

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

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
COMPANY ACCOUNTS AND AUDITING PRACTICES

Time allowed : 3 hours

Maximum marks : 100

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

PART A

- (a) Explain the disclosures requirements as per Schedule III of Companies Act, 2013 with regards to "Reserves and Surplus" and "Long-term Borrowings".
(5 marks)
- (b) XYZ Ltd. granted 2,000 options on 1st April, 2015 at ₹50 (nominal value ₹10 each) when the market price was ₹170. The vesting period was two-and-a-half (2½) years. The maximum exercise period was one year. On 1st May, 2017, 500 vested options lapsed and 1,200 options were exercised on 30th June, 2018. Remaining 300 options lapsed at the end of exercise period. Pass necessary journal entries.
(5 marks)
- (c) Discuss Accounting Standard (AS)-18-Related party transactions along with disclosures required to be made by the reporting enterprise.
(5 marks)
- (d) XYZ Ltd. issued 1,50,000 equity shares of ₹10 each to public. The issue was underwritten by A, B, C and D as under :
- A 30%, B 25%, C 25% and D 20%
- The issue was firm-underwritten by the underwriters as under :
- A : 6,000 shares, B : 8,000 shares, C : Nil, D : 16,000 shares
- Public subscription excluding firm-underwriting but including marked applications were 1,10,000 shares. The marked applications were as under :
- A 30,000 shares
- B 23,000 shares
- C 17,000 shares
- D 25,000 shares
- Ascertain the liability of each underwriter (No. of shares), assuming firm-underwriting shares be treated as un-marked applications.
(5 marks)
- (e) In April 2019, a company issues 12% ₹10,00,000 debentures at ₹97 but redeemable at ₹104. Redemption will be carried out by annual drawings of ₹ 2,50,000 (face value) commencing at the March 2020. You are required to show:
- The Journal Entry on issue of debentures; and
- The loss on issue of debentures account over the period.
(5 marks)

Answer 1(a)

The disclosure requirement as per Schedule III of the Companies Act, 2013 are as follow in respect of:

- i. Reserves and surplus
 1. Reserves and surplus shall be classified as:
 - a) Capital Reserves
 - b) Capital Redemption Reserves
 - c) Securities Premium Reserves
 - d) Debenture Redemption Reserves
 - e) Revaluation Reserves
 - f) Share options outstanding Account
 - g) Other Reserves - (specify the nature of each reserve and the amount in respect thereof).
 - h) Surplus i.e. balance in statement of Profit & Loss disclosing allocations and appropriations such as dividend paid, bonus shares and transfer to/ from reserves
(Additions and deductions since last balance sheet to be shown under each of the specified heads)
 2. A reserve specifically represented by earmarked investments shall be termed as a 'fund'
 3. Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.
- ii. Long - term Borrowings"
 1. Long term borrowings shall be classified as:
 - a) Bonds / debentures
 - b) Term Loans - from Banks / from other parties.
 - c) Deferred payment liabilities
 - d) Deposits
 - e) Loans and advances from related Parties
 - f) Long-term maturities of finance lease obligations
 - g) other loans and advances (specify nature)
 2. Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
 3. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

4. Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment becomes due.
5. Particulars of any redeemed bonds/debentures which the company has power to reissue.
6. Terms of repayment of term loans and other loans shall be stated
7. Period and amount of default in repayment of dues, providing break-up of principal and interest shall be specified separately in each case.

Answer 1(b)**Journal Entries in the Books of XYZ Ltd.**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit (Rs.)</i>	<i>Credit (Rs.)</i>
1-4-15	Deferred Employee Compensation Expenses A/c [Note1]	Dr.	240000	
	To Employee Stock Options outstanding A/c			240000
	(Being Grant of 2000 options at a discount of Rs.120 each)			
31-3-16	Employee Compensation Expenses [Note 2] A/c	Dr.	96000	
	To Deferred employee Compensation Expenses A/c			96000
	(Being Amortization of Deferred Compensation over two and a half year on straight line)			
31-3-17	Employee Compensation Expenses A/c [Note 2]	Dr.	96000	
	To Deferred Employee Compensation Expenses A/c			96000
	(Being Amortization of Deferred Compensation)			
1-5-17	Employee Stock Options outstanding A/c [Note 3]	Dr.	60000	
	To Deferred Employee Compensation Expenses A/c [Note 4]			12000
	To Employee Compensation Expenses A/c [Note 5]			48000
	(Being Reversal of compensation expense not amortized and amortized portion)			

30-9-17 Employee Compensation Expenses A/c [Note 7]	Dr.	36000	
To Deferred Employee Compensation Expenses A/c			36000
(Being Amortization of Deferred Compensation)			
30-6-18 Bank A/c	Dr.	60000	
Employee Stock Options outstanding A/c	Dr.	144000	
To Equity Share Capital A/c			12000
To Securities Premium A/c [Note 6]			192000
(Being exercise of the options at a exercise price of ₹50 each)			
1-10-18 Employee Stock Options outstanding A/c	Dr.	36000	
To Employee Compensation Expenses A/c [Note 8]			36000
(Being reversal of compensation accounting on lapse of 300 vested options at the end of exercise period)			

Working Note

1. Accounting value of options = $2000 * (\text{₹}170 - \text{₹}50) = \text{₹}240000$
2. Amortization:
 - I year $(240000/2.5) = \text{₹}96000$
 - II year $(240000/2.5) = \text{₹}96000$
 - III year $(240000 * 0.5/2.5) = \text{₹}48000$
3. $(\text{Total value of Compensation} / \text{Total No. of options}) * \text{No of options not exercised}$
 $(240000 / 2000) * 500 = \text{₹}60000$
4. $(\text{Not yet Amortised value of Compensation} / \text{Total number of options}) * \text{No. of options not exercised}$
 $(240000 - 96000 - 96000) / 2000 * 500 = 12000$
5. $(\text{Amortised value of compensation} / \text{Total No. of options}) * \text{No. of options not exercised}$
 $(96000 + 96000) / 2000 * 500 = \text{₹}48000$
6. Securities Premium = No of options exercised (Market value - Face value)
 $= 1200 * (\text{₹}170 - \text{₹}10) = \text{₹}192000$
7. $\text{₹}240000 - \text{₹}96000 - \text{₹}96000 - \text{₹}12000 = \text{₹}36000$
8. Employee Compensation Expense on 01.10.2018
 $= \text{No. of vested options lapsed} * (\text{Market value} - \text{Exercise value})$
 $= 300 * (170 - 50) = \text{Rs. } 36000$

Answer 1(c)

Accounting Standard 18 'Related Party Transactions' is applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. Related party disclosure requirements do not apply in circumstances where providing such disclosure would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulator. It is stated that no disclosure is required in consolidated financial statements in respect of intra-group transactions. Also no disclosure is required in the financial statement of state controlled enterprises as regards related party relationship with other state controlled enterprises and transactions with such enterprises.

If there have been transactions between related parties, during the existence of a related party relationship the reporting enterprise should disclose:

- i. the name of the transacting related party;
- ii. description of the relationship between the parties;
- iii. description of the nature of the transactions;
- iv. volume of transactions either as an amount or as an appropriate proportion;
- v. any other elements of the related party transactions necessary for an understanding of the financial statements;
- vi. the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provision for doubtful debts due from such parties at that date; and
- vii. the amounts written off or written back in the period in respect of debts due from or to related parties. Items of a similar nature may be disclosed in aggregate by type of related party.

Answer 1(d)**Statement showing the liability of Underwriters assuming firm-underwriting shares be treated as un-marked applications**

<i>Particulars</i>	<i>No of shares of Underwriters</i>				
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>TOTAL</i>
In Percentage (%)	30	25	25	20	100
Gross Liability	45000	37500	37500	30000	150000
Less: Marked Application	30000	23000	17000	25000	95000
	15000	14500	20500	5000	55000
Less: Unmarked Application	13500	11250	11250	9000	45000
Balance Liability	1500	3250	9250	(4000)	10000
Less : Excess shares of D allocated to A, B, & C (in the ratio of 6:5:5)	(1500)	(1250)	(1250)	4000	Nil

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Net liability	Nil	2000	8000	Nil	10000
Add : Firm Underwriting	6000	8000	Nil	16000	30000
Total Liability	6000	10000	8000	16000	40000

Working Note

Unmarked Application = 110000 – 95000 + 30000 = 45000 shares

Answer 1(e)

(i) Journal Entry on Issue of Debenture

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
01.04.19	Bank A/c	Dr.	9,70,000	
	Loss on issue of Debenture	Dr.	70000	
	To 12% Debenture A/c			10,00,000
	To Premium on redemption of Debenture A/c			40000
	(Being Allotment of debentures issued at a discount of ₹3 per debenture and redeemable at premium of ₹4 per debenture)			

Loss of issue of debenture should be written off each year, according to the ratio of amount outstanding debenture amount:

Year	Ratio	Loss Written Off ₹
1	10	(10/25)*70000 = 28000
2	7.5	(7.5/25) * 70000 = 21000
3	5	(5/25) * 70000 = 14000
4	2.5	(2.5/25) * 70000 = 7000

Loss on Issue of Debenture A/c

Dr.			Cr.		
Date	Particulars	Amount in Rs.	Date	Particulars	Amount in Rs.
01.04.2019	To 12% Debenture	30000	31.03.2020	By P & L A/c	28000
	To Premium on Redemption	40000	31.03.2020	By Balance C/D	42000
	Total	70,000		Total	70,000

01.04.2020	To Balance B/D	42000	31.03.2021	By P & L A/c	21000
			31.03.2021	By Balance C/D	21000
	Total	42,000		Total	42,000
01.04.2021	To Balance B/D	21000	31.03.2022	By P & L A/c	14000
			31.03.2022	By Balance C/D	7000
	Total	21,000		Total	21,000
01.04.2022	To Balance B/D	7000	31.03.2023	By P & L A/c	7000
	Total	7000		Total	7000

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

Question 2

- (a) What are the important features of intangible assets ?
- (b) Explain different kinds of restructuring.
- (c) Briefly mention the compliance requirement of Accounting Standards.
- (d) The average net-profit adjusted for valuation of goodwill of the B Ltd. amounted to ₹2,26,045. The average profit (before adjustment) was ₹2,02,000. 6% represented fair commercial return. The average 'tangible' capital employed was ₹13,41,600 but upon valuation it was valued at ₹14,40,000. Assuming seven year's purchase of Super profits, find out the value of the Goodwill.
- (e) X Ltd. was incorporated on 1st July, 2016. Shiva was appointed as managing director on 25th October, 2018. Company suffered a loss of ₹3,00,000 in accounting year 2018-19. As per Part-II of Schedule V of the Companies Act, 2013, state that the maximum remuneration for the year 2018-19 to Shiva as managing director by considering the following information of Company's effective capital :
- (i) On 25th October, 2018 — ₹70 crore.
- (ii) On 31st March, 2019 — ₹110 crore.
- (iii) On 31st March, 2018 — ₹90 crore. (3 marks each)

OR (Alternative question to Q. No. 2)

Question 2A

- (i) The various balances of X Ltd. are as follows as at 31st March, 2019 :

Particulars	₹
4,500, 12% preference shares of ₹100 each	4,50,000
6,000 equity shares of ₹100 each fully paid	6,00,000
General Reserve	3,00,000

10% Debentures	3,50,000
Current liabilities	5,50,000
	<u>22,50,000</u>
Fixed Assets	13,00,000
Trade Investments	1,00,000
Non-trade Investment	25,000
Current Assets	8,25,000
	<u>22,50,000</u>

Company is earning average profits before tax ₹6,50,000. The current tax rate on company's profit is 40%. The rate of dividend on equity shares of the company is maintained at 20% for the last years and is expected to be maintained in future also. The fixed assets may be taken at ₹14,00,000. The normal rate of return may be taken at 15%. All investments are earning @ 10% per annum.

Calculate the value of equity shares on :

(1) the basis of Expected rate of return.

(2) the basis of Actual rate of return.

(5 marks)

(ii) ABC Ltd. Bank has a criterion that it will give loans to companies those have an "Economic Value Added" (EVA) greater than ZERO for the past three years, on an average. The bank is considering lending money to RST Ltd., as small company, that has the economic value characteristics as shown below :

(i) Average net profit after tax is ₹50 lakh for the last three years.

(ii) Average total assets over the last three years is ₹150 lakh

(iii) Weighted average cost of capital appropriate for the company is 12.5% which is applicable for the three years.

(iv) The company's average current liabilities over the last three years is ₹30 lakh.

Does the company RST Ltd. meet the Bank's criterion for a positive Economic Value Added (EVA). Justify ?

(5 marks)

(iii) Ganesh Cotton Mills Ltd. forfeited 1,200 shares of ₹10 each (which were issued on 80% Pro-rata basis) for non-payment of allotment money @ ₹6 (including premium ₹3.50) and first call money @ ₹3 per share. Out of 1,200 forfeited shares 1,000 shares were reissued at ₹8 per share deeming them as fully paid. Pass Journal entries for :

(i) Forfeiture of shares

(ii) Reissue of shares

(iii) Transfer to capital reserve a/c.

(5 marks)

Answer 2(a)

The following are the important features of Intangible Assets:

1. It is non-physical in nature.
2. It gives the specific right to the holder over several future years.
3. It is possible for multiple uses at the same time.
4. It creates future value.
5. It is identifiable as non-monetary assets.
6. It has limited ability to protect property rights.
7. An investment in intangible assets is basically risky.

Answer 2(b)

Restructuring may be of following kinds:

- (i) *Financial Restructuring* - It deals with the restructuring of capital base and raising finance for new projects. This involves decisions relating to acquisitions, mergers, joint ventures and strategic alliances.
- (ii) *Technological Restructuring* - It involves, inter alia alliances with other companies to exploit technological expertise.
- (iii) *Market Restructuring* – It involves decisions with respect to the product market segments where the company plans to operate based on its core competencies.
- (iv) *Organizational Restructuring* - It involves establishing internal structures and procedures for improving the capability of the personnel in the organization to respond to changes.

The most commonly applied tools of corporate restructuring are amalgamation, merges demerges, slump Sale acquisition Joint venture, strategic disinvestment alliances and franchises.

Answer 2(c)

The Accounting standards will be mandatory from the respective dates mentioned in the Accounting Standards. The mandatory status of accounting standards implies that while discharging their attest functions, it will be the duty of member of ICAI to examine that the accounting standard has been complied with in the presentations of the financial statement covered by their audit. In the event of any deviation from the accounting standards, it will be their duty to make adequate disclosure in their audit reports so that the users of the financial statement may be aware of such deviation.

Ensuring compliance with the accounting standard while preparing the financial statement is the responsibility of the management of the enterprises. Statutes governing certain enterprises require that the financial statement should be prepared in compliance with the Accounting Standards. Financial Statements cannot be described as complying with the accounting standards unless they comply with all the requirements of each applicable accounting standard.

Answer 2(d)**Valuation of Goodwill**

<i>Particular</i>	<i>Amount ₹</i>
Average profit after Adjustment	226045
Less Normal Profit [14,40,000 x 6 / 100]	(86400)
Super Profit	139645
Goodwill = Super Profit * 7 years of purchase [139645 * 7]	977515

Answer 2(e)

For Calculation of managerial remuneration in case of inadequate profit or no profit, effective capital of the company will be taken as on last day of the year preceding to the date of appointment as managing director. In this case it is ₹90 Crore. If effective capital is ₹5 Crore and above but less than 100 crore, than remunerations payable shall be not exceed Rs. 42 Lakh per annum. Therefore maximum remuneration of Mr. Shiva for the year 2018-19 will be ₹4200000 per annum or ₹350000 per month.

Answer 2A(i)

1. Calculation of Capital Employed

Fixed Assets	=	14,00,000
Trade Investments	=	1,00,000
Current Assets	=	825000
		<u>2325000</u>
Less : Current Liabilities	=	(550000)
Net Capital employed		<u>1775000</u>

2. Computation of Profit available to Equity Shareholder

Average profit Before Tax	=	650000
Less : Income Tax @ 40%	=	(260000)
Net profit after Tax	=	390000
Less : Preference share dividend	=	(54000)
Profit available for Equity Shareholder		<u>336,000</u>

3. Expected Rate of return

$$= \frac{\text{Profit Available for equity shareholder}}{\text{Total paid up Equity share capital}} \times 100$$

$$= 3,36,000/600000 \times 100 = 56\%$$

4. Profit Earned on Net Capital employed

Average profit before Tax	=	650000
Less : Income from Non Trade Investment (25000*10%)	=	(2500)
		647500
Less : Income tax @ 40%		(259000)
Net Profit after Tax		388500
Add : Debenture Interest		35000
Profit Earned		423500

$$\begin{aligned} \text{Actual Rate of Return} &= \frac{\text{Profit Earned}}{\text{Net capital employed}} \times 100\% \\ &= \frac{423500}{1775000} \times 100\% \\ &= 23.86\% \end{aligned}$$

5. Value of Equity Shares:

(i) On the basis of Expected Rate of Return

$$\begin{aligned} &= \frac{\text{Expected Rate of Return}}{\text{Normal Rate of Return}} \times \text{paid up value per Equity Share} \\ &= \frac{56}{15} \times 100 = ₹373.33 \end{aligned}$$

(ii) On the basis of Actual Rate of Return

$$\begin{aligned} &= \frac{\text{Actual Rate of Return}}{\text{Normal Rate of Return}} \times \text{paid up value per Equity Share} \\ &= \frac{23.86}{15} \times 100 \\ &= ₹159.07 \end{aligned}$$

Answer 2A(ii)**Calculation of Economic Value Added**

<i>Particular</i>	<i>Amount (In lakh)</i>
Net Operating Profit after Tax	50.00
Less : Cost of Capital Employed (Note 1)	(15.00)
Economic Value Added	35.00

Economic Value Added is greater than zero therefore, the Company ABC Ltd Qualifies for the loan.

Working Note: (Rs. in lakh)

Average total assets	150.00
Less : Average Current Liability	(30.00)
Capital Employed	120.00

Cost of Capital employed = Capital Employed * weighted average cost of Capital

$$= 120 * 12.5\%$$

$$= ₹15 \text{ Lakh}$$

Answer 2A(iii)

Journal Entries in the Books of Ganesh Cotton Mills Ltd.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
-	Share Capital A/c	Dr.	12000	
	Securities Premium A/c	Dr.	4200	
	To Share Allotment A/c			5850
	To Share First Call A/c			3600
	To Forfeited Shares A/c			6750
	(Being 1200 shares forfeited due to non-payment of allotment and I call money)			
-	Bank A/c	Dr.	8000	
	Shares Forfeited A/c	Dr.	2000	
	To Share Capital A/c			10000
	(Being Re-issue of 1000 shares at Discount)			
-	Shares Forfeited A/c	Dr.	3625	
	To Capital Reserve A/c			3625
	(Being Proportionate balance transferred to Capital Reserve A/c)			

Working Note

1. Per Share Application money = (₹10 + ₹3.50) - (₹6 + ₹3) ₹4.50

2. No. of share Applied $\times \frac{80}{100} = 1200$, therefore No. of share applied by shareholders
= 1500

3. Overpaid application money per share

$$= \frac{(1500 - 1200) \times 4.50}{1200} = ₹1125$$

Which is less than the amount of per share premium ₹ 3.50. Hence, it is assumed that share premium is not received.

Question 3

- (a) A Limited Liability Company which has a paid-up share capital of ₹5,00,000 and a loss of ₹5,57,000 standing in its Balance Sheet went into voluntary liquidation on 31st March, 2019. The following are the particulars of its Assets and Liabilities as on that date :

Machinery, Stock and Debtors (which realised their book value) ₹3,95,000; Cash ₹5,000; Creditors ₹2,00,000; 6% Debentures carrying a floating charge of ₹2,50,000 and interest accrued thereon for one year.

The Debentures were paid off with interest upto 31st March, 2019, on which date the final amount was also paid to the creditors. Creditors for ₹25,000 were preferential and the rest unsecured. The cost of liquidation amounted to ₹2,500. The Liquidator is entitled to 3% on the amount realised including cash and 2% on the amount distributed to the unsecured creditors by way of his own remuneration.

Prepare the Liquidator's Final Statement of Account.

- (b) Kalyani Ltd. has issued the following securities :

	₹
7% Debentures	4,00,000
10% Preference Shares of ₹10 each, fully paid	6,00,000
1,00,000 Equity Shares of ₹10 each, fully paid	10,00,000

Average profits of the company before interest and tax are ₹7,50,000. The Income tax rate is 30%. If normal rate of return is 8% on preference shares, and 12% on Equity Shares then ascertain the value of Preference and Equity Share.

- (c) What do you mean by the amalgamation ? What are the different forms of amalgamation? Give in brief. (5 marks each)

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

Receipts	Amount Realised ₹	Payment	Amount Paid (₹)
Asset Realised		Liquidator's Remuneration:	
Cash	5000.00	3% on ₹400000 = 12000	
Machinery, stock and Debtors	395000.00	2% on ₹25000 (Note 1) = 500	
		2% on ₹93137.25 = 1862.75	14362.75
		Cost of liquidation	2500.00
		Debenture (including interest upto 31.3.2019)	265000.00
		Preferential creditors	25000.00
		Unsecured Creditors	93137.25
Total	400000.00	Total	400000.00

Working Note:

1. Liquidation's Remuneration on amount distributed to unsecured creditors will be calculated as follows:

$$= \left(\frac{2}{102} \times 95000 \right) = ₹1862.75$$

Total Amount Realised	=	400000
Less : Amount paid upto Preferential creditors	=	(305000)
(12000 + 500 + 2500 + 265000 + 25000)	=	95000

Note 1: It is assumed that liquidator will get remuneration @ 2% on payment made to preferential creditors also considering it as a part of unsecured creditor.

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

<i>Receipts</i>	<i>Amount Realised ₹</i>	<i>Payment</i>	<i>Amount Paid (₹)</i>
		Liquidator's Remuneration:	
Asset Realised		3% on ₹ 400000 = 12000	
Cash	5000.00	2% on ₹93627 = 1873	13873.00
Machinery, stock and Debtors	395000.00	Cost of liquidation	2500.00
		Debenture (including interest upto 31.3.2019)	265000.00
		Preferential creditors	25000.00
		Unsecured Creditors	93627.00
Total	400000.00	Total	400000.00

Working Note:

1. Liquidation's Remuneration on amount distributed to unsecured creditors will be calculated as follows:

$$= \left(\frac{2}{102} \times 95500 \right) = ₹1873$$

Total Amount Realised	=	400000
Less : Amount paid upto Preferential creditors	=	(304500)
(12000+2500+265000+25000)	=	95500

Note : It is assumed that liquidator will get remuneration @ 2% on payment made to unsecured creditors only excluding preferential creditor considering preferential creditor as secured creditor.

Answer 3(b)

Value of Preference Shares

$$\frac{\text{Rate of dividend}}{\text{Normal rate of dividend}} \times \text{Paid up value of Share}$$

$$\frac{10}{8} \times 10 = ₹12.5 \text{ Per Share}$$

Valuation of Equity shares	₹
Average profit before Interest & Tax	750000
Less - Interest on debentures	(28000)
Net Profit before tax	<u>7,22,000</u>
Less Income Tax @ 30%	(2,16,600)
Net profit after Tax	5,05,400
Less - Preference share dividend	(60000)
Profit available for equity shareholders	<u>4,45,400</u>

$$\text{EPS} = \frac{\text{Profit available for equity Shareholders}}{\text{No. of equity shares}}$$

$$\frac{445400}{100000} = ₹4.454 \text{ Per Share}$$

$$\text{Value per Equity Share} = (\text{EPS/NRR}) * 100$$

$$(4.454/12) * 100 = \text{Rs. } 37.12 \text{ per share}$$

Answer 3(c)

Amalgamation means to unite or to combine. Generally, the term 'amalgamation' is used when two or more existing companies go into liquidation and a new company is formed to take over their business and the term 'absorption' is used when one or more existing companies go into liquidation and one existing company takes over or purchases the businesses of all companies. However, the difference between amalgamation and absorption has been dispensed with by the Accounting Standard (AS-14) - Accounting for Amalgamations issued by the ICAI. Thus the term amalgamation includes absorption.

Types of Amalgamation

Generally, there are two basic methods under which companies can unite together

1. *Amalgamation is the nature of Merger* : The amalgamations where there is a genuine pooling not merely of the assets and liabilities of the amalgamating companies but also of the shareholders' interests and of the businesses of these companies. Such amalgamations are amalgamations which are in the nature of 'merger' and the accounting treatment of such amalgamations should ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the relevant figures of the amalgamating companies. An amalgamation is classified as an 'amalgamation in the nature of merger' when all the five conditions stated therein are satisfied.
2. *Amalgamation in the Nature of Purchase* : The amalgamations which are in effect a mode by which one company acquires another company and, as a consequence, the shareholders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company, or the business of the company which is acquired is not intended to be continued. Such amalgamations are amalgamations in the nature of purchase.

If any one or more conditions listed in the amalgamation in the nature of merger is not satisfied, it is amalgamation in the nature of purchase.

Question 4

- (a) *From the following Balance Sheets of Hani Ltd. and its subsidiary Sani Ltd., drawn up at 31st March, 2019, prepare a Consolidated Balance Sheet as at that date, having regard to the following :*

- (i) *General Reserves and Profit (Surplus) of Sani Ltd. stood at ₹50,000 and ₹30,000 respectively on the date of acquisition and 80% of its shares were held by Hani Ltd. on 1st April, 2018.*
- (ii) *Machinery (Book-value ₹2,00,000 and furniture (Book value ₹ 40,000) were revalued at ₹1,50,000 and ₹30,000 respectively as on 1st April, 2018 for the purpose of fixing the price of its shares.*
- (iii) *Depreciation is charged @ 10% on machinery and @ 15% on furniture.*

Balance Sheet of Hani Ltd. & Sani Ltd. as on 31st March, 2019.

Particulars	Hani Ltd. (₹)	Sani Ltd. (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital		
Equity shares of ₹10 each	6,00,000	1,00,000
(b) Reserves and Surplus		
General Reserve	2,00,000	1,50,000
Statement of Profit & Loss	1,00,000	50,000

(2) Current Liabilities

Trade payable	1,10,000	57,000
Total	10,10,000	3,57,000

II. ASSETS**(1) Non-Currents Assets****(a) Tangible Fixed Assets**

Machinery	3,00,000	1,80,000
Furniture	1,50,000	34,000

(b) Non-current Investments Investment in Shares of Sani Ltd.

	1,20,000	—
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(2) Currents Assets

	4,40,000	1,43,000
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Total	10,10,000	3,57,000
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(8 marks)

(b) The Balance Sheets of A Ltd. and B Ltd. as at 31st March, 2019 are as under:

Balance Sheets of A Ltd. and B Ltd. as at 31st March, 2019

Particulars	A Ltd. (₹)	B Ltd. (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital		
Authorised :		
Equity shares of ₹10 each	6,00,000	4,00,000
Issued and Subscribed :		
Equity shares of ₹10 each fully paid-up	6,00,000	4,00,000
(b) Reserves and Surplus		
General Reserve	2,80,000	—
Statement of Profit & Loss	1,20,000	2,40,000
(2) Non-Current Liabilities		
10% Debentures	2,00,000	—
12% Debentures	—	4,00,000
(3) Current Liabilities		
Trade payables	4,00,000	1,60,000
Total	16,00,000	12,00,000

II. ASSETS**(1) Non-Current Assets**

Plant & Machinery	9,20,000	4,40,000
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(2) Current Assets

Stock	3,20,000	3,60,000
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Trade Receivables	1,20,000	80,000
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Cash at Bank	2,40,000	3,20,000
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Total	16,00,000	12,00,000
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The above two companies agree to amalgamate on 31st March, 2019 and for this purpose a new company AB Ltd. incorporate on the following terms :

- (i) Agreed share exchange ratio is six fully paid-up equity share of ₹10 each at par in AB Ltd. for every five equity shares of A Ltd. and three equity shares of B Ltd.
- (ii) All assets and liabilities are taken over at their book-values.
- (iii) The debentureholders of two transferor companies will be satisfied by allotment of such amount of 8% Debentures in AB Ltd. as would have the same amount of interest to them as was earned in A Ltd. and B Ltd. respectively.

You are required to show :

- (i) Calculation of purchase consideration.
- (ii) Necessary journal entries in the books of AB Ltd. (7 marks)

Answer 4(a)**Consolidated Balance Sheet of Hani Ltd. and its Subsidiary Sani Ltd.**

As on 31st March, 2019

<i>Particulars</i>	<i>Notes to Accounts</i>	<i>Amount Rs.</i>
I EQUITY AND LIABILITIES		
(1) Shareholder's Funds:		
(a) Share Capital 60000 Equity shares of Rs. 10 each		600000
(b) Reserves and Surplus		
(i) General Reserve	1	401200
(2) Minority Interest (W. No. 5)		49300
(3) Current Liabilities :		
Trade Payables	2	167000
Total		1217500

II ASSETS

(1) Non – Current Assets :		
(a) Fixed Assets		
(i) Tangible Assets	3	610500
(ii) Intangible Assets	4	24000
(2) Current Assets	5	583000
Total		1217500

Notes to Accounts

I. Reserves and Surplus	₹	₹
Reserves (W. No 3)	2,00,000	
Add : 4/5 share of Sani Ltd. post acquisition reserves (W. No. 3)	80000	2,80,000
Profit & loss A/c	100,000	
Add : 4/5 share of Sani Ltd. post acquisition reserves (W. No. 4)	21200	121200
Total		4,01,200
2. Trade payable		
Hani Ltd.	1,10,000	
Sani Ltd.	57,000	1,67000
3. Tangible Assets		
(a) Machinery		
Hani Ltd.	3,00,000	
Sani Ltd. (180000 x 100 / 90)	2,00,000	
	5,00,000	
Less : Decrease in Value (Sani Ltd.)	(50,000)	
Less : Depreciation (Sani Ltd. 150000 x 10/100)	(15000)	4,35,000
(b) Furniture		
Hani Ltd.	1,50,000	
Sani Ltd. (34000 x 100 / 85)	40,000	
	1,90,000	
Less : Decrease in Value (Sani Ltd.)	(10000)	
Less : Depreciation (Sani Ltd. 30000 x 15 / 100)	(4500)	1,75,500
Total		6,10,500
4. Intangible Assets		
Goodwill (W. No. 6)		24000
5. Current Assets		
Hani	4,40,000	
Sani	1,43,000	5,83000

Working Notes:

1. Pre-acquisition profits and reserves of Sani Ltd.	
Reserves	₹ 50,000
Profit	₹ 30,000
	<u>₹ 80,000</u>
Hani Ltd. Share (4/5*80000)	₹64000
Minority Interest (1/5 * 80000)	₹16000
2. Loss on revaluation of assets of Sani Ltd.	
Machinery (₹200000 - ₹150000)	= ₹50,000
Furniture (₹40000 - ₹30000)	= ₹10,000
	<u>= ₹60,000</u>
Hani Ltd.' Share (60000 * 4/5)	= ₹48,000
Minority Interest (60000 * 1/5)	= ₹12000
3. Post-acquisition reserves of Sani Ltd.	
(₹150000 - ₹50000)	= ₹100,000
Hani Ltd. Share (100000 * 4/5)	= ₹80000
Minority Interest (100000 * 1/5)	= ₹20,000
4. Post-acquisition profits of Sani Ltd.	
(₹50000 - ₹30000)	= ₹20,000
<i>Add</i> : Excess depreciation charged on	
Machinery @ 10% on ₹50000	= ₹5000
(₹ 200000-?150000)	
Furniture @15% on ₹10,000	=₹1500
(₹ 40000 - ₹30000)	₹26,500
Hani Ltd. Share (26500 * 4/5)	= ₹21200
Minority Interest (26500* 1/5)	= ₹5,300
5. Minority Interest	
Paid up value of Equity Share held	20000
<i>Add</i> : 1/5 Share of Pre-acquisition profit & reserves	16000
<i>Add</i> : 1/5 Share of Post-acquisition reserves	20000
<i>Add</i> : 1/5 Share of Post-acquisition profit	5300
<i>Less</i> : 1/5 Share of loss on revaluation of Assets	(12000)
Minority Interest	49300
6. Cost of Control or Goodwill	
Paid up value of Equity Share held by Hani Ltd.	80000
<i>Add</i> : 4/5 Share of Pre-acquisition profit & reserves of Sani Ltd.	64000

Less : 4/5 Share of loss on revaluation of Assets of Sani Ltd.	(48000)
Intrinsic Value of Share on the date of acquisition	96000
Less: Investment in share of Sani Ltd. by Hani Ltd.	(120000)
Goodwill	24000

Answer 4(b)**Calculation of Purchase Consideration**

- (i) For Shareholders of A Ltd. ₹
Equity shares = 60000 Shares * 6/5 * 10 = 720000
- (ii) For Shareholders of B Ltd.
Equity shares = 40000 share * 6/3*10 = 8,00,000

Journal Entries in the books of AB Ltd.

Date	Particulars	L.F.	Debit (Rs.) in Lakhs	Credit (Rs.) in Lakhs
31.03.19	Plant and Machinery A/c	Dr	9,20,000	
	Stock A/c	Dr	3,20,000	
	Receivable A/c	Dr	1,20,000	
	Cash and Bank A/c	Dr	2,40,000	
	To Debenture holders in A Ltd.			2,50,000
	To Trade Payable A/c			4,00,000
	To liquidator of A Ltd. A/c			7,20,000
	To Capital Reserve A/c (Balancing figure)			2,30,000
	(Being Assets and liabilities of A Ltd. Takeover)			
31.03.19	Liquidator of A Ltd.	Dr	7,20,000	
	To Equity Share Capital A/c			7,20,000
	(Issue of share to discharge purchase consideration)			
31.03.19	Goodwill A/c (Balance figure)	Dr	3,60,000	
	Plant and Machinery A/c	Dr	4,40,000	
	Stock A/c	Dr	3,60,000	
	Trade Receivable A/c	Dr	80,000	
	Cash and bank A/c	Dr	3,20,000	

	To Debenture holders in B Ltd. A/c		6,00,000
	To Trade Payables A/c		1,60,000
	To Liquidator of B Ltd.		8,00,000
	(Being Assets & liability of B Ltd. takeover)		
31.03.19	Liquidator of B Ltd.	Dr	800000
	To Equity Share Capital A/c		800000
	(Issue of share to discharge purchase consideration)		
31.03.19	Capital Reserve A/c	Dr	230000
	To Goodwill A/c		2,30,000
	(Being capital Reserve written off against goodwill)		
31.03.19	Debenture holders of A Ltd. A/c	Dr	250000
	Debenture holders & B Ltd A/c	Dr	600000
	To 8% Debenture A/c		8,50,000
	(Amount of debenture holders of A Ltd. and B Ltd. Satisfied by allotment of requisite number of debenture)		

PART B

Question 5

- Write a short note on 'Audit Testing'.
- What are the points to be considered while carrying out the internal control review of working environment, safety and security ?
- What is test checking ? What precautions to be taken by auditor while adopting the test checking in auditing ?
(5 marks each)

Answer 5(a)

An audit test is a procedure performed by either an external or internal auditor in order to assess the accuracy of various financial statement assertions. The two common categorizations of audit tests are substantive tests and tests of internal controls. Both types of tests are used in external and internal audits in order to reach established audit objectives, as can be outlined in audit checklists or determined based on the results of audit questionnaires. Audit tests typically are performed on a sample basis over an existing group of similar transactions. Sampling approaches can either be statistical or non-statistical, with the ultimate goal being to obtain the most representative sample of the population before testing begins.

A substantive audit test is a direct test that validates a financial statement balance, while internal control tests are focused on key controls, such as management reviews or standardized templates that are designed to prevent and detect material misstatements. Substantive testing often requires a large deal of recalculating, confirming, and vouching. For example, when an auditor substantively tests an inventory balance, the auditor will go to the on-site location of the inventory, run reports that list the amount of inventory stored on the premises, and physically count each inventory item on a sample basis. Using the same example under an internal control testing approach, an auditor would assess the systems generating the reports, consider the experience level of the personnel on the premises that manage the inventory, and review shipping and receiving documents for the appropriate sign-offs instead of counting the actual inventory on the premises.

Answer 5(b)

The following points to be considered while carrying out the internal control review of working environment, Safety and Security

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

Answer 5(c)

A representative number of entries of each class are selected and checked and if they are found correct, the remaining entries are taken to be correct. This is known as Test Checking. It is a system of sampling employed by the auditor for the purpose of reducing the volume of detailed checking involved in the audit.

Precautions To Be Taken - While adopting the test check, the auditor must take the following precautions:

1. Entries selected for test checking must be representative of all transactions.
2. The selection of the items should be at random.
3. It cannot be adopted in case of vouching the cash book.
4. Client's staff should not come to know of the entries selected for test checking.
5. Period selected for test checking should differ from book to book and year to year.

6. He should not adopt test checking where the law requires thorough audit.
7. A number of entries of the first and last month of the year must be checked thoroughly.
8. Test should be so devised that a sizeable portion of the work done by each employee is checked.
9. Control accounts or impersonal ledger should not be subject to test checking.
10. Auditor should select the test independently without regard to the suggestions of the member of the client's staff.
11. Bank statement and entries for cash withdrawal and cash deposits should be checked in full.

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

Question 6

- (a) Write a short notes on the following :
 - (i) Professional skepticism
 - (ii) Materiality in Auditing.
- (b) Explain the different stages of Audit in Depth.
- (c) What are the objectives of review of Sales and Distribution Policies and Programs of an Organization? (5 marks each)

OR (Alternative question to Q. No. 6)

Question 6A

- (i) H Ltd. intends to strengthen internal control of purchase operations. Draft a questionnaire with regard to segregation of duties related to purchases.
- (ii) You have been appointed as an auditor of XYZ Ltd. What steps you will follow in verification of Assets ? Explain.
- (iii) Differentiate between the 'Internal check system' and 'Internal audit'. (5 marks each)

Answer 6(a)

- (i) Professional Skepticism: Professional skepticism includes being alert to, for example;
 - (a) Audit evidence that contradicts other audit evidence obtained;
 - (b) Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence;
 - (c) Conditions that may indicate possible fraud;
 - (d) Circumstances that suggest the need for audit procedures in addition to those required by the SAs

(ii) *Materiality in Auditing:*

Materiality is a concept or convention within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy.

Materiality can be defined as the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

SA 320 “Materiality in Planning and Performing an Audit”, establishes standards on the concept of materiality and the relationship with audit risk while conducting an audit.

The auditor has to ensure that material items are properly and distinctly disclosed in the financial statements. The concept of materiality is fundamental to the process of accounting. It covers all the stages from recording to classification and presentation. It is very important for the auditor who has constantly to judge whether a particular item is material or not. There is an inverse relationship between materiality and the degree of audit risk. The higher the materiality level, the lower the audit risk and vice versa.

Answer 6(b)

Audit in depth as the name implies means checking a transaction extensively from Origin to end. It is an audit technique which is used to evaluate the effectiveness of internal control system in an organisation. It is used in investigation exercises whereby the objective is to thorough examination of transactions or records.

The different stages of Audit in depth are given below:

1. *Authorization of Purchase requisition* : Check whether the requisitions are pre-printed, pre-numbered and authorized. See whether the purchase requisition have been authorized by competent official.
2. *Issue of Request for quotation* : Check whether request for quotation have been issued or not. If not find the reasons of not issuing request for quotation. Check whether the requests for quotation have been issued to approved vendors.
3. *Issue of Purchase order* : Check whether purchase order have been issued or not. If purchase order have been issued check whether it has been issued from the competent authority. Check whether the purchase order have been issued to the approved vendor who has given lowest quote. If not check the reasons. Check whether the reasons of issuing the purchase order to a vendor other than the lowest bidder have been approved by the competent authority.
4. *Receipt of goods and entry of goods in store ledger* : check whether the goods receipt is as per specification given in the purchase order. If not check whether the deviations have been recorded and the communication has been made to the supplier or not. Check whether the goods receipt have been properly recorded in store ledger or not.
5. *Approval of payment of Supplier Invoice* : Check whether the amount has been approved by the competent authority.

6. *Payment of supplier invoice* : Check whether the supplier bill have been paid correctly. Check whether all deduction for short receipt of goods, late delivery of goods, inferior quality of goods, advance payment for the goods have been done or not.
7. *Accounting of Transaction* : Check whether accounting made is correct or not. Check whether correct expenses code have been debited or not. Check whether the applicable accounting standard have been complied with or not.

Answer 6(c)

The Objectives of review of sales and distribution policies and programs of an Organisation are as under:

1. To determine whether sales and distribution policies and programs are adequately documented
2. To determine whether sales and distribution policies and programs are approved by the appropriate authority.
3. To determine that sales and distribution policies are matching with the overall corporate objective.
4. To determine whether maker checker and approver concept exist in the framing, approval and implementation of policies.
5. To check whether the distribution program is able enough to serve customers of all regions.
6. Whether controls are in place in the process to ensure accountability is established as early as possible at all points along the accountability chain.
7. Whether segregation of duties, or mitigating controls, exists within transaction processing authorization, custody, and recording functions. Separation of duties exists between the various types of transaction processing (e.g., Discount approval, selection of mode of transportation. Accounts receivable etc).

Answer 6A(i)

Internal Control questionnaire for review of purchase operations with regard to segregation of duties:

1. Are the individuals responsible for the requisitioning/receiving and purchasing functions different from the individuals responsible for the invoice processing/ accounts payable, and budget monitoring/review?
2. Are the individuals responsible for the purchasing function different from the individuals responsible for the requisitioning/receiving functions?
3. Are the individuals responsible for the invoice processing/accounts payable functions different from the individuals responsible for the budget monitoring/ review functions?
4. Are the individuals responsible for the payment document creation and payment approval functions different from the individuals responsible for budget monitoring/ review?

5. Have individuals received training on the policy and procedures for the business functions they perform?
6. Have individuals received ERP system training (If ERP Exists) for the transactions they have been given security to perform?

Answer 6A(ii)

Verification of assets involves the following steps:

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

The scope of verification is wide and consequently verification is an important part of the auditor's duties. An auditor should put all his endeavour to satisfy himself whether a particular asset is shown in the Balance Sheet at proper value, whether the concern holds the title to the asset and the asset is in the sole possession of the concern and lastly whether the asset is free from any charge

Answer 6A(iii)

Difference between Internal Check System and Internal Audit

<i>Items</i>	<i>Internal check</i>	<i>Internal Audit</i>
1. Way of checking:	Work of one person is automatically checked by another	Work is checked by specially appointed / designated person
2. Cost Involvement	No additional cost since work is checked automatically by next level	Internal auditor are specially appointed and hence additional cost is involved
3. Thrust of system	Early detection of errors	Detect errors and fraud
4. Time of checking	Check is done when work is being done	Checking is done after work is done
5. Reporting	No report is prepared as it is a routine process corrective action.	Report is prepared and submitted to Board or Audit Committee for

CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

Attempt the following questions :

- (a) *A nationalized bank wishes to buy 91-days Treasury Bill on 11th October, 2018 which is maturing on 10th December, 2018. The rate quoted by seller is ₹98.543 per ₹100 face value. Calculate Yield to maturity (YTM).*
- (b) *Which are the important legislations governing the Capital Markets in India? Explain any four of them.*
- (c) *“The rating methodology for financial services companies is based on CAMELS model”. Elucidate.* (5 marks each)

Answer 1(a)

The yield of a Treasury Bill is calculated as per the following formula:

$$Y = (100 - P) \times 365 \times 100 / P \times D$$

Where, Y = Discounted Yield

P = Price

D = Days of maturity

The days of maturity of Treasury Bill are 60 days (October-21 days, November-30 days and December-9 days)

$$\text{Hence, YTM} = (\text{₹}100 - \text{₹}98.543) \times 365 \times 100 / (\text{₹}98.543 \times 60)$$

$$\text{YTM} = 53,180.50 / 5,912.58 = 8.99\%$$

Answer 1(b)

The important legislations governing the Capital Markets in India are:

(i) **SEBI Act, 1992**

SEBI Act, 1992 establishes SEBI with statutory powers for:

- (a) protecting the interests of investors in securities
- (b) promoting the development of the securities market
- (c) regulating the securities market
- (d) Conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act.

(ii) Securities Contracts (Regulation) Act, 1956

It provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities.

(iii) Depositories Act, 1996

It provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exceptions, (b) dematerializing the securities in the depository mode, (c) providing for maintenance of ownership records in a book entry form.

(iv) Companies Act, 2013

It envisages to strengthen the existing regulatory framework on Corporate Governance. It deals with issue, allotment and transfer of securities and various aspects relating to company management. It regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information.

Answer 1(c)

The rating methodology for financial services companies is based on CAMELS model encompassing Capital adequacy, Asset Quality, Management, Earning, Liquidity, System and Control.

The working group set up by RBI under the chairmanship of Shri S. Padmanabhan recommended that the banks should be rated on the lines of International CAMELS Model. The parameters recommended by the committee are:

- (i) *Capital Adequacy*: It is measured by the ratio of capital to risk-weighted assets. A sound capital base strengthens confidence of depositors.
- (ii) *Asset Quality*: One of the indicators for asset quality is the ratio of non-performing loans to total loans (GNPA). The gross non-performing loans to gross advances ratio is more indicative of the quality of credit decisions made by bankers. Higher GNPA is indicative of poor credit decision making.
- (iii) *Management*: The ratio of non-interest expenditures to total assets can be one of the measures to assess the working of management. This variable which includes a variety of expenses, such as payroll, workers compensation and training investment, reflects the management policy stance.
- (iv) *Earnings*: It can be measured as the return on asset ratio.
- (v) *Liquidity*: Cash maintained by the banks and balances with central bank, to total asset ratio is an indicator of banks liquidity. In general, banks with a larger volume of liquid assets are perceived safe, since these assets would allow banks to meet unexpected withdrawals.
- (vi) *Systems and Control*: The internal controls, other systems and procedures of banks are considered.

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

Explain the following:

- (a) *Market Abuse*
- (b) *Tracking Stocks*
- (c) *Clip and Strip Bond*
- (d) *Fund of Funds Scheme and its classification*
- (e) *Classification of scrip traded on BSE.* (3 marks each)

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

- (i) *“Angel fund shall only raise funds by way of issue of units to angel investor”. Comment and mention the investment by an Angel fund.*
- (ii) *Who are the investors in Debt market? Explain briefly any five.*
- (iii) *“No Credit Rating Agency shall rate a security issued by its own promoters”. Do you agree?* (5 marks each)

Answer 2(a)**Market Abuse**

Market abuse is a broad term which includes abnormal price/volume movement, artificial transactions, false or misleading impressions, insider trading etc. The department uses various tools to determine normal and abnormal market behaviour. The necessary actions are initiated like imposition of special margin, reduction of circuit filters, trade to trade settlement, suspensions, de-activation of terminals etc. to control abnormal market behaviour. The department carries out investigation, if necessary, based on the preliminary examination/analysis and suitable actions are taken against members involved based on the investigation.

Answer 2(b)**Tracking Stocks**

A tracking stock is a type of common stock issued by a publicly held company to track the value of one segment of that company. These stocks track the financial performance of a specific business unit or operating division of a company, rather than the operations of the company as a whole. Tracking stocks are generally issued by a parent company in order to create a financial vehicle that tracks the performance of a particular division or subsidiary. When a parent company issues a tracking stock, all revenues and expenses of applicable division are separated from parent company's financial statements and bound to the tracking stock. Often this is done to separate a high-growth division from large losses shown by the financial statements of the parent company. The parent company and its shareholders, however still control operations of the subsidiary.

These stocks carry dividend rights tied to the performance of a targeted division without transferring ownership or control over divisional assets.

Answer 2(c)

Clip and Strip Bond

Clip and strip bond also referred to as coupon notes, split the principal and coupon portions of a bond issue and two separate coupon instruments are sold to the investors.

In structuring a coupon note issue, a conventional current coupon bond is sold to the investor. The streams of coupon payments are stripped away and the principal amount of bond is sold as deep discount bond. The gain to the investor is difference between the purchase price and the par value. The coupon streams are sold like zero coupon bonds where the investor pays discount for it and receives the payment at a low rate.

Answer 2(d)

Fund of Funds Scheme and its classification

Fund of Funds is a mutual fund scheme, which invests in the schemes of same mutual funds or other mutual funds, instead of investing in securities. These funds can invest in equity oriented, debt oriented and liquid schemes or sector specific schemes.

Depending on the investment style of the fund managers, fund of funds schemes can be broadly classified into:

Sector specific funds : Such type of funds invest in different sectors of the economy and thus hedge themselves against the underperformance of any sector by taking the advantage from the rise in another sector.

Asset allocation funds : These funds diversify investment by holding several different asset classes at the same time. By varying the stocks to bonds proportion, the fund endeavours to endow the investors, with an appropriate asset allocation in different stages of their lives. They are also known as life cycle funds.

Answer 2(e)

Classification of scrip traded on BSE

The scrips traded on BSE have been classified into various groups:

For the guidance and benefits of the investors, BSE has classified the scrips in the Equity segment into A, B, F, G, T, Z groups on certain qualitative and quantitative parameters;

- The A Group is the most tracked class of scrips consisting of about 200 scrips. Market capitalization is one key factor in deciding which scrip should be classified in Group A.
- The B Group represents two scrips 'B1' which consists of scrips relatively liquid and with good track record. 'B2' which consists of scrips with comparatively low liquidity.

- The F group represents the fixed income securities.
- The G group represents trading in Government Securities by the retail investors.
- The T group represents scrips which are settled on a trade to trade basis as a surveillance measure.
- The Z group includes companies which have failed to comply with its listing requirements and/or have failed to resolve investor complaints and/or have not made the required arrangements with the depositories for dematerialization of their securities.

Answer 2A(i)

Angel funds shall only raise funds by way of issue of units to angel investors. An angel fund shall have a corpus of at least five crore rupees. Angel funds shall accept, up to a maximum period of five years, an investment of not less than twenty five lakh rupees from an angel investor.

Angel fund shall raise funds through private placement by issue of information memorandum or placement memorandum, by whatever name called. However, the provisions of the Companies Act, 2013 shall apply to the Angel Fund, if it is formed as a company.

Investment by Angel Funds

- (i) Angel funds shall invest in venture capital undertakings which:
 - (a) Complies with the criteria regarding the age of the venture capital undertaking/ start-up issued by the Department of Industrial Policy and Promotion under the Ministry of Commerce and Industry and such other Policy made in this regard which may be in force.
 - (b) have a turnover of less than twenty five crore rupees;
 - (c) are not promoted or sponsored by or related to an industrial group whose group turnover exceeds three hundred crore rupees; and
 - (d) are not companies with family connection with any of the angel investors who are investing in the company
- (ii) Investment by an angel fund in any venture capital undertaking shall not be less than twenty five lakh rupees and shall not exceed ten crores rupees.
- (iii) Investment by an angel fund in the venture capital undertaking shall be locked-in for a period of one year.
- (iv) Angel fund shall not invest in associates.
- (v) Angel funds shall not invest more than twenty-five per cent of the total investments under all its schemes in one venture capital undertaking.
- (vi) An angel fund may also invest in the securities of companies incorporated outside India subject to such conditions or guidelines that may be stipulated or issued by the RBI and SEBI from time to time.

Answer 2A(ii)

Trustees are the entities who invest in fixed income instruments:

- i. *Banks* : Collectively all the banks put together are the largest investors in the debt market. They invest in all instruments ranging from T-Bills, CPs and CDs to GOISECs, private sector debentures etc. Banks lend to corporate sector directly by way of loans and advances and also invest in debentures issued by the private corporate sector and in PSU bonds.
- ii. *Insurance Companies* : The second largest category of investors in the debt market are the insurance companies.
- iii. *Provident Funds* : Provident funds are estimated to be the third largest investors in the debt market. Most of the provident funds are very safety oriented and tend to give much more weightage to investment in government securities although they have been considerable investors in PSU bonds as well as state government backed issues
- iv. *Mutual Funds* : Mutual Funds represent an extremely important category of investors. World over, they have almost surpassed banks as the largest direct collector of primary savings from retail investors. Mutual Funds include UTI, the mutual funds set up by nationalized banks, and insurance companies and overseas mutual fund companies.
- v. *Trusts* : Trusts include religious and charitable trusts as well as statutory trusts formed by the government and quasi-government bodies.
- vi. *Corporate Treasuries* : These have become prominent investors in the recent past. The corporate treasuries can be public sector units or private sector companies or any other government bodies or agencies.
- vii. *Foreign Portfolio Investors* : These investors have to be specifically and separately approved by SEBI for equity and debt. Each FPI is allocated a limit every year up to which it can invest in Indian debt securities,
- viii. *Retail Investors* : Retail investors are permitted submit non-competitive bids at primary auction through any bank or primary dealers.

Answer 2A(iii)

Credit rating agency shall not rate a security issued by its promoter. In case promoter is a lending institution, its chairman, director or employee shall not be a chairman, director or employee of a credit rating agency or its rating committee. No credit rating agency shall rate a security issued by an entity, which is a borrower or its promoter or a subsidiary of its promoter or an associate of its promoter, if there are common chairman, directors between credit rating agency and these entities, there are common employees, there are common chairman, Directors, Employees on the rating committee. No credit rating agency shall rate a security issued by its associate or subsidiary, if the credit rating agency or its rating committee has a chairman, director or employee who is also a chairman, director or employee of any such entity.

However, the Credit Rating Agency may rate a security issued by its associate having a common independent director with it or rating committee if,

- i. such an independent director does not participate in the discussion on rating decisions, and
- ii. the Credit Rating Agency makes a disclosure in the rating announcement of such associate (about the existence of common independent director) on its Board or of its rating committee, and that the common independent director did not participate in the rating process or in the meeting of its Board of Directors or in the meeting of the rating committee, when the securities rating of such associate was discussed.

Question 3

- (a) *What are the investment conditions for all categories of Alternative Investment Funds ?*
- (b) *IPO Grading, which has been made optional now, is different from an Investment Recommendation. Comment.*
- (c) *“The Trustees of a mutual fund are the custodians of the assets”. Briefly state the specific due diligence exercise to be carried out by the Trustees.*
(5 marks each)

Answer 3(a)

Investment in all categories of Alternative Investment Funds (AIFs) shall be subject to the following conditions:

- (i) The Alternative Investment Fund may raise funds from any investor whether Indian, foreign or non-resident Indians by way of issues of units;
- (ii) Each scheme of the Alternative Investment Fund shall have corpus of at least ₹20 crores;
- (iii) The Alternative Investment Fund shall not accept from an investor, an investment of value less than ₹1 crore. In case of investors who are employees or directors of the Alternative Investment Funds or employees or directors of the Manager, the minimum value of investment shall be ₹25 lakhs;
- (iv) The Manager or Sponsor shall have a continuing interest in the Alternative Investment Fund of not less than two and half percent of the corpus or ₹5 crores, whichever is lower, in the form of investment in the Alternative Investment Fund and such interest shall not be through the waiver of management fees. However, for category III Alternative Investment Fund, the continuing interest shall be not less than five percent of the corpus or ₹10 crores, whichever is lower;
- (v) The Manager or Sponsor shall disclose their investment in the Alternative Investment Fund to the investors of the Alternative Investment Fund.
- (vi) No scheme of the Alternative Investment Fund shall have more than 1000 investors;
- (vii) The fund shall not solicit or collect funds except by way of private placement.

Answer 3(b)

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

IPO grading is different from an investment recommendation. Investment recommendations are expressed as 'buy', 'hold' or 'sell' and are based on a security specific comparison of its assessed 'fundamentals factors' (business prospects, financial position etc.) and 'market factors' (liquidity, demand, supply etc.) to its price. On the other hand, IPO grading is expressed on a five point scale and is a relative comparison of the assessed fundamentals of the graded issue to other listed equity securities in India.

As the IPO grading does not take cognizance of the price of the security, it is not an investment recommendation. Rather it is one of the inputs to the investors to aiding in the decision making process.

Answer 3(c)

The trustees shall exercise specific due diligence as under:

1. Obtain internal audit reports at regular intervals from independent auditors appointed by the trustees
2. Obtain compliance certificate at regular intervals from the asset management company
3. Hold meeting of trustees more frequently
4. Consider the reports of the independent auditor and compliance reports of asset management company at the meetings of trustees for appropriate action
5. Maintain records of the decisions of the trustees at their meetings and of the minutes of the meetings
6. Prescribe and adhere to a code of ethics by the trustees, Asset Management Company and its personnel
7. Communicate in writing to the asset management company of the deficiencies and checking on the rectification of deficiencies.

Question 4

- (a) *"A foreign portfolio investor shall invest only in certain securities". List out such securities.* (8 marks)
- (b) *What do you mean by Indian Depository Receipt? State the eligibility criterion and conditions for issue of Indian Depository Receipt under SEBI regulations.* (7 marks)

Answer 4(a)

A foreign portfolio investor shall invest only in the following securities, namely-

- a) shares, debentures and warrants issued by a body corporate; listed or to be listed on a recognized stock exchange in India
- b) units of schemes launched by mutual funds under SEBI (Mutual Fund) Regulations, 1996
- c) units of schemes floated by a Collective Investment Scheme in accordance with the Securities and Exchange Board of India (Collective Investment Schemes) Regulations, 1999
- d) derivatives traded on a recognized stock exchange
- e) units of real estate investment trusts, infrastructure investment trusts and units of Category III Alternative Investment Funds registered with the Board
- f) Indian Depository Receipts
- g) any debt securities or other instruments as permitted by the Reserve Bank of India for foreign portfolio investors to invest in from time to time, and
- h) such other instruments as specified by the Board from time to time.

Answer 4(b)

Indian Depository Receipts (IDRs) means any instruments in the form of a depository receipt created by Domestic Depository in India against the underlying equity shares of issuing company.

Domestic Depository means custodian of securities registered with SEBI and authorized by the issuing company to issue Indian Depository Receipts.

Eligibility as per SEBI Regulations

An issuing company making an issue of IDR shall satisfy the following:

- a. the issuing company is listed in its home country for at least three immediately preceding years
- b. the issuing company is not prohibited to issue securities by any regulatory body
- c. the issuing company has track record of compliance with securities market regulations in its home country
- d. any of its promoters or directors is not a fugitive economic offender.

Conditions for issue of IDR as per SEBI Regulations

The issue of IDR shall be subject to the following conditions:

- a) issue size shall not be less than fifty crore rupees;
- b) at any given time, there shall be only one denomination of IDRs of the issuer.
- c) issuer shall ensure that the underlying equity shares against which IDRs are

issued have been or will be listed in its home country before listing of IDRs in stock exchange(s).

- d) issuer shall ensure that the underlying shares of IDRs shall rank pari passu with the existing shares of the same class.

The issuer shall ensure that:

- a) it has made an application to one or more stock exchanges to seek an in-principle approval for listing of the IDRs on such stock exchanges and has chosen one of them as the designated stock exchange
- b) it has entered into an agreement with a depository for dematerialisation of the IDRs proposed to be issued
- c) it has made firm arrangements of finance through verifiable means towards 75% of the stated means of finance for the project proposed to be funded from issue proceeds, excluding the amount to be raised through the proposed issue of IDRs or through existing identifiable internal accruals, have been made.

PART B

Question 5

Comment on the following:

- (a) *Once delisted, a company can not be listed again*
- (b) *Corporate Governance is looked upon as a distinctive brand and benchmark in the profile of Corporate Excellence*
- (c) *SEBI powers to amend the bye-laws of a recognized stock exchange is unlimited*
- (d) *Private placement*
- (e) *Ready Delivery Contracts mean immediate delivery.* (4 marks each)

Answer 5(a)

An application for listing shall not be made in respect of any equity shares:

- i. Which have been delisted under voluntary delisting or by operation of law except delisting of small companies, for a period of five years from the delisting
- ii. Which have been delisted under compulsory delisting, for a period of ten years from the delisting

However, this shall not be applicable where a recommendation for listing has been made by SEBI for Industrial and Financial Reconstruction under the Sick Industrial Companies (Special Provisions) Act, 1985.

While considering an application for listing of any equity shares which had been delisted the recognized stock exchange shall have due regard to facts and circumstances under which delisting was made.

An application for listing made in respect of delisted equity shares shall be deemed to be an application for fresh listing of such equity shares and shall be subject to provisions of law relating to listing of equity shares of unlisted companies.

Answer 5(b)

Corporate Governance is looked upon as a distinctive brand and benchmark in the profile of Corporate Excellence. This is evident from the continuous amendments/modifications of guidelines, rules and regulations by SEBI for ensuring transparency and accountability. In the process, SEBI had constituted a Committee on Corporate Governance under the Chairmanship of Kumar Mangalam Birla. The Committee in its report observed that “the strong Corporate Governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure.

Based on the recommendation of the Committee, the SEBI had specified principles of Corporate Governance and introduced a new clause 49 in the Listing agreement of the Stock Exchanges in the year 2000. SEBI notified the Listing Regulations with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 replacing the earlier listing agreement.

The Companies Act, 2013 which provides for a major overhaul in the Corporate Governance norms for all companies. Further as a good governance initiative and with a view to consolidate and streamline the provisions of listing agreement of the capital market and to align the provisions relating to listed entities with the Companies Act, 2013.

Answer 5(c)

SEBI may, either on a request in writing received by it in this behalf from the governing body of a recognized stock exchange or on its motion, if is satisfied after consultation with the governing body of the stock exchange that it is necessary or expedient so to do and after recording its reasons for so doing make or amend any bye-laws made by such stock exchange.

Where, any bye-laws have been made or amended, the bye laws so made or amended shall be published in the Gazette of India and also in the official Gazette of State in which the principal office of the recognised stock exchange is situated and, on the publication thereof in the Gazette of India, the bye laws so made or amended shall have effect as if they had been made or amended by the recognized stock exchange concerned.

Where the governing body of a recognized stock exchange objects to any bye-laws made or amended by the SEBI on its motion, it may, within two months of the publication thereof in the gazette of India apply to SEBI for revision thereof and SEBI may, after giving an opportunity to the governing body of the stock exchange to be heard in the matter, revise the bye-laws so made or amended, and where any bye-laws so made or amended and are revised as a result of any action taken, shall be published and will become effective as prescribed.

The making or the amendment or revision of any bye-laws shall in all cases be subject to the condition of previous publication. However, if SEBI is satisfied in any case that in the interest of the trade or in public interest any bye-laws should be made, amended or revised immediately, it may, by order, in writing specifying the reasons thereof, dispense with the condition of previous publication.

Answer 5(d)

Private placement or preferential issue means an issue of specified securities by a listed issuer to any select person or group of persons on a private placement basis and does not include an offer of specified securities made through employee stock option scheme, employee stock purchase scheme or an issue of sweat equity shares or depository receipts issued in a country outside India or foreign securities.

Preferential issue means issuance of equity shares to promoter group or selected investors. It covers allotment of fully convertible debentures, partly convertible debentures or any other financial instruments that could be converted into equity shares at a later date. The investors could be institutional investors, private equity investors, high net-worth individuals, or companies.

One of the biggest advantages of a preferential issue is that the company can raise money quickly and cheaply compared with other means of raising money, say IPO or issue of shares on a rights basis. On the other hand, preferential issues and private placement is only for selected class of investors and not for the retail investors. It is like a wholesale market, where institutions with financial clout are allowed to participate. This deprives investment opportunity to the retail investors.

Answer 5(e)

Ready Delivery Contract means a contract which provides for the delivery of goods and the payment of a price therefore, either immediately, or within such period not exceeding eleven days after the date of the contract and subject to such conditions as the Central Government may, by notification in the Official Gazette, specify in respect of any goods, the period under such contract not being capable of extension by the mutual consent of the parties thereto or otherwise,

However, where any such contract is performed either wholly or in part:

- i) by realization of any sum of money being the difference between the contract rate and the settlement rate or clearing rate or the rate of any offsetting contract;
- ii) by any other means whatsoever, and as a result of which the actual tendering of the goods covered by the contract or payment of the full price therefore is dispensed with, then such contract shall not be deemed to be a ready delivery contract.

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

Question 6

- (a) *“Research Analysts analyze the published data of companies and industries and make forecast or recommendations about whether to buy, hold or sell securities”. Elucidate the same in the light of SEBI (Research Analyst) Regulations, 2014.*
- (b) *What is Escrow account under SEBI Takeover Regulations ? How the amount can be released from this account ?*
- (c) *Who can make a request for Informal Guidance under SEBI Scheme ? Can this request be given confidential treatment under the Scheme ?*

- (d) *What is the mandatory open offer and its effect on incremental voting rights in case of fresh issue ?* (5 marks each)

OR (Alternate question to Q. No. 6)

Question 6A

Write notes on the following:

- (i) *Obligations of intermediaries under Prevention of Money Laundering Act, 2002.*
- (ii) *Obligations of the Acquirer under SEBI Takeover Code.*
- (iii) *Code of Conduct under Insider Trading Regulations.*
- (iv) *SARAL (Depository)*
- (v) *Wind-down Plan.* (4 marks each)

Answer 6(a)

Research Analysts analyse information to provide recommendations about investments in securities to their clients. Investors often view analysts as experts and important sources of information about the securities they review and often rely on their advice. There are three broad type of analysts:

- *Sell-side analysts* : They typically publish research reports on the securities of companies or industries that they cover. These research reports carry specific recommendations, such as recommendation to buy, hold or sell the subject security. It also includes the analyst's expectation of the future price performance of the security ("price target").
- *Buy-side analysts* : They generally work for money managers like mutual funds, hedge funds, pension funds, or portfolio managers that purchase and sell securities for their own investment accounts or on behalf of others. Research reports of these analysts are generally circulated among the top management of the employer firms as these reports contain advice about securities to buy, hold or sell.
- *Independent Analysts* : They work for research originators or boutiques firms that are legal entities separate from full service investment firm and sell their research to others on a subscription or other basis.

The activities of Research Analyst in India are governed by SEBI (Research Analysts) Regulations, 2014.

Answer 6(b)

Escrow Account : Not later than two working days prior to the date of the detailed public statement of the open offer for acquiring shares, the acquirer shall create an escrow account towards security for performance of his obligations and deposit such amount as may be prescribed in the Takeover Regulations.

The following are the conditions of releasing amount from ESCROW account:

1. In case of withdrawal of offer, the entire amount can be released only after certification by the manager to the open offer.

2. The amount deposited in ESCROW account is transferred to special bank account opened with the bankers to an issue, however the amount so transferred shall not exceed 90% of the cash deposit;
3. The balance 10% is released to the acquirer on the expiry of thirty days from the completion of all obligations under the offer;
4. The entire amount to the acquirer on the expiry of thirty days from the completion of all obligations under the offer where the open offer is for exchange of shares or other secured instruments;
5. In the event of forfeiture of amount, the entire amount is distributed in the following manner:
 - One third of the amount to target company
 - One third of the ESCROW account to the Investor Protection and Education Fund established under SEBI (Investor Protection and Education Fund) Regulations, 2009.
 - Residual one-third is to be distributed to the shareholders who have tendered their shares in the offer.

Answer 6(c)

The following persons may make a request for informal guidance under the scheme:

- Any intermediary registered with SEBI.
- Any listed company.
- Any company which intends to get any of its securities listed and which has filed either a listing application with any stock exchange or a draft offer document with the Board or the Central listing authority.
- Any mutual fund trustee company or asset management company.
- Any acquirer or prospective acquirer under the SEBI (SAST) Regulations, 2011.

Any person submitting letter or written communication under SEBI Scheme, may request that it receives confidential treatment for a specified period of time not exceeding 90 days from the date of the Department's response. The request shall include a statement of the basis for confidential treatment. If the department determines to grant the request, the letter or written communication will not be available to the public until the expiration of the specified period. If it appears to the department that the request for confidential treatment should be denied, the requestor will be so advised and such person may withdraw the letter or written communication within 30 days of the receipt of advise, in which case the fee, if any, paid by him would be refunded to him. If the request is of such kind in which requestor has no direct or proximate interest, has and request has been withdrawn, no response will be given and the letter or written communication will remain with the SEBI but will not be made available to the public. If the letter or written communication is not withdrawn, it shall be available to the public together with any written staff response.

Answer 6(d)

SEBI Takeover Regulations, 2011 provides a threshold for mandatory Open Offer. The regulations provides that whenever an acquirer acquires the shares in excess of the threshold as prescribed under regulation 3 and 4 of SEBI Takeover Regulations, 2011, then the acquirer is required to make a public announcement of offer to the shareholders of the Target Company.

Incremental voting rights in case of fresh issue

In case of acquisition of shares by way of issue of new shares by the target company, the difference between pre-allotment and the post allotment percentage voting rights shall be regarded as the quantum of additional acquisition. [Regulation 3(2)]

The Individual acquirer shareholding shall also be considered for determining the Open Offer Trigger Point apart from consolidated shareholding of Acquirer and Persons Acting in Concert. Nothing contained in this regulation shall apply to acquisition of shares or voting rights of a company by the promoters or shareholders in control, in terms of the provisions of Chapter VI-A of SEBI (ICDR) Regulations, 2009. [Regulation 3(4)]

Regulation 4 of the SEBI Takeover Regulations, 2011 specifies that if any acquirer including person acting in concert acquires control over the Target company irrespective of the fact whether there has been any acquisition of shares or not, then he has to give public announcement to acquire shares from shareholders of the Target Company. [Regulation 4]

Answer 6A(i)**Obligations of intermediaries under Prevention of Money Laundering Act, 2002**

Chapter IV of the PMLA 2002 deals with Obligations of Banking Companies, Financial Institutions and Intermediaries. Every Banking Company, financial institution and intermediary shall:

- i. Every intermediary have to maintain a record of all transactions covered as per the nature and value of which may be prescribed, in such manner as to enable it to reconstruct individual transactions;
- ii. They shall furnish to the Director (FIU) within such time as may be prescribed information relating to such transactions, whether attempted or executed, the nature and value of which may be prescribed;
- iii. They shall verify the identity of its clients in such manner and subject to such conditions as may be prescribed;
- iv. They shall identify the beneficial owner, if any, of such of its clients, as may be prescribed;
- v. They shall maintain record of documents evidencing identity of its clients and beneficial owners as well as account files and business correspondence relating to its clients for a period of five years in case of record and information relating to transactions; and
- vi. They shall maintain the same for a period of five years after the business

relationship between a client and the reporting entity has ended or the account has been closed, whichever is later.

Answer 6A(ii)

Obligations of the Acquirer under SEBI Takeover Code

- i. Prior to making the public announcement of an open offer for acquiring shares under the regulations, the acquirer shall ensure that firm financial arrangements have been made for fulfilling the payment obligations under the open offer and that the acquirer is able to implement the open offer, subject to any statutory approvals for the open offer that may be necessary.
- ii. In the event the acquirer has not declared an intention in the detailed public statement and the letter of offer to alienate any material assets of the target company or of any of its subsidiaries whether by way of sale, lease, encumbrance or otherwise outside the ordinary course of business, the acquirer, where he has acquired control over the target company, shall be debarred from causing such alienation for a period of two years after the offer period.
- iii. The acquirer shall ensure that the contents of the public announcement, the detailed public statement, the letter of offer and post offer advertisement are true, fair and adequate in all material aspects and not misleading in any material particular, and are based on reliable sources, and state the source wherever necessary.
- iv. The acquirer and persons acting in concert with him shall not sell shares of the target company held by them, during the offer period.
- v. The acquirer and persons acting in concert with him shall be jointly and severally responsible for fulfilment of applicable obligations under these regulations.

Answer 6A(iii)

Code of Conduct under Insider Trading Regulations

The board of directors of every listed company and the board of directors or head(s) of the organisation of every intermediary shall ensure that the chief executive officer or managing director shall formulate a code of conduct with their approval to regulate, monitor and report trading by its designated persons and immediate relatives of designated persons towards achieving compliance with SEBI Insider Trading Regulations, adopting the minimum set out standards as per regulations.

The board of directors or head(s) of the organisation, of every other person who is required to handle unpublished price sensitive information in the course of business operations shall formulate a code of conduct to regulate, monitor and report trading by their designated persons and immediate relative of designated persons towards achieving compliance with Insider Trading regulations, adopting the minimum set out standards as per regulations.

Every listed company, intermediary and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under Insider Trading regulations.

Answer 6A(iv)**SARAL (Depository)**

SEBI has provided for opening of SARAL account for resident individuals. An individual investors can open a trading account and demat account by filling up a Simplified Account Opening Form (AOF) termed as 'SARAL AOF' and will also have the option to obtain other facilities whenever they require, on furnishing of additional information as per prescribed regulations/circulars. Individual investor may submit only one documentary proof of address (either residence/correspondence or permanent) while opening a trading account and / or demat account or while undergoing updation.

Answer 6A(v)**Wind-down plan**

Wind-down plan means a process or plan of action employed, for transfer of the beneficial owner accounts and other operational powers of the depository to an alternative institution that would take over the operations of the depository in scenarios such as erosion of net worth of the depository or its insolvency or its inability to provide critical depository operations or services.

Every depository shall devise and maintain a wind-down plan in accordance with guidelines specified by SEBI.

INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

PART A

1. The Apprentices Act, 1961 was amended in with the objective of expanding the apprenticeship opportunities for youth.
 - (A) 2010
 - (B) 2014
 - (C) 2015
 - (D) 2016
2. Every employer shall have the following obligations in relation to an apprentice under the Apprentices Act, 1961 namely :
 - (A) To provide the apprentice with the training in his trade
 - (B) If the employer himself is not qualified in the trade, to ensure that a person who possess the prescribed qualification is placed incharge of the training of apprentice.
 - (C) To carry out his obligations under the contract of apprenticeship
 - (D) All of the above
3. As per VII Schedule of the Constitution of India 'Labour' is a subject in the :
 - (A) Union List
 - (B) State List
 - (C) Concurrent List
 - (D) All of the above
4. Which one of the following statements is incorrect with regard to benefits of Labour Audit?
 - (A) Introduction of Labour Audit will boost the morale of the workers to a large extent
 - (B) It will secure timely payment of wages, gratuity, bonus, overtime, compensation etc. of the workers
 - (C) Timely payment of entitlements will increase absenteeism in the organization
 - (D) It will increase their social security

5. Which one of the following is included within the definition of 'Factory' under the Factories Act, 1948 ?
 - (A) Mine
 - (B) Railway running shed
 - (C) Hotel, restaurants or eating place
 - (D) None of the above
6. Which one of the following matters is not under the jurisdiction of the Commissioner as per the Employees Compensation Act, 1923 ?
 - (A) Liability of any person to pay compensation
 - (B) Appointment of substitute employee
 - (C) The nature and extent of disablement
 - (D) The amount or duration of compensation
7. Section 20 of the Employees Compensation Act, 1923 lays down the provisions for appointment of Commissioners. Which of the following statements is incorrect in this respect?
 - (A) The State Government may appoint any person who is or has been a member of State Judicial Service with not less than 5 years experience
 - (B) Any person who is or has been advocate for not less than 5 years
 - (C) Any person who is or has been pleader for not less than 5 years
 - (D) None of the above
8. Which one of the following statements is not related to the Employees State Insurance Act, 1948 ?
 - (A) It provides an integrated need based social insurance
 - (B) It protects the interest of workers in contingencies
 - (C) It guarantees reasonably good medical care to workers
 - (D) It does not protect the wages
9. Which one of the following is a "Manufacturing Process" under the provisions of Factories Act, 1948 ?
 - (A) Receiving products in bulk packaging and packaging as per client's requirements
 - (B) Exhibition of films process
 - (C) Industrial school or the Institute imparting training
 - (D) Receiving of news from various sources on a reel in a teleprinter of a newspaper office

10. Which of the following is empowered to appoint Inquiry Committee under section 41D of the Factories Act, 1948?
 - (A) State Government
 - (B) Central Government
 - (C) High Court
 - (D) Supreme Court
11. Under the Factories Act, 1948 where more than workers are ordinarily employed in a factory, an ambulance room should be provided.
 - (A) 500
 - (B) 400
 - (C) 300
 - (D) None of the above
12. Which one of the following is not included in the list of industries involving Hazardous Processes under the First Schedule of the Factories Act, 1948 ?
 - (A) Power generating industries
 - (B) Extraction of oils and fats from vegetable and animal sources
 - (C) Grinding or glazing of metals
 - (D) Milk processing industries including manufacture of milk powder
13. Section 3(3) of the Minimum Wages Act, 1948 provides that minimum rates of wages may be fixed for :
 - (A) Different localities
 - (B) Different classes of work in the same schedule employment
 - (C) Adults, adolescents, children and apprentices
 - (D) All of the above
14. "Principal Employer" under the Employees' State Insurance Act, 1948 means :
 - (A) In a factory, owner or occupier of the factory
 - (B) In any establishment under the control of any department of any Government in India, the authority appointed by such Government in this behalf or where no authority is so appointed, the Head of the Department
 - (C) In any other establishment, any person responsible for the supervision and control of establishment
 - (D) All of the above

15. Which of the following schemes have not been framed under the Employees Provident Funds and Miscellaneous Provisions Act, 1952 ?
- (A) Employees' Provident Fund Scheme, 1952
 - (B) The Employees Pension Scheme, 1955
 - (C) The Employees Gratuity Scheme, 1992
 - (D) The Employees' Deposit Linked Insurance Scheme, 1976
16. Which one of the following is not a ground for disqualification from receiving bonus under the Payment of Bonus Act, 1965 ?
- (A) Fraud
 - (B) Theft, misappropriation or sabotage of any property of the establishment
 - (C) Flouting of instruction or order issued by a Manager of Factory
 - (D) Riotous or violent behavior while on the premises or the establishment
17. What is the maximum limit of wages or salary of an employee, to be entitled to receive bonus under the Payment of Bonus Act, 1965 :
- (A) ₹10,000 per month
 - (B) ₹15,000 per month
 - (C) ₹18,000 per month
 - (D) ₹21,000 per month
18. Which one of the following statements is incorrect with reference to Trade Unions under the Trade Union Act, 1926 ?
- (A) Trade Union is a voluntary organisation of workers pertaining to a particular trade or industry
 - (B) Trade Unions are most suitable organizations for balancing and improving the relations between employer and employees
 - (C) Trade Unions are formed to create threat against employer
 - (D) Trade Unions are formed to inculcate among workers the sense of discipline
19. Within how many days the employer must pay gratuity to an eligible employee or his or her nominee in case of death, from the date the gratuity becomes payable ? If failed to pay within such period, what is the rate of interest to be paid by the employer for such delayed period ?
- (A) 30 days and simple interest @ 10% p.a. for delay
 - (B) 30 days and compound interest @ 10% p.a. for delay
 - (C) 45 days and simple interest @ 10% p.a. for delay
 - (D) 45 days and compound interest @ 10% p.a. for delay

20. With the insertion of Article 21-A in the Constitution of India, the State has been entrusted with the task of providing free and compulsory education to all the children in the age group of
- (A) 5-14 years
 - (B) 6-14 years
 - (C) 8-15 years
 - (D) 10-16 years
21. Section 15 of the Contract Labour (Regulation and Abolition) Act, 1970 makes provisions for appeals against orders relating to grant of registration to establishments, revocation of registration and revocation/ suspension of licenses, which may be filed within :
- (A) 30 days
 - (B) 45 days
 - (C) 60 days
 - (D) 90 days
22. The Industrial Employment (Standing Order) Act, 1946 applies to every industrial establishment wherein or more workmen are employed or were employed on any day during the preceding months. No. : Months
- (A) 100; 9
 - (B) 250; 12
 - (C) 250; 9
 - (D) 100; 12
23. Which one of the following is not an 'Industry' as decided by the Honourable Supreme Court in Bangalore Water Supply case relating to Industrial Disputes Act, 1947 ?
- (A) Ahmedabad Textile Industries Research Association
 - (B) Indian Standard Institute
 - (C) Tocklai Experimental Station
 - (D) Physical Research Laboratory Ahmedabad
24. 'Lay off' means the failure, refusal or inability of an employer to give employment due to following reasons in Industrial Disputes Act, 1947.
- Choose incorrect reasons:
- (A) Accumulation of stocks
 - (B) Natural Calamity
 - (C) Break-down of machinery
 - (D) Financial Difficulty

25. Which one of the following is not a matter within the jurisdiction of Labour Court as laid down in the Second Schedule of the Industrial Disputes Act, 1947 ?
- (A) Rules of discipline
 - (B) The propriety or legality of an order passed by an employer under standing orders
 - (C) Withdrawal of any customary concession or privilege
 - (D) Illegality or otherwise of a strike or lockout
26. Under Section 5 of the Industrial Employment (Standing Orders) Act, 1946 a copy of the certified standing order will be sent to both employer and employees association within days of the certification.
- (A) seven
 - (B) ten
 - (C) fourteen
 - (D) twenty one
27. Which among the following does not form part of 'Wages' under the Employees' State Insurance Act, 1948 ?
- (A) All remuneration paid or payable in cash to an employee
 - (B) Any payment to an employee in respect of any 'lay-off'
 - (C) Other additional remuneration if any, paid at intervals not exceeding two months
 - (D) Any contribution paid by the employer to any pension fund or provident fund
28. Section 32 of the Payment of Bonus Act, 1965 provides that the Act shall not apply to certain classes of employees. Which of the following employees of a class are not covered under this assertion as stated above :
- (A) Employees of every factory
 - (B) Employees of universities
 - (C) Employees of Reserve Bank of India
 - (D) All of the above
29. To whom the question relating to application or interpretation of a certified standing order under the Industrial Employment (Standing Orders) Act, 1946 can be referred ?
- (A) Labour Commissioner
 - (B) Labour Court
 - (C) District Magistrate
 - (D) Appropriate Government

30. Which one of the following statements is not correct, as laid down by the Supreme Court of India in the case Workmen of Dimakuchi Tea Estate Vs. Dimakuchi Tea Estate (AIR, 1958 SC 353), regarding objectives of the Industrial Disputes Act, 1947 :
- (A) Promotion of measures of securing and preserving amity and good relations between the employer and workmen
 - (B) Investigation and settlement of industrial disputes
 - (C) Promotion of collective bargaining
 - (D) Prevention of legal strikes and lockouts
31. Which one is not correctly matched under the Industrial Disputes Act, 1947 ?
- (A) Works Committee—Section 3
 - (B) Conciliation Officers—Section 4
 - (C) Boards of Conciliation—Section 5
 - (D) Labour Court—Section 6
32. In which of the following employment vacancies the Employment Exchange (Compulsory Notification of Vacancies) Act, 1959 shall not apply ?
- (A) In agriculture
 - (B) In domestic services
 - (C) To do unskilled office work
 - (D) All of the above
33. Which of the following injuries is not listed in Part-II of Schedule-I of the Employees Compensation Act, 1923 ?
- (A) Loss of Thumb
 - (B) Loss of Terminal Phalanx of Thumb
 - (C) Amputation of hip
 - (D) Absolute deafness
34. As per explanation given under section 10 of the Contract Labour (Regulation and Abolition) Act, 1970 if a question arises whether any process/or operation or other work is of perennial nature, the decision of the shall be final.
- (A) Central Government
 - (B) State Government
 - (C) Appropriate Government
 - (D) Commissioner of Labour

35. of the Constitution of India envisages that the state shall direct its policy, among other things, towards securing that there is equal pay for equal work for both men and women. To give effect to this constitutional provision, the Parliament enacted the Equal Remuneration Act, 1976 ?
- (A) Article 39
 - (B) Article 43
 - (C) Article 45
 - (D) Article 41
36. Consider the following statements relating to the minimum qualifications required for a person to qualify as a judge of the Employee's Insurance court under the Employees' State Insurance Act, 1948 :
- (i) Judicial officer with minimum 5 years standing
 - (ii) Legal practitioner with 5 years standing
 - (iii) Special Legal Officer with minimum 5 years standing
 - (iv) Company secretary with minimum 5 years practice
- Select the correct statements from the option given below :
- (A) (i), (ii) and (iii)
 - (B) (i), (ii) and (iv)
 - (C) (ii) and (iii)
 - (D) (i) and (ii)
37. The Payment of Bonus Act, 1965 is applicable to every factory and every other establishment where or more workmen are employed.
- (A) 15
 - (B) 20
 - (C) 14
 - (D) 10
38. Under section 12 of the Contract Labour (Regulation and Abolition) Act, 1970 the Contractor has to obtain a licence from the licensing authority, for which he has to pay licence fee ranging from depending on the number of workmen employed by him.
- (A) ₹5 to ₹100
 - (B) ₹5 to ₹125
 - (C) ₹10 to ₹500
 - (D) ₹100 to ₹1,000

39. As per section 2(C) of the Factories Act, 1948, child means :
- (A) Who has not completed his 12th years of his age
 - (B) Who has not completed his 14th years of his age
 - (C) Who has not completed 15th years of his age
 - (D) Who has not completed 16th years of his age
40. According to section 79(6) of the Factories Act, 1948 if a worker wants to avail leave with wages earned by him during the year, he must apply in writing to the manager of the factory at least days before the date on which he wishes to go on leave.
- (A) 7 days
 - (B) 15 days
 - (C) 21 days
 - (D) 30 days
41. According to section 3(1)(b) of the Minimum Wage Act, 1948, the appropriate Government may review the minimum wages at intervals. Such intervals may be:
- (A) Exceeding five years
 - (B) Exceeding seven years
 - (C) Not exceeding five years
 - (D) Upto completion of 10 years
42. By virtue of section 13 of the Payment of Gratuity Act, 1972 the gratuity payable to a workman is not liable to attachment in execution of any decree or order of :
- (A) any Civil Court
 - (B) any Criminal Court
 - (C) any Revenue Court
 - (D) All of the above
43. Section 2(S) of the Payment of Gratuity Act, 1972 has defined wages which include :
- (A) Commission
 - (B) Bonus
 - (C) Overtime wages
 - (D) None of the above

44. If an application is made under the Factories Act, 1948 for the approval of site for the construction or extension of the factory and required plans and specifications have been submitted by the registered post to the State Govt. or the Chief Inspector and if no reply is received within from the date on which it is sent, the application stands automatically approved.
- (A) 1 month
 - (B) 2 months
 - (C) 3 months
 - (D) 6 months
45. It was held by the Supreme Court, that committee appointed under section 5 of the Minimum Wages Act, 1948, is only an advisory body and that Government is not bound to accept its recommendations.

In which of the following cases the above decision was given ?

- (A) B.Y. Kashtriya Vs. S.A.T. Bidi Kamgar Union
 - (B) State of Rajasthan Vs. Hari ram Nathwani
 - (C) Edward Mills Co. Vs. State of Ajmer
 - (D) Bijoy Cotton Mills Vs. State of Ajmer
46. Which of the following has not been included in the definition of 'wages' as given in section 2(vi) of the Payment of Wages Act, 1936 :
- (A) Any additional remuneration paid in the form of bonus
 - (B) Any remuneration payable under any award or settlement between the parties or order of a court
 - (C) Any remuneration paid in respect of overtime work
 - (D) Any bonus under a scheme of profit sharing which does not form part of the remuneration payable under the terms of employment
47. Which of the following statements is in accordance with section 2(6A) of the Employees State Insurance Act, 1948 relating to the relative of a deceased insured person :
- (A) Legitimate or adopted son who has not attained the age of 25 years, an unmarried legitimate or adopted daughter
 - (B) A widow, a legitimate or adopted son who has not attained the age of 25 years, an unmarried legitimate or adopted daughter
 - (C) An unmarried legitimate or adopted daughter, a legitimate or adopted son who has not attained the age of 25 years, a widow
 - (D) A widow, an unmarried legitimate or adopted daughter, a legitimate or adopted son who has not attained the age of 25 year

48. As per section 1(3) of the Employees Provident Funds and Miscellaneous Provisions Act, 1952 the casual or temporary workmen are not included under this Act. In which of the following cases the Supreme Court has given this verdict?
- (A) P.F. Inspector Vs. Hariharan
 - (B) Bikaner Cold Storage Co. Ltd. Vs. Regional P.F. Commissioner, Rajasthan
 - (C) Delhi Cloth and General Mills Vs. R.P.F. Commissioner
 - (D) P.G. Textiles Mills Vs. Union of India.
49. Under the Maternity Benefit Act, 1961, every establishment having or more employees shall have the facility of a creche.
- (A) 30
 - (B) 50
 - (C) 75
 - (D) 90
50. According to the provisions of Section 10-A of the Industrial Employment (Standing Orders) Act, 1946 where any worker is suspended by the employer pending investigation or inquiry the subsistence allowance shall be paid for the first days at the rate of of the wages.
- (A) 30; 25%
 - (B) 60; 50%
 - (C) 90; 50%
 - (D) 60; 75%
51. As per Section 7A of the Industrial Disputes Act, 1947 who is not eligible to be appointed as presiding officer of the Industrial Tribunal :
- (A) A judge of High Court
 - (B) A Labour Commissioner having of at least five years experience
 - (C) A district judge having at least three years experience
 - (D) An additional district judge having at least three years experience
52. 'X' a woman worker gave birth to a child. After such delivery she returned on duty. She demands in addition to the interval for rest allowed to her be allowed in the course of her daily work breaks of the prescribed duration unless the age of the child attains the age of months.
- (A) 2; 6
 - (B) 2; 15
 - (C) 3; 6
 - (D) 2; 12

53. As per section 3 of the Industrial Employment (Standing Orders) Act, 1946 which of the following documents must be in conformity with a standing order :
- (A) Standard Standing Orders
 - (B) Uniform Standing Orders
 - (C) Model Standing Orders
 - (D) Form Standing Orders
54. Among the following benefits of Labour audit which benefit is related to the benefits to the Government?
- (A) It increases social audit
 - (B) It will boost the morals of the workers
 - (C) Status in the society of the employer will increase
 - (D) Compulsory labour audit will ensure compliance of past defaults
55. As per the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986, a child employed in hazardous occupations and processes should not be:
- (A) below 12 years of age
 - (B) below 14 years of age
 - (C) below 16 years of age
 - (D) below 18 years of age
56. Which of the following is not related to the hazardous occupations or processes set forth in the Schedule prescribed under the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986?
- (A) Mines
 - (B) Family enterprise
 - (C) Inflammable substances or explosives
 - (D) Hazardous process
57. According to Section 10(2) of the Industrial Employment (Standing Orders) Act, 1946, the workmen are entitled to apply for modification of the standing orders. It does not contain any time limit for making modification application. It can be made at any time. This was asserted and upheld in the case of :
- (A) Indian Express Employees Union Vs. India Express (Madurai) Ltd.
 - (B) Indian Iron and Steel Co. Ltd. Vs. Ninth Industrial Tribunal
 - (C) Khadi Gram Udyog Sangh Vs. Jitram
 - (D) Air Gases Mazdoor Sangh Varanasi Vs. Indian Air Gases Ltd.

58. "The Dispute or difference should be connected with the employment or nonemployment or terms of employment or the conditions of Labour of any person". To which section of the Industrial Disputes Act, 1947 this statements is related :
- (A) Section 2(i)
 - (B) Section 2(j)
 - (C) Section 2(k)
 - (D) Section 2(l)
59. Which of the following is considered as an industry under section 2(j) of the Industrial Disputes Act, 1947 ?
- (A) Cooperative Societies
 - (B) Telecom Department
 - (C) Trade Unions
 - (D) Construction and maintenance of National and State Highways
60. As regards the wages to the workers during strike period, the Supreme Court in held that in case of strike which is legal and justified, the workmen will be entitled to full wages for the strike period.
- (A) Charakulum Tea Estate Vs. Their Workmen
 - (B) Statesman Ltd. Vs. Their Workmen
 - (C) Madurai Coats Ltd. Vs. The Inspector of Factories, Madurai
 - (D) India Marine Service Pvt. Ltd. Vs. Their workmen
61. Which of the following statements is correct as a requirement to complete the definition of "Retrenchment" under Industrial Disputes Act, 1947?
- (A) It includes voluntary retirement by the employee
 - (B) The termination should be by the employer
 - (C) The termination should be by the trade union
 - (D) None of the above
62. Who is not an authority from the following authorities for investigation and settlement of industrial disputes under Industrial Disputes Act, 1947 ?
- (A) Works Committee
 - (B) Labour Tribunal
 - (C) Conciliation Officer
 - (D) Arbitrator

63. A National Tribunal may be constituted by the Central Government under section 7-B of the Industrial Disputes Act, 1947. Such National Tribunal shall consist of only for which the Central Government may appoint as assessors to advise the National Tribunal.
- (A) 1 person; 2 persons
 - (B) 2 persons; 2 persons
 - (C) 2 persons; 3 persons
 - (D) 1 person; 5 persons
64. Consider the following statements under the Trade Union Act, 1926 :
- (i) Office bearer in case of trade union, includes any member of the executive thereof but does not include an auditor.
 - (ii) Any seven or more members of a trade union may apply for registration of the trade union.
 - (iii) Certificate of registration of a trade union issued by the Registrar shall not be a conclusive evidence for its registration.
 - (iv) Once the registration of a trade union is being made it cannot be cancelled even if it ceases the required number of members.
- Select the correct statements from the option given below :
- (A) (i) and (ii)
 - (B) (i) and (iii)
 - (C) (ii) and (iv)
 - (D) (iii) and (iv)
65. Which of the following Acts have been specified in First Schedule under section 2(d) of the Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by Certain Establishment) Act, 1988 ?
- (A) The Weekly Holidays Act, 1942
 - (B) The Minimum Wages Act, 1948
 - (C) The Motor Transport Workers Act, 1961
 - (D) All of the above
66. As per section 2(aa) of the Apprentices Act, 1961 an apprentice means a person:
- (A) who has completed apprenticeship training
 - (B) Who is a casual labour
 - (C) who is undergoing apprenticeship training
 - (D) all of the above

67. Which one of the following is not an obligation of apprentices under Apprentices Act, 1961?
- (A) To qualify himself as a skilled craftman before expiry of the period of training
 - (B) To attend practical and instructional classes regularly
 - (C) To carry out all orders of his employer
 - (D) To carry out his obligations under the contract of apprenticeship
68. Under the Payment of Wages Act, 1936 wages can be paid :
- (A) In currency notes
 - (B) By cheque
 - (C) By crediting in bank account
 - (D) All of the above
69. Chapter VI of the Factories Act, 1948 contains provisions for regulating working hours for the adult workers. An adult worker shall be allowed to work maximum for in any week.
- (A) 40 hours
 - (B) 42 hours
 - (C) 48 hours
 - (D) 56 hours
70. The main object of the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 is to prohibit the employment of children below in hazardous occupation and processes and it regulates the working conditions in other employments.
- (A) 12 years
 - (B) 15 years
 - (C) 14 years
 - (D) 16 years

PART B

71. All our laws derive their authority and force from the Constitution of India and the Constitution derives its authority from
- (A) Parliament
 - (B) President of India
 - (C) Governor General of India
 - (D) People of India

72. A citizen of India whose personal liberty has been breached by the police authority without having any authority of law, which writ may be filed in the High Court under whose jurisdiction the said authority is performing his duties ?
- (A) Writ of prohibition
 - (B) Writ of Quo Warranto
 - (C) Writ of Mandamus
 - (D) Writ of Habeas Corpus
73. Which Article of the Constitution of India deals with Fundamental Duties ?
- (A) Article 47
 - (B) Article 50
 - (C) Article 51
 - (D) Article 51-A
74. A contracts to sell B a piece of land consisting of 100 bighas for ₹1,00,000. It turns out that only 50 bighas of land belongs to A. 50 bighas are substantial part of contract. Choose the incorrect option out of the following :
- (A) A can demand specific performance of the contract
 - (B) B can demand specific performance
 - (C) B has to pay full value of land that is ₹1,00,000 for 50 bighas
 - (D) All of the above
75. Under section 6 of the Specific Relief Act, 1963 the suit for the recovery of immovable property can be filed within :
- (A) 3 months
 - (B) 6 months
 - (C) 12 months
 - (D) 2 years
76. The Central Information Commission consists of the Chief Information Commissioner and Central Information Commissioners not exceeding under the Right to Information Act, 2005.
- (A) 3
 - (B) 5
 - (C) 7
 - (D) 10

77. Which of the following is 'fact' under Section 3 of Indian Evidence Act, 1872 ?
- (A) A man has certain reputation
 - (B) A man heard or saw something
 - (C) A man said certain words
 - (D) All of the above
78. Except as otherwise specifically provided in the Criminal Procedure Code, 1973 no court shall take cognizance of an offence after the expiry of the period of limitation mentioned below:
- (A) Six months, if the offence is punishable with fine only
 - (B) One year, if the offence is punishable with imprisonment for a term not exceeding one year
 - (C) Three years, if the offence is punishable with imprisonment not exceeding three years
 - (D) All of the above
79. Section 20 of the Right to Information Act, 2005 imposes stringent penalty on a Public Information Officer (PIO) for failing to provide information. Every PIO will be liable for a fine of per day, upto a maximum of
- (A) ₹100; ₹20,000
 - (B) ₹150; ₹15,000
 - (C) ₹200; ₹20,000
 - (D) ₹250; ₹25,000
80. Select the incorrect option out of the following judicial substances which was upheld by the Court in Rex Vs. Boltan (1841) 1 QB 66, 74 :
- (A) Jurisdiction depends not on the truth or falsehood of facts
 - (B) It depends upon nature of case
 - (C) Jurisdiction is determinable at the Commencement of the case
 - (D) Jurisdiction is also determinable at the conclusion of the inquiry
81. A complaint in a Criminal Case is what a plaint is in a civil case. The requisites of a complaint are :
- (A) An oral or written allegation
 - (B) Some person known or unknown has committed an offence
 - (C) It must be made to a magistrate
 - (D) All of the above

82. British Government used to confer title upon persons like 'Sir', 'Rai Bahadur', 'RaiSaheb' and 'Knight' etc. Which of the following Article of the Constitution of India abolishes such titles ?
- (A) Article 14
 - (B) Article 19
 - (C) Article 18
 - (D) Article 21
83. A person who apprehends arrest for having committed a non-bailable offence, but has not yet been arrested, such person may be granted "anticipatory bail" under section of the Code of Criminal Procedure, 1973.
- (A) 435
 - (B) 438
 - (C) 440
 - (D) 441
84. As per section 43 of the Code of Criminal Procedure, 1973 a private person may arrest any person who in his presence commits ?
- (A) Bailable and non-bailable offence
 - (B) Non-bailable and cognizable offence
 - (C) Bailable and cognizable offence
 - (D) None of the above
85. Which of the following courts is debarred from entertaining suits or application against any order made under the Right to Information Act, 2005 ?
- (A) Sessions Court
 - (B) High Court
 - (C) Court of 1st Class Magistrate
 - (D) All of the above
86. Which of the following cannot be given as evidence ?
- (A) Evidence as to affairs of the State
 - (B) Communication during marriage
 - (C) Official communication
 - (D) All of the above
87. The word 'socialist' has been added to the Preamble of the Constitution of India by :
- (A) 42nd Amendment
 - (B) 44th Amendment

- (C) 48th Amendment
 - (D) 52nd Amendment
88. Article 12 of the Constitution of India defines the term 'The State' in which all local or other authorities are included. Which one of the following authorities shall not be included as 'Other authority' in the term "The State" ?
- (A) Airport Authority of India
 - (B) Banaras Hindu University
 - (C) President of India
 - (D) Cochin Stock Exchange
89. According to Article 20(3) of the Constitution of India no person accused of any offence shall be compelled to be a witness against himself. Such person is entitled to avail this protection when:
- (A) He is accused of an offence
 - (B) There must be compulsion to be a witness
 - (C) Such compulsion shall result in his giving evidence against himself
 - (D) All of the above
90. To nullify the effect of the court decision in case of the Parliament of India passed Constitution (24th Amendment) Act in 1971 introducing certain changes in Article 13 and 368 of the Constitution of India.
- (A) Maneka Gandhi Vs. Union of India
 - (B) Minerva Mills Vs. Union of India
 - (C) Kesavand Bharti Vs. State of Kerala
 - (D) Golaknath Vs. Union of India
91. Section 11 of C.P.C. deals with :
- (A) Res Judicata
 - (B) Set-off
 - (C) Counter Claim
 - (D) Injunction
92. To apply the rule of 'Ejusdem Generis' in the interpretation of statutes which of the following conditions must exist :
- (A) A statute contains an enumeration by specific words
 - (B) The member of the enumeration constitute a class
 - (C) There is a distinct genus which comprises more than one species
 - (D) All of the above

93. Which of the following is not included in the internal aids to interpretation ?
- (A) Parliamentary History
 - (B) Title
 - (C) Preamble
 - (D) Proviso
94. "Injuria Sine Damnum" means :
- (A) Damages without injury
 - (B) Injury without damages
 - (C) No injury no damages
 - (D) All of the above
95. The case of Rylands Vs. Fletcher has laid down the principle of :
- (A) Defamation
 - (B) Conspiracy
 - (C) Strict liability
 - (D) None of the above
96. No person shall be twice punished for the same offence is incorporated in
- (A) Article 19(1)(F)
 - (B) Article 20(2)
 - (C) Article 21
 - (D) Article 22
97. Under which Article of the Constitution of India, a state can impose tax on inter-state trade with the prior approval of the President of India ?
- (A) Article 302
 - (B) Article 303(1)
 - (C) Article 303(11)
 - (D) Article 304
98. Which of the following is not a secondary evidence as per Indian Evidence Act, 1872 ?
- (A) Copies made from the original by mechanical process
 - (B) Copies made from or compared with the original
 - (C) Oral accounts of the contents of a document given by a person who has himself seen it
 - (D) Oral account of a photograph

99. There are kinds of appeals provided under the Civil Procedure Code, 1908.
- (A) Two
 - (B) Four
 - (C) Five
 - (D) Six
100. A buys from B an original painting of Picasso. B refuses to honour his promise. On what ground A can specifically enforce the contract under Specific Relief Act, 1963 ?
- (A) Compensation is not an adequate remedy
 - (B) He loves Picasso painting
 - (C) He wants to make his collection of painting rich
 - (D) None of the above

ANSWER KEY**INDUSTRIAL LABOUR AND GENERAL LAWS - SELECT SERIES**

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

Notes :

- 38. No Answer is Correct.
- 47. All Answers are Correct
- 85. Both A & C are Correct.

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