Competitive Strategy
  - (B) Corporate Strategy
  - (C) Business Strategy
  - (D) Functional Strategy
82. The two internal elements of SWOT analysis are :
- (A) Weaknesses and threats
  - (B) Opportunities and threats
  - (C) Strengths and weaknesses
  - (D) Strengths and threats
83. In SWOT analysis, situations in which firms could convert weaknesses into strengths and threats into opportunities, known as :
- (A) Conversion strategies
  - (B) Strategic leverage
  - (C) Strategic policy
  - (D) Vulnerability
84. Which can be termed as disadvantage of PERT ?
- (A) Compels managers to plan their projects critically in considerable detail from beginning to the end and analyse all factors affecting the progress of the plan
  - (B) Provides management a tool for forecasting the impact of schedule changes. The likely probable spots are located early enough to take preventive measures or corrective actions.
  - (C) A considerable amount of data may be presented in a precise manner.
  - (D) The costs may be higher than the conventional methods of planning and as it needs a high degree of planning skill and minute details resulting in rise in time and manpower resources.
85. What is the term used in Ansoff's matrix for increasing market share with existing products in new markets ?
- (A) Market development
  - (B) Market penetration
  - (C) Product development
  - (D) Diversification

86. Porter's generic strategies are :
- (A) Low price, differentiation, focus
  - (B) Cost leadership, differentiation, cost focus, differentiation focus
  - (C) Price leadership, differentiation, focus
  - (D) Low cost, differentiation, focus differentiation
87. A sudden increase in critical resources which may invite an immediate reassessment of the organization strategy is an example of :
- (A) Strategic Leap Control
  - (B) Implementation Control
  - (C) Strategic Surveillance
  - (D) Special Alert Control
88. Strategic changes that most of the companies pursue are the following except:
- (A) Re-engineering
  - (B) Restructuring
  - (C) Innovation
  - (D) Liquidation
89. If misinformation and lack of information create barriers in managing change, it can be managed by :
- (A) Participation
  - (B) Education and Communication
  - (C) Leadership
  - (D) Obtaining commitment
90. Important benefits of McKinsey's 7-S framework Model is/are as follows :
- (A) It is a diagnostic tool for understanding the organization which are non-effective
  - (B) It helps to guide organization change
  - (C) It combines rational and hard elements with emotional and soft elements
  - (D) All of the above
91. Restructuring and downsizing becomes necessary due to the following factors except :
- (A) Unforeseen changes in business environment
  - (B) New technological development

- (C) Increase in demand
  - (D) Excess production capacity
92. In ..... structure, the activities are grouped according to the types of products manufactured or different market territories as the organizations began to grow by expanding variety of functions performed.
- (A) Divisional Structure
  - (B) Functional Structure
  - (C) Horizontal Structure
  - (D) Vertical Structure
93. What is the term for the monitoring of events both internal and external to the organisation that affects strategy ?
- (A) Operational control
  - (B) Strategic control
  - (C) Strategic surveillance
  - (D) Environmental scanning
94. Improving quality through small, incremental improvements is a characteristic of what type of quality management system ?
- (A) Just-in-time
  - (B) Six Sigma
  - (C) Total Quality Management
  - (D) Kaizen
95. Where was Total Quality Management first developed ?
- (A) USA
  - (B) UK
  - (C) Japan
  - (D) Korea
96. Which of the following are key components of a Total Quality Management system ?
- (A) Individual responsibility, incremental improvement, use of raw data
  - (B) Collective responsibility, continual improvement, use of raw data
  - (C) Group responsibility, staged improvement, knowledge
  - (D) Involves everyone, continual improvement, use of data and knowledge

97. Match the following benchmarking events with historical development :

Benchmarking	History Years
(a) Reverse Engineering	(1) 1982-1986
(b) Process benchmarking	(2) 1976-1986
(c) Strategic benchmarking	(3) 1950-1975
(d) Competitive benchmarking	(4) 1988+

The correct order is :

- (A) (a)-(1), (b)-(3), (c)-(2), (d)-(4)
- (B) (a)-(3), (b)-(1), (c)-(4), (d)-(2)
- (C) (a)-(3), (b)-(1), (c)-(2), (d)-(4)
- (D) (a)-(3), (b)-(2), (c)-(1), (d)-(4)

98. In Six sigma, DMAIC stands for :

- (A) Do-Measure-Act-Implement-Check
- (B) Define-Measure-Act-Implement-Control
- (C) Define-Measure-Analyze-Improve-Control
- (D) Do-Measure-Analyze-Improve-Control

99. In TQM, which of the following is not classified as 'costs of non-conformance' ?

- (A) Testing equipment
- (B) Reworking
- (C) Warranty claims
- (D) Product design

100. "Six Sigma" management has several levels of certification. It does not include:

- (A) Yellow Belt
- (B) Green Belt
- (C) Champion
- (D) White Belt

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

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



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