# GUIDELINE ANSWERS

## EXECUTIVE PROGRAMME

*(New Syllabus)*

**DECEMBER 2021**

**MODULE 2**

THE INSTITUTE OF
**Company Secretaries of India**
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
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(Under the jurisdiction of Ministry of Corporate Affairs)
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| **CS Examinations** | **Applicability of Amendments to Laws** |
|---|---|
| December Session | upto 31 May of that Calender year |
| June Session | upto 30 November of previous Calender Year |

C O N T E N T S

**EXECUTIVE PROGRAMME EXAMINATION**

DECEMBER 2021

## CORPORATE & MANAGEMENT ACCOUNTING

*Time allowed : 3 hours* *Maximum marks : 100*

*Total number of Questions : 100*

**PART I**

1. When complete sequence of accounting procedure is done, which happens frequently, and repeated in same directions during an accounting period, it is called an ............ .

   (A) Accounting Cycle

   (B) Accounting Period

   (C) Accounting Process

   (D) Accounting Tools

2. While preparing a trial balance, in which method are totals of both the sides of the accounts written in the separate columns ?

   (A) Total Method

   (B) Balance Method

   (C) Compound Method

   (D) Pure Method

3. If the owner's equity is ₹5,00,000 and outsiders' equity is ₹3,00,000, calculate total equity.

   (A) ₹5,00,000

   (B) ₹2,00,000

   (C) ₹8,00,000

   (D) ₹3,00,000

4. **Statement I** : It may be prepared on a loose sheet of paper.

   **Statement II** : The ledger accounts are balanced at first. They will have either "debit-balance" or "credit balance" or "nil-balance".

   **Statement III** : The accounts containing debit-balance are written on the debit column, and those with credit-balance are written on the credit column.

   All the above three statements are relevant for :

   (A) Ledger

   (B) Cash Book

(C) Trial Balance

(D) Financial Statement

5. Purchase goods of the list price of ₹25,000 from Mohan less 20% trade discount and 2% cash discount. The amount of cash discount is ................... .

(A) ₹160

(B) ₹240

(C) ₹400

(D) ₹500

6. If the Company's Issued Capital is more than the Authorized Capital, and approval of increase in Authorized Capital is pending, the amount of Share Application Money received over and above the Authorized Capital should be shown under the head :

(A) Other Current Liabilities

(B) Other Long-Term Liabilities

(C) Reserve and Surplus

(D) Short-Term Provision

7. The term "Continuing Default" is used with respect to :

(A) Short-term borrowing

(B) Medium-term borrowing

(C) Long-term borrowing

(D) None of the above

8. According to the rules for the purposes of Sub-section (1) of Section 129, the class of companies as may be notified by the Central Government from time to time, shall mandatorily file their financial statements in :

(A) Extensible Business Reporting Language (XBRL) format

(B) Extensible Business Reporting (XBR) format

(C) Extensible Business Presentation Language (XBPL) format

(D) Extensible Business Presentation (XBP) format

9. Section 68(4); Every buy-back shall be completed within a period of…….from the date of passing of the special resolution, or as the case may be, the resolution passed by the Board.

(A) 6 months

(B) One year

(C) Two years

(D) 5 years

10. According to section 68(1) of the Companies Act 2013, a company cannot purchase its own shares or other specified securities (referred to as buy-back) out of :

(A) Free reserves

(B) Securities premium account

(C) The proceeds of the issue of any shares or other specified securities

(D) The proceeds of an earlier issue of the same kind of shares or same kind of other specified securities

11. XYZ Ltd. issued 60,000, 12% debentures of ₹100 each. 70% of the issue was underwritten by ABC Ltd. Applications for 56,000 debentures were received by the XYZ Ltd. The liability of ABC Ltd. is :

(A) 2,800 debentures

(B) 3,800 debentures

(C) 4,000 debentures

(D) 4,200 debentures

12. P Ltd. issued 12%, 10,000 debentures of ₹100 each at a discount of 10% on 1st April 2016. The company pays interest half yearly on 30th June and 31st December every year. On 31st March 2020 the amount shown as 'Interest accrued but not due' in the balance sheet will be :

(A) ₹30,000

(B) ₹60,000

(C) ₹1,20,000

(D) ₹1,50,000

13. Debenture can be issued :

(i) For Cash

(ii) For Consideration other than Cash

(iii) As Collateral Security

(A) (i)

(B) (i), (ii)

(C) (i), (iii)

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

14. Financial statements include :

(A) Income Statement, Balance Sheet, Statement of Stockholders Equity, Statement of Cash Flow

(B) Income Statement, Balance Sheet, Statement of Fund Flow, Statement of Cash Flow

(C) Income Statement, Balance Sheet, Statement of Cash Flow, Statement of Trend Analysis

(D) Income Statement, Balance Sheet, Statement of Stockholders Equity, Statement of Trend Analysis

15. Corporate Social Responsibility Committee of the Board consisting of ................

(A) Five or more directors, out of which at least one director shall be an independent director

(B) Three or more directors, out of which at least one director shall be an independent director

(C) Five or more directors, out of which at least two directors shall be an independent director

(D) Three or more directors, out of which at least two directors shall be an independent director

16. A .................. is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed

(A) Business segment

(B) Geographical segment

(C) Reportable segment

(D) Area segment

17. The amount set aside out of profits is called ................ .

(A) Provision

(B) Reserve

(C) Surplus

(D) Income

18. LMN Ltd. allotted 20,000 shares to the applicants of 28,000 shares on pro-rata basis. The amount payable on application is ₹25 per share. Kanika applied for 700 shares, the number of shares allotted to Kanika will be :

(A) 500 shares

(B) 700 shares

(C) 800 shares

(D) 900 shares

19. At the time of forfeiture of shares the share capital account is debited with :

(A) Face value

(B) Called up value

(C) Paid up value

(D) Issued value

20. A Ltd. forfeited 1,000 shares of ₹10 each fully called up for non-payment of first & final call of ₹3 per share. 600 of these shares were reissued at ₹9 per share, fully paid up. What is the amount to be transferred to Capital Reserve Account?

(A) ₹7,000

(B) ₹4,200

(C) ₹6,400

(D) ₹3,600

21. If any director contravenes the provision of this section 197 (i.e. Recovery of Remuneration received by director in contravention of section 197 of the Companies Act, 2013), shall be punishable with :

(A) fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees.

(B) fine which shall not be less than ten thousand rupees but which may extend to two lakh rupees.

(C) fine which shall not be less than one lakh rupees but which may extend to two lakh rupees.

(D) fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

22. Match the List I with items in List II :

| | **List I** | | **List II** |
|---|---|---|---|
| (a) | AS 06 | (i) | Employee Benefits |
| (b) | AS 09 | (ii) | Revenue Recognition |
| (c) | AS 12 | (iii) | Depreciation Accounts |
| (d) | AS 15 | (iv) | Accounting for Government Grants |

| | (a) | (b) | (c) | (d) |
|---|---|---|---|---|
| (A) | (ii) | (iv) | (i) | (iii) |
| (B) | (i) | (iv) | (ii) | (iii) |
| (C) | (ii) | (iii) | (i) | (iv) |
| (D) | (iii) | (ii) | (iv) | (i) |

23. The standard-setting procedure of Accounting Standards Board cannot be outlined as :

    (A) Identification of broad areas by ASB for formulation of AS

    (B) Constitution of study groups by ASB to consider specific projects and to prepare prelininary drafts of the proposed Accounting Standards. The draft normally includes objective and scope of the standard, definitions of the terms used in the standard, recognition and measurement principles, wherever applicable, and presentation and disclosure requirements.

    (C) Consideration of the preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.

    (D) Presentation of transactions and events in the financial statements in a manner that is meaningful and understandable to the reader.

24. As per IFRS disclosure to be made in only consolidated financial of the parent company for :

    (A) Intangible Assets

    (B) Earnings Per Share

    (C) Market Price Per Share

    (D) Dividends

25. In case there is any conflict between provisions of any applicable Act and Accounting Standards, the _______ shall prevail.

    (A) Accounting Standard

    (B) Provisions of the Act

    (C) Above (A) & (B), both

    (D) None of the above

26. Trustees of IFRS Foundation have been appointed for a :

    (A) Renewable period of 5 years

    (B) Non-renewable period of 5 years

    (C) Renewable period of 3 years

    (D) Non-renewable priod of 3 years

27. Members of the IFRS Advisory Council are appointed by the :

    (A) Board of Directors

    (B) Trustees

    (C) Board of Directors and Trustees jointly

    (D) Chairperson of the Foundation

28. Ind AS shall be adopted by specific classes of companies based on their :

    (A) Net worth

    (B) Listing Status

    (C) Net worth or Listing Status

    (D) Net worth and Listing Status

29. From 1st April 2019, if Net worth is more than or equal to 250 crore but less than 500 crore it becomes mandatory to apply Ind AS for .................. .

    (A) NBFC

    (B) All Banks

    (C) Insurance Companies

    (D) Listed Companies

30. Pro-rata allotment of shares is made when there is :

    (A) Under subscription

    (B) Over subscription

    (C) Equal subscription

    (D) As and when desired by directors

31. ABC Ltd. issued 10,000 equity shares of ₹100 each at par payable as under :

    On application ₹30; on allotment ₹20; on first and on final call ₹50 per share.

    Applications were received for 30,000 shares.

    Applications for 5,000 shares were rejected and pro-rata allotment was made to the applicants for 25,000 shares. Excess application money is adjusted towards amount due on allotment and calls.

    How much amount will be received in cash on first call ?

    (A) ₹1,00,000

    (B) ₹1,50,000

    (C) ₹2,00,000

    (D) ₹2,50,000

32. The company shall not issue sweat equity shares for more than........of the existing paid up equity share capital in a year or shares of the issue value of rupees ....................... whichever is higher.

    (A) 5%, 1 Crore

    (B) 10%, 2 Crore

    (C) 15%, 5 Crore

    (D) 20%, 10 Crore

33. As per section 149(1) of the Companies Act, 2013, at least one-woman director is to be appointed by :

(A) Non-listed public comanies having paid up share capital of ₹100 crore or more, or having turnover of ₹100 crore or more

(B) Non-listed public comanies having paid up share capital of ₹100 crore or more, or having turnover of ₹200 crore or more

(C) Non-listed public comanies having paid up share capital of ₹100 crore or more, or having turnover of ₹300 crore or more

(D) Non-listed public comanies having paid up share capital of ₹100 crore or more, or having turnover of ₹500 crore or more

34. The escrow amount shall be payable in the following manner :

(i) if the consideration payable does not exceed ₹100 crores; 25 per cent of the consideration payable

(ii) if the consideration payable exceeds ₹100 crores; 25 per cent up to ₹100 crores and 10 per cent thereafter

(iii) if the consideration payable does not exceed ₹10 crores; 25 per cent of the consideration payable

(iv) if the consideration payable exceeds ₹100 crores; 5 per cent up to ₹100 crores and 2.5 per cent thereafter

(A) (i)

(B) (i) and (ii)

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

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

35. When the holding company purchases the shares at a price above the nominal value, the excess price paid represents :

(A) Cost of control or Goodwill

(B) Capital Reserve

(C) Reserve and Surplus

(D) Business Assets

36. Ind AS 104 on Insurance Contract will not be applicable to :

(A) Insurance Contracts

(B) Reinsurance Contracts

(C) Financial Instruments that it issues with a discretionary participation features

(D) Product warranties issued directly

37. The net profit after tax for the year was ₹30,00,000. Working capital increased during the year by ₹5,00,000. Depreciation for the year was ₹5,00,000 and tax expenses was ₹7,50,000. Amount paid towards income tax based on self-assessment and demand from tax department for earlier year was ₹10,00,000. Cash flow from operating activities is :

(A) ₹47,50,000

(B) ₹40,00,000

(C) ₹37,50,000

(D) ₹30,00,000

38. Interest Payment by non-financial enterprises is classified as :

(A) Operating activity

(B) Investing activity

(C) Financing activity

(D) Operating as well as Financing activity

39. Which of the following is not an investing cash flow ?

(A) Purchase of marketable securities for ₹5,00,000 by cheque

(B) Sale of land for ₹30,00,000

(C) Sale of 10,000 equity shares @ ₹100 each

(D) Purchase of Property Plant and Equipment for ₹10,00,000 for cash

40. Following is the comparative information of PQ Ltd. for 2 consecutive years :

| | **31st March 2020** | **31st March 2021** |
|---|---|---|
| | ₹ | ₹ |
| Inventory | 10,00,000 | 6,00,000 |
| Accounts Payable | 24,00,000 | 30,00,000 |
| Cost of Goods Sold | — | 1,00,00,000 |

Based on the above information, the net cash paid to supplier of inventory during the year ended on 31st March 2021 is :

(A) ₹90,00,000

(B) ₹98,00,000

(C) ₹1,02,00,000

(D) ₹1,10,00,000

41. MN Ltd. reported income tax expenses of ₹6, 10,000 on its income statement for the year ended on 31st March 2020. The comparative balance sheet of the

company showed that income tax payable on 31st March 2019 and 31st March 2020 was ₹80,000 and ₹1,30,000 respectively. Based on the above information, cash payment for the income tax during the year ended on 31st March 2020 was :

(A) ₹6,60,000

(B) ₹6,10,000

(C) ₹5,60,000

(D) ₹4,80,000

42. The land account was debited by ₹60,00,000 and credited by ₹25,00,000 during the current year. The income statement reported a profit on sale of land in the amount of ₹2,00,000. All transactions related to land account were cash transactions. These transactions would be shown in the statement of cash flow as :

(A) ₹60,00,000 cash provided by investing activities, and ₹25,00,000 cash disbursed for investing activities.

(B) ₹27,00,000 cash provided by investing activities, and ₹60,00,000 cash disbursed for investing activities.

(C) ₹25,00,000 cash provided by investing activities, and ₹60,00,000 cash disbursed for investing activities.

(D) ₹23,00,000 cash provided by investing activities, and ₹60,00,000 cash disbursed for investing activities.

43. CARO 2016 is applicable on small companies, if :

(A) Paid up capital less than or equal to ₹50 lakh and last reported turnover less than or equal to ₹200 lakh

(B) Paid up capital less than or equal to ₹25 lakh and last reported turnover less than or equal to ₹200 lakh

(C) Paid up capital less than or equal to ₹50 lakh and last reported turnover less than or equal to ₹500 lakh

(D) Paid up capital less than or equal to ₹100 lakh and last reported turnover less than or equal to ₹500 lakh

44. As per section 138 of the Companies Act 2013, Internal Audit is compulsory if in the preceding financial year turnover :

(A) ₹50 crore or more

(B) ₹100 crore or more

(C) ₹200 crore or more

(D) ₹500 crore or more

45. A Ltd. paid ₹9,00,000 for 70% of equity in B Ltd. on 1st April, 2019. On this date B Ltd. had share capital of ₹10,00,000 and retained earnings of ₹5,00,000. All of the assets and liabilities of B Ltd. were recorded at fair value. A Ltd. interest in the B Ltd. would be:

(A) ₹6,30,000

(B) ₹7,00,000

(C) ₹10,50,000

(D) ₹15,00,000

46. P Ltd. issues 10,000, 7% debentures of ₹100 each at a discount of 5% redeemable at the end of 7 years at a premium of 6%. Loss on issue of debenture account will be debited by :

(A) ₹50,000

(B) ₹60,000

(C) ₹90,000

(D) ₹1,10,000

47. As per guidelines issued by SEBI, what percentage of the amount of debentures must be transferred to "Debenture Redemption Reserve" before the commencement of redemption of debenture, in case of convertible debenturres:

(A) 0%

(B) 25%

(C) 50%

(D) 100%

48. In case of buy back of own shares, a company shall make a public announcement within two working days from the date of special resolution/ Board of directors resolution in :

(A) at least one English National Daily, one Hindi National Daily and two Regional language daily

(B) at least one English National Daily, one Hindi National Daily and one Regional language daily

(C) at least one English National Daily, two Hindi National Daily and one Regional language daily

(D) at least two English National Daily, one Hindi National Daily and one Regional language daily

49. ABC Ltd. issued 1,00,000 equity shares of ₹100 each, payable as under :

On application ₹30; On allotment ₹30, On final call ₹40

1,45,000 applications were received as under :

Applicants applied for 25,000 shares, allotted full.

Applicants applied for 1,00,000 shares, allotted 75,000 shares on pro-rata basis.

Remaining applications were rejected.

Amount received at the time of application is ................

(A) ₹50,00,000

(B) ₹43,50,000

(C) ₹37,50,000

(D) ₹25,00,000

50. In the question number of **49**, how much excess money received on application:

(A) ₹13,50,000

(B) ₹30,00,000

(C) ₹27,50,000

(D) ₹15,00,000

51. In the question number of **49**, amount to be refunded .................. .

(A) ₹3,50,000

(B) ₹4,50,000

(C) ₹5,00,000

(D) ₹6,00,000

52. In the question number of **49**, amount of excess application money available for adjustment against allotment money ........... .

(A) ₹7,50,000

(B) ₹13,50,000

(C) ₹15,50,000

(D) ₹17,50,000

53. When debenture is issued as collateral security, the final entry for recovering the collateral debenture in books is :

(A) Dr. Cash a/c, Cr. Debenture a/c

(B) Dr. Debenture Suspense a/c, Cr. Cash a/c

(C) Dr. Debenture Suspense a/c, Cr. Debenture a/c

(D) Dr. Cash a/c, Cr. Debenture Suspense a/c

54. Wind Ltd. issued 30,000 12% debentures of ₹10 each at par which are redeemable after 5 years at a premium of 10%. The amount of loss on redemption to be written off every year will be :

(A) ₹15,000

(B) ₹7,500

(C) ₹6,000

(D) ₹4,500

55. If the purchase price for the debentures includes interest for the expired period, the quotation is said to be.................. .

(A) Ex-interest

(B) Cum-interest

(C) Net-interest

(D) Gross-interest

56. The managerial remuneration shall be payable to a person appointed within the meaning of..................

(A) Section 196 of the Companies Act, 2013

(B) Section 129 of the Companies Act, 2013

(C) Section 131 of the Companies Act, 2013

(D) Section 136 of the Companies Act, 2013

57. If the sinking fund is non-cumulative, the interest received on Sinking Fund Investment is not invested and not credited to Sinking Fund A/c. The amount of interest is :

(A) debited to Profit & Loss statement

(B) credited to Profit & Loss statement

(C) added in reserve in balance sheet

(D) added in assets in balance sheet

58. A company after the completion of the buyback under this sections, shall file with the Registrar a return in ................... .

(A) Form No. SH. 9

(B) Form No. SH. 10

(C) Form No. SH. 11

(D) Form No. SH. 12

59. Which of the following is false :

(A) Rate of interest on debenture is fixed

(B) Equity shareholders are owners and debentureholders are lenders

(C) At the time of liquidation debentureholders get their payment before equity shareholders

(D) Interest on debentures is an appropriation of profit

60. Which of the following is true with regard to, 12% debentures issued at a discount at 10%?

(A) The carrying amount of debentures will reduce each year at a rate of 10%

(B) Issue price and carrying amount of debentures are equal

(C) The face value and carrying amount of debentures are equal

(D) At the time of redemption, the debenture holder will be paid the issue price

**PART II**

61. Recording of workers' time spent on different jobs or processes for determining labour cost of jobs/processes is called :

(A) Time Booking

(B) Time Keeping

(C) Time Charging

(D) Time Management

62. According to CIMA, prime cost is ............. .

(A) Direct material, direct labour and direct expenses

(B) Direct and indirect material and direct and indirect labour

(C) Direct material and direct labour

(D) Only direct material

63. Rent of own factory premises is an example of :

(A) Indirect expenses

(B) Direct expenses

(C) Revenue expenses

(D) Notional expenses

64. The aspects of material control are ............ .

(A) Accounting aspect and Operational aspeect

(B) Accounting aspect and Production aspect

(C) Costing aspect and Operational aspect

(D) Costing aspect and Production aspect

65. Rule 6 of the Companies (Cost Records and Audit) Rules, 2014 requires the companies prescribed under the said rules to appoint an auditor within.......................of the commencement of every financial year.

(A) 90 days

(B) 45 days

(C) 180 days

(D) 60 days

66. The cost auditor shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in Form .................... .

(A) CRA-3

(B) CRA-2

(C) CRA-4

(D) CRA-1

67. As per CCRA – Rules 2014 every regulated industry (Category – A) is required to maintain cost records if overall turnover exceeds or equals to :

(A) ₹25 crore

(B) ₹35 crore

(C) ₹50 crore

(D) ₹100 crore

68. The requirement for cost audit rules shall not apply to a company which is covered in rule 3; and (i) whose revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue; or (ii) which is operating from a special economic zone; (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant.

(A) (i)

(B) (ii)

(C) (i) and (ii)

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

69. PQR factory produces two units of a commodity in one standard hours. Actual production during a particular year is 34,000 units and budgeted production for the year is 40,000 units. Actual hours are 16,000. Activity ratio is .................

(A) 40%

(B) 80%

(C) 85%

(D) 106.25%

70. Using the information from Q. No. **69**, Capacity ratio is ....................

(A) 40%

(B) 80%

(C) 85%

(D) 106.25%

71. Using the information from Q. No. **69**, Efficiency ratio is ................

(A) 40%

(B) 80%

(C) 85%

(D) 106.25%

72. From the following data :

| | | |
|---|---|---|
| Volume of production (units) | 1,20,000 | 1,50,000 |
| Maintenance expenses (₹) | 84,000 | 1,02,000 |

The variable cost per unit is :

(A) 0.60 per unit

(B) 0.68 per unit

(C) 0.70 per unit

(D) 0.78 per unit

73. Using the information from Q. No. **72**, the total fixed cost is ..............

(A) 6,000

(B) 12,000

(C) 18,000

(D) 24,000

74. Using the information from Q. No. **72**, what is the total variable overheads at the level of output 1,40,000 units ?

(A) 84,000

(B) 95,200

(C) 98,000

(D) 1,09,200

75. Which is not the method of preparation of cash budget ?

(A) Receipts and payments method

(B) Adjusted profit and loss account method

(C) Balance sheet method

(D) Cash flow method

76. From the following information, calculate debtor's turnover ratio :

Closing debtors ₹2,00,000, Cash sales 25% of credit sales;

Excess of closing debtors over opening debtors ₹80,000, Total sales ₹12,00,000

(A) 3 times

(B) 4 times

(C) 6 times

(D) 5 times

77. Using the information in Q. No. **76**, calculate average collection period.

(A) 3 times

(B) 2 times

(C) 1 time

(D) 4 times

78. Proprietary Funds is ................

(A) Equity share capital + Preference share capital + Reserves

(B) Equity share capital + Preferene share capital

(C) Equity share capital + Preference share capital + Reserves – Fictitious Assets

(D) Equity share capital + Preference share capital + Reserves + Fictitious Assets

79. Match the List-I with items in List-II :

**List-I**

(a) All items on the statement are expresed as a percentage of the base item

(b) Index number of the movements of the various financial items in the financial statements for a number of periods

(c) A statement of "Source and Application of Funds"

(d) A study of different items of financial statements

**List-II**

(i) Fund Flow Analysis

(ii) Common Size Statement

(iii) Trend Analysis

(iv) Comparative Statement

| | (a) | (b) | (c) | (d) |
|---|---|---|---|---|
| (A) | (ii) | (iv) | (i) | (iii) |
| (B) | (i) | (iv) | (ii) | (iii) |
| (C) | (ii) | (iii) | (i) | (iv) |
| (D) | (i) | (ii) | (iv) | (iii) |

80. Which is not a form of reporting ?

(A) Descriptive reporting

(B) Subjective reporting

(C) Tabular reporting

(D) Graphic presentation

81. The following figures are available from the records of ABC Enterprises as at 31st March :

| **Year** | **2020** (₹ Lakh) | **2021** (₹ Lakh) |
|---|---|---|
| Sales | 150 | 200 |
| Profit | 30 | 50 |

The P/V ratio is ...................

(A) 20%

(B) 25%

(C) 40%

(D) 50%

82. Using the information from Q. No. **81**, the total fixed expenses is ................

(A) ₹20 lakh

(B) ₹30 lakh

(C) ₹40 lakh

(D) ₹50 lakh

83. Using the information from Q. No. **81**, the break-even sales is ......................

(A) ₹50 lakh

(B) ₹75 lakh

(C) ₹100 lakh

(D) ₹125 lakh

84. Using the information from Q. No. **81**, Sales required to earn a profit of ₹90 lakh is ...................

(A) ₹275 lakh

(B) ₹300 lakh

(C) ₹325 lakh

(D) ₹50 lakh

85. Using the information from Q. No. **81**, Profit or loss that would arise if the sales were ₹280 lakh is ..................

(A) ₹52 lakh

(B) ₹62 lakh

(C) ₹72 lakh

(D) ₹82 lakh

86. Match the List-I (Activity) with items in List-II (Cost Pool).

**List-I**

(a) Facility-level

(b) Product-level

(c) Batch-level

(d) Unit-level

**List-II**

(i) Purchasing

(ii) Quality Control

(iii) Human Resources

(iv) Parts Management

| | (a) | (b) | (c) | (d) |
|---|---|---|---|---|
| (A) | (ii) | (iv) | (i) | (iii) |
| (B) | (i) | (iv) | (ii) | (iii) |
| (C) | (i) | (iv) | (ii) | (iii) |
| (D) | (iii) | (iv) | (i) | (ii) |

87. A Ltd. invested ₹500 lakh in assets. There are 50,00,000 shares outstanding. The par value of share is ₹10. It earns a rate of 15% on its investment and has a policy of retaining 60% of the earning. Growth rate is .....................

(A) 6%

(B) 7.5%

(C) 9%

(D) 10%

88. D Ltd. has the following details :

Return on equity : 10%

Expected earnings per share : ₹10

Pay-out ratio : 30%

Required rate of return : 5% per annum

Price of share of D Ltd. is ..................

(A) ₹37.5

(B) ₹87.5

(C) ₹125

(D) ₹140

89. An increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised or that ordinary shares are issued upon the satisfaction of specified conditions is.............................

(A) Diluted earnings per share

(B) Anti-diluted earnings per share

(C) Weighted earning per share

(D) Basic earnings per share

90. Following are the objectives of :

(1) To determine Fair Value.

(2) To set out a single Ind AS framework for measuring fair value.

(3) To require disclosures with respect to fair value measurements.

(A) Financial instrument presentation

(B) Market based approach

(C) Principal market measurement

(D) Fair value measurement

91. "When a business is non-operating or has been generating losses, and the company's focus is holding investments or real estate." Which method of valuation is best used in this case?

(A) Discounted cash flow model

(B) Asset approach

(C) Earning based model

(D) Capital asset pricing model

92. ABC Ltd. has ₹50,00,000 in long term debts, ₹10,00,000 in preferred stock and ₹40,00,000 in common equity. All the values are on market value. The before tax cost of debts 10%. Cost of preferred stock are 11% and cost of common equity is 15%. Assume a tax rate of 40%. The overall cost of capital is ................

(A) 10.90%

(B) 10.46%

(C) 11%

(D) 12.90%

93. Gas oil and company has two divisions : Transportation and Refining. Transportation division sales crude oil to Refining division. The cost of one barrel of crude is ₹50, direct labour is ₹15, variable overheads ₹3 and fixed overheads 35. Transportation division sets its profit margin 20% of the variable cost. If Transporting division operating at full capacity, the transfer price will be:

(A) ₹65

(B) ₹116.6

(C) ₹123.6

(D) ₹158.6

94. Achieve goal congruence, Realistic performance evaluation and Maintain autonomy of the divisions are the objectives meet by which method of transfer pricing ?

(A) Cost based transfer pricing

(B) Negotiated transfer pricing

(C) Market based transfer pricing

(D) Opportunity cost transfer pricing

95. If profit is ₹20,000, BEP is ₹2,00,000 and P/V Ratio is 40%. What will be margin of safety?

(A) ₹50,000

(B) ₹80,000

(C) ₹8,000

(D) ₹12,000

96. A firm has a total capital investment of ₹2,25,000. The firm earned net profit during the last four years ₹35,000, ₹40,000, ₹60,000, ₹50,000. The fair return on the net capital employed is 15%. The Super profit is ..........................

(A) ₹45,000

(B) ₹37,500

(C) ₹12,500

(D) ₹7,500

97. Which is not the approach for valuing of intangible assets ?

(A) Cost approach

(B) Super-Value approach

(C) Market-Value approach

(D) Economic-Value approach

98. The date on which the company and employees agree to the terms of an employee share-based payment plan is :

(A) Vesting date

(B) Exercise date

(C) Grand date

(D) Next date

99. The relevant details of the company are :

Equity share capital : ₹25,00,000; Face value of shares : ₹100; Profit for equity shareholders : ₹5,15,000; Dividend payout ratio : 40%; P/E ratio : 30.

Calculate Earnings Per Share (EPS).

(A) ₹20.60

(B) ₹2.06

(C) ₹3.06

(D) ₹13.60

100. Equity share capital : ₹25,00,000;Face value of shares : ₹100; Profit for equity shareholders : 5,15,000; Dividend pay-out ratio : 40%; P/E ratio : 30.

The dividend per share is .............. .

(A) ₹4.59

(B) ₹8.24

(C) ₹26.60

(D) ₹30.24

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

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

**Notes :**

*Q. No. 88 None of the option is correct. Correct Answer is ₹46.15.

*Q. No. 92 None of the option is correct. Correct Answer is 10.10%.

***

## SECURITIES LAWS & CAPITAL MARKETS

Time allowed : 3 hours Maximum marks : 100

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

### PART I

**Question 1**

*(a) (i) Rakesh has invested ₹20,000 in PQR Mutual Fund with entry load 1%. Find out the Net Asset Value if the number of units purchased was 100.*

*(ii) Pritam is holding SALORA Mutual Fund units. He sold all the units at a NAV of ₹120 with exit load of 1%. He received ₹52,000. Find the number of units sold by Pritam. (2+3=5 marks)*

*(b) X, a shareholder of a listed company holding 1,000 equity shares of ₹100 each on 1st January, 2019 in physical form, wants to transfer to another shareholder Y on 1st May, 2019. X is also holding Commercial Paper & Certificate of Deposits of ₹50,000 & ₹20,000 respectively. As a Company Secretary of the company, write a note on :*

*(i) Whether X can transfer his shares to Y in physical form ?*

*(ii) Are Commercial Paper & Certificate of Deposits available for dematerialisation at Depository ? (3+2=5 marks)*

*(c) ABC Company Ltd. had issued 2000 equity shares of ₹80 each with attachable warrant on 20th June, 2018. The warrant can be exchanged in equity in the proportion of 1 : 1. S, a shareholder who was allotted 200 equity shares with attachable warrant on 20th June, 2018 wants to know the warrant premium if the market value of warrant is ₹18 and exercise price is ₹70.*

*(i) Calculate the warrant premium for S.*

*(ii) What are the conditions of eligibility of ABC Company Ltd to issue Warrant?*

*(iii) When ABC Company can forfeit the warrant ? (2+2+1=5 marks)*

*(d) Answer the followings with reasons, with reference to SEBI Buyback Regulations, whether these buy-back are as per the provisions of the regulations ?*

*(i) The company can directly or indirectly purchase its own shares through any subsidiary including its own subsidiaries.*

*(ii) The company has made buy-back of shares out of the proceeds of an earlier issue of* the same kind of shares.

(iii) The Company Secretary of the company advised not to allow buy-back of shares unless the consequent reduction of share capital is affected.

*(iv) The company has prohibited from Buy-back whose default is remedied and a period of two years has lapsed after such default ceased to subsist.*

*(v) The Board of directors has denied the offer of buy-back of shares for 16 percent of the paid up capital and free reserves to be made from the open market.*

*(1 mark each = 5 marks)*

**Answer 1(a)(i)**

**Step - 1**

Let NAV of 1 unit = X

Therefore, purchase Price of 1 unit = NAV + Entry Load (1%)

= X+ (.01X) = 1.01 X

**Step - 2**

Amount Investment - ₹20,000; No. of unit purchased – 100

Purchase price of 1 unit= Amount invested/No of unit purchased

= 20,000/100 = 200

**From Step 1 and 2**

1.01X=200

X = 200/1.01= Rs. 198.02

**Answer 1(a)(ii)**

Given- NAV=Rs. 120

Exit Load – 1%

Total Amount Received = ₹52,000

Now Selling Price of 1 unit = NAV – Exit Load

= 120 - {(1/100) x 120} = 118.80

No. of unit Sold = 52,000/118.80 = 437.71 unit

**Answer 1(b)(i)**

X cannot transfer his shares to Y in physical form. SEBI has amended relevant provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to disallow listed companies from accepting request for transfer of securities which are held in physical form, with effect from April 1, 2019. The shareholders who continue to hold shares and other types of securities of listed companies in physical form even after this date, will not be able to lodge the shares with company/ its RTA for further transfer. They will need to convert them to demat form compulsorily if they wish to effect any transfer.

Since X wants to transfer his shares to another shareholder Y on 1st May, 2019 i.e. after 1st April, 2019, therefore he would not be allowed to do so.

**Answer 1(b)(ii)**

Yes, Commercial Papers and Certificates of Deposits irrespective of whether these instruments are listed / unlisted / privately placed can be dematerialized with depository, if they have been admitted with the depository.

**Answer 1(c)(i)**

Minimum price of Warrant = (Current Market Price of equity share - Exercise Price of Warrant)

= (Rs.: 80-Rs.70) i.e. Rs. 10

Warrant Premium

= (Market Value of Warrant - Value of Warrant)

= Rs. 18- Rs. 10 = Rs. 8

For 200 Warrants of S, since Ratio is 1:1, the premium would be = 200 x Rs. 8 = Rs. 16000

**Answer 1(c)(ii)**

An issuer shall be eligible to issue warrant in an initial public offer subject to the following:

a) the tenure of such warrants shall not exceed eighteen months from the date of their allotment in the initial public offer,

b) a specified security may have one or more warrants attached to it,

c) the price or formula for determination of exercise price of the warrants shall be determined upfront and disclosed in the offer document and at least 25% of the consideration amount based on the exercise price shall also be received upfront;

However, in case the exercise price of warrants is based on a formula, 25% consideration amount based on the cap price of the price band determined for the linked equity shares or convertible securities shall be received upfront.

**Answer 1(c)(iii)**

When warrant holder does not exercise the option to take equity shares against any of the warrant held by the warrant older, within three months from the date of payment of consideration, such consideration made in respect of such warrants shall be forfeited by the issuer.

**Answer 1(d)**

(i) As per the conditions and requirements for buyback of shares provided under the SEBI Buyback Regulations, the company shall not directly or indirectly purchase its own shares through any subsidiary including its own subsidiaries.

Therefore, this statement is not as per the provisions of the SEBI Buyback Regulations.

(ii) As per the conditions and requirements for buyback of shares provided under the SEBI Buyback Regulations, the Buyback shall not be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities of the company.

Therefore, this statement is not as per the provisions of the SEBI Buyback Regulations.

(iii) As per the conditions and requirements for buyback of shares provided under the SEBI Buyback Regulations, a company shall not allow buyback of its shares unless the consequent reduction of its share capital is affected.

Therefore, this statement is as per the provisions of the SEBI Buyback Regulations.

(iv) As per the conditions and requirements for buyback of shares provided under the SEBI Buyback Regulations, the buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.

Therefore the company is prohibited from Buyback whose default is remedied and a period of two years has lapsed after such default ceased to subsist, therefore, this statement is as per the provisions of the SEBI Buyback Regulations.

(v) As per the conditions and requirements for buyback of shares provided under the SEBI Buyback Regulations, the buyback from open market shall be less than 15 percent of the paid up capital and free reserves of the company, based on both standalone and consolidated financial statements of the company.

Since the Board of Directors has denied the offer of buyback of shares for 16 percent of the paid up capital and free reserves to be made from the open market, therefore, this statement is as per the provisions of the SEBI Buyback Regulations.

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

**Question 2**

*(a) Home Technology Ltd. has recently listed on the leading stock exchanges. Advise the company on the compliance of corporate governance regulation for holding of maximum number of directorship by a director of the company. If the company is having paid up capital and reserve & surplus ₹8 crore & ₹12 crore respectively, are there any exceptions in the compliances with the corporate governance under the SEBI Regulations ?*

*(b) M/s. XYZ company Ltd. aggrieved by the decision of Adjudicating Officer under the SEBI Act, 1992 moved to civil court to contest the case. Is the action of the company correct in light of SEBI provisions ? Give your views and suggest to the management the action to be initiated by XYZ Ltd.*

*(c) What do you understand by the word "Ponzi Scheme" ? Who regulate the Collective Investment Scheme ? List any four key aspects for launching a Collective Investment Scheme.*

(d) *"In the proceedings before the Ombudsman under SEBI regulations, strict rules of evidence under the Indian Evidence Act shall apply". Comment on the statement. Enumerate the particulars to be display by the company with regards to Ombudsman.*

(e) *Explain the provisions of pricing, vesting period and consequence of failure to exercise Employee Stock Option Scheme (ESOS).* *(4 marks each)*

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

**Question 2A**

(i) *Pinki Ltd. being a listed company has not complied the requirements of listing agreement with the stock exchange. The stock exchange decided for compulsory delisting of the securities from its trading platform. Answer the following :*

(a) *Whether once listed, stock exchange can go for compulsory delisting of securities of Pinki Ltd. ?*

(b) *What are the provisions for constitution of panel ?*

(c) *What time period will be given for representation to Pinki Ltd. ?*

(ii) *"SEBI Share Based Employee Benefits Regulations shall apply to any company, whether listed or not on any recognised stock exchanges in India and has a scheme". Comment on the statement. Discuss the scheme or purpose of the regulation.*

(iii) *"While evaluating the performance of a mutual fund, one must not be led by the mutual fund return in isolation." In this context, elucidate how performance of mutual fund is evaluated ?*

(iv) *The stock exchange wants to transfer the duties and functions of a clearing house to a clearing corporation. Is it possible to do so ? Explain the purpose if any, it serves.*

(v) *The term internal control is generally linked to controls mechanism for financial and non-financial processes of an entity. Is there any internal control process to prevent insider trading under SEBI regulations ? You, being a Company Secretary of the company, suggest your CEO about internal controls to ensure the compliance under the said regulation ?* *(4 marks each)*

**Answer 2(a)**

**Maximum Number of Directorships**

Regulation 17A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that a person shall not be a director in more than eight listed entities with effect from April 1, 2019 and in not more than seven listed entities with effect from April 1, 2020. However, a person shall not serve as an independent director in more than seven listed entities.

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

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

**Exceptions in the compliance with the corporate governance provisions**

As per Regulation 15(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the compliance with the corporate governance provisions shall not apply, in respect of following -

A listed entity having:

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

However, where the provisions of regulations 17 to 27, clauses (b) to (i) and (t) of sub-regulation (2) of regulation 46 and para C, D and E of Schedule V become applicable to a listed entity at a later date, it shall ensure compliance with the same within six months from such date.

Home Technology Ltd. is having paid up share capital of rupees 8 crore and having net worth (paid up capital plus + free reserve) of rupees 20 crore. Therefore, both paid up capital and net worth are within the limit and hence the company is exempted with regards to compliance of corporate governance provisions.

**Answer 2(b)**

Section 20A of the SEBI Act, 1992 lays down that no order passed by the SEBI or the adjudicating officer under this Act shall be appealable except as provided in section 15T or section 20 and no civil court shall have jurisdiction in respect of any matter which the SEBI (or the adjudicating officer) is empowered by, or under, this Act to pass any order and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any order passed by the SEBI or the adjudicating officer by, or under, the SEBI Act.

Any person aggrieved by an order of the SEBI made or by an order made by an adjudicating officer under the SEBI Act or by an order of the Insurance Regulatory and Development Authority (IRDA) or the Pension Fund Regulatory and Development Authority (PFRDA) may prefer an appeal to a Securities Appellate Tribunal (SAT) having jurisdiction in the matter within a period of forty-five days from the date on which a copy of the order made by the SEBI or the Adjudicating Officer or the IRDA or the PFRDA as the case may be.

In view of the above provisions, the company should move to the Securities Appellate Tribunal (SAT).

**Answer 2(c)**

A Ponzi Scheme is an investment from where clients are promised a large profit in short term at little or no risk at all.

The Securities and Exchange Board of India is the regulatory authority of the Collective Investment Scheme.

The Key aspects for launching a Collective Investment Scheme (CIS) as per the SEBI (Collective Investment Scheme) Regulations, 1999 are given hereunder -

1. The company floating CIS shall have to seek registration with SEBI as Collective Investment Management Company (CIMC).
2. CIS shall be constituted as a two tiered structure comprising of a trust and a CIMC.
3. At the time of application for Registration as CIMC, these entities should have a minimum networth of Rs. 3 crores which shall have to be increased to Rs. 5 crores within three years from the date of grant of registration.
4. Every collective investment Scheme shall have to file offer documents with SEBI containing adequate disclosures to enable the investors to take informed investment decisions.
5. Each collective investment scheme shall have to obtain a rating from recognised credit rating agencies.
6. The collective investment scheme must also be appraised by an appraising agency.
7. The collective investment schemes are prohibited from guaranteeing assured returns. Indicative returns, if any, provided by the collective investment scheme shall be based on the projections in the appraisal report.
8. Advertisements in respect of every collective investment scheme shall have to conform to the SEBI's advertisement code.
9. No collective investment scheme shall be kept open for subscription for a period of more than 90 days. The collective investment schemes must indicate the minimum and maximum amount proposed to be raised over this period.
10. The collective investment schemes shall be close ended in nature.
11. The duration of the collective investment schemes shall be for a minimum period of 3 years.
12. Compulsory Insurance cover for the assets of the collective investment scheme and personal indemnity cover for the CIMC shall be obtained.
13. Units issued under the Collective Investment Schemes are to be compulsorily listed on recognised stock exchanges.

**Answer 2(d)**

In proceedings before the Ombudsman strict rules of evidence under the Indian Evidence Act shall not apply and the Ombudsman may determine his own procedure consistent with the principles of natural justice. Ombudsman shall decide whether to hold oral hearings for the presentation of evidence or for oral argument or whether the proceeding shall be conducted on the basis of documents and other materials.

However, it shall not be necessary for an investor to be present at the oral hearing of proceedings under these regulations and the Ombudsman may proceed on the basis of the documentary evidence submitted before him.

**Display of the Particulars of the Ombudsman**

Every listed company or intermediary is required to display the name and address of the Ombudsman as specified by SEBI to whom the complaints are to be made by any aggrieved person in its office premises in such manner and at such place, so that it is put to notice of the shareholders or investors or unit holders visiting the office premises of the listed company or intermediary. The listed company or intermediary is required to give full disclosure about the grievance redressal mechanism through Ombudsman in its offer document or client agreement. Any failure to disclose the grievance redressal mechanism through Ombudsman or any failure to display the particulars would attract the penal provisions contained in Section 15 A of SEBI Act.

**Answer 2(e)**

**Pricing of Employee Stock Option Scheme (ESOS)**

The company granting option to its employees pursuant to ESOS will have the freedom to determine the exercise price subject to conforming to the accounting policies as specified in the SEBI (Share Based Employee Benefits) Regulations, 2014.

**Vesting Period of ESOS**

There shall be a minimum vesting period of one year in case of ESOS. However, in case where options are granted by a company under an ESOS in lieu of options held by a person under an ESOS in another company which has merged or amalgamated with that company, the period during which the options granted by the transferor company were held by him shall be adjusted against the minimum vesting period.

**Consequence of failure to exercise option**

The amount payable by the employee, if any, at the time of grant of option, -

a) may be forfeited by the company if the option is not exercised by the employee within the exercise period; or

b) may be refunded to the employee if the options are not vested due to non-fulfilment of conditions relating to vesting of option as per the ESOS.

**Answer 2A(i)(a)**

(a) Compulsory delisting refers to permanent removal of securities of a listed company from a stock exchange as a penalizing measure at the behest of the stock exchange for not making submissions/comply with various requirements set out in the Listing agreement within the time frames prescribed. As per Regulation 22(1) of the SEBI (Delisting of Equity Shares) Regulations, 2009, a recognized stock exchange may, by order, delist any equity shares of a company on any ground prescribed in the rules made under section 21A of the Securities Contracts (Regulation) Act, 1956.

Therefore, the stock exchange as a penalizing measure for not complying with various requirements set out in the Listing agreement within the time frames prescribed can go for compulsory delisting of securities of Pinki Ltd.

**Answer 2A(i)(b)**

**Constitution of Panel**

Regulation 22 (2) deals with the provisions related to constitution of panel. The decision regarding compulsory delisting shall be taken by a panel to be constituted by the recognized stock exchange consisting of –

a. Two directors of the recognized stock exchange (one of whom shall be a public representative);

b. One representative of the investors;

c. One representative of the Ministry of Corporate Affairs or Registrar of Companies; and

d. The Executive Director or Secretary of the recognized stock exchange.

**Answer 2A(i)(c)**

**Time period of making representation**

Regulation 22(3) of the SEBI (Delisting of Equity Shares) Regulations, 2009 provides that before passing a delisting order the recognized stock exchange shall give a notice of the proposed delisting in one English national daily with wide circulation and one regional language newspaper of the region where the concerned recognized stock exchange is located and shall also display such notice on its trading systems and website.

A time period of not less than fifteen working days from the notice, be given to any person who may be aggrieved by the proposed delisting within which he can make representations to the recognised stock exchange which has issued a notice for the delisting.

**Answer 2A(ii)**

The provisions of SEBI (Share Based Employee Benefits) Regulations, 2014 shall apply only to a company whose shares are listed on a recognised stock exchange in India and has a scheme. Hence the statement given in the question is not correct.

Further the provision of these regulations shall only apply, if the company is having a scheme:

i. for direct or indirect benefit of employees,

ii. involving dealing in or subscribing to or purchasing securities of the company, directly or indirectly and

iii. satisfying, directly or indirectly, any one of the following conditions:

   (a) the scheme is set up by the company or any other company in its group;

   (b) the scheme is funded or guaranteed by the company or any other company in its group;

   (c) the scheme is controlled or managed by the company or any other company in its group.

**Answer 2A(iii)**

While looking at a mutual fund scheme's performance, one must not be led by the scheme's return in isolation. A scheme may have generated 10% annualised return in the last couple of years. But then, even the market indices would have gone up in similar way during the same period. Under-performance in a falling market, i.e. when the NAV of the scheme falls more than its benchmark (or the market), is the time when one must review his/her investment.

One must compare the scheme's return as against its benchmark return. It is better to be rid of investment in a scheme that consistently under-performs as compared to its benchmark over a period of time, from one's portfolio. It is important to identify under-performers over the longer time horizon (as also out-performers).

In addition, one may also consider evaluating the category average returns as well. Even if a scheme has outperformed its benchmark by a decent margin, there could be better performers in the peer group. The category average returns will reveal how good (or bad) is one's investment is against its peers which help in deciding whether it is time to shift the investment to better performers.

One may be holding a too little or too much-diversified portfolio. Even the expense ratio of some of the schemes that one could be holding may be high compared to others within the same category.

**Answer 2A(iv)**

Section 8A(1) of the Securities Contracts (Regulation) Act, 1956 provides that a recognised stock exchange may, with the prior approval of SEBI, transfer the duties and functions of a clearing house to a clearing corporation, being a company incorporated under the Companies Act, 2013, for the purpose of –

(a) the periodical settlement of contracts and differences thereunder;

(b) the delivery of, and payment for, securities;

(c) any other matter incidental to, or connected with, such transfer.

**Answer 2A(v)**

Regulation 9A of the SEBI (Prohibition of Insider Trading) Regulations, 2015 provides that the Chief Executive Officer, Managing Director or such other analogous person of a listed company, intermediary or fiduciary shall put in place adequate and effective system of internal controls to ensure compliance with the requirements given in these regulations to prevent insider trading.

The internal controls shall include the following:

a) all employees who have access to unpublished price sensitive information are identified at designated person;
b) all the unpublished price sensitive information shall be identified and its confidentiality shall be maintained as per the requirements of these regulations;
c) adequate restrictions shall be placed on communication or procurement of unpublished price sensitive information as required by these regulations;

d) lists of all employees and other persons with whom unpublished price sensitive information is shared shall be maintained and confidentiality agreements shall be signed or notice shall be served to all such employees and persons;

e) all other relevant requirements specified under these regulations shall be complied with;

f) periodic process review to evaluate effectiveness of such internal controls.

**Question 3**

*(a) X is a Managing Director of ABC Ltd. and awarded title of best CEO of the country. Four leading listed companies invited him to join their Board as an Independent Director for sharing his knowledge. Can X join as an Independent Director on the offer made by four listed entities ? Give your answer with reason. After superannuation, X is planning to join as an Independent Director of ten listed companies. Do you agree with the planning of X ?*

*(b) Sarvbhom Ltd. issued 2000 equity shares of ₹100 each on 1st May, 2019. The amount payable was ₹30 on application and ₹70 on allotment of shares. The company had received applications for 3000 equity shares and shares were allotted on pro-rata basis on 31st August, 2019. Dakshin, had applied for 120 shares on 15th May, 2019. The excess application money was refunded to him on 29th February, 2020.*

*(i) Can Dakshin lodge the complaint to Ombudsman for interest on delayed refund of application money ?*

*(ii) What is the procedure for filing a complaint ?*

*(iii) What is the duration for making the complaint to Ombudsman ?*

*(c) Ratina Ltd., a listed company has to submit the audit report to the Stock exchange under SEBI (Depositories and Participants) Regulations, 2018. You being a practicing company secretary narrate the activities to be covered in the Audit Report.* *(5 marks each)*

**Answer 3(a)**

As per Regulation 17A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities.

Hence, X being the Managing Director of ABC Ltd., can join in only 3 listed companies as an independent Director.

As per Regulation 17A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, a person shall not be a director in more than eight listed entities with effect from April 1, 2019 and in not more than seven listed entities with effect from April 1, 2020. However a person shall not serve as an independent director in more than seven listed entities.

Therefore, after retirement X cannot serve as an Independent Director in ten listed companies and is restricted to only seven listed companies as stated above. Hence the planning of X is not as per the Regulations on Corporate Governance.

**Answer 3(b)(i)**

As per SEBI (Ombudsman) Regulations, 2003, Dakshin can lodge complaint for non-receipt of interest on delayed refund of application monies.

**Answer 3(b)(ii)**

**Procedure for filing a complaint**

Any person who has a grievance against a listed company or an intermediary relating to any of the matters specified under the SEBI (Ombudsman) Regulations, 2003 may himself or through his authorised representative or any investors association recognised by the SEBI, make a complaint against a listed company or an intermediary to the Ombudsman within whose jurisdiction the registered or corporate office of such listed company or intermediary is located. If SEBI has not notified any Ombudsman for a particular locality or territorial jurisdiction, the complainant may request the Ombudsman located at the Head Office of the SEBI for forwarding his complaint to the Ombudsman of competent jurisdiction.

The complaint is required to be in writing duly signed by the complainant or his authorised representative (not being a legal practitioner) in the Form specified in the Schedule to the regulations and supported by documents, if any.

The Ombudsman may dismiss a complaint on any of the grounds specified under the Regulations or when such complaint is frivolous in his opinion.

**Answer 3(b)(iii)**

**Duration for making the compliant to Ombudsman**

The SEBI (Ombudsman) Regulations, 2003 prescribes that no complaint to the Ombudsman shall lie –

(a) unless the complainant had, before making a complaint to the SEBI or the Ombudsman concerned, made a written representation to the listed company or the intermediary named in the complaint and the listed company or the intermediary, as the case may be, had rejected the complaint or the complainant had not received any reply within a period of one month after the listed company or intermediary concerned received his representation or the complainant is not satisfied with the reply given to him by the listed company or an intermediary;

(b) unless the complaint is made within six months from the date of the receipt of communication of rejection of his complaint by the complainant or within seven months after the receipt of complaint by the listed company or intermediary under clause (a) above.

**Answer 3(c)**

Regulation 76 of the SEBI (Depositories and Participants) Regulations, 2018 provides that every issuer shall submit audit report on a quarterly basis to the concerned stock exchanges audited by a practising Company Secretary or a qualified Chartered Accountant, for the purposes of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital.

The audit report is required to give the updated status of the register of members of the issuer and confirm that securities have been dematerialized as per requests within 21 days from the date of receipt of requests by the issuer and where the dematerialization has not been effected within the said stipulated period, the report would disclose the reasons for such delay.

The issuer is under an obligation to immediately bring to the notice of the depositories and the stock exchanges, any difference observed in its issued, listed, and the capital held by depositories in dematerialized form.

**Question 4**

*(a) Turnkey Ltd. is a listed company, manufacturing auto ancillary components. One of the director of the company is a fugitive offender. The company wants to bring Further Public Offer (FPO). You being the company secretary of the company, advise whether the company can issue FPO. State the general conditions and the eligibility requiremets for FPO under SEBI Regulations.* *(8 marks)*

*(b) "The accounting treatment of an issue of sweat equity shares is different than the public offer of shares." Elucidate briefly. Is there any requirement of Auditor's certificate after issue of sweat equity shares ? When such shares are treated as part of managerial remuneration ?* *(7 marks)*

**Answer 4(a)**

As per Regulation 102 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, a company shall not be eligible to make a Further Public Offer where the director of the company is a fugitive offender. Therefore, Turnkey Ltd. would not be able to issue FPO.

General Conditions and eligibility requirement for FPO as prescribed under Regulations 103 and 104 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 are given below:

**Eligibility requirements for FPO**

An issuer may make a FPO if it has changed its name within the last one year and at least 50% of the revenue in the preceding one full year has been earned from the activity suggested by the new name.

If an issuer does not satisfy the above mentioned conditions, it may make a FPO only, if, the issue is made through the book building process and the issuer undertakes to allot at least 75% of the net offer, to qualified institutional buyers and to refund full subscription money if it fails to make the said minimum allotment to qualified institutional buyers.

**General Conditions for FPO**

An issuer making an FPO shall ensure that-

a) An application is made for listing of the specified securities to one or more of the recognised stock exchanges and choose one of the exchanges as the designated stock exchange.

b) An agreement is entered into with a depository for dematerialisation of specified securities already issued or proposed to be issued.

c) All the existing partly paid up equity shares have either been fully paid up or have been forfeited in other words, if a company has partly paid up equity shares, they shall not be permitted to make a public issue.

d) The issuer should make firm arrangements of finance through verifiable means towards 75% of the stated means of finance excluding the amount to be raised through the proposed public issue or through existing identifiable internal accruals.

e) The amount of General Corporate Purpose as mentioned in objects of the issue in the draft offer document and the offer document shall not exceed twenty five percent of the amount being raised by the issuer.

**Answer 4(b)**

**Accounting Treatment** : Where the sweat equity shares are issued for a non-cash consideration, such non cash consideration shall be treated in the following manner in the books of account of the company:

1. where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the relevant accounting standards; or
2. where the above clause is not applicable, it shall be expensed as provided in the relevant accounting standards.

**Placing of Auditors Certificate before Annual General Meeting**

In the General meeting subsequent to the issue of sweat equity, the Board of Directors shall place before the shareholders, a certificate from the auditors of the company that the issue of sweat equity shares has been made in accordance with the SEBI Regulations and in accordance with the resolution passed by the company authorizing the issue of such Sweat Equity Shares.

**Ceiling of Managerial Remuneration**

The amount of sweat equity shares issued shall be treated as part of managerial remuneration for the purpose of sections 197 of the Companies Act, 2013, if the following conditions are fulfilled:

(i) the Sweat Equity shares are issued to any director or manager; and

(ii) they are issued for non-cash consideration, which does not take the form of an asset which can be carried to the balance sheet of the company in accordance with the relevant accounting standards.

**PART II**

**Question 5**

*(a) Suppose B. Co. Ltd. issues bonds with following terms :*

*Issue price of Bond ₹2000*

*Coupon rate 2% with maturity period of 2 years*

*Convertible into equity shares @ ₹100 per share*

*Y has subscribed for 5 bonds and made an investment of ₹10,000. On maturity date, investor will have an option to either claim full redemption amount or convert the Bonds into equity @ ₹100 per share. The quoted share price on maturity date is ₹150. If he goes for conversion how many shares Y will get ? Will it be fair enough if he opts for redemption value ? Calculate which option is best suitable to Y ?* *(5 marks)*

(b) *What is the option contract ? How the option contract is classified on the basis of party who exercise the option and time at which the option can be exercised?* *(5 marks)*

(c) *What do you mean by Unified Payments Interface (UPI) ? Whether use of UPI, as a payment mechanism in public issues is mandatory ? What is the limit one can apply for a public issue through UPI ?* *(5 marks)*

**Answer 5(a)**

Issue Price per Bond is = Rs.2000/-

Coupon rate = 2%

Maturity period =2 years

Convertible into equity per share will be @ Rs. 100/

**Option-I:**

Y the investor has subscribed for 5 bonds. The total investment made by him will be Rs. 10,000/-He is entitled to get interest @2% p.a.

The interest will be Rs. 400 (Rs. 10,000*2% for 2 years)

Thus his total investment for 2 years period becomes Rs. 10,400/- and the conversion price of equity on maturity will be Rs. 100/-

Therefore, he will get 104 equity shares i.e. 10,400/100

**Option-II:**

If the Equity shares are quoted at Rs. 150/- per share on maturity date, then Y will get 104 x Rs. 150

= Rs. 15,600.

Therefore, Y can opt for conversion of Bonds in to Equity shares rather than accepting the maturity redemption value of Rs. 10,400/-

**Answer 5(b)**

Options Contract give its holder the right, but not the obligation, to take or make delivery on or before a specified date at a stated price. But this option is given to only one party in the transaction while the other party has an obligation to take or make delivery. Since the other party has an obligation and a risk associated with making good the obligation, he receives a payment for that. This payment is called as option premium.

**Classification of Option Contracts**

Option contracts are classified into two types on the basis of which party has the option:

- *Call option* - A call option is with the buyer and gives the holder a right to take delivery.
- *Put option* - The put option is with the seller and the option gives the right to take delivery.

Option Contracts are classified into two types on the basis of time at which the option can be exercised:

- *European Option* - European style options are those contacts where the option can be exercised only on the expiration date. Options traded on Indian stock exchanges are of European Style.
- *American Option* - American style options are those contacts where the option can be exercised on or before the expiration date.

**Answer 5(c)**

Unified Payments Interface (UPI) is an instant payment system developed by the National Payment Corporation of India (NPCI), an RBI regulated entity. UPI is built over the IMPS (Immediate Payment Service) infrastructure and allows you to instantly transfer money between any two parties' bank account. UPI as a payment mechanism is available for all public issues for which Red Herring Prospectus is filed after January 01, 2019.

The applicability of UPI as a payment mechanism has been prescribed in a Phased manner as under:

*Phase I* : From January 01, 2019, the UPI mechanism for retail individual investors through intermediaries will be made effective along with the existing process and existing timeline of T+6 days. The same will continue for a period of 3 months or floating of 5 main board public issues, whichever is later.

*Phase II* : Thereafter, for applications by retail individual investors through intermediaries, the existing process of physical movement of forms from intermediaries to Self-Certified Syndicate Bank for blocking of funds will be discounted and only the UPI mechanism with existing timeline of T+6 days will continue, for a period of 3 months or floating of 5 main board public issues, whichever is later.

*Phase III* : Subsequently, final reduced timeline will be made effective using the UPI mechanism.

The limit for IPO application is 2 lakhs per transaction on UPI.

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

**Question 6**

*Write short notes on the following :*

*(a) Leveraged Buyout (LBO)*

*(b) Repo & Reverse Repo Rate*

*(c) Characteristics of Bond*

*(d) Inflation Index*

*(e) Internal Audit of Intermediaries.* *(3 marks each)*

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

**Question 6A**

*(i) What do you mean by discretionary portfolio manager ? How portfolio manager plays a pivotal role in deciding the best investment plan for an individual ?*

*(ii) What do you mean by FED policy ? Briefly state how change in US fed rate can impact India ?*

*(iii) Venture Capital is one of the innovative financing resources for an enterprise. Explain briefly and indicate the areas of investment of Venture Capital.*

*(5 marks each)*

**Answer 6(a)**

**Leveraged Buyout (LBO)**

This refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage. The companies involved in these type of transactions that are typically more mature and generate operating cash flows.

**Answer 6(b)**

**Repo & Reverse Repo Rate**

**Repo Rate** - The rate at which the Commercial Banks borrow money from RBI. Reduction in Repo Rate helps the Commercial Banks to get money at a cheaper rate and an Increase in Repo Rate discourages the Commercial Banks to get money as the rate increases and becomes expensive. The increase in the Repo Rate will increase the cost of borrowing and lending of the banks which will discourage the public to borrow money and encourages them to deposit.

**Reverse Repo Rate** - The rate at which the RBI borrows money from the Commercial Banks. An increase in the reverse repo rate will decrease the money supply and vice-versa, other things remaining constant. An increase in Reverse Repo Rate means that Commercial Banks will get more incentives to park their funds with the RBI, therefore decreasing the supply of money in Market. An increase in the Repo Rate and the Reverse Repo rate indicates strengthening of RBI's Monetary Policy.

**Answer 6(c)**

**Characteristics of Bond**

1. Bond has a Fixed face value, which is the amount to be returned to the investor upon maturity.
2. Fixed maturity date, which can range from a few days to 20-30 years or even more.
3. All bonds repay the principal amount after the maturity date.
4. Provides regular payment of interest, semi-annually or annually.
5. Interest is calculated as a certain percentage of the face value known as a 'coupon payment'.
6. Generally considered as less risky investment as compared to equity.
7. It helps to diversify and grow investor's money.

**Answer 6(d)**

**Inflation Index**

An index is just a collection of data that serves as a baseline for future reference. We use the index model in all areas of life, from the stock market, to inflation. We index wage levels, corporate profits as a percentage of GDP, and almost anything else that can be measured. We do this to compare where we are now to where we have been in the past.

An inflation index is an economic tool used to measure the rate of inflation in an economy. There are several different ways to measure inflation, leading to more than one inflation index with different economists and investors preferring one method to another, sometimes strongly.

In India, Consumer Price Index (CPI) and Wholesale Price Index (WPI) are two major indices for measuring inflation. In United States, CPI and PPI (Producer Price Index) are two major indices. The Wholesale Price Index (WPI) was main index for measurement of inflation in India till April 2014 when RBI adopted new Consumer Price Index (CPI) (combined) as the key measure of inflation.

**Answer 6(e)**

**Internal Audit of Intermediaries**

Efficient internal control systems and processes are pre requisite for good governance. The governance being a dynamic concept requires constant evaluation and monitoring of the systems and processes. In the context of Capital Markets, capital markets intermediaries are an important constituent of overall governance framework. Being an important link between regulators, investors and issuers, they are expected to ensure that their internal controls are so efficient that ensure effective investor service at all times and provide regulators comfort as to the compliance of regulatory prescription. In this direction that SEBI has authorised Practising Company Secretaries to undertake internal audit of various capital market intermediaries.

**Answer 6A(i)**

“Discretionary Portfolio Manager” means a portfolio manager who under a contract relating to portfolio management, exercises or may exercise, any degree of discretion as to the investment of funds or management of the portfolio of securities of the client, as the case may be.

A portfolio manager plays a pivotal role in deciding the best investment plan for an individual as per his income, age as well as ability to undertake risks. A portfolio manager is responsible for making an individual aware of the various investment tools available in the market and benefits associated with each plan. Make an individual realize why he actually needs to invest and which plan would be the best for him. A portfolio manager is responsible for designing customized investment solutions for the clients according to their financial needs.

**Answer 6A(ii)**

The Federal Reserve System is the central bank of the United States. It performs five general functions to promote the effective operation of the U.S. economy and, more generally, the public interest. The Federal Reserve:

- conducts the nation's monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy;
- promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system as a whole;
- fosters payment and settlement system safety and efficiency through services to the banking Industry and the U.S. government that facilitate U.S.-dollar transactions and payments; and
- promotes consumer protection and community development through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and the administration of consumer laws and regulations.

The Fed Funds Rate is the interest rate at which the top US banks borrow overnight money from common reserves. All American banks are required to park a portion of their deposits with the Federal Reserve in cash, as a statutory requirement.

Actually, fed fund rate gives the direction in which US interest rates should be heading at any given point of time. If the Fed is increasing the interest rates, lending rates for companies and retail borrowers will go up and vice versa. In India, hike in repo rate may not impact the countries outside India.

On the other hand, US interest rates matter a lot to global capital flows. Some of the world's richest institutions and investors have their base in USA. They constantly compare Fed rates with interest rates across the world to make their allocation decisions.

In the globalised world, markets are connected. An increase in Fed rates will be negative in general for the US stock market and if it leads to another round of sell-offs, it will also have ripple effects on the Indian market.

Any changes in the Fed Fund Rates impact the domestic borrowing market to a large extent. For instance, if the Fed rates go up, it will make the RBI hesitant in cutting rates at that time. The reason is that if RBI cut rates it will lead to heavy pullout of foreign investors from the Indian bond market.

***Rupee Vs Dollar***

If the Fed rates are hiked, the value of the dollar would go up, thus weakening Indian rupee in comparison. This might hurt India's forex reserves and imports. However, the weaker rupee is good for India's exports but low global demand and stiff competition would not leave much room for Indian exporters to capitalise the situation. DBS said that India's financing requirements will keep the rupee vulnerable to rising US rates this year.

**Answer 6A(iii)**

Venture Capital is one of the innovative financing resource for a company in which the promoter has to give up some level of ownership and control of business in exchange for capital for a limited period, say, 3-5 years. Venture Capital is generally equity investments made by Venture Capital funds, at an early stage in privately held companies, having potential to provide a high rate of return on their investments. It is a resource for supporting innovation, knowledge based ideas and technology and human capital intensive enterprises.

"Venture Capital Fund" means an Alternative Investment Fund which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model and shall include an angel fund.

Essentially, a venture capital company is a group of investors who pool investments focused within certain parameters. The participants in venture capital firms can be institutional investors like pension funds, insurance companies, foundations, corporations or individuals but these are high risk investments which may give high returns or high loss.

**Areas of Investment**

Different venture groups prefer different types of investments. Some specialize in seed capital and early expansion while others focus on exit financing. Biotechnology, medical services, communications, electronic components and software companies seem to be the most likely attraction of may venture firms and receiving the most financing. Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability.

In India, software sector has been attracting a lot of venture finance. Besides media, health and pharmaceuticals, agri-business and retailing are the other areas that are favoured by a lot of venture companies.

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# ECONOMIC BUSINESS AND COMMERCIAL LAWS

*Time allowed : 3 hours* *Maximum marks : 100*

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

## PART I

**Question 1**

(a) *The Reserve Bank of India acts as the 'lender of last resorts'. Comment.*

(b) *"Special Economic Zones are the growth engines of our country." Comment upon this statement in view of salient features of Special Economic Zones Act, 2005.*

(c) *State the rules relating to acquisition and transfer of immovable property in India by a Non Resident Indian (NRI).*

(d) *Discuss the powers of Central Government to prohibit reciept of foreign contribution.* *(5 marks each)*

**Answer 1(a)**

The Preamble to the Reserve Bank of India Act, 1934 under which Reserve Bank of India was constituted, specifies its objective as to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.

As a Banker to Banks, the Reserve Bank of India also acts as the 'lender of the last resort'. It can come to the rescue of a bank that is solvent but faces temporary liquidity problems by supplying it with much needed liquidity when no one else is willing to extend credit to that bank. The Reserve Bank extends this facility to protect the interest of the depositors of the bank and to prevent possible failure of the bank, which in turn may also affect other banks and institutions and can have an adverse impact on financial stability and thus on the economy.

Similarly, Section 18 of the RBI Act facilitates the RBI to act as a 'Lender of Last Resort' permitting grant of loans and advances subject to other terms of Section 18 of the Act.

**Answer 1(b)**

Special Economic Zones (SEZ) are growth engines that can boost manufacturing, augment exports and generate employment. In order to give a long term and stable policy framework with minimum regulatory regime and to provide expeditious and single window clearance mechanism, the Government enacted Special Economic Zones Act, 2005.

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

(i) Matters relating to establishment of Special Economic Zone and for setting up of units therein, including requirements, obligations and entitlements;

(ii) Matters relating to requirements for setting up of off-shore banking units and units in International Financial Service Center in Special Economic Zone, including fiscal regime governing the operation of such units;

(iii) The fiscal regime for developers of Special Economic Zones and units set up therein;

(iv) Single window clearance mechanism at the Zone level;

(v) Establishment of an Authority for each Special Economic Zone set up by the Central Government to impart greater administrative autonomy; and

(vi) Designation of special courts and single enforcement agency to ensure speedy trial and investigation of notified offences committed in Special Economic Zones.

**Answer 1(c)**

Rule 24 of Foreign Exchange Management (Non-debt Instruments) Rules, 2019 provides that a Non Resident Indian (NRI) may -

(a) Acquire immovable property in India other than an agricultural land or farm house or plantation property.

Provided that the consideration, if any, for transfer, shall be made out of:

(i) Funds received in India through banking channels by way of inward remittance from any place outside India; or

(ii) Funds held in any non-resident account maintained in accordance with the provisions of the Act, rules or regulations framed thereunder:

Provided further that no payment for any transfer of immovable property shall be made either by traveller's cheque or by foreign currency notes or by any other mode other than those specifically permitted under this clause;

(b) Acquire any immovable property in India other than agricultural land or farm house or plantation property by way of gift from a person resident in India or from an NRI or from an OCI, who in any case is a relative as defined in clause (77) of section 2 of the Companies Act, 2013;

(c) Acquire any immovable property in India by way of inheritance from a person resident outside India who had acquired such property:-

(i) in accordance with the provisions of the foreign exchange law in force at the time of acquisition by him or the provisions of these rules ;or

(ii) from a person resident in India;

(d) Transfer any immovable property in India to a person resident in India;

(e) Transfer any immovable property other than agricultural land or farm house or plantation property to an NRI.

**Answer (1)(d)**

According to Section 9 of the Foreign Contribution (Regulation) Act, 2010, the Central Government may—

(a) Prohibit any person or organisation not specified in section 3, from accepting any foreign contribution;

(b) Require any person or class of persons, not specified in section 6, to obtain prior permission of the Central Government before accepting any foreign hospitality;

(c) Require any person or class of persons not specified in section 11, to furnish intimation within such time and in such manner as may be prescribed as to the amount of any foreign contribution received by such person or class of persons as the case may be, and the source from which and the manner in which such contribution was received and the purpose for which and the manner in which such foreign contribution was utilised;

(d) Without prejudice to the provisions of section 11(1), require any person or class of persons specified in that sub-section to obtain prior permission of the Central Government before accepting any foreign contribution;

(e) Require any person or class of persons, not specified in section 6, to furnish intimation, within such time and in such manner as may be prescribed, as to the receipt of any foreign hospitality, the source from which and the manner in which such hospitality was received:

Provided that no such prohibition or requirement shall be made unless the Central Government is satisfied that the acceptance of foreign contribution by such person or class of persons, as the case may be, or the acceptance of foreign hospitality by such person, is likely to affect prejudicially—

(i) The sovereignty and integrity of India; or

(ii) Public interest; or

(iii) Freedom or fairness of election to any Legislature; or

(iv) Friendly relations with any foreign State; or

(v) Harmony between religious, racial, social, linguistic or regional groups, castes or communities.

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

**Question 2**

*(a) What is the procedure of raising external commercial borrowings ? Explain.*

*(b) Explain various modes of acquiring property outside India by a Resident Indian.*

*(c) Can a resident individual acquire/sell foreign securities without prior approval of Reserve Bank of India ? Comment.*

*(d) Explain the legal tender character of notes under RBI Act, 1934.*

*(e) What is the object and scope of Foreign Exchange Management Act, 1999 ?*

*(4 marks each)*

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

**Question 2A**

*(i) What is Liberalised Remittance Scheme ? What are the facilities available to students for pursuing their studies abroad under this scheme ? Explain.*

(ii) *Under what circumstances the Reserve Bank of India may cancel a certificate of registration granted to non-banking financial company (NBFC) under RBI Act, 1934 ?*

(iii) *What are the objectives of Payment and Settlement System Act, 2007 ?*

(iv) *What are the basic objectives of Present Foreign Trade Policy ? Explain.*

(v) *What are the various classes of Non-banking Financial Companies on the basis of their activities ?* *(4 marks each)*

**Answer 2(a)**

All External Commercial Borrowings (ECB) can be raised under the automatic route if they conform to the parameters prescribed under External Commercial Borrowings Framework.

For approval route cases, the borrowers may approach the Reserve Bank of India with an application in prescribed format (Form ECB) for examination through their Authorised Dealer (AD) Category I bank.

Such cases shall be considered keeping in view the overall guidelines, macroeconomic situation and merits of the specific proposals.

ECB proposals received in the Reserve Bank above certain threshold limit (refixed from time to time) would be placed before the Empowered Committee set up by the Reserve Bank.

The Empowered Committee will have external as well as internal members and the Reserve Bank will take a final decision in the cases taking into account recommendation of the Empowered Committee.

Entities desirous to raise ECB under the automatic route may approach an AD Category I bank with their proposal along with duly filled in Form ECB.

**Answer 2(b)**

According to Section 6(4) of the Foreign Exchange Management Act, 1999 read with Foreign Exchange Management (Acquisition and Transfer of Immovable Property outside India by a person resident in India) Regulation 2015:

— A person resident in India can hold, own, transfer or invest in any immovable property situated outside India if such property was acquired, held or owned by him/ her when he/ she was resident outside India or inherited from a person resident outside India.

— A resident can acquire immovable property outside India by way of gift or inheritance.

— A resident can purchase immovable property outside India out of foreign exchange held in his/ her Resident Foreign Currency (RFC) account.

— A resident can acquire immovable property outside India jointly with a relative who is a person resident outside India, provided there is no outflow of funds from India.

**Answer 2(c)**

A Resident individuals can acquire/sell foreign securities without prior approval of Reserve Bank of India in the following cases:

i. As a gift from a person resident outside India;

ii. By way of ESOPs issued by a company incorporated outside India under Cashless Employees Stock Option Scheme which does not involve any remittance from India;

iii. By way of ESOPs issued to an employee or a director of Indian office or branch of a foreign company or of a subsidiary in India of a foreign company or of an Indian company irrespective of the percentage of the direct or indirect equity stake in the Indian company;

iv. As inheritance from a person whether resident in or outside India;

v. By purchase of foreign securities out of funds held in the Resident Foreign Currency Account; and

vi. By way of bonus/rights shares on the foreign securities already held by them.

vii. Resident individuals are permitted to remit funds under general permission for acquiring qualification shares for holding the post of a Director in the overseas company to the extent prescribed as per the law of the host country where the company is located and the limit of remittance for acquiring such qualification shares shall be within the overall ceiling prescribed for the resident individuals under the Liberalized Remittance Scheme (LRS) in force at the time of acquisition.

**Answer 2(d)**

Section 26(1) of the Reserve Bank of India Act, 1934 states that subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in India in payment or on account for the amount expressed therein, and shall be guaranteed by the Central Government.

Section 26(2) empowers the Central Government, on recommendation of the Central Board, by notification in the Gazette of India to declare that, with effect from such date as may be specified in the notification, any series of bank notes of any denomination to cease to be legal tender save at such office or agency of the Bank and to such extent as may be specified in the notification.

Legal Tender is a coin or a banknote that is legally tenderable for discharge of debt or any financial obligation.

**Answer 2(e)**

The Foreign Exchange Management Act, 1999 was enacted to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India. In fact it is the central legislation that deals with inbound investments into India and outbound investments from India and trade and business between India and the other countries.

Foreign Exchange Management Act, 1999 extends to the whole of India. It shall also apply to all branches, offices and agencies outside India owned or controlled by a person resident in India and also to any contravention thereunder committed outs ide India by any person to whom this Act applies.

**Answer 2A(i)**

The Reserve Bank of India as part of its liberalization measure to facilitate resident individuals to remit funds abroad for permitted current or capital account transactions or combination of both issues Liberalised Remittance Scheme.

Under the Liberalised Remittance Scheme, Authorised Dealers may freely allow remittances by resident individuals up to USD 2,50,000 per Financial Year (April-March) for any permitted current or capital account transaction or a combination of both.

Authorised Dealer Category I banks and Authorised Dealer Category II, may release foreign exchange up to USD 2,50,000 or its equivalent to resident individuals for studies abroad without insisting on any estimate from the foreign University. However, AD Category I bank and AD Category II may allow remittances (without seeking prior approval of the Reserve Bank of India) exceeding USD 2,50,000 based on the estimate received from the institution abroad.

**Answer 2A(ii)**

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

(i) Ceases to carry on the business of a non-banking financial institution in India; or

(ii) Has failed to comply with any condition subject to which the certificate of registration had been issued to it; or

(iii) At any time fails to fulfil any of the conditions such as adequate capital structure and earning prospects; public interest, monetary stability, and economic growth etc. or

(iv) Fails to comply with any direction issued by the Reserve Bank of India under the provisions of Chapter III B of RBI Act ; or

(v) Fails to maintain accounts in accordance with the requirements of any law or any direction or order issued by the Reserve Bank of India under the provisions of Chapter III B of RBI Act; or

(vi) Fails to submit or offer for inspection its books of account and other relevant documents when so demanded by an inspecting authority of the Reserve Bank of India ; or

(vii) Has been prohibited from accepting deposit by an order made by the Reserve Bank of India under the provisions of Chapter III B of RBI Act and such order has been in force for a period of not less than three months.

**Answer 2A(iii)**

The Parliament of India enacted the Payment and Settlement Systems Act, 2007 with an objective to provide for the regulation and supervision of payment systems in

India and to designate Reserve Bank of India as the authority for that purpose and for matters connected therewith or incidental thereto.

Payment and Settlement Systems Act, 2007 prohibits a person to commence or operate a payment system except with an authorization issued by the Reserve Bank of India. The Act also provides for the settlement effected under the rules and procedures of the system provider to be treated as final and irrevocable.

Under the PSS Act, 2007, no person shall commence or operate a payment system except with an authorization issued by the Reserve Bank of India. Similarly Reserve Bank of India has the powers to revoke the authorization granted to any person if it contravenes any of the provisions of PSS Act or does not comply with the regulations or fails to comply with the orders or directions issued by the RBI or operates the payment system contrary to the conditions subject to which the authorization was issued.

**Answer 2A(iv)**

The basic objectives of India's Foreign Trade Policy (FTP) are as under:

— To provide a stable and sustainable policy environment for foreign trade in merchandise and services

— To link rules, procedures and incentives for exports and imports with other initiatives such as "Make in

— India", "Digital India" and "Skills India" to create an "Export Promotion Mission" for India

— To promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports

— To create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the government's flagship "Make in India" initiative

— To provide a mechanism for regular appraisal in order to rationalize imports and reduce the trade imbalance.

**Answer 2A(v)**

| *Classes of Non – Banking Financial Company* | *Activity* |
|---|---|
| Asset Finance Company (AFC) (NBFC - Investment and Credit Companies) | Financing of physical assets including automobiles, tractors and generators. |
| Loan Company | Provision of loan finance |
| (NBFC - Investment and Credit Companies) | |

| | |
|---|---|
| Investment Company (NBFC - Investment and Credit Companies) | Acquisition of securities for purpose of selling |
| NBFC-Infrastructure Finance Company (NBFC- IFC) | Provision of infrastructure loans |
| NBFC-Systemically Important Core Investment Company (CIC-ND-SI) | Makes investments and loans to group companies |
| Infrastructure Debt Fund-NBFC (IDF-NBFC) | Facilitation of flow of long-term debt into infrastructure projects |
| NBFC-Micro Finance Institution (NBFC-MFI) | Credit to economically dis-advantaged groups |
| NBFC-Factor | Acquisition of receivables of an assignor or extending loans against the security interest of the receivables at a discount |
| NBFC-Non-Operative Financial Holding Company (NOFHC) | Facilitation of promoters/ promoter groups in setting up new banks |
| Mortgage Guarantee Company (MGC) | Undertaking of mortgage guarantee business |
| NBFC-Account Aggregator (NBFC-AA) | Collecting and providing information about a customer's financial assets in a consolidated, organised and retrievable manner to the customer or others as specified by the customer. |
| NBFC–Peer to Peer Lending Platform (NBFC- P2P) | Providing an online platform to bring lenders and borrowers together to help mobilise funds |

## PART II

**Question 3**

*(a) What do you mean by Cartel ?*

*(b) What do you understand by Anti-Competitive Agreements under the Competition Act, 2002 ?*

*(c) What do you understand by the term "Combination" under the Competition Act, 2002 ?*

*(d) What is 'Collusive bidding' ? In which ways collusive bidding may occur ?*

*(e) What constitutes 'abuse of Dominance' under Conspetition Act, 2002 ? Critically analyse the relevant provisions.*

*(3 marks each)*

**Answer 3(a)**

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

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

**Answer 3(b)**

*Anti-Competitive Agreements* are those *agreements* that have their object as to prevent, restrict or distort competition in India.

According to Section 3(1) of the Competition Act, 2002, no enterprise or association of enterprises or person or association of persons shall enter into any agreement in respect of production, supply, distribution, storage acquisition or control of goods or provision of services, which causes or is likely to cause an appreciable adverse effect on competition. Section 3(2) further declares that any anti-competitive agreement within the meaning of sub-section 3(1) shall be void. Under the law, the whole agreement is construed as ‘void’ if it contains anti- competitive clauses having appreciable adverse effect on competition. Section 3(3) provides that following kinds of agreements entered into between enterprises or association of enterprises or persons or associations of persons or person or enterprise or practice carried on, or decision taken by any association of enterprises or association of persons, including “cartels”, engaged in identical or similar goods or services which –

(a) directly or indirectly determines purchase or sale prices;

(b) limits or controls production, supply, markets, technical development, investment or provision of services;

(c) shares the market or source of production or provision of services by way of allocation of geographical area of market, or type of goods or services, or number of customers in the market or any other similar way; and

(d) directly or indirectly results in bid rigging or collusive bidding;

shall be presumed to have an appreciable adverse effect on the competition.

**Answer 3(c)**

Combination under the Competition Act, 2002 means acquisition of control, shares, voting rights or assets, acquisition of control by a person over an enterprise where such person has direct or indirect control over another enterprise engaged in competing businesses, and mergers and amalgamations between or amongst enterprises when the combining parties exceed the thresholds set in the Act. The thresholds are specified in the Act in terms of assets or turnover in India and outside India. Entering into a combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India is prohibited and such combination shall be void.

**Answer 3(d)**

Bidding, as a practice, is intended to enable the procurement of goods or services on the most favourable terms and conditions. Invitation of bids is resorted to both by Government (and Government entities) and private bodies (companies, corporations, etc.). But the objective of securing the most favourable prices and conditions may be negated if the prospective bidders collude or act in concert. Such collusive bidding or bid rigging contravenes the very purpose of inviting tenders and is inherently anti-competitive.

Some of the most commonly adopted ways in which collusive bidding or bid rigging may occur are:

— Agreements to submit identical bids

— Agreements as to who shall submit the lowest bid, agreements for the submission of cover bids (voluntarily inflated bids)

— Agreements not to bid against each other

— Agreements on common norms to calculate prices or terms of bids

— Agreements to squeeze out outside bidders

— Agreements designating bid winners in advance on a rotational basis, or on a geographical or customer allocation basis.

**Answer 3(e)**

Section 4 of the Competition Act, 2002 expressly prohibits any enterprise or group from abusing its dominant position.

Section 4(2)(a) states that there shall be abuse of dominant position, if an enterprise or group, directly or indirectly imposes unfair or discriminatory:

(i) condition in purchase or sale of goods or services; or

(ii) price in purchase or sale (including predatory price) of goods or service.

Section 4(2) (b) includes in abuse of dominant position an enterprise or group limiting or restricting:

(i) production of goods or provision of services or market therefore; or

(ii) technical or scientific development relating to goods or services to the prejudice of consumers.

Similarly Section 4 (2) (c), (d) and (e) specify three other forms of abuses namely, if any person indulges in practice or practices resulting in denial of market access in any manner; or makes conclusion of contracts subject to acceptance by other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts and also, if any person uses dominant position in one relevant market to enter into, or protect, other relevant market.

**Question 4**

*(a) What are the factors which are taken into account by the Commission to determine the dominance position of an enterprise under the Competition Act, 2002. Discuss.*

*(b) The basic purpose of Competition Policy and law is to preserve and promote competition as a means of ensuring efficint allocation of resources in an economy. Discuss.* *(5 marks each)*

**Answer 4(a)**

For the purpose of determining whether an enterprise enjoys dominant position or not under Section 4 of the Competition Act, 2002, the Commission shall have due regard to all or any of the following factors, namely–

(a) Market share of the enterprise;

(b) Size and resources of the enterprise;

(c) Size and importance of the competitors;

(d) Economic power of the enterprise including commercial advantages over competitors;

(e) Vertical integration of the enterprises or sale or service network of such enterprises;

(f) Dependence of consumers on the enterprise;

(g) Monopoly or dominant position whether acquired as a result of any statute or by virtue of being a Government company or a public sector undertaking or otherwise;

(h) Entry barriers including barriers such as regulatory barriers, financial risk, high capital cost of entry, marketing entry barriers, technical entry barriers, economies of scale, high cost of substitutable goods or service for consumers;

(i) Countervailing buying power;

(j) Market structure and size of market;

(k) Social obligations and social costs;

(l) Relative advantage, by way of the contribution to the economic development, by the enterprise enjoying a dominant position having or likely to have an appreciable adverse effect on competition;

(m) Any other factor which the Commission may consider relevant for the inquiry.

**Answer 4(b)**

The basic purpose of Competition Policy and law is to preserve and promote competition as a means of ensuring efficient allocation of resources in an economy. Competition policy typically has two elements: one is a set of policies that enhance competition in local and national markets. The second element is legislation designed to prevent anti - competitive business practices with minimal Government intervention, i.e., a competition law. Competition law by itself cannot produce or ensure competition in the market unless this is facilitated by appropriate Government policies. On the other hand, Government policies without a law to enforce such policies and prevent competition malpractices would also be incomplete.

Competition policies cover a much broader set of instruments than competition law and typically include all policies aimed at increasing the intensity of competition or rivalry in local and national markets by lowering entry barriers and opportunities for harmful coordination, to ensure that markets work effectively and serve the interests of all citizens. Competition law is only a subset of a nation's competition policies. Competition policies typically include pro-competition approaches to trade, investment, sectoral regulation, and consumer protection.

**PART III**

**Question 5**

(a) *F, for natural love and affection, promises to give her daughter D ₹1,00,000. But after some time F refuses to fullfil his promise. Advice D what she should do ?* *(4 marks)*

(b) *Whether a person who has obtained possession of an instrument by theft, or undera forged endorsement is a holder under the Negotiable Instrument Act, 1881? Discuss.* *(4 marks)*

(c) *A is the tenant of B. A asks B to clean, repair and maintain the building. B refuses. There is no provision in the lease agreement in respect of cleaning, repairing and maintaining the building. However 'A' files a claim against 'B' under Consumer Protection Act, 2019. Decide referring the relevant provisions of law.* *(4 marks)*

(d) *A gifts ₹ one lakh to B, reserving right to take back ₹ ten thousand out of that at his desire with B's assent. Decide the validity of this gift in the light of relevant provisions of law.* *(4 marks)*

(e) *X and Y, buy 50 bales of cotton agreeing to divide these between them. Decide whether X and Y are partners ? Support your answer in light of Indian Partnership Act, 1932.* *(4 marks)*

**Answer 5(a)**

Present problem relates to section 25 of the Contract Act, 1872, which lays a general rule that an agreement made without consideration is void. Section 25 also lays down exception to this rule which read as if an agreement is expressed in writing and registered and is made out of natural love and affection between parties standing in a near relation of each other, the agreement is valid and enforceable and requires no consideration.

Though in the present problem F promises to give her daughter ₹1,00,000 out of natural love and affection and the parties are standing in near relation to each other but his promise is not in writing and registered, so daughter D is not entitled to get the promise by her father enforced i.e. Oral promise without consideration is not legally enforceable under the given exception, so it is advised to D that she is not entitled to get the promise of her father enforced in the court of law.

**Answer 5(b)**

According to Section 8 of the Negotiable Instruments Act, 1881 a person is a holder of a negotiable instrument who is entitled in his own name to the possession of the instrument, and to recover or receive its amount from the parties thereto. It is not every person in possession of the instrument who is called a holder. To be a holder, the person must be named in the instrument as the payee, or the endorsee, or he must be the bearer thereof.

A person who has obtained possession of an instrument by theft, or under a forged endorsement, is not a holder, as he is not entitled to recover the instrument in his own name. The holder implies de jure (holder in law) holder and not de facto (holder in fact) holder. An agent holding an instrument for his principal is not a holder although he may receive its payment.

**Answer 5(c)**

The present problem relates to Consumer Protection Act, 2019. Issue involved in the question is whether A is the consumer or not. A files for relief under the Consumer Protection Act, 2019 in view of the definition of "Consumer" given in the Act.

According to Section 2(7)(ii) of the Consumer Protection Act, 2019, Consumer means any person who hires or avails of any service for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any beneficiary of such service other than the person who hires or avails of the services for consideration paid or promised, or partly paid and partly promised, or under any system of deferred payment, when such services are availed of with the approval of the first mentioned person, but does not include a person who avails of such service for any commercial purpose.

Further, in *Laxmiben Laxmichand Shah* v. *Sakerben Kanji Chandan and others*, the Supreme Court held that the tenant entering into lease agreement with the landlord cannot be considered as consumer under the Consumer Protection Act. Where there was no provision in the lease agreement in respect of cleaning, repairing and maintaining the building, the rent paid by tenant is not the consideration for availing these services and therefore, no question of deficiency in service.

Therefore, going by the above judgement and definition of consumer in the Consumer Protection Act, 2019, A cannot be a consumer for services of cleaning, repairing and maintaining the building which is not part of lease agreement and for which rent he is paying cannot be considered to be consideration. If he is not consumer, there is no question of deficiency of service under the Consumer Protection Act, 2019.

**Answer 5(d)**

This present problem relates to Transfer of Property Act, 1882. This involves an issue of validity of gift. In this case, A gifts to B ₹ one lakh but with B's assent, he reserves the right to get back ₹ ten thousand out of the entire amount of ₹ one lakh.

Section 122 of the Transfer of Property Act defines "gift" as follows:

"Gift" is the transfer of certain existing moveable or immoveable property made voluntarily and without consideration by one person called the donor, to another called the donee and accepted by or on behalf of the donee.

One of the essential characteristic of a gift is that it cannot be revoked at the will and pleasure of the grantor. A revocable gift is one which may be revoked by the donor at any time. Its revocation would depend upon the mere will or pleasure of the donor. Such a gift is void. But on the other hand, if the condition is one which does not depend on the will or pleasure of the donor, the gift can be revoked on the happening of such condition.

*Illustrations*

(b) A gives a lakh of rupees to B, reserving to himself with B's assent the right to take back at leisure Rs. 10,000 out of one lakh. The gift holds goods as to Rs. 90,000 but is void as to Rs. 10,000 which continues to belong to A.

In view of the definition of gift contained under Section 122, the gift, in the case given in the question, holds good as to Rs. 90,000 but is void as to Rs. 10,000 which continue to belong to A. This is because, once a gift is made, it can't be revoked at the will desire or pleasure of the Donor. Since the gift of Rs. 10,000 solely depend at the desire of A, hence void and gift for rest Rs. 90, 000 shall be enforceable under the law.

**Answer 5(e)**

This question relate to the Indian Partnership Act, 1932. The issue involved in this problem is whether X & Y are partners or not?

According to section 4 of the Act, "Partnership is the relation between person who have agreed to share the profits of a business carried on by all or any of them acting for all."

Therefore, to constitute a partnership, the parties must have agreed to carry on a business and to share profits in common. "Profits" mean the excess of returns over advances, the excess of what is obtained over the cost of obtaining it. It follows that the sharing of profits is an essential ingredient of partnership.

In present problem X and Y buy 50 bales of cotton agreeing to divide bales between them.

So here the prima facie evidence of the existence of partnership i.e. sharing of profits is missing hence in view of Section 4 of the Indian Partnership Act, 1932, X and Y are not partners.

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

**Question 6**

*Distinguish between the following :*

*(a) English mortgage and mortgage by conditional sale*

*(b) Condition and warranty*

*(c) Promissory Note and Bill of Exchange*

*(d) Indeminity and Guarantee*

*(e) Charge and mortgage.* *(3 marks each)*

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

**Question 6A**

*(i) State the objects and reasons for which Real Estate (Regulation and Development) Act, 2016 has been framed.*

*(ii) Against whom the specific performance of a contract cannot be enforced under The Specific Relief Act, 1963.*

*(iii) What is the law relating to declarations on prepacked commodity under legal Metrology Act, 2009 ? Explain.*

*(iv) Briefly explain the powers of Tribunal established under Real Estate (Regulation and Development) Act, 2016.*

*(v) "Money laundering is an Economic Crime". What punishment is provided for it under Prevention of Money Laundering Act, 2002 ? (3 marks each)*

**Answer 6(a)**

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

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

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

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

**Answer 6(b)**

Section 12 of the Sale of Goods Act, 1930 draws a clear distinction between a condition and a warranty. Whether a stipulation is a condition or only a warranty is a matter of substance rather than the form of the words used. A stipulation may be a condition though called a warranty and vice versa.

If the stipulation forms the very basis of the contract or is essential to the main purpose of the contract, it is a condition. The breach of the condition gives the aggrieved party a right to treat the contract as repudiated. Thus, if the seller fails to fulfil a condition, the buyer may treat the contract as repudiated, refuse the goods and, if he has already paid for them, recover the price. He can also claim damages for the breach of contract.

If the stipulation is collateral to the main purpose of the contract, i.e., is a subsidiary promise, it is a warranty. The effect of a breach of a warranty is that the aggrieved party cannot repudiate the contract but can only claim damages. Thus, if the seller does not fulfil a warranty, the buyer must accept the goods and claim damages for breach of warranty.

**Answer 6(c)**

The following are the important points of distinction between a promissory note and a bill of exchange:

1. A promissory note is a two-party instrument, with a maker (debtor) and a payee (creditor). In a bill of exchange there are three parties—drawer, drawee and payee, though any two out of the three capacities may be filled by one and the

same person. In a bill, the drawer is the maker who orders the drawee to pay the bill of exchange to a person called the payee or to his order. When the drawee accepts the bill of exchange he is called the acceptor.

2. A promissory note cannot be made payable to the maker himself, while in a bill of exchange, the drawer and payee may be the same person.
3. A promissory note contains an unconditional promise by the maker to pay to the payee or his order; in a bill of exchange there is an unconditional order to the drawee to pay according to the directions of the drawer.
4. A promissory note is presented for payment without any prior acceptance by the maker. A bill of exchange payable after sight must be accepted by the drawee or someone else on his behalf before it can be presented for payment.
5. The liability of the maker of a pro-note is primary and absolute, but the liability of the drawer of a bill of exchange is secondary and conditional.
6. Foreign bill of exchange must be protested for dishonour but no such protest is necessary in the case of a note.
7. When a bill of exchange is dishonoured, due notice of dishonour is to be given by the holder to the drawer and the intermediate endorsee, but no such notice need to be given in the case of a note.
8. A bill of exchange can be drawn payable to bearer provided it is not payable on demand. A promissory note cannot be made payable to bearer, even if it is made payable otherwise than on demand.

**Answer 6(d)**

A contract of indemnity differs from a contract of guarantee in the following ways:

1. In a contract of indemnity there are only two parties: the indemnifier and the indemnified. In a contract of guarantee, there are three parties; the surety, the principal debtor and the creditor.
2. In a contract of indemnity, the liability of the indemnifier is primary. In a contract of guarantee, the liability of the surety is secondary. The surety is liable only if the principal debtor makes a default, the primary liability being that of the principal debtor.
3. The indemnifier need not necessarily act at the request of the debtor; the surety gives guarantee only at the request of the principal debtor.
4. In the case of a guarantee, there is an existing debt or duty, the performance of which is guaranteed by the surety, whereas in the case of indemnity, the possibility of any loss happening is the only contingency against which the indemnifier undertakes to indemnify.
5. The surety, on payment of the debt when the principal debtor has failed to pay is entitled to proceed against the principal debtor in his own right, but the indemnifier cannot sue third-parties in his own name, unless there be assignment. He must sue in the name of the indemnified.

**Answer 6(e)**

1. A mortgage is transfer of an interest in the property made by the mortgagor as a security for the loan, while the charge is not the transfer of any interest in the property though it is security for the payment of an amount.
2. A charge may be created by act of parties or by operation of law. A mortgage can only be created by act of parties.
3. A mortgage deed must be registered and attested by two witnesses, while a charge need not be made in writing, and if reduced to writing, it need not be attested or registered.
4. In certain types of mortgage (viz., mortgage by conditional sale and anomalous mortgage) the mortgagor can foreclose the mortgaged property but in charge, the charge-holder cannot foreclose though he can get the property sold as in a simple mortgage.
5. From the very nature of it, a charge as a general rule, cannot be enforced against a transferee for consideration without notice. But in a mortgage, the transferee of mortgaged property from the mortgagor, can only acquire the remaining interest of the mortgagor, and is therefore, only bound by the mortgage.
6. In a charge created by act of parties the specification of the particular fund or property negatives a personal liability and the remedy of the charge-holder is against the property only. In a mortgage, there can be security as well as personal liability. In fact, the absence of a personal liability is the principal test that distinguishes a charge from a simple mortgage.

**Answer 6A(i)**

The objects and reasons for which Real Estate (Regulation and Development) Act, 2016 has been framed are as under:

— Ensure responsibility towards allottees and protect their interest.

— Infuse transparency, ensure fair-play, reduce frauds and delays.

— Introduce professionalism and pan India standardization.

— Establish symmetry of information between the developers and buyers.

— Imposing certain responsibilities on both builders and investors

— Establish a regulatory oversight mechanism to enforce contracts.

— Promote reliable governance in the sector which in turn would create investor confidence.

**Answer 6A(ii)**

Under Section 16 of the Specific Relief Act, 1963 specific performance of a contract cannot be enforced in favour of a person —

(a) Who has obtained substituted performance of contract under section 20; or

(b) Who has become incapable of performing, or violates any essential term of, the contract that on his part remains to be performed, or acts in fraud of the contract, or wilfully acts at variance with, or in subversion of, the relation intended to be established by the contract; or

(c) Who fails to prove that he has performed or has always been ready and willing to perform the essential terms of the contract which are to be performed by him, other than terms the performance of which has been prevented or waived by the defendant.

**Answer 6A(iii)**

Section 18 of the Legal Metrology Act, 2009 states that no person shall manufacture, pack, sell, import, distribute, deliver, offer, expose or possess for sale any pre-packaged commodity unless such package is in such standard quantities or number and bears thereon such declarations and particulars in such manner as may be prescribed.

Any advertisement mentioning the retail sale price of a pre-packaged commodity shall contain a declaration as to the net quantity or number of the commodity contained in the package in such form and manner as may be prescribed.

**Answer 6A(iv)**

Section 53 of the Real Estate (Regulation and Development) Act, 2016 deals with Powers of Tribunal. According to Section 53 of the Act:

(1) The Appellate Tribunal shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908 but shall be guided by the principles of natural justice.

(2) Subject to the provisions of this Act, the Appellate Tribunal shall have power to regulate its own procedure.

(3) The Appellate Tribunal shall also not be bound by the rules of evidence contained in the Indian Evidence Act, 1872.

(4) The Appellate Tribunal shall have, for the purpose of discharging its functions under this Act, the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 in respect of the following matters, namely:— (a) summoning and enforcing the attendance of any person and examining him on oath; (b) requiring the discovery and production of documents; (c) receiving evidence on affidavits; (d) issuing commissions for the examinations of witnesses or documents; (e) reviewing its decisions; (f) dismissing an application for default or directing it ex parte; and (g) any other matter which may be prescribed.

(5) All proceedings before the Appellate Tribunal shall be deemed to be judicial proceedings within the meaning of sections 193, 219 and 228 for the purposes of section 196 of the Indian Penal Code, and the Appellate Tribunal shall be deemed to be civil court for the purposes of section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973.

**Answer 6A(v)**

Section 4 of the Prevention of Money Laundering Act, 2002 provides that any person who commits the offence of money laundering shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years and also liable to fine.

However, where the proceeds of crime involved in money laundering relates to any offence specified under the Narcotic Drugs and Psychotropic Substances Act, the punishment may extend to rigorous imprisonment for ten years.

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# FINANCIAL AND STRATEGIC MANAGEMENT

*Time allowed : 3 hours* *Maximum marks : 100*

**PART I**

1. A company would like to have liquid resources for trasaction purposes, as a precautionary measure and for ................

   (A) Fiance opportunities

   (B) Resource utilization

   (C) Speculative opportunities

   (D) Accumulation of future reserves

2. Efficiency of production operations and the relationship between production cost and selling price is resulting of :

   (A) Net profit before taxes

   (B) Net profit before taxes and deferred expenses

   (C) Gross profit margin

   (D) Gross profit plus realization from production wastages

3. The XYZ Co. Ltd. borrowed capital is NIL and entire capital block of ₹300 lakh is funded by owners. Earning Before Interest and Tax (EBIT) for the year @ 28.50%, applicable tax rate @ 45%. Calculate Earning After Tax (EAT).

   (A) ₹42.50 Lakh

   (B) ₹47.03 Lakh

   (C) ₹42.60 Lakh

   (D) ₹42.75 Lakh

4. ABC Ltd. has borrowed capital of ₹100 lakh and rate of interest is 12%. Owners capital ₹400 lakh and EBIT for the year is 10% against the sales of ₹1200 lakh. Applicable tax rate is 50%. Determine the percentage of return on investment to owners fund.

   (A) 12.50%

   (B) 13.25%

   (C) 13.50%

   (D) 14.50%

5. The goal of Economic Value Added (EVA) is to take into account the ........................ in the company.

   (A) Cost of investments

   (B) Cost of insurance

   (C) Cost of capital invested

   (D) Cost of non-service capital invested

6. The finance manager of the company can take care of duties such as :

   (1) Forecasting of sales

   (2) Raising funds

   (3) Managing funds

   (4) Managing board of directors meeting

   Correct combinations of emerging roles of finance manager are :

   (A) 1, 2 and 3

   (B) 1, 2 and 4

   (C) 2 and 3

   (D) 2, 3 and 4

7. The capital budgeting techniques are :

   (1) Payback period

   (2) Average rate of return

   (3) Net present value

   (4) Internal rate of return

   (5) Profitability index

   Which of the above is discounted cash flow techniques ?

   (A) 3, 4 and 5

   (B) 3, 4 and 2

   (C) 1, 2 and 4

   (D) 2, 3 and 1

8. The initial investment a project requires ₹5,00,000, the expected annual cash inflow is ₹90,000 for ten years. Determine the pay back period.

   (A) 5 years and 9 months (Approx.)

   (B) 5 years and 4 months (Approx.)

   (C) 4 years and 7 months (Approx.)

   (D) 5 years and 7 months (Approx.)

9. The initial investment required for projects 'A' and 'B' is ₹1,00,000 each. The present value of future cash flows from the projects are ₹1,15,500 and ₹1,19,500 respectively. Calculate the Profitability Index (PI) of projects A and B.

(A) PI of A and B – 0.8658 and 0.8368

(B) PI of A and B – 1.155 and 1.195

(C) PI of A and B – 0.8368 and 0.8658

(D) PI of A and B – 1.195 and 1.155

10. To determine the co-efficient of variation, the formula is :

(A) $\frac{\text{Standard Deviation}}{\text{Median}} \text{ X } 100$

(B) $\frac{\text{Standard Deviation}}{\text{Mode}} \text{ X } 100$

(C) $\frac{\text{Standard Deviation}}{\text{Mean}} \text{ X } 100$

(D) $\frac{\text{Mean}}{\text{Standard Deviation}} \text{ X } 100$

11. Profitability Index method gives due consideration to the .................... .

(A) Time value of money

(B) Finance cost of investments

(C) Traditional value of money

(D) Cost and time value of money

12. ABC Ltd. has estimated cash inflow of year 1, 2 and 3 as ₹500 lakh, 1200 lakh and ₹1500 lakh respectively. The probability of success is 0.70, 0.65 and 0.75 respectively. The PV factor @ 10% for the year 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively. Estimated initial investment is ₹1500 lakh. The expected NPV is :

(A) ₹307.21 Lakh

(B) ₹305.71 Lakh

(C) ₹307.31 Lakh

(D) ₹310.51 Lakh

13. A Ltd., informed Profit After Tax (PAT) ₹7,50,000. Interest expenses were ₹2,75,000, tax rate was 40%. What will be the Net Operating Income of A Ltd. ?

(A) ₹13,25,000

(B) ₹14,25,000

(C) ₹13,75,000

(D) ₹15,25,000

14. The financial leverage can be arrived by using the formula :

(A) Operating Profit/Profit After Tax

(B) Profit After Tax/EBIT

(C) EBIT/EPS

(D) EBIT (Operating Profit)/Profit Before Tax

15. The financial breakeven point is :

(A) Level of EBT at which EPS is zero

(B) Level of EAT at which EPS is zero

(C) Level of EBIT at which EPS is zero

(D) Level of EBIT at which EPS is zero and above

16. NM Co. Ltd., reported sales for the year 50 lakh and variable cost ratio is 57% and fixed cost of admin and selling and distribution as 9.50 and 4.80 and 3.90 lakh, respectively. The resulting operating leverage is :

(A) 6.72 Times

(B) 6.89 Times

(C) 6.52 Times

(D) 6.69 Times

17. There are four approaches to capital structure decisions :

(1) Net Income

(2) Net Operating Income

(3) ........................ (4) .....................

(A) Modern Capital Theory, Traditional

(B) Traditional, Gross Income

(C) Traditional, Michael Miller

(D) Modigliani Miller, Traditional

18. Which of the followings are the type of capital structure ?

(1) Horizontal

(2) Polygon

(3) Pyramid

(4) Inverted Pyramid

(5) Rhombus

(6) Vertical

(A) 6, 5, 4 and 3

(B) 5, 4, 3 and 2

(C) 1, 3, 4 and 6

(D) 1, 3, 4 and 5

19. The internal sources of long term finance are :

(A) Equity share capital, Preference share capital, Retained earnings

(B) Equity share capital, Preference share capital, Debentures

(C) Debentures, Term loans, Retained earnings

(D) Preference share capital, Term loans, Debentures

20. A Ltd. Co. issued 6%, 2000 irredeemable debentures of ₹100 each @ 10% premium. The company falls in 50% tax bracket. Find out the cost of debenture after tax.

(A) 2.73%

(B) 6.00%

(C) 3.00%

(D) 3.73%

21. A company has issued 10,000 equity shares of ₹100 each. Its current market price is ₹98 per share and the current dividend is ₹4.5 per share. The dividends are expected to grow at the rate of 10%. Compute the cost of equity capital.

(A) 15.05%

(B) 9.80%

(C) 10.00%

(D) 4.50%

22. The cost of retained earnings are often taken as equal to the :

(A) Cost of equity

(B) Cost of debenture

(C) Weighted Average Cost of Capital

(D) Any of the above

23. Long term finance is required to finance :

 (A) Fixed assets, variable part of working capital and expansion of business

 (B) Fixed assets, permanent part of working capital and expansion of business

 (C) Fixed assets and working capital

 (D) Only fixed assets

24. The capital structure of ABC Ltd. consists, debentures, preference share, equity shares and retained earnings. The weight of each security is 28.57%, 9.53%, 14.28% and 47.62% respectively. The specific cost of capital is 14.6%, 10.50%, 20.00% and 18.00% respectively. Determine the weighted average cost of capital (WACC).

 (A) 16.60%

 (B) 18.20%

 (C) 16.42%

 (D) 15.60%

25. In case of agricultural and rurral development projects generally the prescribed IRR for viability is :

 (A) 10% in India and other developing countries

 (B) 15% in India and other developing countries

 (C) 20% in India and other developing countries

 (D) 22.5% in India and other developing countries

26. Benefit cost ratio (BCR) is unviable when it is :

 (A) Less than one

 (B) Equal to one

 (C) More than one

 (D) More than five

27. Lending policy and appraisal norms by banks are decided by the ....................

 (A) Reserve Bank of India

 (B) Government of India

 (C) Financial Institutions

 (D) Prime Minister of India

28. Which of the following is not a feature of Finance Lease ?

 (A) The lessee is responsible for maintenance, insurance and taxes

 (B) The lessee usually enjoys the option for renewing the lease

 (C) It is an intermediate term to a long-term non-cancellable arrangement

 (D) The lease term is significantly less than the economic life of the equipment

29. Presently, units in Special Economic Zones (SEZs) enjoy……..% income tax exemptions on export income for first five years,…….% for the next five years thereafter and…….% of the plowed back export profit for another five years.

    (A) 100%, 50%, 50%

    (B) 100%, 100%, 50%

    (C) 100%, 50%, 25%

    (D) 50%, 25%, 25%

30. Cost escalation results in :

    (A) The decrease in project cost

    (B) The increase in project cost

    (C) No change in project cost

    (D) The increase in profit

31. Which one of the following is not an assumption of Walter's model ?

    (A) The firm finance all investment through Debt or Retained earnings

    (B) The firm's internal rate of return is constant

    (C) The firm's cost of equity capital is constant

    (D) The firm has a very long or infinite life

32. When return on investment is equal to the market capitalization rate, the optimum payout ratio would be :

    (A) Zero

    (B) 100%

    (C) 50%

    (D) All the payout ratios would be optimum

33. A company earns ₹5 per share. The capitalization rate is 10% and rate of return on investment is 18%. What would be the value of share at optimum payout ratio ?

    (A) ₹70

    (B) ₹80

    (C) ₹90

    (D) ₹100

34. A Ltd. has 20,000 shares of ₹100 each. The company is contemplating to declare a dividend of ₹5 per share at the end of the current year. The capitalization rate of the company is 10%. Calculate the value of share if dividend is not declared.

    (A) ₹100

    (B) ₹105

    (C) ₹110

    (D) ₹115

35. Determine the market price of a share of A Ltd. by using Gordon's Model. Given $k_e$ = 12%, E = 20, r = 12%, b = 60%
    (A) ₹166.67
    (B) ₹210.52
    (C) ₹189.19
    (D) ₹181.82
36. If a company is using constant payout ratio policy of dividend, the amount of dividend would:
    (A) decrease with an increase in income
    (B) increase with an increase in income
    (C) remain same
    (D) can't be determined
37. A company has sales of ₹20 crore and 40% of the sales is on credit. Expenses on credit collection is 1.50%. The company targets to reduce collection expenses by 40%. Calculate the expected saving target of the company.
    (A) ₹4.80 lakh
    (B) ₹7.20 lakh
    (C) ₹4.50 lakh
    (D) ₹7.80 lakh
38. The monthly requirement of raw material of A Ltd. is 1200 units, ordering cost is ₹400 per order and carrying cost is 13% of unit value of ₹150. EOQ units are :
    (A) 767 Units
    (B) 769 Units
    (C) 762 Units
    (D) 765 Units
39. Negative working capital implies that :
    (A) Current Assets > Current Liabilities
    (B) Current Assets = Current Liabilities
    (C) Current Assets < Current Liabilities
    (D) Current Assets > Fixed Assets
40. A company has Raw material holding period- 27 days; Conversion period-25 days; Finished goods holding period-28 days; Period of accounts receivables-20 days; Period of accounts payable - three fourth of accounts recievables; operating cycle period will be :
    (A) 65 days
    (B) 75 days
    (C) 80 days
    (D) 85 days

41. Find out the average size of receivables if the goods are sold for ₹10,00,000 on a net 60 credit term with an assumption that 25% of the customers do not pay within the prescribed time.

(A) ₹2,50,000

(B) ₹2,00,000

(C) ₹2,08,333

(D) ₹2,18,333

42. Which of the following statements is not true?

(A) Management of working capital is an essential task of the finance manager

(B) Fluctuating working capital is needed to meet the seasonal requirements of the business

(C) A conservative current asset financing policy relies more on short term bank financing and less on long term sources.

(D) An aggressive current asset financing policy relies heavily on short term bank finance.

43. According to Dow Jones theory, share prices demonstrate a pattern over :

(A) one to two years

(B) two to three years

(C) three to four years

(D) four to five years

44. The term "ECMH" refers to :

(A) Efficient Capital Micro Investment Hypothesis

(B) Efficient Capital Macro Investment Hypothesis

(C) Efficient Capital Management Investment Hypothesis

(D) Efficient Capital Market Hypothesis

45. Double bottom formation chart represents :

(A) a bullish development

(B) a bearish development

(C) a pattern of uncertainty

(D) None of the above

46. Which of the following are two major tools of technical analysis ?

(A) Line chart, Bar chart

(B) Triangular task, Range taks

(C) Candlestick chart, Point and figure chart

(D) Charts, Indicators

47. Risk can be classified into :

(A) Planned, Unplanned

(B) Regular, Irregular

(C) Organized, Unorganized

(D) Systematic, Unsystematic

48. Which of the following is not a requirement for an efficient security market ?

(A) Taxes are assumed to have no noticeable effect on investment policy

(B) Investors are rational

(C) Transaction costs of securities are considered

(D) Every investor has similar access to investible funds at the same terms and conditions

49. From the following calculate coefficient of correlation of x and y :

Covariance between x and y = –8

Standard deviation of x = 2

Standard deviation of y = 4

(A) –1.0

(B) 1.0

(C) 0.5

(D) – 0.5

50. If the stocks are independent of each other, the correlation coefficient would be:

(A) Zero

(B) +1

(C) –1

(D) 0.50

51. Utility of the portfolio can be measured through :

(A) Risk squared/Risk tolerance

(B) Risk tolerance/Risk squared

(C) Expected return – Risk penalty

(D) Risk penalty – Expected return

52. If the risk penalty is 4.50% and portfolio's expected return is 13%, what will be the utility of the portfolio?

(A) 8.5%

(B) 2.89%

(C) 0.35%

(D) –8.5%

53. Which of the following is not an assumption of CAPM?

(A) Diversified Portfolio

(B) Single-period transaction horizon

(C) Investor can borrow and lend at the risk-free rate of return

(D) Capital market is not perfect

54. From the following calculate Enomic Value Added (EVA) : Capital invested ₹50,000; operating profit after tax 20,000; opportunity cost is 10%.

(A) ₹15,000

(B) ₹20,000

(C) ₹30,000

(D) ₹50,000

55. ABC Ltd. paid up share capital is ₹10 lakh of 2.00 lakh equity shares (Dividend paid @ 5% per equity) and 10% preference share capital 50 lakh. Income tax @ 40% and term loan from SBI ₹2 crore @ 15% interest per annum. EBIT for the year is :

(A) 55 lakh

(B) 48.00 lakh

(C) 52 lakh

(D) 54.00 lakh

56. Ravi and Sam invested in equity market ₹2.00 lakh each and Ravi invested in manufacturing sector and Sam invested in IT sector at the end of the year overall yield from manufacturing sector 4.75% and IT sector 7.25%. The alternatively Bank interest yield of 6.75% in term deposits.

Calculate loss or gain to Ravi and Sam.

(A) Loss 1,000, Loss - 1,000

(B) Gain 2,000, Gain - 2,000

(C) Loss 4,000, Gain - 1,000

(D) Gain 2,500, Gain - 1,000

57. GRI Co. Ltd., decided to invest in plant and machinery ₹650.00 lakh and life of asset estimated is 5 years. At the end of the fifth year estimated residual value 3.00 lakh and disposal expenses 1.00 lakh only. The estimated inflow ₹75, 90, 110, 125 and 140 lakh respectively and PVF @ 9% for the year 1-5 as (0.9174, 0.8417, 07722, 0.7084 and 0.6499 respectively). Calculate NPV.

(A) 239.66

(B) (–) 239.66

(C) 240.96

(D) – 240.96

58. Das Co. Ltd., EBIT for the year 15 lakh interest @ 12.5% loan capital of 40 lakh and 13.75% loan capital of 30 lakh and soft loan interest @ 5.50% against loan capital of 75 lakh.

Company's EBT as % to EBIT is:

(A) 11.67%

(B) 11.33%

(C) 11.37%

(D) 11.55%

59. AXN Co. Ltd., has two products X and Y. Y's selling price @ 120% of X and sales volume of 'X' as 150% of Y's sales of 3,00,000 units @ 90 per unit. The variable cost per unit 'X' and 'Y' is 70 and 88 respectively and Fixed Cost 8.50 lakh per annum. Calculate operating leverage :

(A) 1.43

(B) 1.58

(C) 1.92

(D) 1.25

60. From the following information, calculate the expected rate of return of a portfolio:

Risk free rate of interest 10%

Expected return of market portfolio 16%

Standard deviation of an asset 2.8%

Market standard deviation 2.3%

Correlation co-efficient of portfolio with market 0.8%

(A) 15.82%

(B) 13.94%

(C) 10.00%

(D) 16.00%

**PART II**

61. Match the correct management theories of

    (1) Scientific management (2) Administrative

    (3) Bureaucratic (4) Relations

    (a) Henri Fayol's (b) Elton Mayo's

    (c) Frederic W. Taylor (d) Max Weber

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

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

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

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

62. According to Theo Haimann ''Staffing Pertains to recruitment, selection, development and _______''

    (A) Orientation and Placement

    (B) Compensation of Subordinates

    (C) Performance and Evaluation

    (D) Promotion and Transfer

63. The direction is said to be all those activities which are designed to encourage the subordinate.....................

    (A) to work superior's satisfaction

    (B) to work management objectives

    (C) to work effectively and efficiently

    (D) to work as a team and to achieve the common goa

64. Controlling measures, the deviation of actual performance from the :

    (A) Planned Performance

    (B) Standard Performance

    (C) Deviated Path of Management Plan

    (D) Ineffective areas of performance

65. Which of the following is not a characteristic of controlling function of management?

    (A) Controlling is an end function

    (B) Controlling is a dynamic process

    (C) Controlling is not related with planning

    (D) Controlling is forward looking

66. "Rule of thumb should be replaced by scientific analysis of work." The above principle was given by :

    (A) Henri Fayol

    (B) F.W. Taylor

    (C) Max Weber

    (D) Elton Mayo

67. Select the correct sequence of the four phases of strategic management process:

    (A) Strategy Formulation — Strategy Implementation — Environmental scanning — Strategy evaluation

    (B) Environmental scanning — Strategy evaluation — Strategy formulation — Strategy implementation

    (C) Environmental scanning — Strategy formulation — Strategy Implementation — Strategy evaluation

    (D) Strategy evaluation — Environmental scanning — Strategy formulation — Strategy implementation

68. A company secretary in today's era while discharging his or her professional obligations has to perform several roles; from the following list out the roles to be performed by a company secretary.

    (1) Advisory

    (2) Compliances

    (3) Flawless disclosure and reporting

    (4) Communication with stakeholders

    (A) 1, 2, 3, 4

    (B) 1, 2, 4

    (C) 1, 2, 3

    (D) 2, 3, 4

69. The Professor Michael Porter's five forces factors are (1) Threat of new entry (2) Supplier power (3) Buyer power (4) ................... (5) .....................

    (A) Negotiation skill, Market Alternatives

    (B) Threat of substitutes, Poor marketing network

    (C) Threat of substitutes, Rivalry among existing competitors

    (D) Marketing Plan, Advertisement budget

70. Which of the following statements is not true?

(A) Strategic leadership refers to a manager's potential to articulate the strategic vision for the organization.

(B) Strategic leaders generate organizational structure, assign resources and communicate strategic vision.

(C) Strategic leader have to work in a certain environment on various strategic issues.

(D) The main purpose of strategic leadership is strategic productivity.

71. The corporate finance manager should try to balance between................ to ensure minimized risk and maximized profit.

(A) Unit cost and profit

(B) Debt capital interest and outflow of cash

(C) Cost savings and controlled expenses

(D) Debt and equity

72. The dividend declaration is driving force to investors to invest more and positive sign of equity market.

(A) Statement is correct

(B) Statment is incorrect

(C) Statment is exceptional

(D) Statement is not acceptable

73. …………………is one of the implementing HR-Strategy.

(A) Economical HR budget

(B) Identifying HR weakness

(C) Outcome of HR deployed

(D) Gap Analysis

74. The UN Co. Ltd., took a policy decision that company's products will be converted as Eco Friendly products and this move is known as ................

(A) Competitive priorities of production strategy

(B) Change in conventional sales strategy

(C) Future market customer strategy

(D) Alternative cost saving strategy

75. The Logistic is ..................... to tactical decisions about transporting and warehousing.
    (A) confined
    (B) not confined
    (C) analytical tool
    (D) cost saving area
76. Under Low-Cost strategy, the company fights…………by selling its products at .............. prices.
    (A) wide market competition, buy one get one offer.
    (B) massive market competition, very lower
    (C) cut-throat competition, heavy discount
    (D) aggressive competitor market share, throw away
77. Which of the following is not correct for vision statement ?
    (A) It outline WHERE you want to be
    (B) It talks about future
    (C) It lists where you see yourself some years from now
    (D) It answers the question, "What do we do ? What makes us different ?"
78. Match the following (1) Maxi-Maxi (i) Defensive (2) Maxi-Mini (ii) Competitive (3) Mini-Maxi (iii) Conservative (4) Mini- Mini (iv) Aggressive
    (A) (1)-(iv), (2)-(iii), (3)-(ii), (4)-(i)
    (B) (1)-(iii), (2)-(ii), (3)-(iv), (4)-(i)
    (C) (1)-(i), (2)-(iii), (3)-(ii), (4)-(iv)
    (D) (1)-(iv), (2)-(i), (3)-(ii), (4)-(iii)
79. Indian Dairy Products market total size is ₹28,000 crore and XY Co. Ltd., dominating market share of ₹4,800 crore and AN Co. Ltd., having turnover of ₹428.50 crore. Find relative market share of AN Co. Ltd.
    (A) 8.93%
    (B) 17.14%
    (C) 1.53%
    (D) 15.16%
80. The terms, build; hold; harvest; divest are closely linked with strategies of..................
    (A) Ansoff Matrix
    (B) BCG Matrix
    (C) ADL Matrix
    (D) GE Mckinsey Matrix

81. Dev Co. Ltd., Strategic Management Team now under the process of designing the strategic plan analysis and one of the plans using the terms SO, WO, ST, WT which is fit with matrix boxes of :

(A) TOWS Analysis

(B) SWOT Analysis

(C) CPM Analysis

(D) PERT Analysis

82. The ................. Matrix also helps in brainstorming to bring out great ideas to generating effective strategies and tactics.

(A) SWOT

(B) Defensive

(C) Aggressive

(D) TOWS

83. PERT and CPM two complementary statistical techniques utilized in .................

(A) Event based scheduling methods

(B) Activity time-based scheduling methods

(C) Network based scheduling methods

(D) Project modeling methods

84. The book ''Competitive Advantages : Creating and Sustaining Superior Performance'' is authored by :

(A) Michael Samuel

(B) Michael Lawrence

(C) Michael Arthur

(D) Michael Porter

85. Which of the following is not a component of macro environment of external environment?

(A) Suppliers, customers, marketing inter-mediaries, competitors, public

(B) Economic, political-legal

(C) Demographic, natural, ecological

(D) Global, Socio-cultural

86. The strategy formulation is largely a/an .............. process whereas strategy implementation is more operational in character.

(A) Intellectual

(B) Conceptual

(C) Analytical

(D) Strategy

87. Name the 3S's which are described as Hard S's by Mckinsey :

(A) Strategy, Structure, Systems2

(B) Strategy, Shared value, Style

(C) Skills, Staff, Style

(D) Skills, Shared value, System

88. Which "S" is not part of Mckinsey 7-S framework ?

(A) Super Ordinate Goals

(B) Skills

(C) Staff

(D) Strategy

89. Which of the following is not true for balance scorecard ?

(A) The balance scorecard is divided into four main areas

(B) The four areas are not interrelated

(C) The balance scorecard is used as a strategic planning and a management techniques

(D) Financial perspective, business process perspective, customer perspective and learning and growth perspective are the four main areas of balance scorecard.

90. Which of the following is not an example of strategic changes that most of the companies pursue :

(A) Re-engineering

(B) Restructuring

(C) Innovation

(D) Shut Down

91. Restructuring and downsizing becomes necessary due to :

(A) New technology development

(B) Reduction in demand

(C) Improving the competitive advantages

(D) All the options are correct

92. Which of the following techniques are generally used for exercising strategic leap control ?

(A) Strategic issue management

(B) Strategic Field Analysis

(C) Both (A) and (B)

(D) None of the above

93. The primary objective of business process re-engineering is to :

(A) Eliminate redundancies

(B) Eliminate enterprise costs

(C) Eliminate heavy investment in low return

(D) Both (A) and (B)

94. The three main properties of Block Chain technology are :

(A) Centralization, Transparency, Improvements

(B) Recentralization, Transparency, Immutability

(C) Decentralization, Transparency, Immutability

(D) Centralization, Transparancy, unchangeable

95. The term DMAIC stands for ..................

(A) Decision, Meet the target, Approve, Improve, Carryout the plan

(B) Difine, Measure, Analyze, Improve, Control

(C) Desire, Measure, Alternative, Improve Check and proceed

(D) Decision, Meet the target, Analyze Improve, Check and proceed

96. The simple objective of total quality management is .................

(A) Production aim to manufacture quality products

(B) Production aim to arrest zero defectives

(C) Do the quality plan, strict with the quality timeframe, re-examine the quality achievement

(D) Do the right things, right the first time, every time

97. The term "ASQC" stands for :

(A) Amritsar Society for Quality Control

(B) African Society for Quality Control

(C) American Society for Quality Control

(D) Ahmedabad Society for Quality Control

98. The X Co. Ltd., wants to achieve the six sigma status in their manufacturing set-up and to achieve this the company must reduce the manufacturing defects to a level of no more than :

(A) 3.4 per million

(B) 2.33 per million

(C) 6.21 per million

(D) 0.01 per million

99. Which of the following is not a type of bench- marking identified by Tuominen and Bogan and English ?

(A) Strategic benchmarking

(B) Performance benchmarking

(C) Process benchmarking

(D) Quality benchmarking

100. Choose the correct sequence of banchmarking wheel :

(A) Plan — Find — Collect — Analyze — Improve

(B) Find — Plan — Collect — Analyze — Improve

(C) Find — Analyze — Plan — Collect — Improve

(D) Analyze — Plan — Find — Improve

## ANSWER KEY

## FINANCIAL AND STRATEGIC MANAGEMENT - SELECT SERIES

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

* The options for this question are incorrect. Hence candidates whether attempted this question or not may be awarded marks