

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

Syllabus 2017

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

The Guideline Answers contain the information based on the Laws/Rules applicable at the time of preparation. However, students are expected to be updated with the applicable amendments which are as follows:

CS Examinations

December Session

June Session

Applicability of Amendments to Laws

upto 31 May of that Calender year

upto 30 November of previous Calender Year

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CORPORATE AND MANAGEMENT ACCOUNTING

MODULE 2 PAPER 5

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer All Questions.

PART-A

Question 1

“Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof.” This definition is given by :

- (A) American Institute of Certified Public Accountants
- (B) American Institute of Certified Management Accountants
- (C) Carter and Wilson
- (D) International Institute of Certified Public Accountants

Question 2

Statement of Profit and Loss of the company shall be prepared according to Part II of of the Companies Act, 2013.

- (A) Schedule I
- (B) Schedule II
- (C) Schedule III
- (D) Schedule IV

Question 3

Non-Current Liabilities does not include

- (A) Long-Term Borrowing
- (B) Long-Term Provisions
- (C) Deferred Tax Provisions (Net)
- (D) Other Current Liabilities

Question 4

Current Assets do not include

- (A) Other Current Assets
- (B) Deferred Tax Assets
- (C) Current Investment
- (D) Cash and Cash Equivalents

Question 5

..... represents a potential obligation that could be created depending on the outcomes of an event.

- (A) Other Current Liabilities
- (B) Contingent Liabilities
- (C) Current Investment
- (D) Internal Liability

Question 6

..... are not assets at all since they are not represented by any tangible possession.

- (A) Fictitious Assets
- (B) Inventories
- (C) Current Investment
- (D) Wasting Assets

Question 7

A trial balance may be prepared in :

- (A) Only journal Form
- (B) Journal Form and Balance Sheet Form
- (C) Ledger Form and Balance Sheet Form
- (D) Journal Form and Ledger Form

Question 8

Accounting Equation is represented as :

- (A) Assets = Liabilities + Owners' Equity
- (B) Assets = Liabilities – Owners' Equity
- (C) Owners' Equity = Assets + Liabilities
- (D) Liabilities = Assets + Owners' Equity

Question 9

Proprietary funds are equal to :

- (A) Equity Share Capital + Reserves – Fictitious Asset + Current Assets
- (B) Equity Share Capital + Preference Share Capital – Fictitious Asset + Fixed Assets
- (C) Equity Share Capital + Preference Share Capital – Fictitious Asset + Reserves
- (D) All of the above are correct

Question 10

..... are not redeemable, however, a company may buy back its as per conditions prescribed under Companies Act, 2013.

- (A) Equity Shares, Equity Shares
- (B) Equity Shares, Preference Shares
- (C) Preference Shares, Preference Shares
- (D) Preference Shares, Equity Shares

Question 11

IAS-8 deals with

- (A) Financial Reporting in hyper inflationary Condition
- (B) Impairment of Assets
- (C) Accounting policies, Change in Accounting estimates and errors
- (D) Events after balance sheet date

Question 12

Generally, the Articles of the company specify the rate at which interest will be payable/ receivable on calls-in-Advance/calls in Arrear. Table F of the Companies Act, 2013 will be applicable which leaves the matter to the Board of Directors to decide the rate of such interest, subject to a maximum rate of interest on calls-in Advance and calls-in Arrears.

- (A) 12% and 10%
- (B) 10% and 12%
- (C) 12% and 12%
- (D) 10% and 10%

Question 13

X applied for 2,000 shares of ₹ 10 each at a premium of ₹ 2.50 per share. He was allotted 1,000 shares. After having paid ₹ 3 per share on application, he did not pay the allotment money of ₹ 4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹ 2 per share, his shares were forfeited. These shares were reissued @ ₹ 8 per share credited as fully paid-up.

Calculate the amount of Securities Premium Reserve Account to be debited at the time of forfeiture of shares, assuming excess received at the time of application is first to be adjusted against share capital account.

- (A) ₹ 1,500
- (B) ₹ 1,000
- (c) ₹ 4,500
- (D) ₹ 2,500

Question 14

On the basis of Question No. 13, calculate the amount to be debited to Shares Forfeiture Account at the time of reissue of Forfeited Shares.

- (A) ₹ 1,500
- (B) ₹ 2,000
- (C) ₹ 8,000

(D) ₹ 1,000

Question 15

On the basis of Question No. 13, calculate the amount of gain transferred to capital Reserve after reissue of forfeited shares.

(A) ₹ 1,500

(B) ₹ 2,000

(C) ₹ 3,000

(D) ₹ 5,000

Question 16

Which of the following statements is false ?

(A) Buy back of shares must be authorised by articles of company

(B) A special resolution must be passed for buy back in general meeting

(C) Shares can be partly paid up for the purpose of buy back

(D) The ratio of debt owed by the company is not more than twice the paid-up capital and its free reserves after such buy back

Question 17

When shares are bought back at discount, the journal entry passed is :

(A) Equity Share Capital a/c Dr.

To Equity Shareholders' a/c. To Share Discount a/c.

(B) Equity Share Capital a/c Dr.

To Equity Shareholders' a/c. To Capital Reserve a/c.

(C) Equity Share Capital a/c Dr.

Share Discount a/c Dr.

To Equity Shareholders' a/c.

(D) Equity Shareholders' a/c Dr.

To Equity Share Capital a/c. To Share Discount a/c.

Question 18

The affairs of the ICAI are managed by in accordance with the provision of the Chartered Accountants Act, 1949 and the Chartered Accountants Regulation 1988.

(A) Finance Minister

(B) State Government

(C) Central Government

(D) A Council

Question 19

On 1st April 2023 XYZ Ltd. granted 5000 ESOPs at INR 30 per share, when the market value was INR

50 per share. The options were to be exercised till the month of March, 2024. Calculate the amount of expenditure to be recorded in Statement of P & L of the company. Assume all employees vested the option of ESOP.

- (A) ₹ 1,50,000
- (B) ₹ 2,50,000
- (C) ₹ 1,00,000
- (D) ₹ 4,00,000

Question 20

The mission of the IFRS foundation is to develop standards that bring to financial market around the world. Their work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.

- (A) Transparency
- (B) Accountability
- (C) Efficiency
- (D) All of the above

Question 21

ABC Limited issued 50000 equity shares of which only 60% was underwritten by Sun. Application for 48,000 shares were received in all out of which Sun marked application were 26000 shares. You are required to determine the liability of Sun.

- (A) 4000 shares
- (B) 2000 shares
- (C) 2200 shares
- (D) 2400 shares

Question 12

1st April, 2021, XYZ Ltd. issued 5,000; 8% Debentures of ₹ 100 each at ₹ 96 and redeemable at par after 5 years. The company offered option to the Debenture- holders to convert their holdings into equity shares of ₹ 10 each issued at a premium of ₹ 10 after 31st March, 2024, On 1st April, 2024. 20% holders exercised their option.

Calculate, the amount credited to Discount on issue of Debenture as on 1.4.2024.

- (A) ₹ 1,600
- (B) ₹ 3,200
- (C) ₹ 800
- (D) ₹ 2,400

Question 23

Calculate, the amount credited to Security Premium Account as on 1.4.2024 on the basis of information provided in Question No. 22.

- (A) ₹ 50,000

- (B) ₹ 48,000
- (C) No amount will be credited to security premium a/c
- (D) None of the above

Question 24

As per AS10 (revised), property, plant and equipment, which of the following costs is not included in the carrying amount of an item of PPE.

- (A) Costs of site preparation
- (B) Costs of relocating
- (C) Installation and assembly costs
- (D) None of the above

Question 25

A company issue of 12%, 100000 debentures of ₹ 100 each at 10% discount and redeemable at a premium of 5%. Calculate the amount of loss on issue of debenture.

- (A) ₹ 5,00,000
- (B) ₹ 10,00,000
- (C) ₹ 12,00,000
- (D) ₹ 15,00,000

Question 26

“Existing standard AS 26 allow for only the cost model as a part of the accounting policy. Ind AS 38 permits revaluation model in addition to cost model. ’ This statement refers to which assets ?

- (A) Intangible Assets
- (B) Current Assets
- (C) Contingent Assets
- (D) Investment

Question 27

Ind AS relates to adjustment of the profit and loss for the effects of undistributed profit of the associates and non-controlling interests’ while determining the net cash flows from operating activities using the indirect method.

- (A) Ind AS 2
- (B) Ind AS 3
- (C) Ind AS 7
- (D) Ind AS 1

Question 28

The buy-back of equity shares in any financial year cannot exceed of its total paid-up equity capital in that financial year.

- (A) 15%

- (B) 20%
- (C) 25%
- (D) 10%

Question 29

A part of the capital which can be called- up only at the time of winding up of the company is called

- (A) Reserve Capital
- (B) Issued Capital
- (C) Authorized Capital
- (D) Subscribed Capital

Question 30

A company forfeited 100 equity shares of ₹ 100 each on which a final call of ₹ 4 per share was unpaid. At what minimum rate/ amount per share, these shares can be issued by the company ?

- (A) ₹ 6
- (B) ₹ 4
- (C) ₹ 8
- (D) ₹ 10

Question 31

The Escrow account under Regulation 9 (xi) of SEBI (buy back of securities) Regulation, 2018 does not include :

- (A) Cash deposit with a schedule commercial bank
- (B) Bank guarantee in favour of the merchant banker
- (C) Deposit of acceptable securities with appropriate margin, with the merchant banker
- (D) Deposit of acceptable securities with appropriate margin, with the company

Question 32

Calculate the amount of discount to be written off in eighth (VIII) year on the debenture of ₹80,00,000 issued at a discount of 10% repayable in annual drawing of ₹ 10,00,000 each year.

- (A) ₹ 22,222.22
- (B) ₹ 44,444.44
- (C) ₹ 66,666.66
- (D) ₹ 88,888.88

Question 33

ABC Ltd., issued ₹ 20,00,000 10% debenture at a discount of 5%; the debenture- holders have an option of converting the amount into ₹ 10 equity shares at a premium of 20%. A debenture-holder holding ₹ 60,000 debenture wishes to exercise the option. How many equity shares he will get ?

- (A) 6000 shares

- (B) 5000 shares
- (C) 4750 shares
- (D) 5700 shares

Question 34

When a company issues debenture at par or at a discount which are redeemable at a premium, the premium payable on redemption of the debenture is treated as

- (A) Capital Loss
- (B) Capital Profit
- (C) Revenue Loss
- (D) Operating Loss

Question 35

Financial Statement template that shows the order of how each statement works together to report the full economic position of a company beginning with the

- (A) Profit & Loss reported on income statement
- (B) Equity contribution or distribution of statement of stock holder's equity
- (C) Ending balance sheet
- (D) Beginning balance sheet

Question 36

On 1st April, 2022 fixed assets were purchased by company at a cost of ₹ 3,40,000 and were installed at a cost of ₹ 10,000. Some new additional assets were installed on 1st July, 2022 at a cost of ₹ 50,000. The company again installed some more assets on 1st January, 2024 at a cost of ₹ 1,00,000. The agreed rate of depreciation is 10% p.a. The company adopt diminishing balance method of depreciation.

You are required to determine the amount of depreciation as on 31st March, 2024.

- (A) ₹ 42,500
- (B) ₹ 38,625
- (C) ₹ 38,750
- (D) ₹ 42,262.50

Question 37

Reserves are also known as

- (A) Present obligation as a result of a past event
- (B) Plough back of profit
- (C) Deferred income
- (D) Notional income

Question 38

What is the meaning of paid-up share capital used for calculation of effective capital for the purpose of the managerial remuneration ?

- (A) Paid up share capital excluding share application money and advance against shares

- (B) Paid up share capital excluding share application money but including advance against shares
- (C) Paid up share capital including both share application money and advance against shares
- (D) None of the above

Question 39

The board shall ensure that the administration overheads of total CSR expenditure of the company for the financial year.

- (A) Shall not exceed 1%
- (B) Shall not exceed 2%
- (C) Shall not exceed 5%
- (D) Shall not exceed 4%

Question 40

As per AS 17, reportable segments are those whose total revenue from external sales and inter-segments sales is

- (A) 10% or more of the total revenue of all segments
- (B) 15% or more of the total revenue of all segments
- (C) 20% or more of the total revenue of all segments
- (D) 5% or more of the total revenue of all segments

Question 41

The following information is of A Ltd. and its subsidiary B Ltd. as on 31st December, 2023 :

| Particulars | A Ltd. (₹) | B Ltd. (₹) |
|------------------------------------|------------|------------|
| Equity and Liabilities | | |
| Equity share capital @ ₹ 10 each | 20,00,000 | 10,00,000 |
| General Reserve | 5,00,000 | 2,00,000 |
| Profit and Loss | 2,00,000 | 1,00,000 |
| Creditors | 3,00,000 | 2,00,000 |
| Assets | | |
| Sundry Assets | 22,00,000 | 15,00,000 |
| Investment 60,000 shares of B Ltd. | 8,00,000 | |

A Ltd. acquired its shares in B Ltd. On 1st January, 2023 when general reserve of B Ltd. stood at ₹ 40,000 and its profit and Loss Account (Credit) was ₹ 50,000.

Calculate the ratio of shares acquired by A Ltd. and shares held as Minority Interest.

- (A) 3 : 2
- (B) 2 : 1
- (C) 4 : 1
- (D) None of the above

Question 42

Calculate : A Ltd.'s share in capital profit and reserve on the basis of information provided in Q. No. 41.

- (A) ₹ 30,000
- (B) ₹ 54,000
- (C) ₹ 24,000
- (D) None of the above

Question 43

Calculate Cost of control on the basis of information provided in Q. No. 41.

- (A) ₹ 1,76,000
- (B) ₹ 1,70,000
- (C) ₹ 1,46,000
- (D) None of the above

Question 44

Calculate : The amount of Minority Interest on the basis of information provided in Q. No. 41.

- (A) ₹ 5,20,000
- (B) ₹ 4,00,000
- (C) ₹ 3,60,000
- (D) ₹ 4,36,000

Question 45

Capital Dividend received by the holding company is its cost of investment in the equity shares of subsidiary company while computing goodwill/capital reserve.

- (A) added to
- (B) deducted from
- (C) neither added nor deducted
- (D) It is totally unrelated

Question 46

At the time of inter-company debts and acceptances are to be cancelled out.

- (A) Internal reconstruction
- (B) Merger
- (C) Preparing P & L account
- (D) Consolidation of accounts

Question 47

The features of Corporate Financial Reporting are

- (A) Reliability
- (B) Understandability

- (C) Comparability
- (D) All of the above

Question 48

According to the FASB conceptual framework, an entity's revenue may result from

- (A) A decrease in an asset from primary operation
- (B) A decrease in a liability from primary operation
- (C) An increase in a liability from incidental transaction
- (D) An increase in an asset from incidental transaction

Question 49

CARO (Auditor's Report) Order, 2020 contains total reporting clauses.

- (A) 21
- (B) 16
- (C) 20
- (D) 17

Question 50

As per the provisions relating to Corporate Governance under Companies Act, 2013, the strength of number of Independent directors to be appointed in a listed public company is :

- (A) At least one-fourth of total number of directors
- (B) At least one-third of total number of directors
- (C) At least 2 directors
- (D) At least 1 director

Question 51

Section 211(1) of the Companies Act, 2013 states that the shall established an office called Serious Fraud Investigation office to investigate fraud relating to a Company.

- (A) Local Authority
- (B) State Government
- (C) Central Government
- (D) The company itself

Question 52

ABC Ltd. whose shareholder 's equity amounts to ₹ 10,00,000. The company owns 4,000 preferred shares and 1,50,000 common shares. The present market value for the common shares is ₹ 12 per share and ₹ 100 per share for the preferred stock.

Calculate total market value of shares and

Market Value Added in ₹.

- (A) Total market value of shares 18,00,000 and Market Value Added 10,00,000
- (B) Total market value of shares 15,00,000 and Market Value Added 12,00,000

- (C) Total market value of shares 22,00,000 and Market Value Added 12,00,000
 (D) Total market value of shares 22,00,000 and Market Value Added 10,00,000

Question 53

Cash flows arising from transaction in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount, the exchange rate

- (A) prevailing at the beginning of the financial year
 (B) that is average rate
 (C) prevailing at the end of the financial year
 (D) prevailing at the date of the cash flow

Question 54

Net profit before working capital changes of N Ltd. is ₹ 3,52,000. The changes in the working capital during the year are as follows :

| Particulars | Amount in ₹ |
|------------------------------|-------------|
| Decrease in stock | 2,68,800 |
| Decrease in creditor | 9,600 |
| Increase in debtor | 28,800 |
| Increase in advances paid | 1,920 |
| Increase in outstanding exp. | 38,400 |

Calculate, Cash generated from operation = ?

- (A) ₹ 5,62,080
 (B) ₹ 6,18,880
 (C) ₹ 1,47,720
 (D) ₹ 1,01,280

Question 55

Cash payments to and on behalf of employees is an example of cash flow from

- (A) Operating activity
 (B) Investing activity
 (C) Financing activity
 (D) None of the above

Question 56

The following information is available :

| Particulars | Amount in ₹ |
|----------------------|-------------|
| Opening cash balance | 10,000 |

| Particulars | Amount in ₹ |
|------------------------------|-------------|
| Closing cash balance | 12,000 |
| Decrease in Trade Receivable | 5,000 |
| Increase in Trade Payable | 7,000 |
| Sale of Fixed Assets | 20,000 |
| Issue of Pref. Shares | 30,000 |
| Purchase of Furniture | 12,000 |
| Redemption of Debenture | 50,000 |
| Net profit for the year | 20,000 |

On the basis of the above information, calculate the amount of cash from operating activities.

- (A) ₹ 32,000
- (B) ₹ 30,000
- (C) ₹ 18,000
- (D) ₹ 22,000

Question 57

On the basis of the Q. No. 56, calculate the amount of cash from investing activities.

- (A) ₹ 70,000
- (B) ₹ 8,000
- (C) ₹ -12,000
- (D) ₹ 20,000

Question 58

On the basis of the Q. No. 56, calculate the amount of cash from financing activities.

- (A) ₹ 30,000
- (B) ₹ 20,000
- (C) ₹ -20,000
- (D) ₹ -50,000

Question 59

Investing activities refers to the activities pertaining to the acquisition and disposal of :

- (A) Long-term Loans
- (B) Current Liabilities
- (C) Current Assets

(D) Long-term Assets

Question 60

Read the following information :

| Particulars/ Balance as on | March 31, 2023 (₹) | March 31, 2024 (₹) |
|-------------------------------|-----------------------|-----------------------|
| Machinery | 5,00,000 | 6,00,000 |
| Accumulated Depreciation | 1,64,000 | 1,80,000 |

During the year, a machine costing ₹ 1,00,000, and accumulated depreciation thereon ₹ 44,000 was sold for ₹ 30,000. Calculate, the amount of new machinery purchased during the year.

- (A) ₹ 1,00,000
- (B) ₹ 2,00,000
- (C) ₹ 1,74,000
- (D) ₹ 1,56,000

PART-II**Question 61**

Cost Unit is defined as a

- (A) Unit of quantity of product, service or time in relation to which costs may be ascertained or expressed.
- (B) Location, person or an item of equipment or a group of these for which costs are ascertained and used for cost control
- (C) Centres having the responsibility of generating and maximizing profits
- (D) Centres concerned with earning an adequate return on investment

Question 62

Calculate the prime cost from the following information :

Direct material purchased : ₹ 1,00,000

Direct material consumed : ₹ 90,000

Direct labour : ₹ 60,000

Direct expenses : ₹ 20,000

Manufacturing overheads : ₹ 30,000

- (A) ₹ 1,80,000
- (B) ₹ 2,00,000
- (C) ₹ 1,70,000
- (D) ₹ 2,10,000

Question 63

Calculate cost of sales from the following :

Net Works cost : ₹ 2,00,000

Office and Administration Overheads : ₹ 1,00,000

Opening stock of WIP : ₹ 10,000

Closing stock of WIP : ₹ 20,000

Closing stock of finished goods : ₹ 30,000

There was no opening stock of finished goods. Selling overheads : ₹ 10,000.

- (A) ₹ 2,70,000
- (B) ₹ 2,80,000
- (C) ₹ 3,00,000
- (D) ₹ 3,20,000

Question 64

Fair value of shares can be calculated by using the formula :

- (A) $(\text{Value by Net Assets Method} + \text{Value by yield Method})/2$
- (B) $(\text{Value by Net Assets Method} - \text{Value by yield Method})/2$
- (C) $(\text{Price earnings ratio} \times \text{Earning per share})$
- (D) $(\text{Total Yield per share}/\text{Normal rate of yield}) \times 100$

Question 65

Indirect expenses or overheads are not associated with, they represent the cost of facilities required for carrying on the operation.

- (A) Group jobs or product
- (B) Individual jobs or product
- (C) Service industry
- (D) None of the above

Question 66

The actual profits of the firm are ₹ 35,000.

The normal rate of return is 10% per annum. The average capital employed is ₹ 2,50,000. What is the amount of goodwill as per capitalization of profit ?

- (A) ₹ 1,10,000
- (B) ₹ 1,20,000
- (C) ₹ 1,00,000
- (D) ₹ 1,15,000

Question 67

The Companies Act, 2013 empowers the to make the rules so that companies

engaged in specified industries, manufacturing, providing goods and services are compelled to maintain their cost record by getting them audited, vide section, 148.

- (A) Board of the company
- (B) Central Government
- (C) State Government
- (D) Local Authorities

Question 68

The category of companies specified in rule 3 and whose threshold limit is as laid down in rule-4, shall within of the commencement of every financial year, appoint a cost auditor.

- (A) 180 days
- (B) 90 days
- (C) 45 days
- (D) 60 days

Question 69

Every company specified in item (A) of rule 3 shall get its cost records audited in accordance with these rules, if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is And the aggregate turnover of the individual product or services for which cost records are required to be maintained under rule 3 is :

- (A) ₹ fifty crore or less, ₹ twenty five crore or less
- (B) ₹ fifty crore or more, ₹ twenty five crore or more
- (C) ₹ one hundred crore or more, ₹ thirty five crore or more
- (D) ₹ one hundred crore or less, ₹ thirty five crore or less

Question 70

As per the valuation under SEBI (Substantial Acquisition of Shares and takeover) Regulation, 2011, traded turnover of the shares less than 10% in the last 12 calendar months preceding the month of public announcement. Valuation to be done by

- (A) Board of Director of the company
- (B) Statutory auditor or cost auditor with 10 year experience
- (C) Merchant Banker or Chartered Accountant with 10 year experience
- (D) Chartered Financial Analyst with 10 year experience

Question 71

A budget which is prepared in a manner so as to give the budgeted cost for any level of activity is known as

- (A) Master budget
- (B) Zero base budget
- (C) Functional budget
- (D) Flexible budget

Question 72

An entity issued 50 shares each to its 170 employees subject to service condition of next 2 years. The settlement is to be made in cash. Grant date fair value of the share is ₹ 85 each, however, the fair value as at end of 1st year, 2nd year were ₹ 80 and ₹ 90 respectively. Calculate expense for year 2.

- (A) ₹ 4,50,000
- (B) ₹ 4,25,000
- (C) ₹ 4,25,500
- (D) ₹ 4,52,500

Question 73

A budget variance is when the actual revenue is higher than the budget or when the actual expense is less than the budgeted expense.

- (A) unflattering
- (B) unfavourable
- (C) favourable
- (D) indeterminate

Question 74

The actual output of 1,62,500 units and actual fixed costs of ₹ 87,000 were exactly as budgeted. However, the actual expenditure of ₹ 3,00,000 was ₹ 18,000 over budgeted. What was the budgeted variable cost per unit ?

- (A) ₹ 1.20
- (B) ₹ 1.84
- (C) ₹ 1.956
- (D) ₹ 2.38

Question 75

Estimated wages for January month is ₹ 8,000 and for February month ₹ 8,800. If the delay in payment of wages is 1/2 month, the amount of wages to be considered in cash budget for the month of February will be

- (A) ₹ 8,000
- (B) ₹ 8,800
- (C) ₹ 12,400
- (D) ₹ 8,400

Question 76

ABD Ltd. has forecast its sales for the next three months as follows :

May month : 12,000 units

June month : 20,000 units

July month : 25,000 units

Opening stock as on 1st April is expected to be 5,000 units. Closing stock should equal 20% of the coming month's sales needs. How many units should be produced in June ?

- (A) 20,000 units
- (B) 11,000 units
- (C) 21,000 units
- (D) 25,000 units

Question 77

Beta is an indicator of of the security. It measures the sensitivity of a security's return with respect to market return.

- (A) Unsystematic risk
- (B) Systematic risk
- (C) Time value
- (D) Economic growth

Question 78

Net operating profit after tax is ₹ 20,00,000. Total capital employed is ₹ 1,50,00,000. Expected return on total capital employed ₹ 15,00,000.

Calculate Economic Value Added in ₹.

- (A) 10,00,000
- (B) 15,00,000
- (C) 20,00,000
- (D) 5,00,000

Question 79

Which of the following is considered a profitability measure ?

- (A) Days sales in inventory
- (B) Proprietary ratio
- (C) Debt service ratio
- (D) Return on assets

Question 80

..... reflects the percentage return that an investor receives on his investment at the current market price of the shares.

- (A) Interest Coverage Ratio
- (B) Interest Yield Ratio
- (C) Dividend Yield Ratio
- (D) Capital-Gearing Ratio

Question 81

Proprietary Ratio 0.6 = (Fixed asset/Proprietary fund)

Current assets = ₹ 2,00,000

Current liabilities = ₹ 80,000

Assuming no long-term liabilities, Fixed assets = ?

- (A) ₹ 3,00,000
- (B) ₹ 1,60,000
- (C) ₹ 2,40,000
- (8) ₹ 1,80,000

Question 82

The following information from ABC Ltd.

Current Ratio = 2.5

Liquid Ratio = 1.5

Proprietary Ratio = 0.75

Working Capital = ₹ 60,000

Reserve and Surplus = ₹ 40,000

Bank Overdraft = ₹ 10,000

There is no long term loan and fictitious assets. You are required to calculate the amount of Current assets.

- (A) ₹ 1,00,000
- (B) ₹ 60,000
- (C) ₹ 40,000
- (D) ₹ 90,000

Question 83

On the basis of Q. No. 82, you are required to calculate the amount of Liquid (Quick) assets.

- (A) ₹ 40,000
- (B) ₹ 60,000
- (C) ₹ 80,000
- (D) ₹ 50,000

Question 84

On the basis of Q. No. 82, you are required to calculate the amount of Share Capital.

- (A) ₹ 2,40,000
- (B) ₹ 60,000
- (C) ₹ 2,00,000
- (D) ₹ 40,000

Question 85

On the basis of Q. No. 82, you are required to calculate the amount of fixed assets.

- (A) ₹ 1,60,000
- (B) ₹ 2,00,000
- (C) ₹ 2,40,000
- (D) ₹ 1,80,000

Question 86

On the basis of given information, calculate
Operating Profit Ratio.

Cost of goods sold = ₹ 4,80,000

Gross Profit is 20% on sales Operating Expenses = ₹ 30,000

- (A) 11.45%
- (B) 15%
- (C) 8.93%
- (D) None of the above

Question 87

The fundamental principle of the system of reporting is that the information contained therein should meet the requirement of its recipient. The higher level of management reports are

- (A) More summarised
- (B) Less frequent
- (C) More in numbers
- (D) All of the above

Question 88

An effective management reporting system helps

- (A) Improve efficiency of resources in the delivery of organisation services
- (B) Improve decision making and responsiveness to issue
- (C) Improve management effectiveness
- (D) All of the above

Question 89

“Special report is to be presented after investigating the problem which requires being scrutinized.”
This statement is

- (A) Correct
- (B) Not correct
- (C) Partially correct
- (D) Not relevant

Question 90

Following information is available about a company :

Cost per unit :

Raw Materials ₹ 25; Labour ₹ 10; Variable Cost ₹ 5; Selling Price ₹ 50 per unit. Fixed Overheads for the year ₹ 20,000. Sales and production was 10,000 units.

You are required to calculate total contribution.

- (A) NIL
- (B) ₹ 1,50,000
- (C) ₹ 50,000
- (D) ₹ 1,00,000

Question 91

On the basis of Q. No. 90, you are required to calculate Net Profit.

- (A) No profit no loss
- (B) ₹ 1,30,000
- (C) ₹ 80,000
- (D) ₹ 1,00,000

Question 92

The total cost and profit during two periods were as follow :

| | Period 1 | Period 2 |
|------------|------------|----------|
| Total Cost | ₹ 4,50,000 | 6,50,000 |
| Profit | ₹ 50,000 | 1,00,000 |

You are required to calculate Profit Volume Ratio (P/V Ratio).

- (A) 25%
- (B) 20%
- (C) 30%
- (D) 21%

Question 93

On the basis of Q. No. 92, you are required to calculate Break-Even-Sales.

- (A) ₹ 2,00,000
- (B) ₹ 2,50,000
- (C) ₹ 3,00,000
- (D) ₹ 2,10,000

Question 94

On the basis of Q. No. 92, you are required to calculate required sales for a profit of ₹ 1,25,000

- (A) ₹ 9,00,000
- (B) ₹ 9,50,000

- (C) ₹ 7,50,000
- (D) ₹ 8,75,000

Question 95

On the basis of Q. No. 92, you are required to calculate profit earned when sales are ₹ 3,50,000.

- (A) ₹ 37,500
- (B) ₹ 45,000
- (C) ₹ 23,500
- (D) ₹ 25,000

Question 96

A company has fixed expenses of ₹ 1,80,000 with sales at ₹ 6,00,000 and a profit of ₹ 1,20,000. Calculate margin of safety.

- (A) ₹ 2,37,500
- (B) ₹ 2,50,000
- (C) ₹ 2,35,000
- (D) ₹ 2,40,000

Question 97

Business valuation is the process of determining the “Economic Worth” of the company based on its business model under certain assumption and limiting key factors subject to the data available on the valuation date. Identify areas, when business valuations are to be carried-out.

- (A) Mergers and Acquisitions
- (B) Succession Planning
- (C) Dispute Resolution
- (D) All of the above

Question 97

Assume that a deposit to be made at year zero into an account that will earn 8% compounded annually. It is desired to withdraw ₹ 6,000 three years from now and ₹ 8,000 six years from now. What is the size of the year zero deposit that will produce these further payment. (PV factor 8% for 3 year = 0.794 and PV factor 8% for 6 year = 0.630).

- (A) ₹ 9,810
- (B) ₹ 9,804
- (C) ₹ 9,814
- (D) ₹ 9,800

Question 99

The following information is given :

Profit after tax ₹ 1,10,000

10% Preference shares of ₹ 100 each.

₹ 1,00,000

Equity shares of ₹ 100 each ₹ 5,00,000

Normal rate of return 16%

80% of the profits are distributed as dividend by the company

Calculate value per equity share by dividend rate method.

- (A) ₹ 100
- (B) ₹ 90
- (C) ₹ 105
- (D) ₹ 95

Question 100

Ind AS 113 fair value measurement does not apply to the following :

- (A) Share based payment transaction as per Ind AS 102
- (B) Leasing transaction within as per Ind AS-47
- (C) Value in use in Ind AS 36
- (D) All of the above

| Set A | |
|---------------|-------------|
| Question | Answer |
| Part I | |
| Q1 | (A) |
| Q2 | (C) |
| Q3 | (D) |
| Q4 | (B) |
| Q5 | (B) |
| Q6 | (A) |
| Q7 | (D) |
| Q8 | (A) |
| Q9 | (C) |
| Q10 | (A) |
| Q11 | (C) |
| Q12 | (A) |
| Q13 | (A) |
| Q14 | (B) |
| Q15 | (C) |
| Q16 | (C) |
| Q17 | (B) |
| Q18 | (D) |
| Q19 | (C) |
| Q20 | (D) |
| Q21 | (B) |
| Q22 | (A) |
| Q23 | (A) or (D)* |
| Q24 | (B) |
| Q25 | (D) |
| Q26 | (A) |
| Q27 | (C) |
| Q28 | (C) |
| Q29 | (A) |
| Q30 | (B) |
| Q31 | (D) |
| Q32 | (A) |

| | |
|----------------|-------------|
| Q33 | (B) or (C)* |
| Q34 | (A) |
| Q35 | (D) |
| Q36 | (B) |
| Q37 | (B) |
| Q38 | (D) |
| Q39 | (C) |
| Q40 | (A) |
| Q41 | (A) |
| Q42 | (B) |
| Q43 | (C) |
| Q44 | (A) |
| Q45 | (B) |
| Q46 | (D) |
| Q47 | (D) |
| Q48 | (B) |
| Q49 | (A) |
| Q50 | (B) |
| Q51 | (C) |
| Q52 | (C) |
| Q53 | (D) |
| Q54 | (B) |
| Q55 | (A) |
| Q56 | (A) |
| Q57 | (B) |
| Q58 | (C) |
| Q59 | (D) |
| Q60 | (B) |
| Part II | |
| Q61 | (A) |
| Q62 | (C) |
| Q63 | (B) |
| Q64 | (A) |
| Q65 | (B) |
| Q66 | (C) |
| Q67 | (B) |

| | |
|------|-----|
| Q68 | (A) |
| Q69 | (B) |
| Q70 | (C) |
| Q71 | (D) |
| Q72 | (B) |
| Q73 | (C) |
| Q74 | (A) |
| Q75 | (D) |
| Q76 | (C) |
| Q77 | (B) |
| Q78 | (D) |
| Q79 | (D) |
| Q80 | (C) |
| Q81 | (D) |
| Q82 | (A) |
| Q83 | (B) |
| Q84 | (C) |
| Q85 | (D) |
| Q86 | (B) |
| Q87 | (D) |
| Q88 | (D) |
| Q89 | (A) |
| Q90 | (D) |
| Q91 | (C) |
| Q92 | (A) |
| Q93 | (B) |
| Q94 | (C) |
| Q95 | (D) |
| Q96 | (D) |
| Q97 | (D) |
| Q98 | (B) |
| Q99 | (A) |
| Q100 | (D) |

| Notes * | |
|-----------------|--|
| Question No. 23 | <p>Option (A) or Option (D) both are correct-</p> <p>Justification: While converting the debentures into shares, the basis of conversion as the amount of debentures or number of debentures may be taken.</p> <p>In first case, the securities premium amount will be $[20\% \times (5,000 \text{ Debentures} \times ₹ 100)] = ₹ 1,00,000$ (This amount comprises of ₹ 50,000 of equity share capital and ₹ 50,000 of Securities Premium.). Therefore, Option A is correct.</p> <p>In second case, 20% of 5000 debentures = 1000 Debentures (of ₹ 100 each); converting into equivalent number of shares i.e. 10000 shares of ₹ 10 each. Therefore, the premium amount will be 10000 shares \times ₹ 10 premium per share = ₹ 1,00,000. Hence, Option D 'None of the above' is correct.</p> |
| Question No. 33 | <p>Observation: Option (B) or Option (C) both are correct.</p> <p>Justification: The debenture- holder holding debenture of ₹ 60,000 after discount or before discount both will be considered while solving the question</p> <p>In first case, the number of equity shares will be $₹ 60000/12 = 5000$. Hence, Option B is correct.</p> <p>In second case, the number of equity shares will be $(₹ 60,000 - ₹ 3,000)/12 = 4,750$. Hence, Option C is correct.</p> |

SECURITIES LAWS AND CAPITAL MARKETS

MODULE 2 PAPER 6

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer All Questions.

PART-I

Question 1

- (a) Grow More Fund has a size of ₹ 600 crore with face value of each unit being ₹ 10. The following information has been provided to you in respect of the fund :

| | |
|-----------------------------|-------------|
| Market value of investments | ₹ 720 crore |
| Receivables | ₹ 9 crore |
| Accrued income | ₹ 8 crore |
| Liabilities | ₹ 5 crore |
| Accrued expenses | ₹ 3 crore |

- (i) Calculate the Net Asset Value (NAV) of the fund.
(ii) If the front-end load is 2%, calculate the Public Offer Price of the unit.

(3+2=5 marks)

- (b) SJR company is a listed company, wants to follow the minimum standard of code of conduct, as prescribed under SEBI (Prohibition of Insider Trading) Regulations, 2015. You being the company secretary, state the correctness of the below facts, with respect to the regulation.

- (i) The compliance officer has reported to CEO after one year.
(ii) The norms and procedures followed by S, a director of the Company, was self-made.
(iii) The trading window is opened after forty-eight hours, when the information becomes generally available.
(iv) Designated person is governed by the internal code of conduct governing securities dealing.
(v) Designated person traded in securities, when trading window was closed. (5 marks)

- (c) PTS Ltd. is forming part of top 1000 listed entities. Being the company secretary of the company, advise on the following issues :

- (i) What is the maximum age of non-executive directors ?
(ii) Can the minimum directors of the company be five ?
(iii) How many times board shall meet and the gap of 14 days between the two board meetings is sufficient ?

- (iv) How many directors constitute the quorum for a board meeting ?
 (v) Composition of Nomination and Remuneration Committee.

(5 marks)

(d) Kunal is thinking of acquiring shares in Dream Real Estate Ltd. (listed company).

Under the provisions of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011, whether the provisions of event-based disclosure would apply to Kunal in the following situations (give reasons) :

- (i) Kunal already has 6% shares and he intends to acquire additional 1.50% shares.
 (ii) Kunal already has 6% shares and he intends to acquire additional 3% shares.
 (iii) Kunal already has 3% shares and he intends to acquire additional 1.50% shares.

State the time limit within which the disclosure should be made.

(3+2 marks)

Answer 1(a)

$$(i) \text{ Net Asset Value (NAV)} = \frac{\text{Net Asset of the Scheme}}{\text{Number of units outstanding}}$$

Where Net Asset of the Scheme = Market Value of Investments + Receivables+ Accrued Income+ Other Assets – Accrued Expenses- Other Payables- Other Liabilities

$$\begin{aligned} \text{Net Assets of the Scheme} &= ₹ 720 \text{ crores} + ₹ 9 \text{ crores} + ₹ 8 \text{ crores} - ₹ 5 \text{ crores} - ₹ 3 \text{ crores} \\ &= ₹ 729 \text{ crores} \end{aligned}$$

$$\text{Number of units outstanding} = ₹ 600 \text{ crores} / ₹ 10 = 60 \text{ crores}$$

Therefore, NAV per unit = NAV / number of units

$$\text{NAV} = \frac{₹ 729 \text{ crores}}{60 \text{ crores units}}$$

$$\text{NAV} = ₹ 12.15 \text{ per unit}$$

$$(ii) \text{ Public Offer Price (POP)} = \frac{\text{Net Asset Value (NAV)}}{1 - \text{Front-end Load}}$$

$$\begin{aligned} \text{Thus, POP of unit of Grow More Fund} &= ₹ 12.15 / (1 - 0.02) \\ &= ₹ 12.15 / (1 - 0.02) = ₹ 12.3979 \text{ per unit or } ₹ 12.40 \text{ per unit} \end{aligned}$$

Answer 1(b)

In light with the provisions of the SEBI (Prohibition of Insider Trading) Regulations, 2015 relating to Minimum Standards for Code of Conduct for Listed Companies to Regulate, Monitor and Report Trading by Designated Persons, the answer is provided below:

- (i) Incorrect. The compliance officer shall report to the board of directors and in particular, shall provide reports to the Chairman of the Audit Committee, if any, or to the Chairman of the board of directors at such frequency as may be stipulated by the board of directors but not less once in year.
- (ii) Incorrect. The code of conduct shall contain norms for appropriate Chinese Walls procedures, and processes for permitting any designated person to 'cross the wall'.

- (iii) Correct. The timing for re-opening of the trading window shall be determined by the compliance officer taking into account various factors including the unpublished price sensitive information in question becoming generally available and being capable of assimilation by the market, which in any event shall not be earlier than forty-eight hours after the information becomes generally available.
- (iv) Correct. Designated persons and immediate relatives of designated persons in the organisation shall be governed by an internal code of conduct governing dealing in securities.
- (v) Incorrect. Designated persons and their immediate relatives shall not trade in securities when the trading window is closed.

Answer 1(c)

In light with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the answer is provided below:

- (i) No listed entity shall appoint a person or continue the directorship of any person as a non-executive director who has attained the age of 75 years unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person. [Regulation 17(1A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]
- (ii) The board of directors of the top 1000 listed entities with effect from April 1, 2019 shall comprise of not less than six directors. [Regulation 17(1)(c) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]
- (iii) The Board of Directors shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings. Thus, the maximum gap between two meetings can be of 120 days and therefore, gap of 14 days between the two board meetings is sufficient provided the minimum number of meetings in a year shall be complied with. [Regulation 17(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]
- (iv) The quorum for every meeting of the board of directors of the top 1000 listed entities with effect from April 1, 2019 shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.

Explanation: For removal of doubts, it is clarified that the participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum. [Regulation 17(2A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

- (v) The committee shall comprise of at least three directors. All directors of the committee shall be non-executive directors. At least two-thirds of the directors shall be independent directors. [Regulation 19(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

Answer 1(d)

According to Regulation 29(1) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, any acquirer together with persons acting in concert (PAC) acquiring 5% or more of the shares or voting rights of the target company shall disclose to their aggregate shareholding and voting rights in such target company.

Further, according to Regulation 29(2) of the SEBI (Substantial Acquisition of Shares and Takeovers)

Regulations, 2011, any person together with persons acting in concert (PAC), holds shares or voting rights entitling them to five per cent or more of the shares or voting rights in a target company, shall disclose the number of shares or voting rights held and change in shareholding or voting rights, even if such change results in shareholding falling below five percent, if there has been change in such holdings from the last disclosure made under sub-regulation (1) or under this sub regulation; and such change exceeds two per cent of total shareholding or voting rights in the target company.

- (i) Kunal already has 6% shares of Dream Real Estate Ltd. (listed company) and he intends to acquire 1.50% shares more, since the additional acquisition is less than 2%, Kunal is not required to disclose the changes arising due to this acquisition.
- (ii) Kunal already has 6% shares of Dream Real Estate Ltd. (listed company) and he intends to acquire 3% shares more, since the additional acquisition is more than 2%, Kunal is required to disclose the changes arising due to this acquisition.
- (iii) Kunal already has 3% shares of Dream Real Estate Ltd. (listed company) and he intends to acquire 1.50% shares more, since the total acquisition is less than 5% i.e. the below the threshold for initial disclosure, Kunal is not required to disclose the changes arising due to this acquisition.

According to Regulation 29(3) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the disclosure should be made within two working days of the receipt of intimation of allotment of shares, or the acquisition or the disposal of shares or voting rights in the target company, to every stock exchange where the shares of the target company are listed and the target company at its registered office.

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

Question 2

- (a) The Board of Directors of the company, before considering the proposal of delisting, shall appoint a Peer Reviewing Company Secretary. What information are to be provided to Company Secretary for carrying out due diligence ?
(4 marks)
- (b) Divine Dwellings Ltd. is a listed company and it wants to buy-back its equity shares. Under the provisions of SEBI (Buy-Back of Securities) Regulations, 2018, answer (with reasons) whether the company can proceed to buy-back its equity shares under the following circumstances ?
(i) The ratio of aggregate of its secured and unsecured debts to the paid-up capital and free reserves is currently 1.8 : 1 and is expected to be 2.05 : 1 after buy-back.
(ii) The company intends to raise funds for buy-back by issuing debentures.
(4 marks)
- (c) One of the leading IT services listed company is planning to consider the buyback of its shares in the ensuing Board meeting. The management does not want to disclose the event to the stock exchange prior to the Board meeting. Being a Company Secretary of the company, advise the management for legal provisions under SEBI regulations for the prior intimation to Stock exchanges about certain events.
(4 marks)
- (d) XYZ Ltd. is manufacturing Namkeen in Bikaner, Rajasthan. To expand its footprint on PAN India basis and to meet out its future capex plan, XYZ Ltd. floated an Initial Public Offer.

It provided 4 days' time to make bids for the IPO. However, due to flood situation in the country, the response to the IPO is not good even after two days. XYZ Ltd. intends to extend the time of bid for 2 more days. Is it allowable under SEBI regulation ? What would be your answer, if XYZ is an SME company ?

(4 marks)

- (e) Nidhi, one of the promoters, invested in a start-up company, at an early stage. Now, the company is planning to enter into the primary market, by way of issue of shares to public. The holding of Nidhi, after post issue will be 7%. Nidhi is willing to sell shares on the day of listing. With reference to SEBI regulations, advise Nidhi for her intention to sell the shares.

(4 marks)

Answer 2 (a)

Regulation 10(2) of the SEBI (Delisting of Equity Shares) Regulations, 2021 states that, the Board of Directors of the company, before considering the proposal of delisting, shall appoint a Peer Review Company Secretary and provide the following information to such Company Secretary for carrying out due diligence: -

- a) the details of buying, selling and dealing in the equity shares of the company by the acquirer or its related entities during the period of two years prior to the date of board meeting held to consider the proposal for delisting, including the details of the top twenty-five shareholders, for the said period.
- b) the details of off-market transactions of all the shareholders mentioned in clause (a) for a period of two years;
- c) any additional information, including the information mentioned in clauses (a) and (b) for a longer period of time, sought by the Company Secretary if the Company Secretary is of the opinion that the information provided under clauses (a) and (b) is not sufficient for providing the certification.

Further in terms of Regulation 10(3) of the SEBI (Delisting of Equity Shares) Regulations, 2021, after obtaining the information from the Board of Directors of the company, the Company Secretary shall carry out the due-diligence and submit a report to the Board of Directors of the company certifying that the buying, selling and dealing in the equity shares of the company carried out by the acquirer or its related entities and the top twenty five shareholders is in compliance with the applicable provisions of securities laws including these regulations.

Answer 2(b)

- (i) According to the provisions of regulation 4(ii) of the SEBI (Buy-Back of Securities) Regulations, 2018, the ratio of the aggregate of secured and unsecured debts owed by the company to the paid-up capital and free reserves after buy-back shall-
 - a) be less than or equal to 2: 1, based on both standalone and consolidated financial statements of the company whichever sets out a lower amount. However, if a higher ratio of the debt to capital and free reserves for the company has been notified under the Companies Act, 2013, the same shall prevail;
 - b) be less than or equal to 2:1, based on the standalone or consolidated financial statements of the company, whichever sets out a lower amount, after excluding financial statements of all subsidiaries that are non-banking financial companies and housing finance companies regulated by Reserve Bank of India or National Housing Bank, as the case may be. However, the buy-back of securities shall be permitted

only if all such excluded subsidiaries have their ratio of aggregate of secured and unsecured debts to the paid-up capital and free reserves of not more than 6:1 on standalone basis.

In the given case, the ratio of aggregate of its secured and unsecured debts to the paid-up capital and free reserves is expected to be 2.05:1 after buy-back, which is higher than the requirements prescribed under the SEBI (Buy-Back of Securities) Regulations, 2018. Hence, the company cannot proceed for buy-back.

- (ii) According to regulation 4(ix) of the SEBI (Buy-Back of Securities) Regulations, 2018, a company may buy-back shares or other securities out of its free reserves or the securities premium account or the proceeds of the issue of any shares or other specified securities. Buy back shall not be made out of the proceeds of an earlier issue of the same kind of shares or same kind of specified securities.

In the given situation, the company intends to raise funds for buy-back of equity shares by issuing debentures (other securities). Therefore, the company can proceed for buy-back.

Answer 2(c)

Regulation 29(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that the listed entity shall give prior intimation of at least two working days in advance, excluding the date of the intimation and date of the meeting, to stock exchange about the meeting of the board of directors in which any of the following proposals is due to be considered:

- a) financial results viz. quarterly, half yearly, or annual, as the case may be;
- b) proposal for buyback of securities;
- c) proposal for voluntary delisting by the listed entity from the stock exchange(s);
- d) fund raising by way of issue of securities (excluding security receipts, securitized debt instruments or money market instruments regulated by the Reserve Bank of India), through further public offer, rights issue, American Depository Receipts/Global Depository Receipts/ Foreign Currency Convertible Bonds, qualified institutions placement, debt issue, preferential issue or any other method and for determination of issue price:

Provided that intimation shall also be given in case of any annual general meeting or extraordinary general meeting or postal ballot that is proposed to be held for obtaining shareholder approval for further fund raising indicating type of issuance.

Provided further that intimation for determination of issue price in a qualified institutions placement is not required if such placement is done in accordance with the provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

- e) declaration/ recommendation of dividend, issue of convertible securities. including convertible debentures or of debentures carrying a right to subscribe to equity shares or the passing over of dividend;
- f) the proposal for declaration of bonus securities;
- g) any alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof;
- h) any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.

Further, Regulation 29(2) provides that the intimation required under sub-regulation (1) shall mention the date of such meeting of board of directors.

Answer 2(d)

Period of Subscription Initial Public Offer

Regulation 46(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 provides that an Initial Public Offer (IPO) shall be kept open for at least 3 working days and not more than 10 working days. Further, Regulation 46(3) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 stipulates that in case of force majeure, banking strike or similar unforeseen circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a minimum period of one working day subject to the provisions of regulation 46(1). Hence, total period shall not exceed 10 working days including extended period. In the given situation, XYZ Ltd. opened bid for 4 days and therefore, XYZ Ltd. can extend the time of bid for 2 more days.

Period of subscription in case of Initial Public Offer by Small and Medium Enterprises (SME)

Regulation 266(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 provides that a public issue shall be kept open for at least 3 working days and not more than 10 working days. Further, Regulation 266(3) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 stipulates that in case of force majeure, banking strike or similar unforeseen circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a minimum period of one working day subject to the provisions of regulation 266(1). Hence, total period shall not exceed 10 working days including extended period. In the given situation XYZ Ltd. opened bid for 4 days and therefore, XYZ Ltd. can extend the time of bid for 2 more days.

Answer 2(e)

Lock-in of specified securities held by the promoters [Regulation 16(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018]

The specified securities held by the promoters shall not be transferable (hereinafter referred to as "lock-in") for the periods as stipulated hereunder:

- (i) Minimum promoters' contribution including contribution made by alternative investment funds or foreign venture capital investors or scheduled commercial banks or public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India or any non-individual public shareholder holding at least five per cent. of the post-issue capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) referred to in proviso to sub-regulation (1) of regulation 14, shall be locked-in for a period of eighteen months from the date of allotment in the initial public offer.

Provided that in case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure, then the lock-in period shall be three years from the date of allotment in the initial public offer.

- (ii) Promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of six months from the date of allotment in the initial public offer. Provided that in case the majority of the issue proceeds excluding the portion of offer for sale is proposed to be utilized for capital expenditure, then the lock-in period shall be one year from the date of allotment in the initial public offer.

In view of above, Nidhi is not allowed to sell the share on the day of listing. The share will be under lock in period for a minimum of 18 months, if contribution of Nidhi with other promoters is within the minimum promoter's contribution. In case, contribution of Nidhi which is in excess of minimum promoter's contribution, shall be locked-in for a period of 6 months.

OR (Alternative question to Q. No. 2A)

Question 2A

(i) With reference to the SEBI regulations, answer (with reasons), whether a company can delist its equity shares from a recognised stock exchange, having nationwide trading terminals, in the following cases :

- (a) It has completed buy-back of its equity shares three months ago.
- (b) It has issued preferential shares to its promoters five months ago.
- (c) It has been listed for five years.
- (d) It is having Fully Convertible Debentures (FCDs) still outstanding.

(4 marks)

(ii) With reference to SEBI regulations, is it permissible for a company to buy-back of its equity shares in the below situations.

- (a) It had defaulted in repayment of its term loan four years ago, but the default was remedied two years ago.
- (b) It intends to buy-back 5% of its total paid-up equity capital and free reserves by way of board resolution passed in a meeting of the board.

(4 marks)

(iii) The depository functions like a bank but there are some differences between the working of a bank and the working of a depository. Explain four of them.

(4 marks)

(iv) The management of a listed entity is desirous to implement employee stock option scheme. You being company law expert, advise the management about the eligible employees under SEBI (Share Based Employee Benefits and Sweat Equity), Regulations, 2021.

(4 marks)

(v) What are the provisions for submitting the utilization report to the Social Stock Exchange by a listed Not for Profit Organization ?

(4 marks)

Answer 2A(i)

According to Regulation 4(1) of the SEBI (Delisting of Equity Shares) Regulations, 2021, neither any company shall apply for nor any recognised stock exchange shall permit delisting of equity shares of a company -

- pursuant to buy-back of equity shares by the company, including a buyback pursuant to consolidation or division of all or part of the equity share capital of the company, unless a period of 6 months has elapsed from the date of completion of such buy-back,
- pursuant to preferential allotment made by a company, unless a period of 6 months has elapsed from the date of completion of such allotment,

- unless a period of three years has elapsed since the listing of that class of equity shares on any recognised stock exchange,
- if any instrument issued by the company, which is convertible into the same class of equity shares that is sought to be delisted, is outstanding.

In view of the above:

- (a) The company cannot go in for delisting as only 3 months have elapsed from the date of completion of buy-back.
- (b) The company cannot go in for delisting as only 5 months have elapsed from the date of completion of preferential allotment.
- (c) The company can delist its equity shares as the company has been listed for 5 years.
- (d) The company cannot go in for delisting as the Fully Convertible Debentures (FCDs) of the company are still outstanding.

Answer 2A(ii)

- (a) Regulation 4(x)(c) of the SEBI (Buy-Back of Securities) Regulations, 2018 stipulates that the Company shall not directly or indirectly purchase its own shares or other specified securities if a default is made by the company in the repayment of deposits accepted either before or after the commencement of the Companies Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company. However, the buyback is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.

In the given case, only two years have elapsed since the default has been remedied, the company cannot buy-back its equity shares.

- (b) In terms of regulation 5(i)(b) of the SEBI (Buy-Back of Securities) Regulations, 2018, special resolution in general meeting is not required where the buy-back is 10% or less of the total paid-up equity capital and free reserves of the company based on the standalone or consolidated financial statements of the company, whichever sets out a lower amount and such buy-back has been authorised by the board of directors by means of a resolution passed at its meeting of Board.

In the given case, the company intends to buy-back 5% of its total paid-up equity capital and free reserves by way of board resolution passed in a meeting. Hence, the company can proceed for buy-back.

Answer 2A(iii)

The Depository System functions very much like the banking system, but following are the differences between the working of a bank and the working of a depository -

- A bank holds funds in accounts whereas a Depository holds securities in accounts for its clients.
- A Bank transfers funds between accounts on the instruction of the account holder whereas a Depository transfers securities between accounts on the instruction of the beneficial owner account holder.
- While Bank involves transfer of fund, Depository system involves transfer of securities.

- In the Bank, bank is accountable for the safe keeping of funds only whereas in Depository, they are accountable for securities only.

Answer 2A(iv)

In terms of regulation 2(1)(i) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 employee, except in relation to issue of sweat equity shares, means, -

- (i) an employee as designated by the company, who is exclusively working in India or outside India; or
- (ii) a director of the company, whether a whole time director or not, including a non-executive director who is not a promoter or member of the promoter group, but excluding an independent director; or
- (iii) an employee as defined in sub-clauses (i) or (ii), of a group company including subsidiary or its associate company, in India or outside India, or of a holding company of the company, but does not include-
 - (a) an employee who is a promoter or a person belonging to the promoter group; or
 - (b) a director who, either himself or through his relative or through any body corporate, directly or indirectly, holds more than ten per cent of the outstanding equity shares of the company.

Answer 2A(v)

Statement of utilisation of funds

According to regulation 91F of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI circular No. SEBI/HO/CFD/PoD-1/P/CIR/2022/120 dated September 19, 2022, a listed Not for Profit Organization shall submit to the Social Stock Exchange(s) the following statement in respect of utilisation of the funds raised within 45 days from the end of quarter:-

- (a) category-wise amount of monies raised;
- (b) category-wise amount of monies utilised;
- (c) balance amount remaining unutilised.

The unutilised amount shall be kept in a separate bank account and shall not be comingled with other funds. The statement required shall be given till the time the issue proceeds have been fully utilised or the purpose for which they were raised, has been achieved.

Question 3

- (a) In a view of Government of India vision towards simplification of laws, SEBI has eased the norms for issuance of duplicate share certificates by the listed company. Briefly explain the provisions.
- (b) An intermediary registered with SEBI wants to approach SEBI for some guidance under SEBI (Informal Guidance) Scheme, 2003. Explain the procedure which should be followed by an intermediary for such guidance. Also explain various types of guidance provided by SEBI in this regard.
- (c) "One of the objectives of the buy-back is to use additional cash flow available with the company". Explain the Statement and elucidate the other objectives and factors which influence the buy-back decision of the company.

(5 marks each)

Answer 3(a)

Simplification of procedure and standardization of formats of documents for issuance of duplicate securities certificates (Circular No. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/70 dated May 25, 2022)

With a view to make issuance of duplicate securities more efficient and investor friendly, SEBI has simplified the procedure and documentation requirements for issuance of duplicate securities. The requirements are as specified below:

1. Submission by the security holder of copy of FIR including e-FIR/Police complaint/Court injunction order/copy of plaint (where the suit filed has been accepted by the Court and Suit No. has been given), necessarily having details of the securities, folio number, distinctive number range and certificate numbers.
2. Issuance of advertisement regarding loss of securities in a widely circulated newspaper. However, there shall be no requirement to comply with above mentioned Para 1 and 2, if the value of securities as on the date of submission of application, along with complete documentation as prescribed by the SEBI does not exceed Rs.5 Lakhs.
3. Submission of Affidavit and Indemnity bond as per the format prescribed by the SEBI. There shall be no requirement of submission of surety for issuance of duplicate securities
4. In case of non-availability of Certificate Nos./Distinctive Nos./ Folio nos., the RTA (upon written request by the security holder) shall provide the same, to the security holder only where the signature and the address of the security holder matches with the RTA / listed company's records. In case the signature and/or the address do not match, the security holder shall first comply with the KYC procedure and then only the details of the securities shall be provided to the security holder by the RTA/listed company.
5. Duplicate securities shall be issued in dematerialized mode only.

Answer 3(b)

In the interests of better regulation of and orderly development of the Securities market, SEBI has issued SEBI (Informal Guidance) Scheme 2003. An intermediary registered with SEBI may make a request for informal Guidance under the scheme. The request seeking informal guidance should state that it is being made under this scheme and also state whether it is a request for a no-action letter or an interpretive letter and should be accompanied with prescribed fees and addressed to the concerned Department of the SEBI.

It should also describe the request, disclose and analyse all material facts and circumstances involved and mention all applicable legal provisions. The SEBI may dispose off the request as early as possible and in any case not later than 60 days after the receipt of the request. The Department may give a hearing or conduct an interview if it feels necessary to do so. The requestor shall be entitled only to the reply. The internal records or views of the SEBI shall be confidential.

The informal guidance may be sought for and given in two forms -

No-action letters: The SEBI indicates that the Department would or would not recommend any action under any Act, Rules, Regulations, Guidelines, Circulars or other legal provisions administered by SEBI to the Board if the proposed transaction described in a request made under the SEBI (Informal Guidance) Scheme, 2003, is consummated.

Interpretive letters: The SEBI provides an interpretation of a specific provision of any Act, Rules, Regulations, Guidelines, Circulars or other legal provision being administered by the SEBI in the context of a proposed transaction in securities or a specific factual situation.

Answer 3(c)

A buy-back represent a more flexible way of returning surplus cash to its shareholders as it is governed by a process laid down by law, it is carried out through the stock exchange mechanism and is more tax efficient as it does not involve the company to make payment of dividend distribution tax and it has the benefits of long term capital gains.

Buy-back leads to reduction in outstanding number of equity shares, which may lead to improvement in earnings per equity share and enhance return on net worth and create long term value for continuing shareholders. In India, while buy-back of securities is not permitted as a treasury option under which the securities may be reissued later, a company can resort to buy back to reduce the number of shares issued and return surplus cash to the shareholders.

Objectives of Buy-Back

1. To strategically increase promoters' shareholding subject to compliance with the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
2. To improve earnings per share;
3. To improve return on capital, return on net worth and to enhance the long-term shareholder value;
4. To enhance consolidation of stake in the company;
5. To prevent unwelcome takeover bids;
6. To return surplus cash to shareholders and allow profitable deployment of cash surplus;
7. To achieve optimum capital structure;
8. To support share price during periods of sluggish market conditions;
9. To service the equity more efficient;
10. To provide an additional exit route to shareholders when shares are under-valued or are thinly traded.

Factors which influence the buy-back decision of the Company

The decision to buy-back is also influenced by various other factors relating to the company, such as growth opportunities, capital structure, sourcing of funds, cost of capital and optimum allocation of funds generated.

Question 4

- (a) The investment directly made in a particular share may be riskier for general public. To mitigate this risk, to some extent, the investor chooses mutual funds due to its professionalism and management diversification'. Comment on the statement and explain the structure and agencies involved in mutual fund. Briefly differentiate the term open- ended and close-ended ?

(8 marks)

- (b) Namish, CFO of the ZenEX Ltd. (a listed company) has submitted a Trading Plan to the Compliance Officer of the company for approval under the provisions of SEBI regulations. What are the conditions to be taken care of by the compliance officer, while giving approval to the Trading Plan ?

(7 marks)

Answer No. 4(a)

Mutual Funds are a vehicle that collects money from investors to buy securities. These investors have a common objective, and this pool of money is advised by the fund manager who decides how to invest the money. With good fund management, the Mutual Fund Manager (or Portfolio Manager) generates returns for the investors, which are passed back to investor. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with SEBI before it can collect funds from public. The investors should compare the risks and expected yields after adjustment of tax on various instruments while taking investment decisions.

Structure and Agencies involved in Mutual Fund

A mutual fund is set up in the form of a trust, which has sponsor, trustees, asset management company and a custodian. SEBI prescribes comprehensive set of guidelines in the functioning of a mutual fund through the SEBI (Mutual Funds) Regulations, 1996. These regulations stipulate that a mutual fund must consist of five important entities:

1. Sponsor - Sponsor is the principal body, who brings the capital as per the guideline issued by SEBI to start a mutual fund.
2. Trust & Trustee - Trust is created by sponsor and trustees are appointed to manage the operations of a trust. The trustees' job is to ensure that all the funds are managed as per the defined objective and investors' interest is protected.
3. Asset Management Company (AMC) - Trustee appoints AMC to manage the funds of the investors and, in return, get the fee to manage the fund.
4. Custodian - Custodian job is to the safekeeping of the investors' fund and securities and to ensure that it would be used for intended purpose only.
5. Registrar and Transfer Agent (RTA)- RTAs job is to manage the backend operation of the mutual fund and managing investors' transaction request and other related services.

Difference Between Open Ended and Close Ended Schemes of Mutual Funds

| Open Ended | Close Ended |
|---|---|
| Can be purchased on any transaction day | Can be purchased only during New Fund Offer (NFO) |
| Can be redeemed on any transaction day [Except when units are locked-in in the case of Equity-Linked Savings Scheme (ELSS) funds] | Can be redeemed only at maturity |
| High Liquidity | Low on liquidity |

Answer 4(b)

As per Regulation 5 of the SEBI (Prohibition of Insider Trading) Regulations, 2015, an insider shall be entitled to formulate a trading plan and present it to the compliance officer for approval and public disclosure pursuant to which trades may be carried out on his behalf in accordance with such plan. The Compliance Officer shall review the trading plan to assess whether the plan would have any potential for violation of these regulations and shall be entitled to seek such express undertakings as may be necessary to enable such assessment and to approve and monitor the implementation of the plan.

The following conditions shall be attached to the Trading Plan which the Compliance Officer shall assess while giving approval -

- It shall not entail commencement of trading on behalf of the insider earlier than 6 months from the public disclosure of the plan.
- Unpublished Price sensitive information shall not be in possession from formulation of the plan to implementation.
- It shall entail trading for a period of not less than twelve months.
- It shall not entail overlap of any period for which another trading plan is already in existence.
- It shall set out either the value of trades to be effected or the number of securities to be traded along with the nature of the trade and the intervals at, or dates on which such trades shall be effected.
- It shall not entail trading in securities for market abuse.
- It shall not entail trading for the period between the twentieth trading day prior to the last day of any financial period for which results are required to be announced by the issuer of the securities and the second trading day after the disclosure of such financial results.
- The trading plan once approved shall be irrevocable and the insider shall mandatorily have to implement the plan, without being entitled to either deviate from it or to execute any trade in the securities outside the scope of the trading plan.

PART-II

Question 5

- (a) The result of assembly election of major State will be announced in next week. Naresh an investor, wants to take the opportunity only with limited risk as outcome of election result might be negative.

Kamal, one of his friends, is regularly deals in option contracts, Kamal advised him to take position in following option contracts in PQR Ltd. (Assume the option lot size is 100) :

- Purchase one lot with 1-month call option, with a premium of ₹ 30 with an exercise price of ₹ 550.
- Purchase one lot with 1-month put option, with a premium of ₹ 5 with an exercise price of ₹ 450.

PQR Ltd. share is currently traded at ₹ 500. Calculate the net pay off position of Naresh at the expiry of option, if the price of PQR Ltd. share happens to be :

- (i) No change in price
- (ii) Falls at ₹ 350.

(5 marks)

- (b) Who can be an accredited investor under the amended SEBI (AIF), Regulations, 2012 ?

(5 marks)

- (c) "Green Shoe Option is an option of allocating shares, in excess of the shares offered in the public issue and operating a post-listing price stabilizing mechanism." Explain the Green Shoe Option process.

(5 marks)

Answer 5(a)

Total premium paid on purchasing a call and put option

$$= (\text{₹ } 30 \text{ per share} \times 100) + (\text{₹ } 5 \text{ per share} \times 100)$$

$$= \text{₹ } 3,000 + \text{₹ } 500 = \text{₹ } 3,500$$

(i) Net Pay-off if there is no change in price

In this case, Naresh exercises neither the Call option nor the Put option as both will result in a loss for him.

$$\text{Thus, Ending value} = - \text{₹ } 3,500 + \text{Zero gain} = - \text{₹ } 3,500$$

i.e. Net loss is ₹ 3,500

(ii) Net Pay-off if price falls at ₹ 350

Since the price of the stock is below the exercise price of the Call, it will not be exercised. Only Put is valuable hence it will be exercised.

$$\text{Thus, Ending value} = - \text{₹ } 3,500 + [(\text{₹ } 450 - \text{₹ } 350) \times 100] = - \text{₹ } 3,500 + 10,000 = \text{₹ } 6,500$$

Net gain is ₹ 6,500

Answer 5(b)

In terms of the amendment to the SEBI (Alternative Investment Funds) Regulations, 2012, an accredited investor means any person who is granted a certificate of accreditation by an accreditation agency who,

(i) in case of an individual, Hindu Undivided Family, family trust or sole proprietorship has:

- annual income of at least two crore rupees; or
- net worth of at least seven crore fifty lakh rupees, out of which not less than three crores seventy-five lakh rupees is in the form of financial assets; or
- annual income of at least one crore rupees and minimum net worth of five crore rupees, out of which not less than two crore fifty lakh rupees is in the form of financial assets.

(ii) in case of a body corporate, has net worth of at least fifty crore rupees;

(iii) in case of a trust other than family trust, has net worth of at least fifty crore rupees;

(iv) in case of a partnership firm set up under the Indian Partnership Act, 1932, each partner independently meets the eligibility criteria for accreditation.

Provided that the Central Government and the State Governments, developmental agencies set up under the aegis of the Central Government or the State Governments, funds set up by the Central Government or the State Governments, qualified institutional buyers as defined under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, Category I foreign portfolio investors, sovereign wealth funds and multilateral agencies and any other entity as may be specified by the Board from time to time, shall deemed to be an accredited investor and may not be required to obtain a certificate of accreditation.

Answer 5(c)

Green Shoe Option means an option of allotting equity shares in excess of the equity shares offered in the public issue as a post-listing price stabilizing mechanism in accordance with the provisions

of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. Green Shoe Option process is as follows:

1. An issuer may provide a green shoe option for stabilising the post listing price of its specified securities, subject to the following:
 - the issuer has been authorized, by a resolution passed in the general meeting of shareholders approving the public issue, to allot specified securities to the stabilising agent, if required, on the expiry of the stabilisation period;
 - the issuer has appointed a lead manager as a stabilising agent, who shall be responsible for the price stabilisation process;
 - prior to filing the draft offer document, the issuer and the stabilising agent have entered into an agreement, stating all the terms and conditions relating to the green shoe option including fees charged and expenses to be incurred by the stabilising agent for discharging its responsibilities;
 - prior to filing the offer document, the stabilising agent has entered into an agreement with the promoters or pre-issue shareholders or both for borrowing specified securities from them, specifying therein the maximum number of specified securities that may be borrowed for the purpose of allotment or allocation of specified securities in excess of the issue size (hereinafter referred to as the "over-allotment"), which shall not be in excess of fifteen per cent. of the issue size;
 - the lead manager, in consultation with the stabilising agent, shall determine the amount of specified securities to be over-allotted in the public issue;
 - the draft offer document and offer document shall contain all material disclosures about the green shoe option specified in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018;
 - in case of an initial public offer pre-issue shareholders and promoters and in case of a further public offer pre-issue shareholders holding more than five per cent. specified securities and promoters, may lend specified securities to the extent of the proposed over-allotment;
 - the specified securities borrowed shall be in dematerialised form and allocation of these securities shall be made pro-rata to all successful applicants.
2. For the purpose of stabilisation of post-listing price of the specified securities, the stabilising agent shall determine the relevant aspects including the timing of buying such securities, quantity to be bought and the price at which such securities are to be bought from the market.
3. The stabilisation process shall be available for a period not exceeding thirty days from the date on which trading permission is given by the stock exchanges in respect of the specified securities allotted in the public issue.
4. The stabilising agent shall open a special account, distinct from the issue account, with a bank for crediting the monies received from the applicants against the over-allotment and a special account with a depository participant for crediting specified securities to be bought from the market during the stabilisation period out of the monies credited in the special bank account.
5. The specified securities bought from the market and credited in the special account with the depository participant shall be returned to the promoters or pre-issue shareholders

immediately, in any case not later than two working days after the end of the stabilisation period.

6. On expiry of the stabilisation period, if the stabilising agent has not been able to buy specified securities from the market to the extent of such securities over-allotted, the issuer shall allot specified securities at issue price in dematerialised form to the extent of the shortfall to the special account with the depository participant, within five days of the closure of the stabilisation period and such specified securities shall be returned to the promoters or pre-issue shareholders by the stabilising agent in lieu of the specified securities borrowed from them and the account with the depository participant shall be closed thereafter.
7. The issuer shall make a listing application in respect of the further specified securities allotted, to all the stock exchanges where the specified securities allotted in the public issue are listed and the provisions of Chapter V of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 shall not be applicable to such allotment.
8. The stabilising agent shall remit the monies with respect to the specified securities allotted to the issuer from the special bank account.
9. Any monies left in the special bank account after remittance of monies to the issuer and deduction of expenses incurred by the stabilising agent for the stabilisation process shall be transferred to the Investor Protection and Education Fund established by the Board and the special bank account shall be closed soon thereafter.
10. The stabilising agent shall submit a report to the stock exchange on a daily basis during the stabilisation period and a final report to the SEBI in the specified format.
11. The stabilising agent shall maintain a register for a period of at least three years from the date of the end of the stabilisation period.

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

Question 6

Write short notes on the following :

- (a) Application Supported by Block Amount (ASBA)
- (b) Stock Market Index
- (c) Regulatory functions of the SEBI
- (d) Key risk in investing in Securities Market
- (e) Redressal of Investor grievances by an Intermediary.

(3 marks each)

Answer 6(a)

Application Supported by Blocked Amount (ASBA)

ASBA means "Application Supported by Blocked Amount". ASBA is an application by an investor containing an authorisation to Self-Certified Syndicate Bank (SCSB) to block the application money in the bank account, for subscribing to an issue. If an investor is applying through ASBA, his application money shall be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalised.

SEBI has reviewed the processing of Application Supported by Blocked Amount (ASBA) applications in the Public Issues by market intermediaries and Self-Certified Syndicate Banks (SCSBs) as a

part of the continuing efforts to further streamline the bidding process and to ensure the orderly development of securities market.

SEBI vide its circular dated May 30, 2022 has provided that the ASBA applications in Public Issues shall be processed only after the application monies are blocked in the investor's bank accounts. Accordingly, all intermediaries / market infrastructure institutions are advised by SEBI to ensure that appropriate systemic and procedural arrangements are made within three months from the date of issuance of this circular.

Further provided that the Stock Exchanges shall accept the ASBA applications in their electronic book building platform only with a mandatory confirmation on the application monies blocked.

Answer 6(b)

Stock Market Index

An Index is used to give information about the price movements of products in the financial, commodities or any other markets. Financial indexes are constructed to measure price movements of stocks, bonds, T-bills and other forms of investments. Stock market indexes are meant to capture the overall behaviour of equity markets. A stock market index is created by selecting a group of stocks that are representative of the whole market or a specified sector or segment of the market. An Index is calculated with reference to a base period and a base index value.

Stock market indexes are useful for a variety of reasons. Some of them are -

- They provide a historical comparison of returns on money invested in the stock market against other forms of investments such as gold or debt.
- They can be used as a standard against which to compare the performance of an equity fund.
- It is a lead indicator of the performance of the overall economy or a sector of the economy.
- Stock indexes reflect highly up to date information.
- Modern financial applications such as Index Funds, Index Futures, Index Options play an important role in financial investments and risk management.

Answer 6(c)

Regulatory functions of the SEBI

SEBI functions are basically performed to keep a check on the functioning of the business in the financial markets, including:

- Designing guidelines, regulations and code of conduct for the proper functioning of financial intermediaries and corporate,
- Regulation of takeover of companies,
- Conducting inquiries and audit of exchanges,
- Registration of brokers, sub-brokers, merchant bankers etc.,
- Levying of fees,
- Performing and exercising powers,
- Register and regulate credit rating agency.

Answer 6(d)

Key risk in investing in Securities market

- Market risk or Systematic Risk: It means that an investor may experience losses due to factors affecting the overall performance of financial markets and general economy of the country.
- Unsystematic Risk: Unsystematic risk can be described as the uncertainty attached with a particular company or industry.
- Inflation risk: Inflation risk is also called as purchasing power risk. It is defined as a chance that the cash flows from an investment would lose their value in future because of a decline in its purchasing power due to inflation.
- Liquidity risk: Liquidity risk arises when an investment cannot be brought or sold quickly enough.
- Business risk: It refers to the risk that a business of a company might be affected or may stop its operations due to any unfavourable operational, market or financial situation.
- Volatility risk: Volatility risk arises as the companies' stock prices may fluctuate over time.
- Currency risk: It refers to potential risk of loss from fluctuate foreign exchange rates that an investor may face when he has invested in foreign currency or made foreign currency-traded investments.

Answer No. 6(e)

Redressal of Investor Grievances by an Intermediary

The intermediary shall make endeavours to redress investor grievances promptly but not later than 45 days of receipt thereof and when called upon by the SEBI to do so it shall redress the grievances of investors within the time specified by the SEBI.

The intermediary shall maintain records regarding investor grievances received by it and redressal of such grievances.

The intermediary shall at the end of each quarter of a Financial Year ending on 31st March upload information about the number of investor grievances received, redressed and those remaining unresolved beyond three months of the receipt thereof by the intermediary on the website specified by the SEBI.

OR (Alternative question to Q. No. 6)

Question 6A

- (i) On 31/08/2023, Ganesh has taken a long position of two lots of Nifty future contract at 24,000 (one lot is 25 units). Initial margin required is 10% of contract value and Maintenance margin required is 80% of initial margin. The closing price of Nifty future during next 5 days is given below :

| Date | Closing Price of Nifty Future |
|------------|-------------------------------|
| 01/09/2023 | 24200 |
| 02/09/2023 | 23900 |
| 03/09/2023 | 23300 |
| 06/09/2023 | 23700 |
| 07/09/2023 | 23600 |

You are required to prepare a statement showing the daily balances in the margin account and payment on margin calls, if any.

(5 marks)

- (ii) SEBI has imposed additional enhanced obligations and responsibility on the "Qualified Stock Broker". State the criterion to be considered as a designate qualified stock broker and summarize enhanced obligations.

(5 marks)

- (iii) Credit Rating Agencies rate the financial instruments, not the company. In this context, briefly explain the term credit rating agency. Explain the roles and responsibilities of credit rating agencies.

(5 marks)

Answer 6A(i)

Contract Size (₹ 24000 x 25 x 2) = ₹ 12,00,000

Initial Margin (10% of ₹ 12,00,000) = ₹ 1,20,000

Maintenance Margin (80% of ₹ 1,20,000) = ₹ 96,000

Statement showing the daily balances in Margin A/c and margin call if any,

| Day | Change in Future price (Daily Change) | Daily P&L | Margin A/c | Margin Call |
|------------|---------------------------------------|------------------------|------------|-------------|
| 31/08/2023 | | ₹ 120000 | 1,20,000 | |
| 01/09/2023 | (₹24,200 - ₹24,000) *25*2 | (200*25*2) = ₹ 10000 | 1,30,000 | |
| 02/09/2023 | (₹23,900 - ₹24,200) *25*2 | (-300*25*2) = ₹ -15000 | 1,15,000 | |
| 03/09/2023 | (₹23,300 - ₹23,900) *25*2 | (-600*25*2) = ₹ -30000 | 1,20,000 | 35000 |
| 06/09/2023 | (₹23,700 - ₹23,300) *25*2 | (400*25*2) = ₹ 20000 | 1,40,000 | |
| 07/09/2023 | (₹23,600 - ₹23,700) *25*2 | (-100*25*2) = ₹-5000 | 1,35,000 | |

On 03/09/2023, balance is less than maintenance margin i.e. (1,15,000 – 30,000), Margin call would be made to maintain the initial margin of Rs. 1,20,000. Thus, a margin call of Rs. 35,000 would be made.

Answer 6A (ii)

The new definition of Qualified Stock Broker (QSB) has been inserted which means a stock broker referred to in regulation 18D of the SEBI (Stock Brokers) Regulations, 1992.

Further, regulation 18D of the SEBI (Stock Brokers), Regulations, 1992 states that the SEBI may designate a stock broker as a qualified stock broker having regard to its size and scale of operations,

likely impact on investors and securities market, as well as governance and service standards, on the basis of the following parameters and the appropriate weightages thereon: -

- (a) the total number of active clients;
- (b) the available total assets of clients with the stock broker;
- (c) the trading volumes of the stock broker;
- (d) the end of day margin obligations of all clients of a stock broker;
- (e) compliance score as may be specified by the Board;
- (f) grievance redressal score as may be specified by the Board; and
- (g) the proprietary trading volumes of the stock broker.

The stock broker designated as a qualified stock broker shall be required to meet enhanced obligations and discharge responsibilities to ensure: -

- (a) appropriate governance structure and processes;
- (b) appropriate risk management policy and processes;
- (c) scalable infrastructure and appropriate technical capacity;
- (d) framework for orderly winding down;
- (e) robust cyber security framework and processes; and
- (f) investor services including on line complaint redressal mechanism.

SEBI has designated stock brokers, based on identified parameters, as Qualified Stock Brokers to mitigate this risk. Certain Stock Brokers in the market handle a very large number of clients, very large amount of client funds and very large trading volumes. Possible failure of such brokers has the potential to cause widespread impact on investors and reputational damage to the Indian securities market. QSBs would need to comply with enhanced risk management practices/requirements. There would also be enhanced monitoring of such QSBs by SEBI / Market Infrastructure Institutions (MIs).

Answer 6A(iii)

In terms of the (Credit Rating Agencies) Regulations, 1999, a Credit Rating Agency means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities that are listed or proposed to be listed on a stock exchange recognized by the SEBI.

Credit rating is extremely important as it not only plays a role in investor protection but also benefits industry as a whole in terms of direct mobilization of savings from individuals. Rating also provides a marketing tool to the company and its investment bankers in placing company's debt obligations with an investor base that is aware of, and comfortable with, the level of risk. Ratings also encourage discipline amongst corporate borrowers to improve their financial structure and operating risks to obtain a better rating for their debt obligations and thereby lower the cost of borrowing.

The Roles and responsibilities of Credit rating agency are as follow:

- 1) Every credit rating agency shall abide by the Code of Conduct.
- 2) Every credit rating agency shall enter into a written agreement with each client whose securities it proposes to rate.
- 3) Every credit rating agency shall, during the lifetime of securities rated by it continuously monitor the rating of such securities.

- 4) Every credit rating agency shall disseminate information regarding newly assigned ratings, and changes in earlier rating promptly through press releases and websites, and, in the case of securities issued by listed companies, such information shall also be provided simultaneously to the concerned regional stock exchange and to all the stock exchanges where the said securities are listed.
- 5) Every credit rating agency shall disclose Rating definition and rationale.
- 6) Where any information is called for by the SEBI from a credit rating agency, including any report relating to its activities, the credit rating agency shall furnish such information to the SEBI.
- 7) Every credit rating agency shall comply with such guidelines, directives, circulars and instructions as may be issued by the SEBI from time to time.
- 8) Every credit rating agency shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by the SEBI or the Central Government.
- 9) Every credit rating agency shall keep and maintain books of accounts, records and documents for a minimum period of five years.

ECONOMIC, BUSINESS AND COMMERCIAL LAWS

MODULE 2 PAPER 7

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer All Questions.

PART-I

Question 1

- (a) Enumerate the functions of Reserve Bank of India. Among them, explain the banking functions of Reserve Bank of India.
(2+3=5 marks)
- (b) Describe the modes through which a person can accept Foreign Contribution, under Section 4 of the Foreign Contribution (Regulation) Act, 2010.
(5 marks)
- (c) Explain the following with reference to External Commercial Borrowing (ECB) :
- (I) Change of currency of borrowing
 - (II) Limit and Leverage.
(5 marks)
- (d) Under what circumstances can Banks remit winding up proceeds of Companies under liquidation as per Foreign Direct Investment-Regulation and Policy ?
(5 marks)

Answer 1(a)

The functions of the Reserve Bank of India can be summarized and enumerated as under:

- i. Banking Functions
- ii. Issue bank notes
- iii. Monetary Policy Functions
- iv. Public Debt Functions
- v. Foreign Exchange Management
- vi. Banking Regulation & Supervision
- vii. Regulation and Supervision of NBFCs
- viii. Regulation & Supervision of Co-operative banks
- ix. Payment and Settlement Functions
- x. Regulation of Derivatives and Money Market Instruments
- xi. Consumer Protection Functions
- xii. Financial Inclusion and Development Functions

Banking Functions of Reserve Bank of India

Section 17 of the RBI Act enables RBI to do banking business, such as accepting deposits, without interest, from any person. The other businesses, which the RBI may transact, are also mentioned in the said provision. It states that RBI may transact various businesses such as acceptance of deposits without interest from Central Government and State Governments, purchase, sale and rediscount of Bills of Exchange, short term Loans and Advances to banks, annual Contributions to National Rural Credit Funds, dealing in Derivatives, purchase and sale of Government Securities, purchase and sale of shares of State Bank of India, National Housing Bank, Deposit Insurance and Credit Guarantee Corporation, etc., keeping of deposits with SBI for specific purposes, making and issue of Banknotes, etc.

Similarly, Section 18 facilitates the RBI to act as a 'Lender of Last Resort'; whereas Section 19 states the list of businesses which the RBI may not transact. This apart, the provisions of RBI Act enable the RBI to act as banker to Central Government and State Governments. Under Sections 20 and 21 the RBI shall have an obligation and right respectively to accept monies for account of Central Government and to make payments up to the amount standing to the credit of its account, and to carry out its exchange, remittance and other banking operations, including the management of public debt of the Union. In the case of State Governments, the said banking functions may be undertaken by way of an agreement between RBI and the State Government concerned as provided in Section 21-A of RBI Act. These agreements made between the RBI and the State Governments are statutory as they are required to be laid before the Parliament as soon as they are made.

Answer 1(b)

According to Section 4 of the Foreign Contribution (Regulation) Act, 2010, nothing contained in Section 3 shall apply to the acceptance, by any person specified in that section, of any foreign contribution where such contribution is accepted by him, subject to the provisions of Section 10:

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

It may be noted that in case any foreign contribution received by any person specified under section 3, for any of the purposes other than those specified under this section, such contribution shall be deemed to have been accepted in contravention of the provisions of Section 3.

Answer 1(c)**(I) Change of Currency of Borrowing**

Change of currency of External Commercial Borrowing(ECB) from one freely convertible foreign currency to any other freely convertible foreign currency as well as to Indian Rupee is freely permitted. Change of currency from Indian Rupee to any freely convertible foreign currency is not permitted. It may be noted that the ECB framework is not applicable in respect of investments in Non-Convertible Debentures in India made by Registered Foreign Portfolio Investors. Lending and borrowing under the ECB framework by Indian banks and their branches/subsidiaries outside India will be subject to prudential guidelines issued by the Department of Banking Regulation of the Reserve Bank. Further, other entities raising ECB are required to follow the guidelines issued, if any, by the concerned sectoral or prudential regulator.

(II) Limit and Leverage

The individual limits refer to the amount of ECB which can be raised in a financial year under the automatic route.

- i. The individual limits of ECB that can be raised by eligible entities under the automatic route per financial year for all the three tracks are set out as under:
 - (a) Up to USD 750 million or equivalent for the companies in infrastructure and manufacturing sectors, Non-Banking Financial Companies -Infrastructure Finance Companies (NBFC-IFCs), NBFCs-Asset Finance Companies (NBFC-AFCs), Holding Companies and Core Investment Companies;
 - (b) Up to USD 200 million or equivalent for companies in software development sector;
 - (c) Up to USD 100 million or equivalent for entities engaged in micro finance activities; and
 - (d) Up to USD 500 million or equivalent for remaining entities.
- ii. ECB proposals beyond aforesaid limits will come under the approval route.

Further, the borrowing entities will also be governed by the guidelines on debt equity ratio, issued, if any, by the sectoral or prudential regulator concerned.

Answer 1(d)

Authorised Dealer (AD) Category-I banks have been allowed to remit winding up proceeds of companies in India, which are under liquidation, subject to payment of applicable taxes. Liquidation may be subject to any order issued by the Court winding up the company or the official liquidator in case of voluntary winding up under the provisions of the Companies Act, as applicable. AD Category-I banks shall allow the remittance provided the applicant submits:

- (a) No objection or Tax clearance certificate from Income Tax Department for the remittance.
- (b) Auditor's certificate confirming that all liabilities in India have been either fully paid or adequately provided for.
- (c) Auditor's certificate to the effect that the winding up is in accordance with the provisions of the Companies Act, as applicable.
- (d) In case of winding up otherwise than by a court, an auditor's certificate to the effect that there are no legal proceedings pending in any court in India against the applicant or the company under liquidation and there is no legal impediment in permitting the remittance.

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

Question 2

- (a) Explain the composition of 'Committee on Quality Complaints and Trade Disputes' (CQCTD) under the India's Foreign Trade Policy and Procedure. (4 marks)
- (b) What are the documents required for sale of shares by a 'Person Resident outside India' to a 'Person Resident in India' as per the Foreign Direct Investment—Regulation and Policy ? (4 marks)
- (c) Why was Foreign Exchange Management Act, 1999 enacted ? What are the key aspects dealt under the Foreign Exchange Management Act ? (4 marks)
- (d) What is a Special Economic Zone ? What are the guidelines for notifying Special Economic Zone ? (4 marks)
- (e) State the permissible sources for funding Overseas Direct Investment. (4 marks)

Answer 2(a)

The 'Committee on Quality Complaints and Trade Disputes' (CQCTD) would be constituted under the Chairpersonship of the Head Office. The CQCTD may comprise of the following members:

1. Additional DGFT/Joint DGFT/ (H.O.O): Chairperson
2. Representative of Bureau of India Standard (BIS): Member
3. Representative of Agricultural and Processed Food Products Export Development Authority: Member
4. Representative of the Branch Manager of the concerned Bank: Member
5. Representative of Federation of Indian Exporter Organisation / and OR Export Promotion Council: Member
6. Representative of Export Inspection Agency: Member
7. Nominee of Director of Industries of State Government: Member
8. Nominee of Development Commissioner of MSME: Member
9. Officer as nominated by Chairperson: Member Secretary
10. Any other agency, as co-opted by Chairperson: Member

Answer 2(b)

Following are the documents required for sale of shares by a "Person Resident Outside India (PROI) to a "Person Resident in India (PRII)" as per the Foreign Direct Investment (FDI)- Regulation & Policy:

- i. Consent Letter duly signed by the seller and buyer or their duly appointed agent indicating the details of transfer i.e., number of shares to be transferred, the name of the investee company whose shares are being transferred and the price at which shares are being transferred.

- ii. Where the Consent Letter has been signed by their duly appointed agent the Power of Attorney Document authorizing the agent to purchase/sell shares by the seller/buyer. In case there is no formal Sale Agreement, letters exchanged to this effect may be kept on record.
- iii. If the sellers are NRIs/OCBs, the copies of RBI approvals evidencing the shares held by them on repatriation/ non-repatriation basis. The sale proceeds shall be credited NRE/NRO account, as applicable.
- iv. Certificate indicating fair value of shares from a Chartered Accountant.
- v. No Objection / Tax Clearance Certificate from Income Tax authority/Chartered Account.
- vi. Undertaking from the buyer to the effect that the Pricing Guidelines have been adhered to.

Answer 2(c)

The Foreign Exchange Management Act, 1999 (FEMA) 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.

FEMA Provides –

- Free Transactions on Current Account subject to reasonable restrictions that may be imposed.
- Capital Account Transactions.
- Realization of Export Proceeds
- Dealings in Foreign Exchange through Authorized Person (e.g., Authorized Dealer/Money Changer/Off-shore Banking Unit
- Adjudication of Offences — Appeal Provisions including Special Director (Appeals) and Appellate Tribunal & High Court

Answer 2(d)

Special Economic Zone (SEZ) is a specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. Special Economic Zones (SEZ) are growth engines that can boost manufacturing, augment exports and generate employment. The SEZs require special fiscal and regulatory regime in order to impart a hassle-free operational regime encompassing the state-of-the-art infrastructure and support services.

Guidelines for notifying Special Economic Zone

Section 5 of Special Economic Zones Act, 2005 stipulates broader guidelines to be considered by the Central Government, while notifying any area as a Special Economic Zone or an area to be included in the SEZ and in discharging its functions under the Act. These include:

- (a) generation of additional economic activity;
- (b) promotion of exports of goods and services;
- (c) promotion of investment from domestic and foreign sources;
- (d) creation of employment opportunities;
- (e) development of infrastructure facilities; and
- (f) maintenance of sovereignty and integrity of India, the security of the State and friendly relations with foreign States

Answer 2(e)

Funding for Overseas Direct Investment can be made by one or more of the following sources:

- (a) Draw of foreign exchange from an AD bank in India
- (b) Swap of shares (refers to the acquisition of the shares of an overseas IV/WOS by way of exchange of the shares of the Indian party)
- (c) Capitalization of export and other dues and entitlements
- (d) Proceeds of External Commercial Borrowings/ Foreign Currency Convertible Bonds
- (e) In exchange of ADRs/GDRs issued in accordance with the scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 and the guideline issued by Government of India in the matter.
- (f) Balance held in Exchange Earners Foreign Currency account of the Indian Party maintained with an Authorized Dealer
- (g) Proceeds of foreign currency funds raised through ADR/GDR issues.

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

- (i) Explain the "Manner of Repatriation" of Foreign Exchange as per the Foreign Exchange Management Act, 1999. (4 marks)
- (ii) Explain the Power of Reserve Bank of India to 'Prohibit Acceptance of Deposit and Alienation of Assets' by Non-Banking Financial Companies (NBFCs). (4 marks)
- (iii) Discuss the provisions for Liberalized Remittance Scheme with respect to remittances for making tour arrangements or for providing hotel accommodation for foreign tours. (4 marks)
- (iv) What is the 'Mode of Payment' by a person resident in India for making Overseas Direct Investment as per Foreign Exchange Management (Overseas Investment) Rules, 2022 ? (4 marks)
- (v) What are the privileges of status holder under the Foreign Trade Policy and Procedure ? (4 marks)

Answer 2A(i)

According to the Foreign Exchange Management (Realisation, Repatriation and Surrender of Foreign Exchange) Regulations, 2015, on realisation of foreign exchange due, a person shall repatriate the same to India, namely bring into, or receive in, India and —

- (a) sell it to an authorised person in India in exchange for rupees; or
- (b) retain or hold it in account with an authorised dealer in India to the extent specified by the Reserve Bank; or

- (c) use it for discharge of a debt or liability denominated in foreign exchange to the extent and in the manner specified by the Reserve Bank.

A person shall be deemed to have repatriated the realised foreign exchange to India when he receives in India payment in rupees from the account of a bank or an exchange house situated in any country outside India, maintained with an authorised dealer.

Answer 2A(ii)

Section 45MB of the Reserve Bank of India Act, 1934 provides that if any non-banking financial company violates the provisions of any section or fails to comply with any direction or order given by the Bank under any of the provisions of this Chapter III B, the Reserve Bank may prohibit the non-banking financial company from accepting any deposit.

Notwithstanding anything to the contrary contained in any agreement or instruments or any law for the time being in force, the Reserve Bank, on being satisfied that it is necessary so to do in the public interest or in the interest of the depositors, may direct, the non-banking financial company against which an order prohibiting from accepting deposit has been issued, not to sell, transfer, create charge or mortgage or deal in any manner with its property and assets without prior written permission of the Reserve Bank for such period not exceeding six months from the date of the order.

Answer 2A(iii)

Authorised Dealers may affect remittances at the request of agents in India who have tie-up arrangements with hotels/ agents etc., abroad for providing hotel accommodation or making other tour arrangements for travel from India, provided the Authorised Dealer is satisfied that the remittance is being made out of the foreign exchange purchased by the traveller concerned from an Authorised Person (including exchange drawn for private travel abroad) in accordance with the Rules, Regulations and Direction in force under Foreign Exchange Management Act.

Authorised Dealer may open foreign currency accounts in the name of agents in India who have tie up arrangements with hotels/ agents, etc., abroad for providing hotel accommodation or making other tour arrangements for travellers from India provided:

- (i) the credits to the account are by way of depositing:
 - (a) collections made in foreign exchange from travellers; and
 - (b) refunds received from outside India on account of cancellation of bookings/ tour arrangements etc., and
- (ii) the debits in foreign exchange are for making payments towards hotel accommodation, tour arrangements etc., outside India.

Authorised Dealer may also allow tour operators to remit the cost of rail/ road/ water/transportation charges outside India without any prior approval from Reserve Bank, net of commission/ mark up due to the agent. The sale of passes/ ticket in India can be made either against the payment in Indian Rupees or in foreign exchange released for visits abroad.

In respect of consolidated tours arranged by travel agents in India for foreign tourists visiting India and neighbouring countries like Nepal, Bangladesh, Sri Lanka etc., against advance payments/ reimbursement through an Authorised Dealer, part of the foreign exchange received in India against such consolidated tour arrangement, may require to be remitted from India to these neighbouring countries for services rendered by travel agents and hoteliers in these countries. Authorised Dealer may allow such remittances after verifying that the amount being remitted to the neighbouring countries (inclusive of remittances, if any, already made against the tour) does not exceed the amount actually remitted to India and the country of residence of the beneficiary is not Pakistan.

Answer 2A(iv)

A person resident in India making Overseas Direct Investment may make payment:

- i. By remittance made through banking channels;
- ii. From funds held in an account maintained in accordance with the provisions of the Foreign Exchange Management Act;
- iii. By swap of securities;
- iv. By using the proceeds of American Depository Receipts or Global Depository Receipts or stock swap of such receipts or external commercial borrowings raised in accordance with the provisions of the Act and the rules and regulations made thereunder for making ODI or financial commitment by way of debt by an Indian entity.

Answer 2A(v)

A Status Holder shall be eligible for privileges as under:

- (a) Authorisation and Customs Clearances for both imports and exports may be granted on self-declaration basis;
- (b) Input-Output norms may be fixed on priority within 60 days by the Norms Committee;
- (c) Exemption from furnishing of Bank Guarantee for Schemes under FTP, unless specified otherwise anywhere in FTP or Hand Book of Procedure (HBP);
- (d) Exemption from compulsory negotiation of documents through banks. Remittance/receipts, however, would be received through banking channels;
- (e) Two star and above Export houses shall be permitted to establish Export Warehouses as per Department of Revenue guidelines.

Three Star and above Export House shall be entitled to get benefit of Accredited Clients Programme (ACP) as per the guidelines of CBEC (website:<http://cbec.gov.in>).

The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.

Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured goods (as per their Industrial Entrepreneurial Memorandum (IEM)/ Industrial Licensing (IL)/ Letter of Intent (LOI) as originating from India with a view to qualify for preferential treatment under different preferential trading agreements (PTA), Free Trade Agreements (FTAs), Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic Partnership Agreements (CEPA). Subsequently, the scheme may be extended to remaining Status Holders.

Manufacturer exporters who are also Status Holders shall be eligible to self-certify their goods as originating from India as per Hand Book of Procedures.

Status holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to an annual limit of Rs. 10 Lakh or 2% of average annual export realization during preceding three licencing years whichever is lower.

PART-II

Question 3

- (a) Explain 'tie-in agreement' and 'exclusive supply agreement' under the Competition Act, 2002.
- (b) Discuss the factors to be considered by Competition Commission of India while determining whether an agreement has appreciable adverse effect on Competition ?
- (c) Explain the provision of appeal, filed against the order of the Appellate Tribunal, under the Competition Act, 2002.
- (d) State the penalty provisions for failure to comply with directions of Competition Commission and Director General under Section 43 of the Competition Act, 2002.
- (e) What is cartel ? What are conditions conducive to cartel ?

(3 marks each)

Answer 3(a)

Explanation to Section 3 of the Competition Act, 2002 defines the terms "Tie-in agreement" & "Exclusive supply agreement".

"Tie-In Arrangement" includes any agreement requiring a purchaser of goods or services, as a condition of such purchase, to purchase some other distinct goods or services.

"Exclusive Supply Agreement" includes any agreement restricting in any manner the purchaser in the course of his trade from acquiring or otherwise dealing in any goods other than those of the seller or any other person.

"Exclusive Dealing Agreement": In view of the Amendment Act 2023, the exclusive supply agreements are renamed as Exclusive Dealing Agreement which includes any agreement restricting in any manner the purchaser or the seller, as the case may be, in the course of his trade from acquiring or selling or otherwise dealing in any goods or services other than those of the seller or the purchaser or any other person, as the case may be.

Answer 3(b)

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

- (a) creation of barriers to new entrants in the market;
- (b) driving existing competitors out of the market;
- (c) foreclosure of competition by hindering entry into the market;
- (d) accrual of benefits to consumers;
- (e) improvements in production or distribution of goods or provision of services;
- (f) promotion of technical, scientific and economic development by means of production or distribution of goods or provision of services.

The first three factors are anti-competitive, while the latter three factors deal with benign effects. The touch stone of appreciable adverse effect on competition need not be proved while enquiring into abuse of dominance.

Answer 3(c)

Section 53B of the Competition Act, 2002 provides that the Central Government or the State Government or a local authority or enterprise or any person, aggrieved by any direction, decision or order referred to section 53A(a) of the Competition Act, 2002 may prefer an appeal to the Appellate Tribunal. Every appeal shall be filed within a period of sixty days from the date on which a copy of the direction or decision or order made by the Commission is received by the Central Government or the State Government or a local authority or enterprise or any person and it shall be in such form and be accompanied by such fee as may be prescribed.

It may be noted that the Appellate Tribunal may entertain an appeal after the expiry of the said period of sixty days if it is satisfied that there was sufficient cause for not filing it within that period. On receipt of an appeal, the Appellate Tribunal may, after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the direction, decision or order appealed against.

Answer 3(d)

Section 43 of the Competition Act, 2002 provides that if any person fails to comply, without reasonable cause, with a direction given by the Commission under Sub-sections (2) and (4) of section 36; or the Director General while exercising powers referred to in sub-section (2) of section 41, such person shall be liable to a penalty which may extend to rupees one lakh for each day during which such failure continues subject to a maximum of rupees one crore, as may be determined by the Commission.

Answer 3(e)

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

- i. Conditions Conducive to Cartelization
- ii. high concentration - few competitors
- iii. high entry and exit barriers
- iv. homogeneity of the products (similar products)
- v. similar production costs
- vi. excess capacity
- vii. high dependence of the consumers on the product
- viii. history of collusion

Question 4

- (a) Who is authorized to pass an order for division of an enterprise which is enjoying dominant position under the Competition Act, 2002 ? Explain the provisions with regard to division of enterprise enjoying dominant position.
- (b) Explain the stages involved in the procedure for investigation of combination by the Competition Commission of India under Section 29 of the Competition Act, 2002.

(5 marks each)

Answer 4(a)

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

The order of the Commission referred to above may provide for all or any of the following matters, namely-

1. The transfer or vesting of property, rights, liabilities or obligations
2. The adjustment of contracts either by discharge or reduction of any liability or obligations or otherwise
3. The creation, allotment, surrender or cancellation of any shares, stocks or securities
4. The formation of winding up of any enterprise or the amendment of Memorandum of Association or Articles of Association or any other instruments regulating the business of any enterprise.
5. The extent to which, and the circumstances in which, provisions of the order affecting an enterprise may be altered by the enterprise and the registration thereof
6. Any other matter which may be necessary to give effect to the division of the enterprise or group.

Answer 4(b)

Section 29 of the Competition Act, 2002 deals with procedure of investigation of Combinations. It provides that:

- 1) Where the Commission is of the prima facie opinion that a combination is likely to cause, or has caused an appreciable adverse effect on competition within the relevant market in India, it shall issue a notice to show cause to the parties to combination calling upon them to respond within fifteen days of the receipt of the notice, as to why investigation in respect of such combination should not be conducted.
- 1A) After receipt of the response of the parties to the combination under sub-section (1), the Commission may call for a report from the Director General and such report shall be submitted by the Director General within such time as the Commission may direct.
- 1B) The Commission shall, within thirty days of receipt of notice under sub-section (2) of section 6, form its prima facie opinion referred to in sub-section (1).
- 2) The Commission, if it is prima facie of the opinion that the combination has, or is likely to have, an appreciable adverse effect on competition, it shall, within seven days from the date of receipt of the response of the parties to the combination, or the receipt of the report from Director General called under sub section (1A), whichever is later, direct the parties to the said combination to publish details of the combination within seven days of such direction, in such manner, as it thinks appropriate, for bringing the combination to the knowledge or information of the public and persons affected or likely to be affected by such combination.
- 3) The Commission may invite any person or member of the public, affected or likely to be affected by the said combination, to file his written objections, if any, before the Commission within ten days from the date on which the details of the combination were published under sub-section (2).

- 4) The Commission may, within seven days from the expiry of the period specified in sub-section (3), call for such additional or other information as it may deem fit from the parties to the said combination.
- 5) The additional or other information called for by the Commission shall be furnished by the parties referred to in sub-section (4) within ten days from the expiry of the period specified in sub-section (4).
- 6) After receipt of all information, the Commission shall proceed to deal with the case in accordance with the provisions contained in section 29A or section 31, as the case may be.

Notwithstanding anything contained in this section, the Commission may accept appropriate modifications offered by the parties to the combination or suo motu propose modifications, as the case may be, before forming a prima facie opinion under sub-section (1).

PART-III

Question 5

- (a) Sankalp is a lunatic but he appears to be normal. Amit enters into an agreement of sale and purchased Sankalp's flat for 34 Lakhs, the market price of which is 54 lakhs. Examine the validity of agreement under the Indian Contract Act, 1872. (4 marks)
- (b) Deonath, the testator, gave his estate to his son, Rangnath, with a condition that if he wanted to sell the property, he would first give an option to testator's wife, Vishnupriya, who should be able to buy it for 3 lakhs. When testator died the market value of property was 15 lakhs. Examine the validity of this transfer, under the Transfer of Property Act, 1882.
(4 marks)
- (c) Anurag purchased a bottling machine and appointed Anuj exclusively to operate the machine. Explain, whether Anurag is a consumer under Consumer Protection Act, 2019. If he purchases and operates the machine by himself, will he be considered as consumer.
(4 marks)
- (d) 'P' bought black yarn from 'D' and when delivered, found it damaged by the white ants. P rejected the yarn received by him, while D demands the payment, on the plea that P has been given an opportunity to examine the product. Advise the remedy available to P, under the Sale of Goods Act, 1930.
(4 marks)
- (e) 'A' contracts to sell 'B', a piece of land consisting of 100 *bighas*. It turns out that 98 *bighas* of the land belongs to 'A' and the two remaining *bighas* to a stranger, who refuses to part with them, so, a dispute arises between 'A' and 'B'. What is the remedy available to 'A' and 'B' under the Specific Relief Act, 1963 ?
(4 marks)

Answer 5(a)

Section 10 of Indian Contract Act, 1872 requires competent parties for making an agreement enforceable. Section 11 and 12 of the Act read together say that person of unsound mind is incompetent to contract. A person of unsound mind is a lunatic. That is to say for the purposes of making contract, a person is of unsound mind if at the time when he makes the contract, he is

incapable of understanding it and of forming rational judgment as to its effect upon his interests. A person of unsound mind cannot enter into a contract. A lunatics agreement is therefore void. But if he makes a contract when he is of sound mind, i.e., during lucid intervals, he will be bound by it. A sane man who is delirious from fever, or who is so drunk that he cannot understand the terms of a contract, or form a rational judgement as to its effect on his interests cannot contract whilst such delirium or state of drunkenness lasts. A person under the influence of hypnotism is temporarily of unsound mind. Mental decay brought by old age or disease also comes within the definition. Agreement by persons of unsound mind are void. But for necessities supplied to a lunatic or to any member of his family, the lunatics estate, if any, will be liable. There is no personal liability incurred by the lunatic.

In *Jugal Kishore v. Chdudu*, (1903) 1 All. L.J 43 it was held if a contract entered into by a lunatic or person of unsound mind is for his benefit, it can be enforced (for the benefit) against the other party but not vice-versa. Significant inadequacy of consideration is a clear-cut indication of Sankalp's stage of lunacy at the time he entered into the agreement with Amit. Applying law and cases in the instant case, it can be held that agreement is not enforceable and void.

Answer 5(b)

Section 10 of the Transfer of Property Act, 1882 states that when property is transferred, the transferee should not be restrained absolutely from alienating the property. One may give property to another subject to a condition, but the condition should not be one which absolutely prevents the transferee from alienating the property. Suppose, B gives property to A and his heirs adding a condition that if the property is alienated it should revert to B. This condition is invalid and the transferee can ignore such condition. The transfer takes effect and is valid, and the condition not to alienate the property is void.

In the given case the testator gave his estate to his son and added a condition that if his son wanted to sell the property, he should first give an option to the testator's wife who should be able to buy for 3 lakhs. The market value of the property when the testator died was 15 lakhs. The condition which compelled the son to sell the property is void. (*Rasher vs. Rasher*, (1884) 26, Ch. D. 801).

Answer 5(c)

A purchase of goods can be said to be for a 'commercial purpose only if the goods have been purchased for being used in some profit-making activity on a large-scale, and there is close and direct nexus between the purchase of goods and the profit-making activity. In *Laxmi Engineering Works v. P.S.G. Industrial Institute*, Supreme Court held that the Consumer Protection Act is clarificatory in nature. It observed that whether the purpose for which a person has bought goods is a 'commercial purpose' is always a question of facts and to be decided in the facts and circumstances of each case. If the commercial use is by the purchaser himself for the purpose of earning his livelihood by means of self-employment such purchaser of goods would yet be a consumer. The Supreme Court further observed that if a person purchased a machine to operate it himself for earning his livelihood, he would be a consumer. If such person took the assistance of one or two persons to assist him in operating the machine, he would still be a consumer. But if a person purchases a machine and appoint or engage another person exclusively to operate the machine, then such person would not be a consumer. Thus, Anurag is not consumer in first case and in second he is consumer.

Answer 5(d)

According to Section 16(2) of the Sale of Goods Act, 1930, Goods must be of merchantable quality, if they are bought by description from dealer of goods of that description. Merchantable quality means that the goods must be such as would be acceptable to a reasonable person, having regard

to prevailing conditions. They are not merchantable if they have defects which make them unfit for ordinary use, or are such that a reasonable person knowing of their condition would not buy them. But, if the buyer has examined the goods, there is no implied condition as regards defects which such examination ought to have revealed. If, however, examination by the buyer does not reveal the defect and he approves and accepts the goods, but when put to work, the goods are found to be defective, there is a breach of condition of merchantable quality. The buyer is given a right to examine the goods before accepting them. But a mere opportunity without an actual examination, however, cursory, would not suffice to deprive him of this right. In the given problem, 'P' bought black yarn from 'D' and, when delivered, found it damaged by the white ants. The condition of merchantability was broken. Hence, P can reject the yarn received.

Answer 5(e)

Section 12 of the Specific Relief Act, 1963 deals with specific performance of a part of a contract. Sub-section (1) lays down the general principle that except as otherwise hereinafter provided in this section, the Court shall not direct the specific performance of a part of a contract.

Sub-sections (2)-(4) lay down the exceptions to this general rule as follows:

Sub-section 2 says that where a party to a contract is unable to perform the whole of his part of it, but the part which must be left unperformed bears only a small proportion to the whole in value and admits of compensation in money, the Court may, at the suit of the either party, direct the specific performance of so much of the contract as can be performed and award compensation in money for the deficiency.

In the given problem, A contracts to sell B a piece of land consisting of 100 bighas. It turns out that 98 bighas of the land belongs to A and the two remaining bighas to a stranger, who refuses to part with them. The two bighas are not necessary for the use or enjoyment of the 98 bighas, nor so important for such use or enjoyment that the loss of them may not be made in goods or in money.

A may be directed at the suit of B to convey to B the 98 bighas and to make compensation to him for 2 bighas. For not conveying the two remaining bighas; B may be directed at the suit of A, to pay to A, on receiving the conveyance and possession of the land, the stipulated purchase money less the sum awarded as compensation for the deficiency.

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

Question 6

- (a) Distinguish between seizure and confiscation under the Essential Commodities Act, 1955.
- (b) State the penalty provisions for manufacturing or selling weight or measure, which does not conform to standards of weight/measure as specified under Section 27 of the Legal Metrology Act, 2009.
- (c) Define 'Internal Development works' and 'External Development works' under the Real Estate (Regulation and Development) Act, 2016.
- (d) Distinguish between 'Co-ownership' and 'Partnership'.
- (e) What are the impacts of money laundering on economic development ?

(3 marks each)

Answer 6(a)

In the context of the Essential Commodities Act, it could be seen that an essential commodity which has been seized, could be confiscated. Therefore, confiscation is an action posterior to the

seizure of the essential commodity. A commodity that has not been seized cannot be confiscated. Seizure itself does not imply confiscation. The seizure should have been made by virtue of an order passed under Section 3 of the Act. Clause (j) of Section 3 empowers the Government to make an order for seizure of any essential commodity if an order made by the Central Government controlling production, supply, distribution etc. of essential commodities has been or is about to be contravened. Therefore, any contravention or intended contravention of an order passed by the Government under the Act may lead to seizure, and under the circumstances mentioned in Section 6A such seized commodity could be confiscated.

Confiscation is provided in section 6 A as where any essential commodity is seized in pursuance of an order made under Section 3 and reported to the Collector and if the Collector is satisfied that there has been contravention of the order, he may pass order for confiscation of (a) the essential commodity so seized, (b) any package, covering or receptacle in which such essential commodity is found, and (c) any animal, vehicle, vessel or other conveyance used in carrying such essential commodity.

The Collector has no jurisdiction to go into the validity of the seizure; he could only confiscate goods, out of those seized, in respect of which contravention is established. Only if the seizure is valid could the Collector have jurisdiction to go on into the question whether there has been any contravention of the control order in respect of the whole or part of the goods, seized at this is entirely different from saying that the Collector could go on with the enquiry, postulated in Sections 6A and 6B, when the seizure itself, on which alone his jurisdiction to make an enquiry depends, is found to be illegal. [Hindustan Aluminium v. Controller of Aluminium, AIR (1976) DeWii225]

Answer 6(b)

Section 27 of the Legal Metrology Act, 2009 provides that every person who manufactures or causes to be manufactured or sells or offers, exposes or possesses for sale, any weight or measure which does not conform to the standards of weight or measure specified by or under this Act; or which bears thereon any inscription of weight, measure or number which does not conform to the standards of weight, measure or numeration specified by or under this Act, except where he is permitted to do so under this Act, shall be punished with a fine which may extend to twenty thousand rupees and for the second or subsequent offence with imprisonment for a term which may extend to three years or with fine or with both./("one lakh rupees and for the second offence with fine which may extend to two lakh rupees and for the third and subsequent offence, with fine which may extend to four lakh rupees as per Jan Vishwas (Amendment of Provisions) Act, 2023").

Answer 6(c)

According to the Real Estate (Regulation and Development) Act, 2016:

"Internal Development Works" means roads, footpaths, water supply, sewers, drains, parks, tree planting, street lighting, provision for community buildings and for treatment and disposal of sewage and sullage water, solid waste management and disposal, water conservation, energy management, fire protection and fire safety requirements, social infrastructure such as educational health and other public amenities or any other work in a project for its benefit, as per sanctioned plans. {Section 2(zb)}

"External Development Works" includes roads and road systems landscaping, water supply, sewage and drainage systems, electricity supply transformer, sub-station, solid waste management and disposal or any other work which may have to be executed in the periphery of, or outside, a project for its benefit, as may be provided under the local laws. {Section 2(w)}

Answer 6(d)

There is a possibility that two co-owners may employ their property in a business and share the profits, and still be not partners. Distinctions between the two are as follows-

- Co- ownership is not always the result of an agreement: it may arise by the operation of law or from status, e.g., co-heirs of a property. Partnership must arise from an agreement.
- A partner is the agent of the other partners, but a co-owner is not the agent of the other co-owner(s).
- Co-ownership does not necessarily involve community of profits and loss, partnership does.
- A co- owner can without the consent of the others transfer his rights and interests to strangers, a partner cannot do so without the consent of all the other partners so as to make the transferee a partner in the firm.
- A co-owner can ask for division of property in specie, but no partner can ask for this. His only right is to have a share of the profits out of the properties.
- Partnerships end at death or insolvency; co-ownerships end at death.
- A co-owner has no lien on the property while a partner has a lien on the firm property.

Answer 6(e)

Economies with growing or developing financial centers, but inadequate controls are particularly vulnerable to money laundering, as against the established financial center countries, which implement comprehensive anti-money laundering regimes. The gaps in a national anti-money laundering protecting system are exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective countermeasures. As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime.

In times of decelerating growth, an infusion of hard currency can bolster a country's foreign reserves; ease the hardship associated with budget tightening policies and moderate foreign indebtedness. While these are short term benefits associated with an inflow of criminal monies, the long-term effects are mostly negative. One difference between official borrowing and laundered funds is that the former can be controlled by Government, whereas the funds owned by criminals escape the government's ability to control and regulate the economy.

The possible social, economic and political effects of money laundering, if left unchecked or dealt with ineffectively, are serious. Through the process of money laundering, organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments. Thus, the economic and political influence of criminal organisations can weaken the social fabric, ethical standards and ultimately the democratic institutions of society.

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

- (i) Explain the meaning of ambiguous instrument under the Negotiable Instruments Act, 1881.
- (ii) State the provisions relating to 'Possession of property' for which the order of confiscation has been passed under the Benami Transactions (Prohibition) Act, 1988.

- (iii) Explain the liability of Product Service Provider under Section 85 of the Consumer Protection Act, 2019.
- (iv) X promises to deliver a horse to Y on a certain day on payment of ₹ 1,000. X dies before that day. Y asks Z, who is the son of X and also his legal representative to deliver the horse but Z refuses to do so. What is the remedy available to Y under the provisions of Indian Contract Act, 1872 ?
- (v) Explain the doctrine of Lis Pendens under the Transfer of Property Act, 1882.

(3 marks each)

Answer 6A(i)

According to Section 17 of the Negotiable Instruments Act, 1881 an instrument, which in form is such that it may either be treated by the holder as a bill or as a note, is an ambiguous instrument. Section 5(2) of the English Bills of Exchange Act provides that where in a bill, the drawer and the drawee are the same person or where the drawee is a fictitious person or a person incompetent to contract, the holder may treat the instrument, at his option, either as a bill of exchange or as a promissory note. Bill drawn to or to the order of the drawee or by an agent on his principal, or by one branch of a bank on another or by the direction of a company or their cashier are also ambiguous instruments. A promissory note addressed to a third person may be treated as a bill by such person by accepting it, while a bill not addressed to any one may be treated as a note. But where the drawer and payee are the same, e.g., where A draws a bill payable to A's order, it is not an ambiguous instrument and cannot be treated as a promissory note. Once an instrument has been treated either as a bill or as a note, it cannot be treated differently afterwards.

Answer 6A(ii)

Section 29 of the Benami Transactions (Prohibition) Act, 1988, relates to possession of the property. Section 29(1) provides that where an order of confiscation in respect of a property under Section 27(1) has been made, the Administrator shall proceed to take the possession of such property.

Section 29 (2) of this section provides that the Administrator shall: -

- (a) by notice in writing, order within seven days of the date of the service of notice any person, who may be in possession of the benami property, to surrender or deliver possession thereof to the Administrator or any other person duly authorised in writing by him in this behalf;
- (b) in the event of non-compliance of the order referred to in clause (a), or if in his opinion, taking over of immediate possession is warranted, for the purpose of forcibly taking over possession, requisition the service of any police officer to assist him and it shall be the duty such officer to comply with the requisition.

Answer 6A(iii)

Section 85 of the Consumer Protection Act, 2019 provides that a product service provider shall be liable in a product liability action, if-

- (a) the service provided by him was faulty or imperfect or deficient or inadequate in quality, nature or manner of performance which is required to be provided by or under any law for the time being in force, or pursuant to any contract or otherwise; or
- (b) there was an act of omission or commission or negligence or conscious withholding any information which caused harm; or
- (c) the service provider did not issue adequate instructions or warnings to prevent any harm; or
- (d) the service did not conform to express warranty or the terms and conditions of the contract.

Answer 6A(iv)

Section 37 of the Contract Act provides that the parties to a contract must either perform or offer to perform their respective promises, unless such performance is dispensed with or excused under the provision of the Indian Contract Act, or any other law. In case of death of the promisor before performance, the representatives of the promisor are bound to perform the promise unless a contrary intention appears from the contract.

In the given problem, X promises to deliver a horse to Y on a certain day on payment of Rs. 1,000. X dies before that day. X's representatives are bound to deliver the horse to Y and Y is bound to pay Rs. 1,000 to X's representatives. Thus, Z must deliver the horse to Y.

Answer 6A(v)

Doctrine of Lis Pendens Lis means dispute, Lis pendens means a pending suit, action, petition or the like. Section 52 of the Transfer of Property Act, 1882 incorporates the doctrine of Lis pendens. It states that during the pendency of a suit in a Court of Law, property which is subject to a litigation cannot be transferred. When we say that property cannot be transferred what we mean in this context is that property may be transferred but this transfer is subject to the rights that are created by a Court's decree. For example, A and B are litigating in a Court of law over property X and during the pendency of the suit A transfers the property X to C. The suit ends in B's favour. Here C who obtained the property during the time of litigation cannot claim the property. He is bound by the decree of the Court wherein B has been given the property. Section 52 lays down the Indian rule of Lis pendens being the legislative expression of the Maxim- "*ut lite pendente nihil innovetur*" 'During litigation nothing new should be introduced'.

FINANCIAL AND STRATEGIC MANAGEMENT

MODULE 2 PAPER 8

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer All Questions.

PART-I

Question 1

"Shareholders' wealth" in a firm is represented by :

- (A) The number of people employed in the firm
- (B) The amount of salary paid to its employees
- (C) The market price per share of the firm's common stock
- (D) The book value of the firm's assets less the book value of its liabilities

Question 2

Long-run objective of the financial management is to :

- (A) Maximize market share
- (B) Maximize return on investment
- (C) Maximize earnings per share
- (D) Maximize shareholders' wealth

Question 3

Under inflationary conditions the value of money, expressed in terms of its purchasing power over goods and services :

- (A) Declines
- (B) Increases
- (C) Remains constant
- (D) None of the above

Question 4

Ashish wants to retire presently and receive ₹ 4,000 a month. He wants to pass this monthly payment to future generations after his death. He can earn an interest of 8% compounded annually. How much ₹ will he need to set aside to achieve this perpetuity goal ?

- (A) 5,79,900
- (B) 5,90,000
- (C) 6,00,000
- (D) 5,70,000

Question 5

A sum of ₹ 60,000 is invested @ 12% p.a. for 6 years. What will be the present value of its maturity value ('), assuming a discount rate of return of 10% ?

- (A) 66,800
- (B) 69,805
- (C) 1,03,200
- (D) 1,18,440

Question 6

A project has expected NPV of ₹ 1,83,000. Its coefficient of variation is 0.07377. Risk free rate is 8% and cost of capital is 10%. What is the standard deviation of project ?

- (A) 15,000
- (B) 12,000
- (C) 13,500
- (D) 13,334

Question 7

X Ltd. is increasing its production capacity and buying a machine at the cost of ₹ 40,00,000 having a useful life of 5 years with the salvage value of ₹ 8,00,000. The full purchase value of machine can be financed by 20% loan repayable in 5 equal installments falling due at the end of each year. Calculate the approx. figure of interest payable for the 4th year :

- (A) ₹ 4,08,813
- (B) ₹ 2,21,813
- (C) ₹ 3,12,018
- (D) ₹ 5,63,568

Question 8

Beta Ltd. faced with decision to purchase or acquire on lease a machine. Cost of the machine is ₹7,61,790/-. The asset can be financed by taking loan on which interest is payable @ 15% and loan will be paid in 5 equal installments inclusive of interest. Tax rate is 25%. Assume loan installment is payable at the beginning of the year. What will be the approx. loan installment amount for each year ?

- (A) ₹ 1,79,778
- (B) ₹ 1,94,370
- (C) ₹ 1,97,350
- (D) ₹ 2,18,178

Question 9

Profitability index of Project 'A' is 1.20167 when its cash flow is discounted at 12%. Initial investment on project was ₹ 3,00,000. This project generates equal cash flow over the five years time. How much cash flow will be generated by the project each year ?

- (A) ₹ 80,000
- (B) ₹ 81,794

- (C) ₹ 1,00,000
- (D) ₹ 1,21,000

Question 10

Which of the following is correct formula to calculate coefficient of variation ?

- (A) Correlation * SD/Expected NP
- (B) Standard deviation * Expected Value of Cash Flow
- (C) Standard Deviation/Expected Value of Cash Flow
- (D) None of the above

Question 11

Which technique in capital budgeting is also described as “what to do when all else fail” technique?

- (A) Simulation analysis
- (B) Cash flow analysis
- (C) Decision-tree analysis
- (D) None of the above

Question 12

The coefficient of variation of net present value measures the

- (A) Relative risk of the project
- (B) Total risk of the project
- (C) Highest expected value of net present value
- (D) Market risk of the project

Question 13

Which technique is used to determine that how varying assumptions will affect the measures of investment worth ?

- (A) Cash Flow Analysis
- (B) Probability Analysis
- (C) Risk Adjusted Rate of Return
- (D) Sensitivity Analysis

Question 14

In case where capital availability is unlimited and the projects are not mutually exclusive, for the same cost of capital, following criterion is useful ?

- (A) Profitability Index
- (B) Net present value
- (C) Internal Rate of Return
- (D) Any of the above

Question 15

Degree of is the ratio of the percentage increase in Earnings Per Share (EPS) to the percentage increase in Earnings Before Interest and Taxes (EBIT).

- (A) Financial Leverage
- (B) Combined Leverage
- (C) Working Capital Leverage
- (D) Operating Leverage

Question 16

High operating leverage shows :

- (A) Low burden of fixed cost and high EBIT
- (B) Low burden of fixed cost and low EBIT
- (C) Higher burden of fixed cost and high EBIT
- (D) Higher burden of fixed cost and low EBIT

Question 17

If the Return on Investment (ROI) exceeds the rate of interest on debt, it is financial leverage.

- (A) Negative
- (B) Adverse
- (C) Unfavorable
- (D) Favorable

Question 18

A company has sales of ₹ 2,00,000. The variable costs are 40% of the sales while the fixed operating costs amount to ₹ 30,000. The amount of interest on long-term debts is ₹ 10,000. You are required to calculate the combined leverage.

- (A) 4
- (B) 3
- (C) 2
- (D) 1.5

Question 19

A Company has equity share capital of ₹ 20 Lakh (₹ 100 each), 9% pref, shares of ₹ 10 Lakh (₹ 100 each), and 8 % Bank Loan of ₹ 5,00,000. If Applicable income tax rate is 25%, the financial break-even point of the company will be ₹ :

- (A) 1,50,000
- (B) 1,40,000
- (C) 1,60,000
- (D) 1,20,000

Question 20

Which of the following is not included in capital structure ?

- (A) Current liabilities
- (B) Long-term debt
- (C) Preferred stock
- (D) Retained earnings

Question 21

If the interest costs are high, the operating leverage will be :

- (A) High
- (B) Negative
- (C) Undetermined
- (D) Low

Question 22

A company needs ₹ 31,25,000 for the construction of new Cold Storage plant. The following two plans are feasible :

- (A) Company may issue 3,12,500 equity shares at 10 per share.
- (B) Company may issue 1,56,250 ordinary equity shares at 10 per share and 15,625 debentures of 100 denomination bearing 8% rate of interest. Corporate income-tax rate is 30%.

The indifference point will be (₹) :

- (A) 2,30,000
- (B) 2,50,000
- (C) 2,75,000
- (D) 3,50,000

Question 23

Pizza Bite is an all-equity firm with a current cost of equity of 18%. The EBIT of the firm is ₹ 3,06,000 annually forever. Currently, the firm has no debt but is in the process of borrowing ₹ 5,00,000 at 9% interest. The tax rate is 34%. What is the value of the unlevered firm ?

- (A) ₹ 9,82,350
- (B) ₹ 9,14,850
- (C) ₹ 10,84,725
- (D) ₹ 11,22,000

Question 24

Beta International is an all-equity firm that has projected earnings before interest and taxes of ₹ 4,97,000 forever. The current cost of equity is 16% and the tax rate is 34%. The company is in the process of issuing 2.5 million value of bonds at par that carry 6% annual coupon. What is the levered value of the firm on the basis of M.M. Hypothesis ?

- (A) ₹ 39,31,375
- (B) ₹ 48,40,400
- (C) ₹ 46,68,750
- (D) ₹ 39,60,125

Question 25

..... is the rate of return associated with the best investment opportunity for the firm and its shareholders that will be forgone if the projects presently under consideration by the firm were accepted.

- (A) Opportunity Cost
- (B) Future Cost
- (C) Explicit Cost
- (D) Specific Cost

Question 26

Which of the following is controllable factor affecting the cost of capital of the firm ?

- (A) Dividend policy
- (B) Level of interest rates
- (C) Tax rates
- (D) Taste of customers

Question 27

A firm's overall cost of capital :

- (A) Is the required return on the total assets of a firm.
- (B) Is another term for the firm's internal rate of return.
- (C) Is unaffected by changes in the tax rate.
- (D) Varies inversely with its cost of debt.

Question 28

AS Ltd. has 12,000 equity shares of 100 each. Sale price of equity shares is ₹ 120 per share; floatation cost will be ₹ 10 per share. Expected dividend growth rate is 5% and expected dividend at the end of the financial year is ₹ 11 per share. What is the cost of equity shares of S Ltd. ?

- (A) 0.15
- (B) 0.1475
- (C) 0.1278
- (D) 0.1122

Question 29

Debt as percentage of total capital of Agra Ltd. is 20%. Its cost of equity is 16% and pre-tax cost of debt is 12%. Tax rate is 25%. What is overall cost of capital of Agra Ltd. ?

- (A) 16%

- (B) 14%
- (C) 15%
- (D) 14.6%

Question 30

The liability side of National Ltd. Balance Sheet shows Equity capital ₹ 50 Lakh and Retained Earnings ₹ 80 Lakh. Face value of its share is 100 each and market value is ₹ 300 each. If the investors expect a dividend of ₹ 16 by the end of year and growth rate is 5%, and if the cost of floatation of issuing fresh Equity is 6%, what is the Cost of Retained Earnings on the basis of dividend growth model ?

- (A) 21.33%
- (B) 16.00%
- (C) 11.00%
- (D) 10.33%

Question 31

ABC Ltd. keeps a perpetual fixed amount of debenture with coupon rate of 16% in its books. Debenture sells at par (face value ₹ 100) in the market and company pays 25% tax. What is the cost of debenture, if sold at 10% premium in the market ?

- (A) 16%
- (B) 14.4%
- (C) 12%
- (D) 10.91%

Question 32

Which of the following is not one of the three fundamental methods of firm valuation ?

- (A) Market Share
- (B) Discounted Cash flow
- (C) Balance sheet - where the firm is valued in terms of its net assets
- (D) Income or earnings - where the firm is valued on some multiple of accounting income or earnings.

Question 33

Technical feasibility implies :

- (A) To ensure, before taking in hand a project, whether or not the proposed project is profitable.
- (B) Appraisal of project by a team of expert drawn from different disciplines.
- (C) The availability and adequacy of the proposed plant and equipment to produce the product within the prescribed norms.
- (D) Working plan for implementation of project proposal after investment decision by a company has been taken.

Question 34

Financial aspects of project is judged with reference to :

- (A) Availability of workforce
- (B) Availability of land and site
- (C) Availability of servicing facilities like machine shops, electric repair shop, etc.
- (D) None of the above

Question 35

Zero Coupon bonds are bonds issued at and redeemed at par.

- (A) Discount to face value plus premium
- (B) Premium to Face value less discount
- (C) Discount to face value
- (D) Par

Question 36

Which of the following statements is not true in respect to a project plan ?

- (A) A Project plan defines the objectives of the project, approach to be adopted
- (B) A Project plan is a document that is not expected to change over time
- (C) A Project plan is the basis of all the efforts of the management in association with the project
- (D) All the above are true

Question 37

A You currently own 200 shares of stock in Baba Ltd. The stock currently trades at 240 per share. The company is contemplating a 1 : 2 stock split (two shares in place of every share held). Which of the following best describes your position after the proposed stock split takes place ?

- (A) You will have 400 shares of stock, and the stock will trade at or near 240 per share
- (B) You will have 200 shares of stock, and the stock will trade at or near ₹ 120 per share
- (C) You will have 400 shares of stock, and the stock will trade at or near ₹ 120 per share
- (D) You will have 100 shares of stock, and the stock will trade at or near ₹ 480 per share

Question 38

Regular Dividend Policy means :

- (A) Payment of low dividend per share constantly plus extra dividend in the year when the company earns high profit
- (B) Reserve fund is created to pay dividend
- (C) Investors get dividend at usual rate
- (D) All of the above

Question 39

The target payout ratio is :

- (A) The inverse of a firm's equity multiplier

- (B) A firm's preferred rate of dividend growth
- (C) A firm's long-term desired dividend to earnings ratio
- (D) The preferred number of dividend payments per year divided by 12

Question 40

A company wants to buy-back stock. How will this impact the company and its stock ?

- (A) The price of the shares is expected to rise as there will be fewer shares in the open market
- (B) The company makes more money because management owns more stock
- (C) The net income of the company will go up because of the increase in stock price
- (D) Other investors make less money because management can pay more dividends to internal shareholders before external shareholders

Question 41

An equity share of ₹ 100 face value is expected to earn an annual dividend of 11 and this share can be sold at price of ₹ 180 at the end of year. If the shareholder expects a yield of 12% on its investment, calculate the price of equity share for which it should be bought.

- (A) ₹ 168.35
- (B) ₹ 170.53
- (C) ₹ 160.71
- (D) ₹ 100.90

Question 42

Determine the Market price of share on the basis of Gordon's Model using following information. EPS : ₹ 5, Dividend Payout - 35%, Capitalization rate 8%, rate of return on investment – 12%.

- (A) ₹ 875
- (B) ₹ 325
- (C) ₹ 450
- (D) ₹ 375

Question 43

Initial Working Capital :

- (A) Is required at the time of the commencement of business
- (B) Represents the amount utilized at the time of contingencies
- (C) Supplies the funds necessary to meet the current working expenses
- (D) Is used to raise the volume of production by improvement or extension of machinery

Question 44

Opening and closing balance of creditors are ₹ 3,00,000 & ₹ 3,60,000 respectively. Raw material purchased on credit was ₹ 11,00,000. Creditor's payment period for the purpose of working capital statement will be :

[1 year = 360 days]

- (A) 98 days

- (B) 100 days
- (C) 104 days
- (D) 108 days

Question 45

Operating cost is ₹ 18,90,000

Current assets are ₹ 7,20,000

Current liabilities are ₹ 3,00,000

Operating cycle days = ?

(1 year = 360 days)

- (A) 19 days
- (B) 70 days
- (C) 80 days
- (D) 99 days

Question 46

If credit sales for the year is 5,40,000 and Debtors at the end of year is 90,000. The Average Collection Period will be ? Assume 1 year = 360 days.

- (A) 120 days
- (B) 90 days
- (C) 60 days
- (D) 30 days

Question 47

Current assets are twice the current liabilities. If the net working capital is ₹ 70,000, current assets would be :

- (A) ₹ 60,000
- (B) ₹ 1,00,000
- (C) ₹ 1,20,000
- (D) ₹ 1,40,000

Question 48

Increasing the credit period from 30 to 60 days, in response to a similar action taken by all of our competitors, would likely result in :

- (A) Higher profits
- (B) An increase in sales
- (C) A decrease in bad debt losses
- (D) An increase in the average collection period

Question 49

A machine is expected to require an initial outlay of ₹ 3,50,000 with useful life of four years, straight line method of depreciation and scrap value of ₹ 30,000. If it generates CFAT of ₹ 1,10,000, ₹ 1,50,000, ₹ 1,75,000 and ₹ 1,40,000 respectively through years 1 to 4 and cost of capital and applicable income tax rates are 10% and 30% respectively, the NPV of the project will be ₹ :

- (A) 93,486
- (B) 1,00,935
- (C) 84,500
- (D) 1,21,425

Question 50

For a product- 'A', following information is available :

Maximum consumption per week : 300 units

Normal consumption per week : 200 units

Reorder period : 2 to 5 weeks

The reorder level will be :

- (A) 400 units
- (B) 1200 units
- (C) 600 units
- (D) 1500 units

Question 51

Economic Order Quantity (EOQ) determines :

- (A) The order size that minimize the total inventory cost
- (B) The order size which will earn discounts on purchase
- (C) The order size where ordering cost is the lowest
- (D) The order size where the carrying cost is minimum

Question 52

Following information is given for Component 'X' :

Normal usage 100 units per week, maximum usage 125 units per week, reorder period 4 to 6 weeks.

The minimum level of stock will be :

- (A) 200 units
- (B) 150 units
- (C) 450 units
- (D) 250 units

Question 53

Return from listed security is in two forms :

- (A) One is stock split and second is dividend

- (B) One is interest and second is dividend
56.
(C) One is dividend and second is capital appreciation in price
(D) One is interest and second is capital appreciation in price

Question 54

Standard deviation is expressed :

- (A) Always in percentage
(B) In terms of amount
(C) In terms of rupee risk
(D) In same units in respect of which the deviation is computed

Question 55

Which of the following risks can be controlled by an organization ?

- (A) Inflationary Risk
(B) Market Risk
(C) Interest Rate Risk
(D) Financial Risk

Question 56

A portfolio's expected return is 11%. Its variance of risk, i.e., risk squared is 184% and the investors' risk tolerance is 42.

The risk penalty and utility respectively will be :

- (A) 4.38% and 6.62%
(B) 5.42% and 5.52%
(C) 4.68% and 6.32%
(D) None of the above

Question 57

Beta measures risk of an individual portfolio in relation to market portfolio. It is calculated as :

- (A) Risk of Market Portfolio/Total Risk of Portfolio
(B) Total risk of portfolio/Risk of Market Portfolio
(C) Diversifiable risk of portfolio/Risk of Market Portfolio
(D) Non-diversifiable risk of portfolio/Risk of Market Portfolio

Question 58

Yogesh invest ₹ 1,45,000 in shares of Maa Ltd., a listed company. At the end of period investment value is 1,72,000. He gets dividend of ₹ 16,500. Return from investment is :

- (A) 9.59%
(B) 11.38%

- (C) 18.62%
- (D) 30%

Question 59

Return of last 5 years of listed security is 13.2%, 19.8%, 18%, 15% & 17%. Five years ago, price of the security was bought for ₹ 130 per share. What is its holding period return ?

- (A) 83%
- (B) 113%
- (C) 115.31%
- (D) 140.91%

Question 60

According to theory, it is useless to engage in Technical Analysis of securities.

- (A) Efficient Market theory
- (B) Dow Jones theory
- (C) Random Walk theory
- (D) None of the above

PART-II

Question 61

..... is the fundamental function of management and all other functions of management are greatly influenced by it.

- (A) Controlling
- (B) Directing
- (C) Planning
- (D) Motivating

Question 62

Division of work among people and coordination of their efforts to achieve specific objectives are the fundamental aspects of :

- (A) Forecasting
- (B) Motivation
- (C) Organization
- (D) None of the above

Question 63

Control is closely related to the job

- (A) Planning
- (B) Discipline

- (C) Order
- (D) Motivation

Question 64

Fayol's functions of management include :

- (A) Planning, pushing, designating, completing, cooperating
- (B) Punishing, commanding, organizing, coordinating, controlling
- (C) Preparing, commanding, operating, consulting, controlling
- (D) Forecasting, planning, commanding, organizing, controlling

Question 65

In an organization, decision-making skills are required at :

- (A) Top level management
- (B) Middle level of management
- (C) All levels of management
- (D) At all non-managerial levels

Question 66

Strategic management emphasizes the monitoring and evaluation of external opportunities and threats in the light of an organization's and designing strategies for the survival and growth of the organization.

- (A) Plans and budget
- (B) Asset and liabilities
- (C) Opportunities and plans
- (D) Strengths and weaknesses

Question 67

..... is the first phase of strategic management process.

- (A) Strategy Formulation
- (B) Strategy Evaluation
- (C) Strategy Implementation
- (D) Environmental Scanning

Question 68

According to, Strategic Leadership is the ability to influence others to voluntarily make decisions that enhance the prospects for the organisation's long-term success while maintaining long-term financial stability.

- (A) Wilson
- (B) Michael Porter
- (C) May
- (D) Gordon

Question 69

Business strategy focuses on :

- (A) How a firm competes within a particular market or industry.
- (B) Where a firm is going and the scope of its activities.
- (C) Strategies related to diversification into different business lines.
- (D) How to allocate resources between different parts of the business.

Question 70

..... refers to key strategic leadership roles in which a leader quickly and clearly works through the complexity of key issues problem and opportunities to affect actions.

- (A) Captivator
- (B) Strategist
- (C) Navigator
- (D) Enterprise Guardian

Question 71

..... are the guidelines developed by an organization to govern its actions.

- (A) Ethics
- (B) Roadmap
- (C) Business policies
- (D) Actions

Question 72

A is a company's Roadmap, indicating both what the company wants to become and guiding transformational initiatives by setting a defined direction for the company's growth.

- (A) Balance Sheet
- (B) Vision statement
- (C) Mission statement
- (D) Policy statement

Question 73

..... of a company focuses on the question : 'Who we are' and 'What we do'.

- (A) Vision statement
- (B) Statement of Philosophy
- (C) HR Policy
- (D) Mission statement

74. Retention Strategy relating to Human Resource relates to :

- (A) Collaborating with other organizations to learn from how others do things, allow employees to gain skills and knowledge not previously available in their own organization.

- (B) Providing the current staff with training and development opportunities to encompass new roles in the organization.
- (C) Improving organization's employee retention and boosting employee satisfaction.
- (D) Recruiting new hires that already have the skills the organization will need in the future.

Question 75

The company tries to be different and unique from its competitors, under a

- (A) Low Cost Strategy
- (B) Differentiation Strategy
- (C) Product Mix Strategy
- (D) Market Segmentation Strategy

Question 76

The purpose of supply chain management is :

- (A) Provide customer satisfaction
- (B) Improve quality of a product
- (C) Increase production
- (D) Integrating supply and demand management

Question 77

A campaign advocating the message of 'SAVE TREE' is :

- (A) Social Marketing
- (B) Holistic Marketing
- (C) Services Marketing
- (D) Rural Marketing

Question 78

Financial objectives involve all of the following, excluding :

- (A) Growth in revenues
- (B) Higher dividends
- (C) Larger market share
- (D) Greater return on investment

Question 79

Purpose of a strategic analysis is to :

- (A) Assess current strategies
- (B) Analyze an organization's external and internal environment
- (C) Generate and evaluate the most successful strategic alternatives
- (D) All of the above

Question 80

The process we use to gain understanding and insight into our present situation is

- (A) Situational analysis
- (B) Sensitive analysis
- (C) Simulation analysis
- (D) All of the above

Question 81

Which of the following is not an “external environment considerations” ?

- (A) Political trends
- (B) Economic shifts
- (C) Changes in consumer taste
- (D) Operational inefficiencies

Question 82

‘Build’, ‘Hold’, ‘Harvest’ and ‘Divest’ are the strategies followed in :

- (A) Ansoff 's Product Matrix Growth Matrix
- (B) Value Chain Analysis
- (C) Managerial Grid Matrix
- (D) Boston Consulting Group Matrix

Question 83

The Ansoff 's Growth matrix suggests a four way model for business growth.

- (A) Six
- (B) Five
- (C) Four
- (D) Two

Question 84

The process by which an organization deals with a major event that threatens to harm the organization, its stakeholders, or the general public is known as :

- (A) TQM
- (B) Stress management
- (C) Crisis management
- (D) None of the above

Question 85

As per ADL Matrix, the portfolio management involves the dimensions of :

- (A) Market Assessment and Competitors Assessment

- (B) Competitors Assessment and Customers Assessment
- (C) Strategies Assessment and Market Assessment
- (D) Environmental Assessment and Business Strengths Assessment

Question 86

HP Computer has decided to rely exclusively on direct marketing. This is example of :

- (A) Focus Strategy
- (B) Differentiation Strategy
- (C) Cost Leadership Strategy
- (D) Diversification Strategy

Question 87

The approach of setting goals and measuring productivity of firms based on best industry practices or against the products, services and practices of its competitors or other acknowledged leaders in the industry is called

- (A) Benchmarking
- (B) TQM
- (C) Six Sigma Approach
- (D) Quality Marking

Question 88

Bike manufacturers 'Honda' and 'Bajaj' work on reducing their prices to sell their bikes in popular segment at attractive prices. This is example of :

- (A) Growth Strategy
- (B) Cost Leadership Strategy
- (C) Turnaround Strategy
- (D) Unique Strategy

Question 89

Strategic implementation is :

- (A) Primarily a control process
- (B) Considered easier and less time consuming
- (C) Concerned with translating a strategic decision into action
- (D) Crafting a combination of strategies and picking out the best one

Question 90

The term environment in context of business refers to having a direct or indirect bearing on events related to functioning of business.

- (A) all internal forces and factors
- (B) only strategic internal forces and factors

- (C) only strategic external forces and factors
- (D) all external forces and factors

Question 91

Which strategy is also known as Niche strategy ?

- (A) Leadership
- (B) Focus
- (C) Cost
- (D) Differentiation

Question 92

As per the McKinsey Model, which of the following is a Soft 'S' ?

- (A) Strategy
- (B) Systems
- (C) Structure
- (D) Shared Values

Question 93

The principles of the Business Process Re-engineering (BPR) approach does not include :

- (A) Scrapping any process line over two years old and starting again from scratch
- (B) Striving for improvements in performance by radical rethinking and redesigning the process.
- (C) Checking that all internal customers act as their own suppliers to identify problems
- (D) Rethinking business processes cross functionally to organize work around natural information flows

Question 94

If misinformation and lack of information create barriers in managing change, it can be managed by :

- (A) Participation
- (B) Leadership
- (C) Education and Communication
- (D) Obtaining commitment

Question 95

Which of the following is objective of Business Process Reengineering (BPR) ?

- (A) Improve efficiency in the production processes
- (B) Providing more meaningful work to employees
- (C) Boost effectiveness and produce higher quality products for end customer
- (D) All of the above

Question 96

The managers use _____ to identify the best way to compete in the market.

- (A) Performance Benchmarking
- (B) Process Benchmarking
- (C) Strategic Benchmarking
- (D) Internal Benchmarking

Question 97

Which of the following is not Benchmarking Wheel stage process ?

- (A) Plan
- (B) Find
- (C) Repeat
- (D) Analyze

Question 98

Which of the following is not a key feature of Total Quality Management ?

- (A) Continuous improvement
- (B) Establishing clear specifications
- (C) Identifying customers and their needs
- (D) Teamwork, trust and empowerment

Question 99

What is six-sigma risk/return level ?

- (A) High-Low
- (B) Medium-High
- (C) Low-Low
- (D) High-High

Question 100

..... is defined as the set of guiding principles, driving forces and ingrained attitudes that help to coordinate goals, plans and policies between partners across a given supply chain.

- (A) Supply Chain Strategy
- (B) Logistic Strategy
- (C) Business Coordination Strategy
- (D) Business Development Strategy

| Set A | | Set B | | Set C | | Set D | |
|------------------------------|--------|------------------------------|--------|------------------------------|--------|------------------------------|--------|
| Part I: Financial Management | | Part I: Financial Management | | Part I: Financial Management | | Part I: Financial Management | |
| Question | Answer | Question | Answer | Question | Answer | Question | Answer |
| Part -I | | Part -I | | Part -I | | Part -I | |
| 1 | C | 1 | A | 1 | D | 1 | B |
| 2 | D | 2 | A | 2 | A | 2 | A |
| 3 | A | 3 | D | 3 | C | 3 | A |
| 4 | C | 4 | D | 4 | D | 4 | D |
| 5 | A | 5 | A | 5 | C | 5 | C |
| 6 | C | 6 | D | 6 | B | 6 | C |
| 7 | A | 7 | D | 7 | C | 7 | D |
| 8 | C | 8 | D | 8 | C | 8 | D |
| 9 | C | 9 | C | 9 | C | 9 | D |
| 10 | C | 10 | A | 10 | A | 10 | D |
| 11 | A | 11 | C | 11 | B | 11 | A |
| 12 | A | 12 | B | 12 | A | 12 | D |
| 13 | D | 13 | D | 13 | A | 13 | C |
| 14 | D | 14 | C* | 14 | D | 14 | D |
| 15 | A | 15 | A | 15 | C | 15 | D |
| 16 | D | 16 | A | 16 | C | 16 | A |
| 17 | D | 17 | A | 17 | D | 17 | D |
| 18 | D | 18 | A | 18 | D | 18 | D |
| 19 | C | 19 | D | 19 | D | 19 | C |
| 20 | A | 20 | D | 20 | D | 20 | C |
| 21 | C | 21 | D | 21 | A | 21 | C |
| 22 | B | 22 | A | 22 | D | 22 | D |
| 23 | D | 23 | C | 23 | C | 23 | A |
| 24 | C* | 24 | D | 24 | D | 24 | C |
| 25 | A | 25 | C | 25 | D | 25 | A |
| 26 | A | 26 | B | 26 | A | 26 | C |
| 27 | A | 27 | C | 27 | D | 27 | A |
| 28 | A | 28 | C | 28 | D | 28 | C |
| 29 | D | 29 | C | 29 | C | 29 | C |
| 30 | D | 30 | A | 30 | C | 30 | C |
| 31 | D | 31 | B | 31 | C | 31 | A |
| 32 | A | 32 | A | 32 | D | 32 | A |
| 33 | C | 33 | A | 33 | A | 33 | D |
| 34 | D | 34 | D | 34 | C | 34 | D |
| 35 | C | 35 | C | 35 | A | 35 | A |
| 36 | B | 36 | C | 36 | C | 36 | D |

| Set A | | Set B | | Set C | | Set D | |
|------------------------------|--------|------------------------------|--------|------------------------------|--------|------------------------------|--------|
| Part I: Financial Management | | Part I: Financial Management | | Part I: Financial Management | | Part I: Financial Management | |
| Question | Answer | Question | Answer | Question | Answer | Question | Answer |
| 37 | C | 37 | D | 37 | A | 37 | D |
| 38 | C | 38 | D | 38 | C | 38 | D |
| 39 | C | 39 | D | 39 | C | 39 | C |
| 40 | A | 40 | D | 40 | C | 40 | A |
| 41 | B | 41 | A | 41 | A | 41 | C |
| 42 | A | 42 | D | 42 | A | 42 | B |
| 43 | A | 43 | C | 43 | D | 43 | D |
| 44 | D | 44 | D | 44 | D | 44 | C* |
| 45 | C | 45 | D | 45 | A | 45 | A |
| 46 | C | 46 | A | 46 | D | 46 | A |
| 47 | D | 47 | D | 47 | D | 47 | A |
| 48 | D | 48 | D | 48 | D | 48 | A |
| 49 | D | 49 | C | 49 | C | 49 | D |
| 50 | D | 50 | C | 50 | A | 50 | D |
| 51 | A | 51 | C | 51 | C | 51 | D |
| 52 | D | 52 | D | 52 | B | 52 | A |
| 53 | C | 53 | A | 53 | D | 53 | C |
| 54 | D | 54 | C | 54 | C* | 54 | D |
| 55 | D | 55 | A | 55 | A | 55 | C |
| 56 | A | 56 | C | 56 | A | 56 | B |
| 57 | D | 57 | A | 57 | A | 57 | C |
| 58 | D | 58 | C | 58 | A | 58 | C |
| 59 | C | 59 | C | 59 | D | 59 | C |
| 60 | C | 60 | C | 60 | D | 60 | A |
| 61 | C | 61 | D | 61 | D | 61 | D |
| 62 | C | 62 | A | 62 | D | 62 | B |
| 63 | A | 63 | C | 63 | C | 63 | D |
| 64 | D | 64 | D | 64 | C | 64 | A |
| 65 | C | 65 | A | 65 | D | 65 | C |
| 66 | D | 66 | D | 66 | B | 66 | D |
| 67 | D | 67 | D | 67 | A | 67 | C |
| 68 | C | 68 | C | 68 | B | 68 | C |
| 69 | A | 69 | C | 69 | C | 69 | B |
| 70 | C | 70 | D | 70 | D | 70 | B |
| 71 | C | 71 | B | 71 | B | 71 | B |
| 72 | B | 72 | A | 72 | D | 72 | C |
| 73 | D | 73 | B | 73 | A | 73 | C |

| Set A | | Set B | | Set C | | Set D | |
|------------------------------|--------|------------------------------|--------|------------------------------|--------|------------------------------|--------|
| Part I: Financial Management | | Part I: Financial Management | | Part I: Financial Management | | Part I: Financial Management | |
| Question | Answer | Question | Answer | Question | Answer | Question | Answer |
| 74 | C | 74 | C | 74 | C | 74 | A |
| 75 | B | 75 | D | 75 | D | 75 | D |
| 76 | D | 76 | B | 76 | C | 76 | C |
| 77 | A | 77 | D | 77 | C | 77 | D |
| 78 | C | 78 | A | 78 | B | 78 | D |
| 79 | D | 79 | C | 79 | B | 79 | C |
| 80 | A | 80 | D | 80 | B | 80 | A |
| 81 | D | 81 | C | 81 | C | 81 | C |
| 82 | D | 82 | C | 82 | C | 82 | C |
| 83 | C | 83 | B | 83 | A | 83 | B |
| 84 | C | 84 | B | 84 | D | 84 | D |
| 85 | D | 85 | B | 85 | C | 85 | C |
| 86 | B | 86 | C | 86 | D | 86 | B |
| 87 | A | 87 | C | 87 | D | 87 | D |
| 88 | B | 88 | A | 88 | C | 88 | A |
| 89 | C | 89 | D | 89 | A | 89 | C |
| 90 | D | 90 | C | 90 | C | 90 | D |
| 91 | B | 91 | D | 91 | C | 91 | A |
| 92 | D | 92 | D | 92 | B | 92 | D |
| 93 | A | 93 | C | 93 | D | 93 | D |
| 94 | C | 94 | A | 94 | C | 94 | C |
| 95 | D | 95 | C | 95 | B | 95 | C |
| 96 | C | 96 | C | 96 | D | 96 | D |
| 97 | C | 97 | B | 97 | A | 97 | B |
| 98 | B | 98 | D | 98 | C | 98 | A |
| 99 | B | 99 | C | 99 | D | 99 | B |
| 100 | B | 100 | B | 100 | A | 100 | C |

| |
|---|
| Observations: |
| SET A: Question 24- Since none of the options are correct, so candidates selecting any option for this question as answer may be awarded marks |
| SET B: Question 14 - Since none of the options are correct, so candidates selecting any option for this question as answer may be awarded marks |
| SET C: Question 54- Since none of the options are correct, so candidates selecting any option for this question as answer may be awarded marks |
| SET D: Question 44: Since none of the options are correct, so candidates selecting any option for this question as answer may be awarded marks |