

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

Statutory body under an Act of Parliament

(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 & MANAGEMENT ACCOUNTING

MODULE 2 PAPER 5

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer All Questions.

PART-I

Question 1

The Amount available for distribution to owners at the time of closure of business after payment of all liabilities.

- (A) Capital
- (B) Net worth
- (C) Drawings
- (D) Investments

Question 2

A purchased goods for the list price of ₹ 60,000 with a trade discount @ 20% and cash discount @ 5%. A paid 40% on the date of purchase. The amount of cash discount will be :

- (A) ₹ 12,000
- (B) ₹ 3,000
- (C) ₹ 2,400
- (D) ₹ 960

Question 3

Salary Payable A/c is an example of :

- (A) Representative Personal Account
- (B) Tangible Real Account
- (C) Intangible Real Account
- (D) Nominal Account

Question 4

Purpose of Trial Balance is :

- (A) To serve as evidence of the fact that the double entry has been completed in respect of every transaction
- (B) The accounts containing debit balances are written on the debit column, and those with credit balances are written on the credit column
- (C) To divide the work easily
- (D) To fix the responsibilities

Question 5

If the turnover of a company is Rs. Hundred crore or more then these companies can round off :

- (A) To the nearest tens, hundreds, thousands, lakhs or millions, or decimals thereof
- (B) To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
- (C) To the nearest lakhs, millions or crores, or decimals thereof
- (D) To the nearest millions or crores, or decimals thereof

Question 6

X Ltd. paid ₹ 20 Lakh as advance to the vendor to install a Hydro Power Plant. This amount is to be disclosed in the balance sheet as per Schedule III of the Companies Act, 2013 under :

- (A) Long-term Loans and Advances
- (B) Capital Work-in-Progress
- (C) Current Assets
- (D) Miscellaneous Expenses

Question 7

This share capital in respect of dividend, in addition to the preferential right to the payment of dividends, has the right to participate, whether fully or to a limited extent, with capital not entitled to the preferential right of repayment of dividend and repayment. This share capital is :

- (A) Preference Share Capital
- (B) Deemed Preference Share Capital
- (C) Cumulative Preference Share Capital
- (D) Non-Convertible Preference Share Capital

Question 8

A company has 10,00,000 equity shares of ₹ 100 each. The company wants to buyback 1,00,000 equity shares from the market. For this :

- (A) Special resolution is required to be passed in the general meeting as the buyback is only 10% of the outstanding share capital
- (B) Ordinary resolution is required to be passed in the board meeting as the buyback does not exceed 10% of the outstanding share capital
- (C) No need to pass any resolution as the buyback is less than or equal to 10% of the outstanding equity share capital
- (D) Ordinary resolution is required to be passed in the annual general meeting as the buyback is equal to 10% of the outstanding share capital

Question 9

Employees Stock Option Scheme must be :

- (A) Sanctioned by Special Resolution & don't include Independent Director also
- (B) Sanctioned by Ordinary Resolution & don't include Independent Director also
- (C) Sanctioned by Special Resolution & include Independent Director also
- (D) Sanctioned by Ordinary Resolution & include Independent Director also

Question 10

A Ltd. has 20,00,000 outstanding equity shares of ₹ 100 each. What is the provision for the issue of sweat equity shares and how many sweat equity shares can be issued by A Ltd. ?

- (A) A company can issue 15% of the outstanding equity shares capital in a year or ₹ 5 crore w.e.h., A Ltd. can issue ₹ 5 crore equity shares as sweat equity
- (B) A company can issue 15% of the outstanding equity shares capital in a year or ₹ 2 crore w.e.h., A Ltd. can issue ₹ 3 crore equity shares as sweat equity
- (C) A company can issue 10% of the outstanding equity shares in a year or ₹ 5 crore w.e.h., A Ltd. can issue ₹ 5 crore equity shares as sweat equity
- (D) A company can issue 10% of the outstanding equity shares capital in a year or ₹ 2 crore w.e.h., A Ltd. can issue ₹ 2 crore equity shares as sweat equity

Question 11

In case of the issue of debentures as collateral securities the holder is entitled to :

- (A) Interest on loans as well as interest on debentures received as collateral securities
- (B) Interest on loans only, but not on debentures received as collateral securities
- (C) No interest on loans, but interest only on debentures received as collateral securities
- (D) Neither interest on loans nor interest on debentures received as collateral securities

Question 12

As per SEBI (Issue and Listing of Debt Securities), Regulations 2008 for manufacturing companies, infrastructure companies, and privately placed debentures by listed companies or unlisted companies the adequacy of debenture redemption reserve will be :

- (A) 100% of the value of outstanding debentures
- (B) 75% of the value of outstanding debentures
- (C) 50% of the value of outstanding debentures
- (D) 25% of the value of outstanding debentures

Question 13

Premium on redemption of debentures is :

- (A) Suspense A/c
- (B) Real A/c
- (C) Personal A/c
- (D) Nominal A/c

Question 14

A Ltd. is a listed public company in which Mr. X is working as Managing Director, 120 Permanent Employees including 10 directors, 75 contractual employees, and 3 Independent directors. The company wants to issue debentures under the Employees Stock Option. To whom company can issue debenture under this scheme ?

- (A) To all the 200 employees i.e. Managing Director, Permanent Employees, Contractual Employees and Independent Directors

- (B) To the Managing Director, Permanent Employees and Contractual labours
- (C) To the Managing Director and to the Permanent Employees only
- (D) Debentures cannot be issued under the Employees Stock Option Scheme

Question 15

Which of the following statements is true ?

- (A) The company shall not convert its existing equity share capital with voting rights into equity share capital carrying differential voting rights and vice versa
- (B) The total number of shares allotted with differential rights need not be disclosed in the Board's Report
- (C) The holders of the equity shares with differential rights shall not enjoy all other rights such as bonus shares, rights shares etc.
- (D) Since the details of all the shareholders are there in the register of members there is no need to contain the relevant particulars of the issue of shares with differential rights

Question 16

A company issued a prospectus inviting applications for 2,00,000 equity shares of ₹ 100 each. The whole issue was fully underwritten by three underwriters : A – 1,00,00 shares. B – 70,000 shares and C – 30,000 shares. Applications were received for 1,60,000 shares, of which marked applications were A–76,000 shares, B– 40,400 shares, C–33,600. The liability of the underwriters will be :

- (A) A–24,000; B–29,600; C–(-3,600)
- (B) A–16,000; B–24,000; C–Nil
- (C) A–19,000; B–26,100; C–(-5,100)
- (D) A–1,00,000; B–70,000; C–30,000

Question 17

These reports complete the fundamental purpose of financial accounting by providing information that is helpful in the financial decision-making process.

- (A) Trial Balance, Income Statement, Balance Sheet, Statement of Stockholders Equity
- (B) Income Statement, Balance Sheet, Statement of Stockholders Equity, Statement of Fund Flow
- (C) Income Statement, Balance Sheet, Statement of Stockholders Equity, Statement of Cash Flow
- (D) Income Statement, Balance Sheet, Statement of Stockholders Equity, Statement of Receipt and Payment

Question 18

Which of the following options are INCORRECT ? A Reserve :

- (i) an appropriation on the profit
- (ii) is created to cover a known liability or expected future loss
- (iii) is a charge against the profit

(iv) is meant to strengthen the financial position of the company

- (A) Both (i) and (ii)
- (B) Both (ii) and (iv)
- (C) Both (iii) and (iv)
- (D) Both (ii) and (iii)

Question 19

Every company shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director if :

- (A) It has a net worth of ₹ 500 crore or more, and Turnover of ₹ 1,000 crore or more and a net profit of ₹ 5 crore or more during the immediately preceding financial year
- (B) It has a net worth of ₹ 500 crore or more, or Turnover of ₹ 1,000 crore or more or a net profit of ₹ 5 crore or more during the immediately preceding financial year
- (C) It has a net worth of ₹ 500 crore or more, or Turnover of ₹ 100 crore or more or a net profit of ₹ 5 crore or more during the immediately preceding financial year
- (D) It has a net worth of ₹ 500 crore or more, and Turnover of ₹ 100 crore or more and a net profit of ₹ 5 crore or more during the immediately preceding financial year

Question 20

Net profit for the year is ₹ 2,00,000. During the period, Trade Payable decreased by ₹ 10,000, inventory increased by ₹ 6,000 and Trade Receivables increased by ₹ 15,000. The amount of cash flow from operating activities using the indirect method will be :

- (A) ₹ 1,69,000
- (B) ₹ 1,75,000
- (C) ₹ 1,79,000
- (D) ₹ 1,84,000

Question 21

For the accounting period beginning on or after 1st April 2019, NBFCs will be required to follow Ind ASs if :

- (A) Listed NBFCs having a net worth of ₹ 500 crore or more, for unlisted NBFCs with a net worth of ₹ 250 crore or more, and Holding, Subsidiary, joint venture and associate companies of these companies
- (B) Listed NBFCs having a net worth of ₹ 500 crore or more, for unlisted NBFCs with a net worth of ₹ 200 crore or more, and Holding, Subsidiary, joint venture and associate companies of these companies
- (C) Listed NBFCs having a net worth of ₹ 250 crore or more, for unlisted NBFCs with a net worth of ₹ 200 crore or more, and Holding, Subsidiary, joint venture and associate companies of these companies
- (D) Listed NBFCs having a net worth of ₹ 250 crore or more, for unlisted NBFCs with a net worth of ₹ 100 crore or more, and Holding, Subsidiary, joint venture and associate companies of these companies

Question 22

When an entity provides goods or services to customers at a price or rate that is subject to rate regulation is known as :

- (A) Regulatory Fair Value
- (B) Regulatory Revenue
- (C) Regulatory Deferral Accounts Balance
- (D) Regulatory Revenue Expenditure

Question 23

..... provides explanation about inventories of service providers.

- (A) AS 2
- (B) Ind AS 2
- (C) AS 9
- (D) Ind AS 27

Question 24

The ledger where all transactions relating to assets and liabilities are recorded is called :

- (A) Cash Book
- (B) General Ledger
- (C) Nominal Ledger
- (D) Private Ledger

Question 25

In case of the purchase of debentures in the open market for immediate cancellation, if there is any difference between the nominal value of the debentures cancelled and the price paid for them, the same has to be treated as :

- (A) Profit or Loss on cancellation
- (B) Capital Reserve
- (C) Revenue Reserve
- (D) Capital Loss

Question 26

When a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the shares so purchased shall be transferred to the :

- (A) Capital Reserve Account
- (B) Capital Redemption Reserve Account
- (C) General Reserve Account
- (D) Profit and Loss Account

Question 27

If there are profits and the dividends on cumulative preference shares are in arrears, the arrears of dividends on preference shares held by the Minority shareholders should be :

- (A) Credited to the Consolidated Profit and Loss Account and debited to the Minority Interest Account
- (B) Debited to the Consolidated Profit and Loss Account and credited to the Minority Interest Account
- (C) Debited to the Consolidated Profit and Loss Account and credited to the Capital Reserve Account
- (D) Credited to the Consolidated Profit and Loss Account and debited to the Capital Reserve Account

Question 28

H Ltd. acquires 75% of the equity shares of S Ltd. on 1-4-2023. On that date, the paid-up capital of S Ltd. was 20,000 equity shares of ₹ 100 each; the accumulated reserve balance was ₹ 10,00,000. H Ltd. paid ₹ 26,00,000 to acquire 75% interest in the S Ltd. Assets of S Ltd. were revalued on 1-4-2023 and a revaluation loss of ₹ 1,00,000 was ascertained. The cost of control is :

- (A) Capital Reserve ₹ 4,25,000
- (B) Goodwill ₹ 4,25,000
- (C) Capital Reserve ₹ 3,50,000
- (D) Goodwill ₹ 3,50,000

Question 29

Non-listed public companies having paid-up share capital of ₹ 100 crores or more or having a turnover of ₹ 300 crores or more are required to appoint :

- (A) at least one-woman director
- (B) at least one independent director
- (C) at least 5 directors
- (D) No need to require a woman director

Question 30

Shareholder value added is :

- (A) Net operating profit after tax–Cost of capital
- (B) Net operating profit before tax–Cost of capital
- (C) Net operating profit after tax + Cost of capital
- (D) Net operating profit after tax–WACC

Question 31

Following is the information of ABC Limited : Equity Share Capital – ₹ 1,200 lakhs

12% Debenture – ₹ 600 lakhs

WACC = 12%

Financial Leverage 1.5 times

(Assume a 30% tax rate)

EVA is :

- (A) ₹ 216
- (B) ₹ (151.20)
- (C) ₹ 64.8
- (D) ₹ (64.8)

Question 32

Profits are meant for shareholders whereas value added is meant for :

- (A) Stakeholders
- (B) Shareholders
- (C) Managers
- (D) Directors

Question 33

To establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates. This is the objective of :

- (A) Accounting Standard–17 (Segment Reporting)
- (B) Accounting Standard – 25 (Interim Financial Reporting)
- (C) Accounting Standard – 27 (Financial Reporting of Interests in Joint Ventures)
- (D) Accounting Standard – 29 (Provisions, Contingent Liabilities and Contingent Assets)

Question 34

The objective of Accounting Standard–23 (Accounting for Investments in Associates in Consolidated Financial Statements) is :

- (A) to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period
- (B) to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount
- (C) to set out principles and procedures for recognizing, in the consolidated financial statements, the effects of the investments in associates on the financial position and operating results of a group
- (D) Accounting for investments in the financial statements of enterprises and related disclosure requirements

Question 35

The focus of the IFRC Advisory Council is to provide strategic support and advice to the IFRS Foundation, and it meets in :

- (A) New York at least once a year for a period of two days
- (B) London at least once a year for a period of two days

- (C) New York at least twice a year for a period of two days
 (D) London at least twice a year for a period of two days

Question 36

The total number of members normally the Australian Accounting Standards Board (AASB) has :

- (A) 10 members (excluding the Chair)
 (B) 10 members (including the Chair)
 (C) 12 members (excluding the Chair)
 (D) 12 members (including the Chair)

Question 37

The International Public Sector Accounting Standards Board's (IPSASB) structures and processes are facilitated by the :

- (A) International Accounting Bodies
 (B) International Federation of Accountants (IFAC)
 (C) Financial Reporting Council (FRC)
 (D) European Financial Reporting Advisory Group (EFRAG)

Question 38

The following are the extracts of the current liabilities of a limited liability company :

	31-3-2022	31-3-2023
Provision for Taxation	50,000	75,000

An income tax of ₹ 65,000 was paid during the year. The amount of provision for taxation made during the year is :

- (A) ₹ 40,000
 (B) ₹ 60,000
 (C) ₹ 80,000
 (D) ₹ 90,000

Question 39

The focus of AS-20 is on denominator of the calculation.

- (A) Earnings Per Share
 (B) Lease
 (C) Market Price Per Share
 (D) Taxes on Income

Question 40

The expected sales value of stock is ₹ 20 lakhs and a commission of 10% on sale is payable to the agent. Calculate Net Realisable Value (NRV) as per AS-2 ?

- (A) ₹ 12 lakhs

- (B) ₹ 14 lakhs
- (C) ₹ 16 lakhs
- (D) ₹ 18 lakhs

Question 41

ICSI functions under the jurisdiction of the :

- (A) Prime Minister of India
- (B) Ministry of Law
- (C) NCLT
- (D) Ministry of Corporate Affairs

Question 42

..... represents the economic profits generated by a business above and beyond the minimum return required by all providers of capital.

- (A) Shareholder Value Added (SVA)
- (B) Economic Value Added (EVA)
- (C) Market Value Added (MVA)
- (D) Debenture-holders Value Added (DVA)

Question 43

CSR stands for

- (A) Company Social Responsibility
- (B) Corporate Social Rights
- (C) Corporate Social Responsibility
- (D) Company Social Rights

Question 44

Which type of committee is not required to be formed for compliance with provisions of Corporate Governance under the Companies Act, 2013 and SEBI Regulations ?

- (A) Audit Committee
- (B) Nomination & Remuneration Committee
- (C) Stakeholders Grievance Committee
- (D) Corporate Governance Committee

Question 45

Pre-acquisition dividend received by Holding Company is credited to

- (A) Profit & Loss A/c
- (B) Capital Profit
- (C) Investment A/c
- (D) Revenue Profit

Question 46

Holding Company holds more than voting power in subsidiary company.

- (A) 25%
- (B) 40%
- (C) 50%
- (D) 75%

Question 47

The net profit on forfeiture and reissue of equity shares is transferred to

- (A) Capital Reserve
- (B) General Reserve
- (C) Dividend Equalization Reserve
- (D) Revaluation Reserve

Question 48

Final Accounts of companies are prepared according to of the Companies Act, 2013.

- (A) Schedule VI
- (B) Schedule V
- (C) Schedule II
- (D) Schedule III

Question 49

Sale of copyright is concerned with cash flow from

- (A) Operating activities
- (B) Financing activities
- (C) Investing activities
- (D) Revenue activities

Question 50

A person who undertakes to take up the whole or a portion of the offered shares or debentures as may not be subscribed for by the public is called

- (A) Writer
- (B) Share writer
- (C) Broker
- (D) Underwriter

Question 51

As per SEBI Regulations, the merchant banker shall underwrite at least itself or jointly with other merchant bankers associated with the issue.

- (A) 15% of issue size
- (B) 10% of issue size

- (C) 25% of issue size
- (D) 5% of issue size

Question 52

Under ESOS employees are given an option to purchase shares at

- (A) On the spot
- (B) Later date i.e. after vesting period
- (C) Relevant date
- (D) Later date i.e. after end of accounting year

Question 53

If interest on calls-in-advance is not mentioned in the articles then the rate must be decided by the Board of Directors subject to a maximum of 12% p.a. as per :

- (A) Table A of the Companies Act 2013
- (B) Table D of the Companies Act 2013
- (C) Table F of the Companies Act 2013
- (D) Table G of the Companies Act 2013

Question 54

Sagar Ltd. purchased a machinery worth ₹ 1,20,000 and building worth ₹ 2,00,000 from Radha Ltd. for an agreed purchase consideration of ₹ 3,00,000 to be satisfied by the issue of 3,000, 10% debentures of ₹ 100 each. Calculate the amount to be transferred to Capital Reserve A/c.

- (A) ₹ 10,000
- (B) ₹ 20,000
- (C) ₹ 30,000
- (D) ₹ 40,000

Question 55

Instalment of principal amount of long term loan payable within next 12 months is shown under Balance Sheet of a company under the heading

- (A) Non-current assets
- (B) Non-current liabilities
- (C) Current assets
- (D) Current liabilities

Question 56

A special bank account with schedule bank is to be opened if buyback of shares is given :

- (A) Within 15 days from the closure of the offer
- (B) Within 10 days from the closure of the offer
- (C) Within 7 days from the closure of the offer
- (D) Immediately on the closure of the offer

Question 57

A company may allot fully paid shares to promoters or any other party for the services rendered by them, share capital account is credited and debited.

- (A) Preliminary expenses account
- (B) Goodwill account
- (C) Capital reserve account
- (D) Suspense account

Question 58

The following is not an advantage of Double entry system :

- (A) It prevents and minimizes frauds
- (B) Helps in decision-making
- (C) The trial balance doesn't disclose certain types of errors
- (D) It becomes easy for the Government to calculate the tax

Question 59

At the time of forfeiture of shares, the share capital account will be

- (A) Debited with paid up value of shares forfeited
- (B) Debited with called up value of shares forfeited
- (C) Debited with face value of shares forfeited
- (D) Debited with issue price of shares forfeited

Question 60

This Standard deals with the preparation of financial statements on a going concern basis using the accrual basis of accounting, materiality and aggregation issues, offsetting of assets and liabilities or income and expenses, frequency of reporting, comparative information, and consistency in presentation or classification :

- (A) Ind AS-1
- (B) Ind AS-2
- (C) Ind AS-3
- (D) Ind AS-6

Part-II**Question 61**

Direct materials include :

- (i) All materials specifically purchased for a particular job/process
- (ii) All material acquired and later requisitioned from stores
- (iii) Components purchased or produced

- (iv) Primary packing materials
- (v) Material passing from one process to another
- (A) (i), (ii) and (iii)
- (B) (i), (ii) and (v)
- (C) (i), (ii), (iii) and (iv)
- (D) (i), (ii), (iii), (iv) and (v)

Question 62

According to CIMA, the prime cost is :

- (A) the total cost of direct material only
- (B) the total cost of direct material and direct labour
- (C) the total cost of direct material, direct labour and direct expenses
- (D) the total cost of direct material and indirect material

Question 63

Any casual vacancy in the office of a Cost Auditor, whether due to resignation, death or removal, shall be filled by the within of the occurrence of such vacancy.

- (A) Central Government, thirty days
- (B) Board of Directors, thirty days
- (C) Central Government, sixty days
- (D) Board of Directors, sixty days

Question 64

The form that required intimation of the appointment of a cost auditor by the company to the central government :

- (A) CRA-1
- (B) CRA-2
- (C) CRA-3
- (D) CRA-4

Question 65

What is the amount of variable cost per unit and fixed cost ?

Volume of output	80,000 units	1,20,000 units
Total Production overheads	₹ 4,00,000	₹ 5,50,000

- (A) ₹ 5 per unit and 1,50,000
- (B) ₹ 4.58 per unit and ₹ 1,50,000
- (C) ₹ 3.75 per unit and ₹ 1,50,000
- (D) ₹ 3.75 per unit and ₹ 1,00,000

Question 66

Budgeted Hours	1,25,000
Actual Production	20,000
Standard hours per unit	₹ 5
Actual hours	90,000

Activity ratio is :

- (A) 80%
- (B) 125%
- (C) 90%
- (D) 111.11%

Question 67

All items in this statement are expressed as a percentage of the base item. This is a :

- (A) Comparative Financial Statement
- (B) Common Size Financial Statement
- (C) Trend Analysis
- (D) Ratio Analysis

Question 68

Net Profit before

Tax	₹ 2,00,000
Taxation	@ 50% of Net Profit
20% Preference Capital	₹ 75,000
10,000 Equity shares of ₹ 10 each	₹ 1,00,000

Earnings per share from the data is :

- (A) ₹ 10 per share
- (B) ₹ 18.5 per share
- (C) ₹ 8.5 per share
- (D) ₹ 20 per share

Question 69

Total Assets ₹ 1,25,000

Total debts ₹ 1,00,000

Current Liabilities ₹ 50,000

The Debt-Equity ratio will be :

- (A) 2 : 1

- (B) 2.5 : 1
- (C) 1.25 : 1
- (D) 1.75 : 1

Question 70

Which ratio is the barometer of the market sentiment ?

- (A) P/E Ratio
- (B) Dividend Yield Ratio
- (C) Dividend Payout Ratio
- (D) Earnings Per Share (EPS)

Question 71

Proprietary funds is :

- (A) Equity share capital + Preference share capital – Fictitious Assets
- (B) Equity share capital + Preference share capital + Fictitious Assets
- (C) Equity share capital + Preference share capital + Reserves – Fictitious Assets
- (D) Equity share capital + Preference share capital + Reserves + Fictitious Assets

Question 72

The reports which are to be presented after investigating the problem which requires to be scrutinized is called :

- (A) Descriptive reporting
- (B) Tabular reports
- (C) Graphic presentation
- (D) Special report

Question 73

The Higher Level of Management Reports are :

- (A) (i) less summarized (ii) less frequent (iii) less in numbers
- (B) (i) more summarized (ii) more frequent (iii) more in numbers
- (C) (i) more summarized (ii) less frequent (iii) more in numbers
- (D) (i) more summarized (ii) less frequent (iii) less in numbers

Question 74

Only variable costs are considered as :

- (A) Product costs
- (B) Period costs
- (C) Product cost and Period cost both
- (D) Not a product cost nor period cost

Question 75

The data of a Limited company

	Year	Year
	2022	2023
Sales (lakhs)	300	400
Cost (lakhs)	240	300

The P/V Ratio is :

- (A) 20%
- (B) 25%
- (C) 33.3%
- (D) 40%

Question 76

Under absorption costing the stocks are valued at :

- (A) the total cost
- (B) the variable cost
- (C) the fixed cost
- (D) the semi-variable cost

Question 77

Direct Material	₹ 40
Direct Labour @ ₹ 10 per hour	₹ 20
Variable overheads	₹ 20
Selling price	₹ 100

If labour hours are the key factor, what is the contribution per key factor ?

- (A) ₹ 20
- (B) ₹ 10
- (C) ₹ 80
- (D) ₹ 40

Question 78

Approaches of Valuation are :

- (A) Asset Approach, Income Approach and Market Approach
- (B) Asset Approach and Income Approach
- (C) Asset Approach and Market Approach
- (D) Income Approach and Market Approach

Question 79

An investor wants to invest in an equity share of ABC Ltd. The company's last EPS was ₹ 40 per share and the dividend payout ratio is 35%. The required rate of return from equity investment is 20%. The intrinsic value of equity is :

- (A) ₹200
- (B) ₹40
- (C) ₹70
- (D) ₹100

Question 80

Diluted earnings per share shall be calculated :

- (A) by dividing profit or loss attributable to ordinary equity holders of the entity (numerator) by the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares (denominator) during the period
- (B) by dividing profit or loss attributable to ordinary equity holders of the entity (numerator) by the average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares (denominator) during the period
- (C) by dividing profit or loss attributable to ordinary equity holders of the entity (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period
- (D) by dividing profit or loss attributable to ordinary equity holders of the entity (numerator) by the average number of ordinary shares outstanding (denominator) during the period

Question 81

The approaches which are used in valuation of intangible assets are :

- (A) (i) Cost Approach, (ii) Market-Value Approach and (iii) Economic-Value Approach
- (B) (i) Asset-Based Approach, (ii) Earning Value Approach and (iii) Market Value Approach
- (C) (i) Cost Approach, (ii) Earning Value Approach and (iii) Market Value Approach
- (D) (i) Asset-Based Approach (ii) Earning Value Approach and (iii) Economic- Value Approach

Question 82

The average profit of a firm is ₹ 75,000. The rate of capitalization is 12%. The assets and liabilities of the firm are ₹ 6,80,000 and ₹ 4,30,000 respectively. The value of goodwill is :

- (A) ₹6,25,000
- (B) ₹3,75,000
- (C) ₹3,25,000
- (D) ₹1,75,000

Question 83

Valuation of Shares is to be done by :

- (A) Company Secretary or Advocate with 10 years of experience

- (B) Merchant Banker or Company Secretary with 5 years of experience
- (C) Merchant Banker or Chartered Accountant with 10 years of experience
- (D) Company Secretary or Chartered Accountant with 5 years of experience

Question 84

Asset backing or intrinsic value or break- up value method is also called :

- (A) Earning Basis Method
- (B) Fair Value Method
- (C) Net Asset Method
- (D) Super Profit Method

Question 85

Ind AS 102 applies to :

- (A) both employees and non-employees share based payments
- (B) shareholders of the company
- (C) non-employees share based payments
- (D) both employees share based payments

Question 86

An investor wants to invest in the equity shares of XYZ Ltd for one year. The company is expected to declare a dividend of ₹ 3 per share. Further, a leading security analyst has projected the year-end target price of this company's share at ₹ 160. Assume that the required rate of return is 10%. The fair price of the share is :

- (A) 111
- (B) 145.45
- (C) 145
- (D) 148.45

Question 87

The P/E ratio (also known as the P/E multiple) is the method most widely used by finance managers, investment analysts and equity shareholders to arrive at :

- (A) the market price of an equity share
- (B) the market price of preference share
- (C) the issue price of an equity share
- (D) the issue price of preference share

Question 88

Systematic risk of a security is indicated by :

- (A) Rho coefficient
- (B) Gamma coefficient

- (C) Alpha coefficient
- (D) Beta coefficient

Question 89

Economic Value Added (EVA) is :

- (A) “Net Operating Profit after Taxes” – (Equity Capital × % Cost of Equity Capital)
- (B) “Net Operating Profit before Taxes” – (Equity Capital × % Cost of Equity Capital)
- (C) “Net Operating Profit after Taxes” – (Equity & Pref. Capital × % Cost of Equity Capital)
- (D) “Net Operating Profit before Taxes” – (Equity & Pref. Capital × % Cost of Equity Capital)

Question 90

The opportunity cost of making a component part in a factory with no excess capacity is the :

- (A) Variable manufacturing cost of the component
- (B) Cost of production given up in order to produce the component
- (C) Total manufacturing cost of the component
- (D) Net benefit given up from the best alternative use of the capacity

Question 91

Pick out the correct statement :

- (A) Increase in margin of safety means increase in BEP
- (B) Increase in actual sales increases margin of safety
- (C) Increase in variable cost increases margin of safety
- (D) Decrease in variable cost decreases margin of safety

Question 92

The difference between variable costs and fixed costs is :

- (A) Variable costs per unit fluctuate and fixed costs per unit remain constant
- (B) Variable costs per unit are fixed over the relevant range and fixed costs per unit are variable
- (C) Total variable costs are variable over the relevant range and fixed in the long- term, while fixed costs never change
- (D) Variable costs per unit change in varying increments, while fixed costs per unit change in equal increments

Question 93

If the budget of a company is reviewed and updated at regular intervals, it is known as :

- (A) Capital budget
- (B) Rolling budget
- (C) Flexible budget
- (D) Fixed budget

Question 94

Which of the following is not a part of operating budget ?

- (A) Production budget
- (B) Cost of goods sold budget
- (C) Sales budget
- (D) Capital budget

Question 95

In the cost Audit report Abnormal Non- Recurring cost relates to :

- (A) The costs that arise due to abnormal features affecting sales
- (B) The costs that need to be indicated along with their effect on the unit cost of sales
- (C) Costs arising due to substantial power cuts
- (D) The special expenses which are directly allocated to products

Question 96

Which of the following is not a method of business valuation ?

- (A) Asset based
- (B) Earnings based
- (C) Market based
- (D) Equity based

Question 97

Which of the following is not the method of valuation of goodwill ?

- (A) Average profit method
- (B) Super profit method
- (C) Capitalization method
- (D) Straight line method

Question 98

The ratio that explains how efficiently companies use their assets to generate sales is

- (A) Revenue asset ratio
- (B) Receivable turnover ratio
- (C) Income ratio
- (D) Fixed Asset turnover ratio

Question 99

- (1) To determine Fair value.
- (2) To set out a single Ind AS framework for measuring fair value.
- (3) To require disclosures with respect to fair value measurements.

Above objectives are related to :

- (A) Ind AS 33-Earnings per share
- (B) Ind AS 32-Financial Instrument Presentation
- (C) Ind AS 113-Fair Value Measurement
- (D) Ind AS 102-Share-based payment transaction

Question 100

The date that award exercised satisfied conditions of agreement is called :

- (A) Grand date
- (B) Vesting date
- (C) Actual date
- (D) Exercise date

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

Q32	(A)
Q33	(A)
Q34	(C)
Q35	(D)
Q36	(D)
Q37	(B)
Q38	(D)
Q39	(A)
Q40	(D)
Q41	(D)
Q42	(A)
Q43	(C)
Q44	(D)
Q45	(C)
Q46	(C)
Q47	(A)
Q48	(D)
Q49	(C)
Q50	(D)
Q51	(A)
Q52	(B)
Q53	(C)
Q54	(B)
Q55	(D)
Q56	(D)
Q57	(B)
Q58	(C)
Q59	(B)
Q60	(A)
Part II	
Q61	(D)
Q62	(B)
Q63	(B)
Q64	(B)
Q65	(D)
Q66	(A)

Q67	(B)
Q68	(C)
Q69	(A)
Q70	(A)
Q71	(C)
Q72	(D)
Q73	(C)
Q74	(A)
Q75	(D)
Q76	(A)
Q77	(B)
Q78	(A)
Q79	(C)
Q80	(A)
Q81	(A)
Q82	(B)
Q83	(C)
Q84	(C)
Q85	(A)
Q86	(D)
Q87	(A)
Q88	(D)
Q89	(A)
Q90	(D)
Q91	(B)
Q92	(B)
Q93	(B)
Q94	(D)
Q95	(C)
Q96	(D)
Q97	(D)
Q98	(D)
Q99	(C)
Q100	(D)

Notes *	
(SET A)	
Q. No. 21	<p>None of the options are correct.</p> <p>Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015 states that (b) The following NBFCs shall comply with the Indian Accounting Standards (Ind AS) for accounting periods beginning on or after the 1st April, 2019, with comparatives for the periods ending on 31st March, 2019, or thereafter—</p> <p>(A) NBFCs whose equity or debt securities are listed or in the process of listing on any stock exchange in India or outside India and having net worth less than rupees five hundred crore;</p> <p>(B) NBFCs, that are unlisted companies, having net worth of rupees two-hundred and fifty crore or more but less than rupees five hundred crore; and</p> <p>(C) holding, subsidiary, joint venture or associate companies of companies covered under item (A) or item (B) of sub-clause (b), other than those already covered in clauses (i), (ii) and (iii) of sub-rule (1) or item (B) of sub-clause (a) of clause (iv).</p>

SECURITIES LAWS & CAPITAL MARKETS

MODULE 2 PAPER 6

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer All Questions.

PART-I

Question 1

- (a) Based on the following information, determine the NAV of a regular income scheme on per unit basis :

	₹ In crore
Listed share at cost	12.00
Cash in hand	1.00
Bond and debenture at cost	4.30
Of these, bonds not listed and quoted	1.00
Other fixed interest securities at cost	4.50
Expenditure accrued	2.25
No. of units (₹ 10 face value)	20 lakh
The listed shares were purchased when–	
– Index was	15,000
– Present Index	20,000
Value of listed bonds and debenture at NAV date	10
There has been a diminution of 30% in unlisted bonds and debentures	
Other fixed interest securities are at cost	

(5 marks)

- (b) Yaksha Motors Ltd. is a listed company. It had a turnover of ₹ 450 crore on standalone basis as per the latest audited financial statements. It also has only one subsidiary/ associate company – Yaksha Auto Components Ltd. whose standalone turnover as per the latest audited financial statements was ₹ 70 crore. Yaksha Motors Ltd. entered into transactions with related parties during the current financial year as follows :

- (i) Purchase of goods amounting to ₹ 60 crore
- (ii) Payment of royalty amounting to ₹ 30 crore
- (iii) Payment of ₹ 15 crore towards supply of services

Decide, whether the above related party transactions are material or not ?

(5 marks)

- (c) Following information is given to you about Jaina Fashions Ltd., a listed company. In light of SEBI (Prohibition of Insider Trading) Regulations, 2015, briefly explain the concept of

connected person and state with reasons whether the following persons are 'Insider' as on date, or not–

- (i) Ajay was the General Manager of the company, but he resigned 8 months ago.
- (ii) Rahul is working as a Senior Trainee in the office of Secretarial Auditor of the company.
- (iii) Jyoti is the spouse of an Executive Director of the Company.

(5 marks)

- (d) Due to outbreak of war between two countries, the stock prices of a listed IT company falls drastically. The management after due deliberations, decided to offer buy-back of its equity shares amounting to ₹ 200 crore. However, the company is not having immediate cash reserves but it is expecting a major deal for sale of surplus assets which will be materialized in near future and money will be available only at the time of final payment for buy-back offer. In light of SEBI (Buy-back of Securities) Regulations, 2018, state with reasons, whether the company is eligible for buy-back.

(5 marks)

Answer 1(a)

Net Asset Value

$$= \frac{\text{Net Asset of the Scheme}}{\text{Number of units outstanding}}$$

Net Asset of the Scheme = Market value of investments + Receivables+ other accrued income+ other assets – Accrued Expenses- Other Payables- Other Liabilities

Particulars	Adjustment Value (₹ crores)
Equity Shares as per present Index (12 * 20000/15000)	16.00
Cash in hand	1.00
Bonds and debentures not listed [1.00-30% diminution]	0.70
Bonds and debentures listed	10.00
Fixed income securities	4.50
Sub total assets (A)	32.20
Less: Liabilities	
Expenditure accrued	2.25
Sub total liabilities (B)	2.25
Net Assets Value (A) — (B)	29.95
No. of units	20,00,000
Net Assets Value per unit (₹ 29.95 crore / 20,00,000)	₹ 149.75

Answer 1(b)

As per the Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, a transaction with a related party shall be considered material, if the transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

Further, w.e.f. July 01, 2019 a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transactions to be entered into individually or taken together with previous transactions during a financial year, exceed 5% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

The consolidated turnover of the listed company Yaksha Motors Ltd. amounts to (₹ 450 + ₹ 70) i.e. ₹ 520 crores as per the latest audited financial statements. The threshold for material related party transaction, would be lower of ₹ 1000 crore or 10% of annual consolidated turnover (i.e. ₹ 52 crore) of Yaksha Motors Limited. Therefore, it would be ₹ 52 crore.

For royalty transaction, the threshold for material related party transaction, would be 5% of annual consolidated turnover of Yaksha Motors Limited. Therefore, it would be ₹ 26 crore.

- (i) Purchase of goods amounting to ₹ 60 crores is a material related party transaction as it exceeds 10% of the annual consolidated turnover of the listed entity (i.e. ₹ 52 crore).
- (ii) Payment of royalty amounting to ₹ 30 crores is a material related party transaction as it exceeds 5% of the annual consolidated turnover of the listed entity (i.e. ₹ 26 crore).
- (iii) Payment of ₹ 15 crores towards supply of service is not a material related party transaction as it is below 10% of the annual consolidated turnover of the listed entity (i.e. ₹ 52 crore).

Answer 1(c)

According to the provisions of Regulation 2(1)(d) of the SEBI (Prohibition of Insider Trading) Regulations, 2015, "Connected Person" means:

- any person who is or has during six months prior to the concerned act, has been associated with the company, directly or indirectly;
- in any capacity (including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relation); or
- is a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company, whether temporary or permanent,
- that allows such person, directly or indirectly, access to unpublished price-sensitive information or reasonably expected to allow such access.

Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be connected persons unless the contrary is established-

- (a) an immediate relative of connected persons; or
- (b) a holding company or associate company or subsidiary company; or
- (c) an intermediary as specified in section 12 of the SEBI Act, 1992 or an employee or director thereof; or
- (d) an investment company, trustee company, asset management company or an employee or director thereof; or
- (e) an official of a stock exchange or of clearing house or corporation; or
- (f) a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or

- (g) a member of the board of directors or an employee, of a public financial institution as defined in section 2 (72) of the Companies Act, 2013; or
- (h) an official or an employee of a self-regulatory organization recognised or authorized by the SEBI; or
- (i) a banker of the company; or
- (j) a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than ten per cent. of the holding or interest.

According to the provisions of Regulation 2(1)(g) of the SEBI (Prohibition of Insider Trading) Regulations, 2015, an "Insider" means any person who is:

- (1) a connected person; or
 - (2) in possession of or having access to unpublished price sensitive information.
- (i) Ajay was the General Manager of the company, but he resigned 8 months ago. Ajay has completed more than six months since his resignation as General Manager of the company. He is not a connected person and is not in possession of any unpublished price sensitive information. Therefore, he is not an insider as on date, as per the Regulations.
 - (ii) Rahul works as a Senior Trainee in the office of Secretarial Auditor of the company. Rahul is the Senior Trainee in the office of Secretarial Auditor and thus, being a part of Audit team, he will have access to unpublished price sensitive information due to the nature of work performed by him in the office of Secretarial Auditor. Therefore, he is an insider as on date, as per the Regulations.
 - (iii) Jyoti is the spouse of an Executive Director of the company. Executive Director is connected person in terms of the Regulations. Spouse, an immediate relative of the connected person, is considered as deemed to be connected person. Therefore, Jyoti is an insider as on date, as per the Regulations.

Answer 1(d)

As per Regulation 9 of the SEBI (Buy-Back of Securities) Regulations, 2018, the company shall, within two working days of the public announcement, as and by way of security for performance of its obligations under the regulations, deposit in an escrow account such sum as specified. The amount in the escrow account shall be deposited in the following manner:

- (i) if the consideration payable does not exceed Rupees 100 crore; 25 per cent of the consideration payable;
- (ii) if the consideration payable exceeds Rupees 100 crore; 25 per cent upto Rupees 100 crore and 10 per cent thereafter.

In view of the SEBI (Buy-Back of Securities) Regulations, 2018, the company contention that money will be available only at the time of final payment for buy-back offer, will not be in accordance with the requirements under the SEBI (Buy-Back of Securities) Regulations, 2018. In the escrow account money should be deposited within two working days of the public announcement.

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

- (a) Mohan has been granted 200 options under ESOP scheme by a listed company. Mohan is in dire need of money; he intends to mortgage the options with the private moneylender to avail loan. Is intention of Mohan valid in law (answer with reason) ?
(4 marks)
- (b) An acquirer, along with persons acting in concert (PAC) may come up with an Open Offer for acquisition of shares of a listed entity either voluntarily or compulsorily. Differentiate between the two processes.
(4 marks)
- (c) State with reasons, the composition of directors in a listed company :
- (i) PQR Limited is a listed entity having one Executive woman Director on the Board. The Company is in the list of top 1000 listed entities. Whether the Company still requires appointment of another woman Director ?
 - (ii) X is non-executive director of RST Limited. A, B and C are promoters of RST Limited. X is a Chairperson of the company and he is related to A. Suggest the requirement of independent directors of RST Limited.
(2+2=4 marks)
- (d) With reference to the SEBI (ICDR), Regulations, 2018, answer in brief (with reasons) :
- (i) If a company did not receive minimum subscription of 90%, state the time period within which the amount should be refunded.
 - (ii) Is there any mechanism for monitoring of utilization of IPO proceeds, if the issue size exceeds one hundred crore rupees.
 - (iii) Lock-in of specified securities held by the promoters in case of Initial Public Offer.
 - (iv) Cap on the price band.
(4 marks)
- (e) Earlier the process for issue of duplicate share certificate was very cumbersome. Recently, SEBI has simplified the provisions for issue of duplicate share certificate for small investor. Explain in brief the revised procedure for issuance of duplicate share certificate.
(4 marks)

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

- (i) An Investigating Authority was appointed by SEBI to investigate into the affairs of a listed entity. An employee of the entity fails to comply with the directions of the Investigating Authority. Discuss the consequences in this regard.
(4 marks)
- (ii) With an aim to list startups, which are making intensive use of technology and intellectual property, SEBI had introduced 'Innovators Growth Platform' in the SEBI (ICDR) Regulations, 2018. Considering the statement, answer the followings :

- (a) What is Innovators Growth Platform ?
- (b) What are the conditions for such startups to be fulfilled for being listed on Innovators Growth Platform ?

(1+3=4 marks)

(iii) Answer the following questions with reference to SEBI (Buy-back of Securities), Regulations, 2018 :

- (a) Under what circumstances, SEBI may relax strict enforcement of Buy-back Regulations ?
- (b) Can an unregistered shareholder tender his shares for buy-back ?

(4 marks)

(iv) Excel Limited is a listed company having all committees constituted in compliance with the listing regulations. Its audit committee having 5 directors, out of which 4 directors are independent. In a meeting of the Audit Committee, 2 directors were present (one non-executive and one independent). Whether the quorum of meeting is valid ?

(4 marks)

(v) SEBI has recently introduced the concept of Social Stock Exchange ? Define the Social Stock Exchange and nature of entity eligible for listing on the Social Stock Exchange platform.

(4 marks)

Answer 2(a)

As per the Regulation 9 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2011, the option, stock appreciation right or SAR, or any other benefit granted to the employee shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

In the given case, a listed company has granted 200 options under ESOP scheme to Mohan and he intends to mortgage the options with private moneylender to avail loan. In view of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2011, the mortgage is not permissible for options granted by a listed company, hence the intention of Mohan is not valid in law.

Answer 2(b)

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 provides certain trigger events wherein the Acquirer is required to give Open Offer to the shareholders of the Target Company to provide them exit opportunity. However, it also allows the Acquirer to make voluntary offer as well. Voluntary Offer means the Open Offer given by the acquirer voluntarily without triggering the mandatory Open Offer obligations as envisaged under these regulations. The distinction between the voluntary and compulsory open offer are as under:

Eligibility:

In compulsory open offer, the eligibility can be triggered through both direct and indirect acquisition. Whereas, in voluntary offer, the eligibility can be triggered by acquirer holding more than 25% or more. Further in this case, the acquirer or person acting in concert should not have acquired shares of target company without the obligation to make compulsory offer during the preceding 52 weeks.

Applicability:

In case of compulsory open offer, applicability is on crossing the threshold or the creeping acquisition or by way of control. Whereas, in Voluntary open offer, no such applicability is required.

Minimum Size of Open Offer:

In compulsory open offer, the acquirer must give an open offer to the shareholders for acquisition of at least 26% of the total shares of the Target Company. Whereas in voluntary open offer the minimum size shall be 10% of the voting rights in the target company.

Answer 2(c)

- (i) Regulation 17(1)(a) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that the top 1000 listed entities shall have at least one independent woman director by April 1, 2020. In the given case, PQR Limited is having one Executive woman director and hence, it will be required to appoint one independent woman director to meet the requirement as stated above.
- (ii) Regulation 17(1)(b) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 inter alia provides that where the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, at least half of the board of directors of the listed entity shall consist of independent directors. In the given case, X is Chairperson of RST Limited, who is non-executive director and X is related to promoter A of the company. Thus, RST Limited will be required to appoint at least half of the board of directors as independent directors.

Answer 2(d)

- (i) As per the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, in the event of non-receipt of minimum subscription of 90%, all application monies received shall be refunded to the applicants forthwith, but not later than 4 days from the closure of the issue.
- (ii) Yes, there is a mechanism for monitoring of utilization of IPO proceeds, if the issue size exceeds one hundred crore rupees. Regulation 41 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 states that if the issue size, excluding the size of offer for sale by selling shareholders, exceeds one hundred crore rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored only by a credit rating agency registered with the SEBI. This shall not apply to an issue of specified securities made by a bank or public financial institution or an insurance company.
- (iii) Regulation 16(1)(a) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 prescribes that the minimum promoters' contribution by the promoters shall be locked-in for a period of eighteen months (in case the majority of the issue proceeds 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. Promoters' holding in excess of minimum promoters' contribution shall be locked-in for a period of six months (in case the majority of the issue proceeds 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.
- (iv) As per the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the cap on the price band, shall be less than or equal to 120% of the floor price. Provided that the cap of the price band shall be at least 105% of the floor price.

Answer 2(e)

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 to small investors. 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, 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.

As mandated vide SEBI Circular dated January 25, 2022, duplicate securities shall be issued in dematerialized mode only.

OR (Alternate question to Q. No. 2)

Answer 2A(i)

Section 11C of the SEBI Act, 1992 stipulates that it shall be the duty of every manager, managing director, officer and other employee of the company and every intermediary or every person associated with the securities market to preserve and to produce to the Investigating Authority or any person authorised by it in this behalf, all the books, registers, other documents and record of, or relating to, the company or, as the case may be, of or relating to, the intermediary or such person, which are in their custody or power. If any person fails without reasonable cause or refuses:

- to produce to the Investigating Authority or any person authorised by it in this behalf any book, register, other document and record which is his duty to produce; or
- to furnish any information which it is his duty to furnish; or
- to appear before the Investigating Authority personally when required to do so or to answer any question which is put to him by the Investigating Authority; or
- to sign the notes of any examination,

then he shall be punishable with imprisonment for a term which may extend to one year, or with fine, which may extend to one crore rupees, or with both, and also with a further fine which may extend to five lakh rupees for every day after the first during which the failure or refusal continues.

Answer 2A(ii)

- (a) "Innovators growth platform" means the trading platform for listing and trading of specified securities of issuers that comply with the eligibility criteria specified in Regulation 283 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. Regulation 283 states that an issuer which is intensive in the use of technology, information technology, intellectual property, data analytics, bio- technology or nano-technology to provide products services or business platforms with substantial value addition shall be eligible for listing on the innovators growth platform, provided that as on the date of filing of draft information document or draft offer document with the SEBI, as the case may be, 25% of the pre-issue capital of the Issuer Company for at least a period of one year, should have been held by Qualified Institutional Buyers(QIBs), Innovators Growth Platform Investors and any other class of investors as specified by SEBI.
- (b) Such startups (issuer) shall comply with following conditions in terms of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 to get itself listed on Innovators Growth Platform –
- Listing is allowed with or without initial public offer.
 - An issuer shall be eligible for listing on the Innovators Growth Platform if none of the promoters or directors of the issuer company is a fugitive economic offender.
 - The issuer shall be in compliance with minimum public shareholding requirements specified in the Securities Contracts (Regulation) Rules, 1957. The minimum offer size shall be Rs. 10 crores in case of IPO.
 - Minimum application size shall be Rs. two lakhs and in multiples thereof .
 - Number of allottees in the initial public offer shall be at least fifty.
 - Minimum trading lot shall be Rs. two lakhs and in multiples thereof.

Answer 2A(iii)

- (a) SEBI may, in the interest of investors and the securities market, relax the strict enforcement of any requirement of the SEBI (Buy-back of Securities) Regulations, 2018 except the provisions incorporated from the Companies Act, 2013, if SEBI is satisfied that:
- (1) the requirement is procedural in nature; or
 - (2) the requirement may cause undue hardship to investors.

For seeking relaxation as above, the company shall file an application with the SEBI, supported by a duly sworn affidavit, giving details and the grounds on which such relaxation has been sought.

Further, SEBI may, exempt any person or class of persons from-

- the operation of all or
- any of the provisions of SEBI (Buy-back of Securities) Regulations, 2018

for a period as may be specified but not exceeding twelve months, for furthering innovation relating to testing new products, processes, services, business models, etc. in live environment of regulatory sandbox in the securities markets. Any exemption granted by SEBI shall be subject to the applicant satisfying such conditions as may be specified by SEBI including conditions to be complied with on a continuous basis. Regulatory Sandbox means a live testing environment where new products, processes, services, business models, etc. may be

deployed on a limited set of eligible customers for a specified period of time, for furthering innovation in the securities market, subject to such conditions as may be specified by SEBI.

- (b) As per the provision of Regulation 9 of the SEBI (Buy-Back of Securities) Regulations, 2018, an unregistered shareholder may also tender his shares for buy-back by submitting the duly executed Transfer Deed for transfer of shares in his name, along with the Offer Form and other relevant documents as required for transfer, if any.

Answer 2A(iv)

Validity of Meeting:

Regulation 18 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that the quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors.

In the given case, Excel Limited is having 5 directors in the Audit committee and 2 directors were present at the meeting. However, one director was non-executive and other was independent. Assuming that Excel Limited is not exempted under Regulation 15 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Excel Limited shall comply with the above requirements.

Therefore, the aforesaid meeting is invalid as only one independent director was present instead of two independent directors as required under the Regulations.

Answer 2A(v)

In term of the Chapter X-A of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, the Social Stock Exchange means a separate segment of a recognized stock exchange having nationwide trading terminals permitted to register Not for Profit Organizations and / or list the securities issued by Not for Profit Organizations in accordance with provisions of these regulations.

Regulation 292J of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 prescribes that a Social Enterprise which is a Not for Profit Organization registered with a Social Stock Exchange may make an issue of Zero Coupon Zero Principal Instruments and list them on such Social Stock Exchange. "Not for Profit Organization" means a Social Enterprise which is any of the following entities:

- (i) a charitable trust registered under the Indian Trusts Act, 1882;
- (ii) a charitable trust registered under the public trust statute of the relevant state;
- (iii) a charitable society registered under the Societies Registration Act, 1860;
- (iv) a company incorporated under section 8 of the Companies Act, 2013;
- (v) any other entity as may be specified by SEBI.

Question 3

- (a) Can a senior person, say a Company Secretary or Chief Financial Officer, who is not reporting to the Board, act as Compliance Officer and update the Board on the transactions related to insider Trading Quarterly. Can the company appoint more than one person as the Compliance Officer under the code ?

(5 marks)

- (b) SEBI has necessitated the listed companies to have Stakeholders Relationship Committee as per SEBI (LODOR) Regulations, 2015. Briefly explain the composition and role of Stakeholders Relationship Committee.

(5 marks)

- (c) For settlement of securities transactions in stock exchanges, the Clearing Corporation plays a major role for smooth functioning of capital market.' Briefly explain the importance of Clearing Corporation.

(5 marks)

Answer 3(a)

Regulation 2(1) (c) of the SEBI (Prohibition of Insider Trading) Regulations, 2015 defines Compliance Officer as any senior officer, designated so and reporting to the Board of Directors or Head of the Organization in case Board is not there, who is financially literate and is capable of appreciating requirements for legal and regulatory compliance under these regulations and who shall be responsible for compliance of policies, procedures, maintenance of records, monitoring adherence to the rules for the preservation of unpublished price sensitive information, monitoring of trades and the implementation of the codes specified in these regulations under the overall supervision of the Board of Directors of the listed company or the Head of the Organization, as the case may be.

Further, in terms of regulation 9(1) of the SEBI (Prohibition of Insider Trading) Regulations, 2015 read with Schedule B, 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 than once in a year.

The functions and responsibility of the Compliance Officer are specified in Regulation 2(1) (c) of the SEBI (Prohibition of Insider Trading) Regulations, 2015. The company may at its discretion appoint any senior officer as the Compliance Officer, who necessarily report to the Board of Directors or Head of the Organization as the case may be. Appointing any other person shall not be in accordance with the Regulations.

In light of the above provision, a senior person, either Company Secretary or Chief Financial Officer, who is not reporting to the Board cannot as a Compliance Officer. However, in case of appointing more than one person as Compliance Office, they shall be held jointly and severally responsible.

Answer 3(b)

In terms of the regulation 20 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Stakeholders Relationship Committee of a listed company shall comprise of at least three directors, including at least one independent director. In case of a listed entity having outstanding SR equity shares, at least two thirds of the Stakeholders Relationship Committee shall comprise of independent directors. The chairperson of Stakeholders Relationship Committee shall be a non-executive director.

The role of the Stakeholders Relationship Committee has been specified in Part D of the Schedule II of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The role of Stakeholders Relationship Committee shall inter-alia include the following:

1. Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.
2. Review of measures taken for effective exercise of voting rights by shareholders.
3. Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent.

4. Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants / annual reports / statutory notices by the shareholders of the company.

Answer 3(c)

Clearing corporation means an entity that is established to undertake the activity of clearing and settlement of trades in securities or other instruments or products that are dealt with or traded on a recognized stock exchange. For settlement of securities transaction in stock exchanges, the Clearing Corporation plays a major role for smooth functioning of capital market by being responsible towards many key functions.

Clearing Corporation is responsible: -

- for clearing and settlement of all trades executed on Stock Exchange and deposit and collateral management and risk management functions;
- to bring and sustain confidence in clearing and settlement of securities;
- to promote and maintain, short and consistent settlement cycles;
- to provide counter-party risk guarantee; and
- to operate a tight risk containment system.

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

- (a) the periodical settlement of contracts and differences thereunder;
- (b) the delivery of, and payment for, securities;
- (c) any other matter incidental to or connected with such transfer.

Question 4

- (a) The Board of Directors of Mystique Enterprises Ltd. wants to buy-back the shares of the company through Book Building procedure. Explain the offer procedure to be followed by the company.

(8 marks)

- (b) Once a Collective Investment Scheme (CIS) is launched, it can also be wind-up upon happening of certain events. State these events and duties of trustee in this regard.

(7 marks)

Answer 4(a)

A company may buy-back its shares or other specified securities from its existing securities holders through the book building process. In case Mystique Enterprises Ltd. wants to buy-back the shares of the company through Book Building, the offer procedure for the same is prescribed under Regulation 22B of the SEBI (Buy-Back of Securities) Regulations, 2018, which is as follows:

1. The company making the buy-back offer shall disclose the maximum buy-back price, being the upper end of the price range, as approved by the Board of Directors of the company or its shareholders, as the case may be and the book value of the shares or other specified securities of the company.

2. The company shall publish the offer opening announcement on the date of commencement of the buy-back.
3. In case of frequently traded securities, the lower end of the price range shall not be less than the higher of:
 - the closing price of the securities of the company on the date of the Notice as specified in Schedule- VI to the Regulations; and
 - the volume weighted average market price of the shares or other specified securities of the company in the fifteen trading days prior to the date of the intimation of the meeting of the Board of Directors approving the buy-back.
4. In case of infrequently traded securities, the lower end of the price range shall not be less than the price of the securities of the company determined on the basis of the report of a registered valuer.
5. The buy-back price shall depend upon the price discovered through the bids received from the shareholders within the price range.

Answer 4(b)

In accordance with the regulation 37 of the SEBI (Collective Investment Schemes) Regulations, 1999, a scheme shall be wound up upon expiry of duration specified in the collective investment scheme or on the accomplishment of the objective of the collective investment scheme as specified in the offer document.

A collective investment scheme may also be wound up:

- a) on the happening of any event which, in the opinion of the trustee, requires the collective investment scheme to be wound up and the prior approval of the SEBI is obtained; or
- b) if unit holders of a collective investment scheme holding at least three-fourth of the nominal value of the unit capital of the collective investment scheme, pass a resolution that the collective investment scheme be wound up and the approval of SEBI is obtained thereto; or
- c) if in the opinion of SEBI, the continuance of the collective investment scheme is prejudicial to the interests of the unit-holders; or
- d) if in the opinion of the Collective Investment Management Company, the purpose of the collective investment scheme cannot be accomplished and it obtains the approval of the trustees and also of the unit holders of the collective investment scheme holding at least three-fourth of the nominal value of the unit capital of the collective investment scheme with a resolution that the collective investment scheme be wound up and the approval of SEBI is obtained thereto.

Duties of Trustee:

Where a collective investment scheme is to be wound up, the trustee shall give notice disclosing the circumstances leading the winding up of the collective investment scheme in a daily newspaper having nationwide circulation and in the newspaper published in the language of the region where the Collective Investment Management Company is registered.

The trustee shall dispose of the assets of the collective investment scheme concerned in the best interest of the unit holders of that collective investment scheme.

The proceeds of sale realized, should be first utilized towards the discharge of such liabilities as are due and payable under the collective investment collective investment scheme and after making

appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the unit holders in proportion to their unit holding.

After the completion of the winding up, the trustee shall forward to SEBI and the unit holders —

- a report on the steps taken for realization of assets of the collective investment scheme, expenses for winding up and net assets available for distribution to the unit holders, and
- a certificate from auditors of the collective investment scheme to the effect that all the assets of the collective investment scheme are realized and details of the distribution of the proceeds.

The unclaimed money if any at the time of winding up shall be kept separately in a bank account by the trustee for a period of three years for the purpose of meeting investors' claims and thereafter shall be transferred to investor protection fund, as may be specified by SEBI.

PART-II

Question 5

- From the given data for the Option Contracts, you are required to compute profit or loss for each investor :

Type of Option	Exercise Price	Position of the Investor	Stock Price on Expiry Date	Option Date Premium
Call	100	Holder	115	5
Call	100	Writer	98	7
Put	200	Holder	205	18
Put	200	Writer	210	12
Call	500	Holder	505	27

(5 marks)

- With the growing use of UPI transactions in India, SEBI has also allowed in public offers to make payment for the bid, blocking and release the amount during the offer process. In this context, briefly explain the use of UPI for all three steps in the public issue process ?

(5 marks)

- “Investment in securities market involves a number of risks. An investor should analyze and assess the risks.” Explain various risks involved in investing in securities market.

(5 marks)

Answer 5(a)

Type of Option	Exercise Price (₹)	Position of the Investor	Stock Price on Expiry Date (₹)	Option Date Premium (₹)	Profit/Loss (₹)
Call	100	Holder	115	5	15 – 5 = 10 (Profit)
Call	100	Writer	98	7	7 (Premium received)
Put	200	Holder	205	18	18 Premium (Loss)

Put	200	Writer	210	12	12 (Premium received)
Call	500	Holder	505	27	5 – 27 = (– 22) (Loss) However, call holder may choose not to exercise such right.

Answer 5(b)

Public issue application using UPI is a step towards digitizing the offline processes involved in the application process by moving the same online. This requires to create a UPI ID and Pin using any of the UPI enabled mobile application. The UPI ID can be used for blocking of funds and making payment in the public issue process. One can accept the request to block the funds for the amount they have bid by entering their UPI Pin in the mobile application. The money shall be blocked and shall be automatically remitted to the Escrow Bank, in case of allotment. UPI in public issue process shall essentially bring in comfort, ease of use and reduce the listing time for public issues.

UPI as part of Bidding:

- Investor will fill in the bid details in the application form as per the existing process along with his UPI ID.
- As per the existing process, investors may submit the application with any of the intermediary (Syndicate Member/Registered Stock Brokers/Registrar and Transfer Agents/Depository Participants), who, on receipt of application will upload the bid details along with investors UPI ID in the stock exchange bidding platform.
- The stock exchange will electronically share the bid details, along with investors UPI ID, with the Escrow/Sponsor Bank appointed by the issuer company.

UPI as part of Blocking:

- The Escrow/Sponsor Bank will intimate a mandate request on the investor, i.e., request the investor to authorize blocking of funds equivalent to applicant amount and subsequent debit of funds in case of allotment.
- The request raised by the Escrow/Sponsor Bank, would be electronically received by the investor as SMS/Intimation on his/her mobile number linked to UPI ID.
- Upon validation of block request by the investor, the said information would be electronically received by the investor's bank, where the funds, equivalent to application amount, would get blocked in investors account. Intimation regarding confirmation of such block of funds in investors account would also be received by the investor.

UPI as part of payment for shares post allocation process:

- The Registrar to the issue, based on information of bidding and blocking received from stock exchange, would undertake reconciliation and prepare the basis of allotment.
- Upon approval of such basis, the instructions would be sent to sponsor bank to initiate process for credit of funds in the public issue ESCROW account and unblocking excess money.
- Based on authorization given by investor using UPI Pin at the time of blocking, the funds, equivalent to the allotment, would be debited from investors account and remaining funds, if any, would be unblocked.

Answer 5(c)

Investment in securities market involves following risks —

- 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 the 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 bought 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 the potential risk of loss from fluctuating foreign exchange rates that an investor may face when he has invested in foreign currency or made foreign currency-traded investments.

Therefore, an investor should analyze and assess the above risks while making investment in the securities market.

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

Question 6

Write short notes on the followings :

- (a) Book Closure and Record Date
- (b) Responsibilities of Research Analysis
- (c) Role of Stock Broker
- (d) Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)
- (e) Post trade surveillance.

(3 marks each)

OR (Alternate question to Q. No. 6)

Question 6A

- (i) Ram purchased a 3 month call option for 100 shares in XYZ Ltd. at a premium of ₹ 30 per share, with an exercise price of ₹ 550. He also purchased a 3 months put option for 100 shares of the same company at a premium of ₹ 5 per share with an exercise price of ₹ 450. The market price of the share on the date of purchase of option, is ₹ 500. Calculate the profit or loss that Ram would make assuming that the market falls to ₹ 350 at the end of 3 months.

(5 marks)

- (ii) Every intermediary of securities market has to apply to SEBI for grant of certificate to act as

intermediary. Describe various criteria on the basis of which SEBI can reject such application of the intermediary.

(5 marks)

- (iii) "The Stock Exchanges have a vital role to play in development of a country in general, and industrial growth of companies in the private sector in particular, and helps the Government to raise internal resources for the implementation of various development programmes in the public sector." Describe the role of Stock Exchanges in the light of given statement.

(5 marks)

Answer 6(a)

Book Closure and Record Date

Book closure is the periodic closure of the Register of Members and Transfer Books of the company, to take a record of the shareholders to determine their entitlement to dividends or to bonus or right shares or any other rights pertaining to shares. Record date is the date on which the records of a company are closed for the purpose of determining the stock holders to whom dividends, proxies rights etc. are to be sent.

In accordance with Section 91 of the Companies Act, 2013, a company may close the register of members for a maximum of 45 days in a year and for not more than 30 days at any one time, subject to giving at least seven days previous notice. If such company is a listed company, at least seven days previous notice is required to be given by advertisement at least once in a vernacular newspaper in the principal vernacular language of the district and having a wide circulation in the place where the registered office of the company is situated, and at least once in English language in an English newspaper circulating in that district and having wide circulation in the place where the registered office of the company is situated.

Book closure/record date is necessary for the purpose of paying dividend, rights issue, bonus issue, etc. For the companies whose securities are listed on the Exchange are required to comply with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. As per the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the companies are required to give at least seven working days (excluding the date of intimation and the record date) advance notice of book closure or record date to stock exchange where the securities of the companies are listed. In the case of rights issues, the listed entity shall give notice in advance of at least three working days (excluding the date of intimation and the record date).

Answer 6(b)

Responsibilities of Research Analyst

A research analyst is a professional who prepares investigative reports on securities or assets for in-house or client use. He is very quantitative, analytical, logical, and good at managing numbers and data.

Research analyst is primarily responsible for:

- i. preparation or publication of the content of the research report;
- ii. providing research report;
- iii. making 'buy/sell/hold' recommendation;
- iv. giving price target;
- v. offering an opinion concerning public offer,

with respect to securities that are listed or to be listed in a stock exchange, whether any such person has the job title of 'research analyst' and includes any other entities engaged in issuance of research report or research analysis.

Research analysts study companies and industries, analyze raw data, and make forecasts or recommendations about whether to buy, hold or sell securities. They analyze information to provide recommendations about investments in securities to their clients. Investors often view analysts as experts and important sources of information about the securities they review and often rely on their advice. There are basically three broad types of analysts, viz. sell-side analysts, buy-side analysts and independent analysts.

Answer 6(c)

Role of Stock Broker

Stock Broker means a person having trading rights in any recognised stock exchange and includes a trading member. A stock broker plays a very important role in the secondary market helping both the seller and the buyer of the securities to enter into a transaction. The buyer and seller may be either a broker or a client. When executing an order, the stock broker may on behalf of his client buy or sell securities from his own account i.e. as principal or act as an agent. For each transaction he has to issue necessary contract note indicating whether the transaction has been entered into by him as a principal or as an agent for another. While buying or selling securities as a principal, the stock broker has to obtain the consent of his client and the prices charged should be fair and justified by the conditions of the market. Stock broker may also act as an underwriter.

Answer 6(d)

Real Estate Investment Trusts (REITs)

A Real Estate Investment Trust (REIT) is a collective investment scheme that owns, operates or finances income-producing real estate. REITs provide all investors the chance to own valuable real estate, present the opportunity to access dividend-based income and total returns, and help communities grow, thrive, and revitalize.

REITs allow anyone to invest in portfolios of real estate assets the same way they invest in other industries – through the purchase of individual company stock or through a mutual fund or exchange traded fund (ETF). The stockholders of a REIT earn a share of income produced through real estate investment-without buying any finance property.

Infrastructure Investment Trusts (InvITs)

Whereas, considering the importance of infrastructure sector with an aim to provide a suitable platform for financing/refinancing infrastructure projects and allow the investors to participate in growth story of infrastructure, the Government introduced a new investment vehicle named Infrastructure Investment Trusts (InvITs) in 2014.

The primary objective of InvITs is to promote the infrastructure sector of India by encouraging more individuals to invest in it. Typically, such a tool is designed to pool money from several investors to be invested in income-generating assets. The cash flow thus generated is distributed among investors as dividend income. When compared to Real Estate Investment Trust or REITs, the structure and operation of both are quite similar. An InvITs is established as a trust and is registered with the SEBI.

Answer 6(e)

Market Surveillance is broadly categorised in 2 parts viz, Preventive Surveillance and Post trade Surveillance.

Post trade surveillance -

- End of day alert – Alerts generated using statistical tools. The tool highlights stocks which have behaved abnormally from its past behavior.
- Pattern recognition model – Models designed using high end tools and trading patterns which itself.
- Transaction alerts for member - As part of surveillance obligation of members the alerts are downloaded to members under various different heads.

OR (Alternate question to Q. No. 6)

Answer 6A(i)

Since the market price at the end of 3 months falls to ₹ 350 which is below the exercise price under the call option, the call option will not be exercised. Only put option becomes viable.

The gain will be:

Gain per share (₹450 — ₹ 350)	₹100
Total gain per 100 shares (₹100 x 100)	₹10,000
Cost or premium paid (₹ 30 x 100) + (₹ 5 x 100)	₹3,500
Net gain	₹6,500

Answer 6A (ii)

An application, for grant of a certificate to act as an intermediary, has to be made to the SEBI in Form A of Schedule I with such additional information as required to be provided under the relevant regulations, and the application fee, as specified in the relevant regulations.

SEBI can reject the application of the intermediary if –

- it is not complete in all respects and does not conform to the requirements in Form A and the requirements specified in the relevant regulations;
- it does not contain such additional information as required by SEBI;
- it is incorrect, false or misleading in nature;
- the applicant is not in compliance with the eligibility requirements as set out under SEBI (Intermediaries) Regulations, 2008 or the relevant regulations;
- the applicant is not a fit and proper person;
- the principal officer does not have the requisite qualification or experience as required under the relevant regulations.

On the abovementioned grounds, the application can be rejected by the SEBI for reasons to be recorded by the SEBI in writing. However, the applicant has to be given an opportunity in writing to make good the deficiencies within the time specified by SEBI, for the purpose. Further, where an application is rejected for the reason that it contains false or misleading information, no such opportunity may be given and the applicant cannot make any application for grant of certificate under SEBI (Intermediaries) Regulations, 2008 or any other regulations for a period of 1 year from the date of such rejection.

Answer 6A(iii)

As a segment of the capital market, Stock Exchanges perform an important function in mobilizing and channelizing resources which remain otherwise scattered. Thus, the Stock Exchanges tap the new resources and stimulate a broad based investment in the capital structure of industries.

Stock Exchanges perform the following roles –

- 1) Acts as a continuous market for securities: Investors can invest in any securities, but in case of any risk, they can exit from that security and freshly re-enter into whichever security they feel as secure.
- 2) Responsible for Securities Evaluation: The stock price indicates the performance and stability of the company. Through these investors decide according to their risk appetite whether to enter or exit or hold. The stock exchange acts as a regulator for the securities price evaluation for all the listed stocks.
- 3) Mobilizes savings: Most of the public cannot invest the bulk amount in securities, so they invest in indirect ways such as mutual funds and investment trusts, and these are mobilized by stock exchanges.
- 4) Enables healthy speculation: Stock exchange encourages businessmen and provides healthy speculation opportunities to speculate and gain profits from fluctuations in stock prices.
- 5) Protect investors: Stock exchange ensures the protection of the funds of investors by allowing only genuine companies to be listed in the stock exchange.
- 6) Ensures Liquidity: Banks and some other institutions invest their funds in the stocks and earn a profit within a short period and are sold immediately if there is any necessity of funds. Thus, there is an opportunity to liquidate immediately at any time if required in the stock market.
- 7) Acts as an economic barometer: The country's economic growth is measured with the trends in the stock market. An upward trend in the stock market denotes growth potential and downward trend denotes the fall in the economy. Hence the stock exchange is called as an economic barometer as it indicates conditions prevailing in the country.
- 8) Exercise Vigilance / Control on Companies: Every company listed on an exchange must produce their annual reports and an audited balance sheet to the stock exchange. Such reports being available in public domain promotes transparency.
- 9) Attracts foreign capital: Foreign institutional investors (FII) are likely to invest in developing economy as the rate of returns will be high in developing economies due to growth opportunities.
- 10) Stock exchanges ensure Safety of Capital and Fair Dealing: The transactions made in the stock exchange are made available to the public under well-defined rules and regulations abided by laws. This ensures safety and fair dealings for the average investors.
- 11) Regulate company management: The firms wanting to get their securities listed must follow certain rules and fulfil certain conditions. Stock exchanges safeguard the interest of the investors and regulate the company management.

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) Discuss the 'Public Debt Functions' of the Reserve Bank of India as per Reserve Bank of India Act, 1934.
- (b) Define the terms 'Foreign Exchange' and 'Foreign Security' under Foreign Exchange Management Act, 1999.
- (c) "Certain organizations/individuals are debarred from receiving foreign contributions". List these organizations/individuals as per Section 3(1) of the Foreign Contribution (Regulation) Act, 2010.
- (d) Discuss the Functions of 'Development Commissioner' under the Special Economic Zones Act, 2005.

(5 marks each)

Answer 1(a)

The Parliament of India enacted the Government Securities Act 2006 (GS Act) with an objective to consolidate and amend the law relating to Government securities and its management by the Reserve Bank of India. Government securities have been defined to mean a security created and issued by the Government for the purpose of raising a public loan or for any other purpose as may be notified by the Government in the official Gazette and having one of the forms mentioned in section 3 of the GS Act. which include a government promissory note payable to or to the order of a certain person, a bearer bond payable to bearer, a stock, or a bond held in a bond ledger account. The GS Act accordingly applies to Government securities created and issued by the Central Government or a State Government. The GS Act prescribes the procedure and modalities to be followed by RBI in the management of public debt and also confers various powers on RBI including the power to determine the title to a government security if there exists any doubt in the opinion of RBI. Further, Section 18 of the GS Act provides that no order made by RBI under this Act shall be called in question by any court for the reason stated therein.

Prior to the enactment of GS Act, the said public debt functions of the RBI were governed under the provisions of Public Debt Act 1944. However, the enactment of the GS Act has not fully repealed the Public Debt Act 1944. This is evident from Section 31 of the GS Act which states that the Public Debt Act 1944 shall cease to apply to the Government securities to which this Act applies.

Answer 1(b)

The term 'foreign exchange' has been defined under Section 2(n) of Foreign Exchange Management Act, 1999 to mean foreign currency and includes deposits, credits, balance payable in foreign currency, drafts, travellers' cheques, letters of credit, bills of exchange expressed or drawn in Indian currency but payable in any foreign currency. Any draft, travellers' cheque, letters of credit or bills of exchange drawn by banks, institutions or persons outside India but payable in Indian currency has also been included in the definition of foreign exchange.

The term "Foreign Security has been defined under Section 2(o) of Foreign Exchange Management Act, 1999 to mean any security, in the form of shares, stocks, bonds, debentures or any other instrument denominated or expressed in foreign currency and includes securities expressed in foreign currency but where redemption or any form of return such as interest or dividend is payable in Indian currency.

Answer 1(c)

Section 3(1) of the Foreign Contribution (Regulation) Act, 2010 prohibits following person to accept foreign contribution:

- a) Candidate for election,
- b) Correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper;
- c) Public servant, Judge, government servant or employee of any corporation or any other body controlled or owned by the Government;
- d) Member of any Legislature;
- e) Political party or office bearers thereof;
- f) Organizations of a political nature as may be specified under section 5(1) by the Central Government;
- g) association or company engaged in the production or broadcast of audio news or audio-visual news or current affairs programmes through any electronic mode, or any other electronic form as defined in section 2(1)(r) of the Information Technology Act, 2000 or any other mode of mass communication,
- h) Correspondent or columnist, cartoonist, editor, owner of the association or company referred to in clause (g) above.

Answer 1(d)

Section 12 of the Special Economic Zone Act, 2005 deals with the functions of the Development Commissioner. Section 12 requires every development commissioner to take steps in order to discharge his functions to ensure speedy development of the Special economic zone and promotion of exports therefrom.

The functions of the development commissioner include:

- a) Guide the entrepreneurs for setting up of units in the special economic zone.
- b) Ensure and take suitable steps for effective promotion of exports from the special economic zone:
- c) Ensure proper coordination with the Central Government or the State Government departments concerned or agencies with respect to, or for above purpose:
- d) Monitor the performance of the developer and the units in SEZ;
- e) Discharge such other functions as may be assigned to him by the Central Government under this Act or any other law for the time being in force, and
- f) Any other function as may be delegated to him by the Board of approval.

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

- (a) Which are the sectors in which Foreign Direct Investment (FDI) is prohibited as per Foreign Direct Investment-Regulation & Policy. (4 marks)
- (b) Which additional conditions are to be fulfilled by an Indian company 'making investment in Joint Ventures (JV)/Wholly Owned Subsidiaries (WOS) abroad in the financial services sector' as per Overseas Direct Investment ? (4 marks)
- (c) Define the term 'Services' and 'Service Provider' under Foreign Trade Policy and Procedure. (4 marks)
- (d) Which remittances by persons other than individuals require prior approval of the Reserve Bank of India under the Foreign Exchange Management Act, 1999 ? (4 marks)
- (e) State the permissible capital account transactions by an individual under Liberalized Remittance Scheme (LRS). (4 marks)

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

- (i) Explain the procedure for raising External Commercial Borrowings (ECB). (4 marks)
- (ii) What is the difference between Banks and Non-Banking Financial Companies (NBFCs) ? (4 marks)
- (iii) Enumerate (Name) the functions of Reserve Bank of India as given under Reserve Bank of India Act, 1934. (4 marks)
- (iv) What is meant by Project office under Foreign Direct Investment - Regulation & Policy (FDI) ? What are the parameters of Project office ? (4 marks)
- (v) Explain the 'Principles of Restrictions' under Foreign Trade Policy and Procedure. (4 marks)

Attempt all parts of either Q. No 2 or Q. No. 2A**Answer 2(a)**

Foreign Direct Investment is prohibited in following sector:

- (a) Lottery Business including Government/private lottery, online lotteries, etc.
- (b) Gambling and Betting including casinos etc.

- (c) Chit funds
- (d) Nidhi company
- (e) Trading in Transferable Development Rights (TDRS)
- (f) Real Estate Business or Construction of Farm Houses 'Real estate business shall not include development of townships, construction of residential/commercial premises, roads or bridges and Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations 2014.
- (g) Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco
- (h) Substitutes Activities/ sectors not open to private sector investment e.g. (I) Atomic Energy and (II) Railway operations (other than permitted activities).

Foreign technology collaboration in any form including licensing for franchise, trademark, brand name, management contract is also prohibited for Lottery Business, Gambling and Betting activities.

Answer 2(b)

- (1) An Indian entity engaged in financial services activity in India may make Overseas Direct Investment (ODI) in a foreign entity, which is directly or indirectly engaged in financial services activity, subject to the following conditions, namely: --
 - i. the Indian entity has posted net profits during the preceding three financial years;
 - ii. the Indian entity is registered with or regulated by a financial services regulator in India;
 - iii. the Indian entity has obtained approval as may be required from the regulators of such financial services activity, both in India and the host country or host jurisdiction, as the case may be, for engaging in such financial services:
- (2) An Indian entity not engaged in financial services activity in India may make ODI in a foreign entity, which is directly or indirectly engaged in financial services activity, except banking or insurance, subject to the condition that such Indian entity has posted net profits during the preceding three financial years.

Answer 2(c)

According to the Foreign Trade Policy, "Services include all tradable services covered under General Agreement on Trade in Services (GATS) and earning free foreign exchange.

"Service Provider" means a person providing:

- i. Supply of a 'service' from India to any other country; (Mode I-Cross border trade)
- ii. Supply of a 'service' from India to service consumer(s) of any other country; (Mode 2-Consumption abroad)
- iii. Supply of a 'service' from India through commercial presence in any other country. (Mode 3-Commercial Presence.)
- iv. Supply of a 'service' from India through the presence of natural persons in any other country (Mode 4- Presence of natural persons.)

Answer 2(d)

The following remittances by persons other than individuals require prior approval of the Reserve Bank of India:

- (i) Donations exceeding one per cent of their foreign exchange earnings during the previous three financial years or USD 5,000,000, whichever is less, for-

- a) creation of Chairs in reputed educational institutes,
 - b) contribution to funds (not being an investment fund) promoted by educational institutes; and
 - c) contribution to a technical institution or body or association in the field of activity of the donor Company.
- (ii) Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or five percent of the inward remittance whichever is more.
 - (iii) Remittances exceeding USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1000,000 per project, for other consultancy services procured from outside India.
 - (iv) Remittances exceeding five per cent of investment brought into India or USD 100000 whichever is higher, by an entity in India by way of reimbursement of pre-incorporation expenses.

Answer 2(e)

The permissible capital account transactions by an individual under Liberalized Remittance Scheme (LRS) are:

- i. opening of foreign currency account abroad with a bank;
- ii. acquisition of immovable property abroad, Overseas Direct Investment (ODI) and Overseas Portfolio Investment (OPI), in accordance with the provisions contained in Foreign Exchange Management (Overseas Investment) Rules, 2022, Foreign Exchange Management (Overseas Investment) Regulations, 2022 and Foreign Exchange Management (Overseas Investment) Directions, 2022;
- iii. extending loans including loans in Indian Rupees to Non-resident Indians (NRIs) who are relatives as defined in Companies Act, 2013.

OR (Alternate question to Q. No. 2)

Answer 2A(i)

- (a) All External Commercial Borrowings (ECB) can be raised under the automatic route if they conform to the parameters prescribed under ECB framework.
- (b) For approval route cases, the borrowers may approach the RBI with an application in prescribed format (Form ECB) for examination through their AD Category I bank. Such cases shall be considered keeping in view the overall guidelines, macroeconomic situation and merits of the specific proposals.
- (c) ECB proposals received in the Reserve Bank above certain threshold limit (refixed from time to time) would be placed before the Empowered Committee set up by the Reserve Bank.
- (d) The Empowered Committee will have external as well as internal members and the Reserve Bank will take a final decision in the cases taking into account recommendation of the Empowered Committee.
- (e) Entities desirous to raise ECB under the automatic route may approach an AD Category I bank with their proposal along with duly filled in Form ECB.

Answer 2A(ii)

Non-Banking Financial Companies (NBFCs) lend and make investments and hence their activities are akin to that of Banks, however there are a few differences as given below:

- i. NBFC cannot accept demand deposits,
- ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
- iii. deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Answer 2A(iii)

The functions of the Reserve Bank of India Act, 1934 enumerated as under:

- Banking Functions
- Issue bank notes
- Monetary Policy Functions
- Public Debt Functions
- Foreign Exchange Management
- Banking Regulation & Supervision
- Regulation and Supervision of NBFCs
- Regulation & Supervision of Co-operative banks
- Regulation of Derivatives and Money Market Instruments
- Payment and Settlement Functions
- Consumer Protection Functions
- Financial Inclusion and Development Functions

Answer 2A(iv)

Project Office under Foreign Direct Investment- Regulation & Policy (FDI) means a place of business in India to represent the interests of the foreign company executing a project in India but excludes a Liaison Office.

Parameters of project office under Foreign Direct Investment- Regulation & Policy (FDI):

Establishment of branch office, liaison office or project office or any other place of business in India shall be governed by the Foreign Exchange Management (Establishment in India of a branch office or a liaison office or a project office or any other place of business) Regulations, 2016.

A foreign company may open project office/s in India provided it has secured from an Indian company, a contract to execute a project in India, and

- i) The project is funded directly by inward remittance from abroad; or
- ii) The project is funded by a bilateral or multilateral International Financing Agency, or
- iii) The project has been cleared by an appropriate authority; or
- iv) A company or entity in India awarding the contract has been granted term loan by a Public Financial Institution or a bank in India for the Project.

Answer 2A(v)

Directorate General of Foreign Trade (DGFT) may, through a Notification, impose restrictions on export and import under Foreign Trade Policy and Procedure, necessary for: -

- (a) on export of foodstuffs or other essential products for preventing or relieving critical shortages;
- (b) on imports and exports necessary for the application of standards or regulations for the classification, grading or marketing of commodities in international trade;
- (c) on imports of fisheries product, imported in any form, for enforcement of governmental measures to restrict production of the domestic product or for certain other purposes;
- (d) on import to safeguard country's external financial position and to ensure a level of reserves;
- (e) on imports to promote establishment of a particular industry;
- (f) for preventing sudden increases in imports from causing serious injury to domestic producers or to relieve producers who have suffered such injury;
- (g) for protection of public morals or to maintain public order;
- (h) for protection of human, animal or plant life or health;
- (i) relating to the importations or exportations of gold or silver;
- (j) necessary to secure compliance with laws and regulations including those relating to the protection of patents, trademarks and copyrights, and the prevention of deceptive practices;
- (k) relating to the products of prison labour;
- (l) for the protection of national treasures of artistic, historic or archaeological value;
- (m) for the conservation of exhaustible natural resources;
- (n) for ensuring essential quantities for the domestic processing industry;
- (o) essential to the acquisition or distribution of products in general or local short supply.

PART-II**Question 3**

- (a) What is meant by 'Predatory Price' under the Competition Act, 2002 ?
- (b) Discuss the provisions of 'Penalty for making false statement' under Section 44 of the Competition Act, 2002 ?
- (c) State the duties of Competition Commission of India under Section 18 of the Competition Act, 2002.
- (d) 'Bid rigging is Anti-Competitive'.

Explain the above statement in the context of the Competition Act, 2002.

- (e) Explain the provisions of Section 42A of the Competition Act, 2002 regarding Compensation in case of Contravention of orders of the Competition Commission of India.

(3 marks each)

Answer 3(a)

The term 'Predatory price' has been defined under the Competition Act, 2002 as the sale of goods or provision of services, at a price which is below the cost, as may be determined by regulations, of production of goods or provision of services, with a view to reduce the competition or eliminate the competitors. Thus, the two conditions precedent to bring a case with the ambit of predatory pricing are:

- i. Selling goods or provision of services at a price which is below its cost of production and
- ii. That practice is resorted to eliminate the competition or to reduce competition.

Answer 3(b)

Penalty for making false statement under Section 44 of the Competition Act, 2002 provides that if any person, being a party to a combination, makes a statement which is false in any material particular, or knowing it to be false, or omits to state any material particular knowing it to be material, such person shall be liable to penalty which shall not be less than rupees fifty lakhs but which may extend to rupees one crore, as may be determined by the Commission.

Or Alternate Answer

Answer 3(b)

Penalty for making false statement under Section 44 of the Competition (Amendment) Act, 2023 provides that if any person, being a party to a combination, makes a statement which is false in any material particular, or knowing it to be false, or omits to state any material particular knowing it to be material, such person shall be liable to penalty which shall not be less than rupees fifty lakhs but which may extend to rupees five crore, as may be determined by the Commission.

Answer 3(c)

As per Competition Commission of India (CCI) under Section 18 of the Competition Act 2002, duties of the CCI are:

- To eliminate practices having adverse effect on competition
- To promote and sustain competition
- To protect interests of consumers
- To ensure freedom of trade carried on by other participants, in markets in India

Section 18 empowers the Commission to enter into any memorandum or arrangement, with the prior approval of the Central Government, for the purpose of discharging the duties and functions under this Act with any agency of any foreign country. This will enable the CCI to have extra territorial reach and shall facilitate exchange of information and enforcement of its order.

Answer 3(d)

As per Competition Act, 2002 'Bidding', as a practice, is intended to enable the procurement of goods or services on the most favourable terms and conditions, Invitation of bids is resorted to both by Government (and Government entities) and private bodies (companies, corporations, etc.) But the objective of securing the most favourable prices and conditions may be negated if the prospective bidders collude or act in concert. Such collusive bidding or bid rigging contravenes the very purpose of inviting tenders and is inherently anti-competitive.

If bid rigging takes place in Government tenders, it is likely to have severe adverse effects on its purchases and on public spending. Bid rigging or collusive bidding is treated with severity in the law. The presumptive approach reflects the severe treatment.

Answer 3(e)

Section 42A of the Competition Act, 2002 provides that without prejudice to the provisions of this Act, any person may make an application to the Appellate Tribunal for an order for the recovery of compensation from any enterprise for any loss or damage shown to have been suffered, by such person as a result of the said enterprise violating directions issued by the Commission or contravening, without any reasonable ground, any decision or order of the Commission issued under sections 6, 27, 28, 31, 32 and 33 or any condition or restriction subject to which any approval, sanction, direction or exemption in relation to any matter has been accorded, given, made or granted under this Act or delaying in carrying out such orders or directions of the Commission.

Question 4

- (a) Discuss the duties of the Director General as per the Competition Act, 2002.
- (b) Discuss the power of the Competition Commission of India to impose lesser penalty under the Competition Act, 2002.

(5 marks each)

Answer 4(a)

Section 41 of the Competition Act, 2002(as amended in 2023) empowers the Director General to investigate contraventions. It provides that:

- (1) The Director General shall, when so directed by the Commission, assist the Commission in investigating into any contravention of the provisions of this Act or any rules or regulations made thereunder.
- (2) The Director General, in order to effectively discharge his functions, has been given the same powers as are conferred upon the commission under Section 36(2).
- (3) Without prejudice to sub-section (2), it shall be the duty of all officers, other employees and agents of a party which are under investigation–
 - a. to preserve and to produce all information, books, papers, other documents and records of, or relating to, the party which are in their custody or power to the Director General or any person authorised by it in this behalf; and
 - b. to give all assistance in connection with the investigation to the Director General.
- (4) The Director General may require any person other than a party referred to in sub-section (3) to furnish such information or produce such books, papers, other documents or records before it or any person authorised by it in this behalf if furnishing of such information or the production of such books, papers, other documents or records is relevant or necessary for the purposes of its investigation.
- (5) The Director General may keep in his custody any information, books, papers, other documents or records produced under sub-section (3) or sub-section (4) for a period of one hundred and eighty days and thereafter shall return the same to the person by whom or on whose behalf the information, books, papers, other documents or records were produced:

Provided that the information, books, papers, other documents or records may be called for by the Director General if they are needed again for a further period of one hundred and eighty days by an order in writing:

Provided further that the certified copies of the information, books, papers, other documents or records, as may be applicable, produced before the Director General may be provided to the party or person on whose behalf the information, books, papers, other documents or records are produced at their own cost.

- (6) The Director General may examine on oath–
- a. any of the officers and other employees and agents of the party being investigated; and
 - b. with the previous approval of the Commission, any other person, in relation to the affairs of the party being investigated and may administer an oath accordingly and for that purpose may require any of those persons to appear before it personally.
- (7) The examination under sub-section (6) shall be recorded in writing and shall be read over to or by, and signed by, the person examined and may thereafter be used in evidence against it.
- (8) Where in the course of investigation, the Director General has reasonable grounds to believe that information, books, papers, other documents or records of, or relating to, any party or person, may be destroyed, mutilated, altered, falsified or secreted, the Director General may make an application to the Chief Metropolitan Magistrate, Delhi for an order for seizure of such information, books, papers, other documents or records.
- (9) The Director General may make requisition of the services of any police officer or any officer of the Central Government to assist him for all or any of the purposes specified in sub-section (10) and it shall be the duty of every such officer to comply with such requisition.
- (10) The Chief Metropolitan Magistrate, Delhi may, after considering the application and hearing from the Director General, by order, authorise the Director General–
- a. to enter, with such assistance, as may be required, the place or places where such information, books, papers, other documents or records are kept;
 - b. to search that place or places in the manner specified in the order; and
 - c. to seize information, books, papers, other documents or records as it considers necessary for the purpose of the investigation:

Provided that certified copies of the seized information, books, papers, other documents or records, as the case may be, may be provided to the party or person from whose place or places such documents have been seized at its cost.

- (11) The Director General shall keep in his custody such information, books, papers, other documents or records seized under this section for such period not later than the conclusion of the investigation as it considers necessary and thereafter shall return the same to the party or person from whose custody or power they were seized and inform the Chief Metropolitan Magistrate, of such return:

Provided that the Director General may, before returning such information, books, papers, other documents or records take copies of, or extracts thereof or place identification marks on them or any part thereof.

- (12) Save as otherwise provided in this section, every search or seizure made under this section shall be carried out in accordance with the provisions of the Code of Criminal Procedure, 1973, relating to search or seizure made under that Code.

Answer 4(b)

Section 46(1) of the Competition Act, 2002 (as amended in 2023) provides that the Commission may, if it is satisfied that any producer, seller, distributor, trader or service provider included in any cartel, which is alleged to have violated section 3, has made a full and true disclosure in respect of the alleged violations and such disclosure is vital, impose upon such producer, seller, distributor, trader or service provider a lesser penalty as may be specified by regulations, than leviable under this Act or the rules or the regulations made under the Act.

Provided that lesser penalty shall not be imposed by the Commission in cases where the report of investigation directed under section 26 has been received before making of such disclosure:

Provided further that lesser penalty shall be imposed by the Commission only in respect of a producer, seller, distributor, trader or service provider included in the cartel, who has made the full, true and vital disclosures under this section.

Provided also that lesser penalty shall not be imposed by the Commission if the person making the disclosure does not continue to co-operate with the Commission till the completion of the proceedings before the Commission.

Provided also that the Commission may, if it is satisfied that such producer, seller, distributor, trader or service provider included in the cartel had in the course of proceedings, –

- (a) not complied with the condition on which the lesser penalty was imposed by the Commission; or
- (b) had given false evidence; or
- (c) the disclosure made is not vital, and thereupon such producer, seller, distributor, trader or service provider may be tried for the contravention with respect to which the lesser penalty was imposed and shall also be liable to the imposition of penalty to which such person has been liable, had lesser penalty not been imposed.

(2) The Commission may allow a producer, seller, distributor, trader or service provider included in the cartel, to withdraw its application for lesser penalty under this section, in such manner and within such time as may be specified by regulations.

(3) The Director General and the Commission shall be entitled to use for the purposes of this Act, any evidence submitted by a producer, seller, distributor, trader or service provider in its application for lesser penalty, except its admission.

(4) Where during the course of the investigation, a producer, seller, distributor, trader or service provider who has disclosed a cartel under sub-section (1), makes a full, true and vital disclosure under sub-section (1) with respect to another cartel in which it is alleged to have violated section 3, which enables the Commission to form a prima facie opinion under sub-section (1) of section 26 that there exists another cartel, then the Commission may impose upon such producer, seller, distributor, trader or service provider a lesser penalty as may be specified by regulations, in respect of the cartel already being investigated, without prejudice to the producer, seller, distributor, trader or service provider obtaining lesser penalty under sub-section (1) regarding the newly disclosed cartel.

PART-III

Question 5

- (a) Anya bought goods worth ₹ 5 lakh to be installed in her house in Delhi. There is a defect in the goods and she intends to make the complaint in the consumer forum. State the forum where she can make the complaint and discuss its jurisdiction as per the Consumer Protection Act, 2019. (4 marks)
- (b) 'Company Secretaries are a one stop professional advisory services for Real Estate Projects'. Comment in the context of Real Estate (Regulation and Development) Act, 2016. (4 marks)
- (c) Discuss the powers of the Central Government on fixing the price under Essential Commodities Act, 1955 during an emergency. (4 marks)
- (d) While walking in a community park, Chetna finds a lost book. She brings it back to her house and starts to read it. Later she discovers that the owner has been enquiring about his lost book and making all efforts to regain the book. Explain, what is the position of Chetna as finder of lost goods under Section 168 and Section 169 of the Indian Contract Act, 1872. (4 marks)
- (e) 'A negotiable instrument is subject to certain presumptions'. Discuss in the context of Negotiable Instruments Act, 1881. (4 marks)

Answer 5(a)

According to Section 34 of the Consumer Protection Act, 2019 read with Consumer Protection (Jurisdiction of the District Commission, the State Commission and the National Commission) Rules, 2021, the District Commission shall have jurisdiction to entertain complaints where the value of the goods or services paid as consideration does not exceed fifty lakhs.

A complaint can be instituted in a district commission within the local limits of whose jurisdiction:

- a) the opposite party or each of the opposite parties, where there are more than one, at the time of the institution of the complaint, ordinarily resides or carries on the business or has a branch office or personally works for gain; or
- b) any of the opposite parties, where there are more than one, at the time of the institution of the complaint, actually and voluntarily resides, or carries on business or has a branch office, or personally works for gain, provided that in such case the permission of the district commission is given, or
- c) the cause of action, wholly or in part, arises, or
- d) the complainant resides or personally works for gain.

The District Commission shall ordinarily function in the district headquarters and may perform its functions at such other place in the district, as the State Government may, in consultation with the State Commission, notify in the Official Gazette from time to time.

So, Anya can approach the District Commission who can entertain complaints as the value of the goods or services paid as consideration is only Rs. 5 lacs.

Answer 5(b)

Company Secretaries holding Certificate of Practice by becoming an expert in the Real Estate (Regulation and Development) Act, 2016 can indulge in providing advice in respect of:

- Financial Advisory Services
- Various applicable provision particular on real estate project
- Registration and extension procedure of real estate project with competent authority
- Various obligation, functions and duties of promoter in a real estate project
- Penal Provisions under the Act
- Funding Options for Real Estate Project
- Taxation aspects for Real Estate Project
- Legal & Regulatory Compliances

Answer 5(c)

Section 3(3) of the Essential Commodities Act, 1955 vests powers in Central Government to deal with the pricing of the essential commodities particularly when the commodities are being sold to Central/State Government in compliance of order under clause (f) of Subsection (2) of Section 3. In such a case, the price shall be paid as provided hereunder:

- (a) the agreed price, where the price can be agreed upon consistently with the controlled price fixed under this section;
- (b) controlled price: where no such agreement can be reached, the price calculated with reference to controlled price;
- (c) the price calculated at the market rate prevailing in the locality on the date of sale, where neither clause nor clause (b) applies

Section 3(3A) (i) of the Essential Commodities Act, 1955 is in the nature of an emergency provision and can be resorted to meet a situation arising at a particular locality. It empowers the Central Government to direct the price at which the foodstuffs in any locality will be sold to general public. This direction will be issued only when the Central Government is of the opinion that takings such step is necessary for controlling price rise or preventing the hoarding of any foodstuff in any locality. The notification issued by the Government to the above effect shall be in force for 3 months only as may be specified therein as per sub-section (3A) (ii). Further, for selling specified foodstuffs in the specified locality, the seller shall be paid price therefor as follows:

- a) agreed price, when the price can be agreed upon consistently with the controlled price fixed under this sub-section; or
- b) the controlled price, when no such agreement can be reached at as stated above, or
- c) the market rate price as per the prevailing market rate in the locality at the date of sale where neither of the above clause (a) or (b) apply.

Answer 5(d)

Under Section 168 and 169 of the Indian Contract Act, 1872 the position of a finder of lost goods is exactly that of a bailee. The rights of a finder are that he can sue the owner for any reward that

might have been offered, and may retain the goods until he receives the reward. But where the owner has offered no reward, the finder has only a particular lien and can detain the goods until he receives compensation for the troubles and expenses incurred in preserving the property for finding out the true owner. But he cannot file a suit for the recovery of the compensation. Thus, as against the true owner, the finder of goods in a public or quasi-public place is only a bailee, he keeps the article in trust for the real owner. As against every-one else, the property in the goods vests in the finder on his taking possession of it.

The finder has a right to sell the property the owner cannot with reasonable diligence be (a) where found, or (b) when found, he refuses to pay the lawful charges of the finder and-

- i) if the thing is in danger of perishing or losing greater part of its value, or
- ii) when the lawful charges of the finder for the preservation of goods and the finding out of the owner amounts to two-thirds of the value of the thing.

So, Chetna must return the book to the owner.

Answer 5(e)

A negotiable instrument is subject to certain presumptions. These have been recognised by the Negotiable Instruments Act, 1881 under Sections 118 and 119 with a view to facilitate the business transactions. These are described below. It shall be presumed that:

- 1) Every negotiable instrument was made or drawn for consideration irrespective of the consideration mentioned in the instrument or not.
- 2) Every negotiable instrument having a date was made on such date.
- 3) Every accepted bill of exchange was accepted within a reasonable time before its maturity.
- 4) Every negotiable instrument was transferred before its maturity
- 5) The instruments were endorsed in the order in which they appear on it.
- 6) A lost or destroyed instrument was duly signed and stamped.
- 7) The holder of the instrument is a holder in due course.
- 8) In a suit upon an instrument which has been dishonoured, the Court shall presume the fact of dishonour, or proof of the protest.

However, these legal presumptions are rebuttable by evidence to the contrary. The burden to prove to the contrary lies upon the defendant to the suit and not upon the plaintiff

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

Question 6

- (a) Ramesh is purchasing a firm and goodwill of this firm run by two partners, Raj and Ram. This firm has been doing the business of clothing for past nine years and holds a good reputation in the market with stable orders from their clients. Ramesh restrains Raj and Ram to carry on the business of clothing for a period of 1.5 years after the sale of this firm. Raj contents that it is a contract in restraint of trade and hence void. Explain whether the contention of Raj is correct as per provisions of the Indian Contract Act, 1872 ?
- (b) A horse was jointly owned by Asish and Gina. It was sold to Bimal by Asish who was in sole possession of the horse for the purpose of selling the horse with consent of Gina. After the sale Gina did not approve the sale and pleaded "Nemo Dat Quod Non Habet". Explain whether Gina's argument is valid as per provisions of the Sale of Good Act, 1930.

- (c) How the properties confiscated are managed as per Section 28 of the Benami Transactions (Prohibition) Act, 1988 ?
- (d) What is the penalty for use of non-standard weight or measure under Section 25 of the Legal Metrology Act, 2009 ?
- (e) Define Money Laundering under Section 3 of the Prevention of Money Laundering Act, 2002. What is the punishment for offence of money laundering under Section 4 of the Act ?

(3 marks each)

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

Distinguish between the following :

- (i) Special Agent and General Agent under Indian Contract Act, 1872
- (ii) Partnership at will and Particular Partnership under Indian Partnership Act, 1932.
- (iii) Right of Lien and Stoppage in transit under Sale of Goods Act, 1930.
- (iv) Vested and Contingent Interest under Transfer of Property Act, 1882.
- (v) Apartment and Building under Real Estate (Regulation and Development) Act, 2016

(3 marks each)

Attempt all parts of either Q. No 6 or Q. No. 6A**Answer 6(a)**

Section 27 of the Indian Contract Act, 1872 states that every agreement by which any one is restrained from exercising a lawful profession, trade or business of any kind, is, to that extent, void. This Section is not happily worded and has been criticised by many authors. It appears from the wording that every kind of restraint, whether total or partial falls within the prohibition of this Section.

The words "to the extent" in Section 27 make it clear that if in an agreement there are some covenants which are prohibited whereas the others are not and if the two parts can be separated then only those covenants which operate as restraint of trade would be void and not whole of the agreement itself.

Prima facie every restraint of trade is void, but there are certain exceptions, in which case the contract is enforceable. This includes sale of goodwill. Where a seller of the goodwill of a business undertakes not to compete with the purchaser, the contract is enforceable provided the restraint appears to be reasonable as to territorial limits and the length of time.

So, the contention of Raj is not correct.

Answer 6(b)

As per provisions of the Sale of Goods Act, 1930 only the owner of goods can sell the goods. Conversely, the sale of an article by a person who is not or who has not the authority of the owner, gives no title to the buyer. The rule is expressed by the maxim, "*Nemo Dat Quod Non Habet*" i.e, no one can pass a better title than he himself has. It means that a seller of goods cannot give a better title to the buyer than he himself possess. Thus, even a bona fide buyer who buys stolen goods from a thief or from a transferee from such a thief can get no valid title to them. since the thief has no title, nor could he give one to the transferee.

One of the exceptions to this rule is when buyer buy's goods from a co-owner in good faith who is in sole possession of the goods with the permission of his co-owners will get good title to goods,

Thus, Bimal gets a good title to the horse as the horse was in possession of Asish with permission of Gina for sale of the horse and they are co-owners.

Answer 6(c)

Section 28 of the Benami Transactions (Prohibition) Act, 1988 relates to management of properties confiscated under this Act. Sub-section (1) of this section provides that the Administrator shall have the power to receive and manage the property, in relation to which an order of confiscation under sub section (1) of section 27 has been made, in such manner and subject to such conditions, as may be prescribed.

Sub-section (2) of this section provides that the Central Government may, by order published in the Official Gazette, notify as many of its officers as it thinks fit, to perform the functions of Administrators.

Sub-section (3) of this section provides that the Administrator shall also take such measures, as the Central Government may direct, to dispose of the property which is vested in the Central Government under sub-section (3) of section 27 in such manner and subject to such conditions as may be prescribed.

Answer 6(d)

Section 25 of the Legal Metrology Act, 2009 provides for penalty for use of non-standard Weight or measure. The section stipulates that whoever uses or keeps for use any weight or measure or makes use of any numeration otherwise than in accordance with the standards of weight or measure or the standard of numeration, as the case may be, specified by or under this Act, shall be punished with fine which may extend to twenty-five thousand rupees and for the second or subsequent offence, with imprisonment for a term which may extend to six months and also with fine.

Alternate Answer

Answer 6(d)

Section 25 of the Legal Metrology Act, 2009 [as amended by Jan Vishwas (Amendment of Provisions) Act, 2023] provides for penalty for use of non-standard Weight or measure. The section stipulates that whoever uses or keeps for use any weight or measure or makes use of any numeration otherwise than in accordance with the standards of weight or measure or the standard of numeration, as the case may be, specified by or under this Act, shall be punished with fine which may extend to 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 five lakh rupees.

Answer 6(e)

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

Section 4 of the Money Laundering Act, 2002 provides that any person who commits the offence of money laundering shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years and also liable to fine. However, where the proceeds of crime involved in money laundering relates to any offence specified under the Narcotic Drug and Psychotropic substance Act, the punishment may extend to rigorous imprisonment for ten years.

OR (Alternate question to Q. No.6)**Answer 6A(i)**

According to Indian Contract Act, 1872 a 'Special Agent' is one who is appointed to do a specified act or perform a specified function. He has no authority outside this special task. The third party has no right to assume that the agent has unlimited authority. Any act of the agent beyond that authority will not bind the principal.

According to Indian Contract Act, 1872 a 'General Agent' is appointed to do anything within the authority given to him by the principal in all transactions or in all transactions relating to a specified trade or matter. The third party may assume that such an agent has power to do all that is usual for a general agent to do in the business involved. The third party is not affected by any private restrictions on the agent's authority.

Answer 6A(ii)*Partnership at Will*

According to Section 7 of the Indian Partnership Act, 1872 "Where no provision is made by contract between the partners for the duration of their partnership or for the determination of their partnership, the partnership is called Partnership at Will". A partnership is deemed to be a partnership at will when (i) no fixed period has been agreed upon for the duration of partnership, and (ii) there is no provision made as to the determination of partnership in any other way. The partnership at will has no fixed or definite date of termination and, therefore, death or retirement of a partner does not affect the existence of such partnership.

Section 43(1) of the Indian Partnership Act, 1872 provides that "Where the partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm. The firm is dissolved as from the date mentioned in the notice as the date of dissolution or, if no such date is mentioned, as from the date of communication of the notice". This accounts for the importance of the definition of Partnership at Will".

Particular Partnership

According to Section 8 of the Indian Partnership Act, 1872 "A person may become a partner with another person in a particular adventure or undertaking". When two or more persons agree to do business in a particular adventure or undertaking, such a partnership is called "Particular Partnership". Thus, a particular partnership may even be for a single adventure or undertaking.

Answer 6A(iii)*Right of Lien under Sale of Goods Act, 1930*

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

- i) the goods have been sold without stipulation as to credit or
- ii) the goods have been sold in credit, but the terms of credit have expired; or
- iii) buyer becomes insolvent. Lien can be exercised as long as seller is in possession of the goods.

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

Stoppage in transit under Sale of Goods Act, 1930

Right to stoppage is stopping the goods while they are in transit, resuming possession of them and retaining possession until payment of the price. The right to stop the goods is available

- i) the buyer becomes insolvent.
- ii) the goods are in transit.

The buyer is insolvent if he has ceased to pay his debts in the ordinary course of business, or cannot pay his debts as they become due. It is not necessary that he has actually been declared insolvent by the court.

The goods are in transit from the time they are delivered to a carrier or other bailee like a wharfinger or warehouse keeper for the purpose of transmission to the buyer and until the buyer takes delivery of them.

Answer 6A(iv)

The following are the principal points of distinction between a vested and a contingent interest:

1. When an interest is vested the transfer is complete. It creates an immediate proprietary interest in the property though the enjoyment may be postponed to a future date. A contingent interest on the other hand is dependent upon the fulfilment of some conditions which may or may not happen. In other words, in case of vested interest, the owner's title is already perfect, in case of a contingent interest, the title is as yet imperfect but may become perfect on the fulfilment of a stipulated condition.
2. A vested interest takes effect from the date of transfer. A contingent interest in order to become vested is conditioned by a contingency which may not occur.
3. A vested interest cannot be defeated by the death of the transferee before he obtains possession. A contingent interest may fail in case of the death of transferee before the fulfilment of condition.
4. Since vested interest is not circumscribed by any limitation which derogates from the completeness of the grant, it logically follows that a vested interest is transferable as well as heritable. If, therefore, a transferee of the vested interest dies before actual enjoyment, it will devolve on his legal heirs. A contingent interest, on the other hand, cannot be inherited though it may be transferred coupled with limitation regarding fulfilment of a condition.

Answer 6A(v)

According to Section 2(e) of the Real Estate (Regulation and Development) Act, 2016 "Apartment" whether called block, chamber, dwelling unit, flat, office, showroom, shop, godown, premises, suit, tenement, unit or by any other name, means a separate and self-contained part of any immovable property, including one or more rooms or enclosed spaces, located on one or more floors or any part thereof, in a building or on a plot of land, used or intended to be used for any residential or commercial use such as residence, office, shop, showroom or godown or for carrying on any business, occupation, profession or trade, or for any other type of use ancillary to the purpose specified.

According to Section 2(j) of the Real Estate (Regulation and Development) Act, 2016 "Building" includes any structure or erection or part of a structure or erection which is intended to be used for residential, commercial or for the purpose of any business, occupation, profession or trade, or for any other related purposes.

FINANCIAL AND STRATEGIC MANAGEMENT

MODULE 2 PAPER 8

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer All Questions.

PART-I

Question 1

Financial Management is an area of financial decision-making, harmonizing individual motives and enterprise goals," was defined by :

- (A) Erza Solomon
- (B) Weston and Brigham
- (C) S.C. Kuchal
- (D) Joshep and Massie

Question 2

Which of the following indicates the two basic aspects of financial management ?

- (A) Procurement of funds and utilization of funds
- (B) Utilization of funds and ratio analysis
- (C) Procurement of funds and ratio analysis
- (D) Distribution of profits and ratio analysis

Question 3

Which of the following is an example of unsystematic risk ?

- (A) Interest rate hikes
- (B) Political instability and flight of capital
- (C) A company is forced to recall one of its products
- (D) Failure of banks

Question 4

What is the key factor that influence investment decisions ?

- (A) Estimation of capital outlays and the future earnings of the proposed project focusing on the task of value engineering and market forecasting
- (B) Availability of capital and considerations of cost of capital focusing attention on financial analysis
- (C) A set of standards by which to select a project for implementation and maximizing returns therefrom focusing attention on logic and arithmetic
- (D) All of the above

Question 5

Given data $D_0 = 7$, $P_0 = 50$, growth rate = 8.4%, then k_e on the basis of dividend growth model will be :

- (A) 8.54%
- (B) 23.58%
- (C) 8.55%
- (D) 15.18%

Question 6

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

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

Question 7

E Ltd. is considering an investment that will cost ₹ 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are ₹ 25,000 per year and for the last 2 years, they are ₹ 20,000 per year. What is the payback period for this investment ?

- (A) 4 years
- (B) 3.5 years
- (C) 3.2 years
- (D) 3 years

Question 8

Payback period is primarily considered as the measure of project's rather than its

- (A) profitability, capital recovery
- (B) profitability, liquidity
- (C) capital recovery, profitability
- (D) capital recovery, liquidity

Question 9

Many companies are forced to reduce spending when they are going to raise additional capital by issuing new debt or equity. This is an example of

- (A) Hard capital rationing
- (B) Soft capital rationing
- (C) Flexible capital rationing
- (D) Internal Capital rationing

Question 10

Management is considering a ₹ 1,00,000 investments in a project with a 5 years life and no salvage value. If the total tax paid income from the project is expected to be ₹ 60,000 and recognition is given to effect of straight-line depreciation on the investment, the average rate of return (ARR) of the project is :

- (A) 12%
- (B) 24%
- (C) 60%
- (D) 30%

Question 11

What is the internal rate of return for a project having cash flows of ₹ 40,000 per year for 10 years and a cost of ₹ 2,26,009 ?

- (A) 8%
- (B) 12%
- (C) 14%
- (D) 10%

Question 12

Which of the following will not suggest for accepting of a project ?

- (A) Net present value is greater than zero
- (B) Internal Rate of Return is less than the cost of capital
- (C) Profitability index is greater than unity
- (D) All of the above

Question 13

When operating under a single-period capital- rationing constraint, you may first want to try selecting projects by descending order of their in order to give yourself the best chance to select the mix of projects that adds most to the firm value.

- (A) Profitability Index (PI)
- (B) Net Present Value (NPV)
- (C) Internal Rate of Return (IRR)
- (D) Payback Period (PBP)

Question 14

If there is no operating leverage in a firm, it is indicative of absence of :

- (A) Operating Profit
- (B) Sales
- (C) Fixed Cost
- (D) Variable Cost

Question 15

Which of the following shows the significance of capital structure ?

- (A) Capital structure reflects the overall financing strategy of the firm
- (B) One can get a reasonably accurate broad idea about the risk profile of the firm from its capital structure
- (C) Capital structure also acts as a tax management tool
- (D) All of the above

Question 16

While considering the Horizontal capital structure, which of the following statements is correct ?

- (1) It is quite stable
- (2) It is formed by a small amount of equity share capital
- (3) There is an absence of debt
- (4) It has an increasing component of debt

Select the correct answer from the options given below :

- (A) (1), (2) and (4)
- (B) (2) and (3)
- (C) (1) and (3)
- (D) (1) and (4) only

Question 17

Which of the following is correct in case financial leverage is considered by a firm ?

- (A) The shareholders will be exposed to greater risk
- (B) A firm will always have higher earnings per share than pre-financial leverage stage
- (C) There will be no change in firm's taxes
- (D) The earnings per share will remain constant even after adopting leverage

Question 18

A new project under consideration requires a capital outlay of ₹ 300 lakhs. The required funds can be raised either fully by equity shares of ₹ 100 each or by equity shares of the value of ₹ 200 lakhs and by the loan of ₹ 100 lakh at 15% interest. Assuming a tax rate of 50%, calculate the figure of profit before tax (₹) that would keep the equity investors indifferent to the two options.

- (A) 4.5 lakh
- (B) 40.5 lakh
- (C) 450 lakh
- (D) 45 lakh

Question 19

Consider the following financial information :

Contribution = ₹ 4,00,000

Fixed Cost = ₹ 1,00,000

10% Debentures = ₹ 6,00,000

Combined leverage = ?

- (A) 1.63
- (B) 1.69
- (C) 1.67
- (D) 1.61

Question 20

EBIT of ABC Ltd. is ₹ 7,00,000. The company has 12% ₹ 25,00,000 debentures.

The equity capitalization rate is 16%. Calculate the market value of the firm (₹) as per the Net Income (NI) approach. Ignore taxation.

- (A) 50,00,000
- (B) 58,75,000
- (C) 47,95,000
- (D) 57,85,000

Question 21

A firm has a DFL of 9.5. What does this tell us about the firm ? Assume 40% tax.

- (A) If sales rise by 9.5%, then EBIT will rise by 1%
- (B) If EBIT rises by 5.7%, then EPS will rise by 1%
- (C) If EBIT rise by 1%, then EPS will rise by 9.5%
- (D) If sales rise by 1%, then EBIT will rise by 5.7%

Question 22

..... and are two financial instruments that carry a fixed rate of interest and they have to be paid off regardless of whether the firm earns revenue or not.

- (A) Equity Shares, Preference Shares
- (B) Preferred Stocks, Debentures
- (C) Bonds, Debentures
- (D) Preferred Stocks, Bonds

Question 23

Which among the following is not relevant while calculating the cost of the redeemable preference shares ?

- (A) Profit available with the firm
- (B) Flotation cost

- (C) Discount on issue/redemption
- (D) None of the above

Question 24

Which of the following is an uncontrollable factor affecting the cost of capital ?

- (A) Level of Interest Rates
- (B) Tax Rates
- (C) Both (A) and (B)
- (D) None of the above

Question 25

A company issue 20% irredeemable debentures of ₹ 20,000. The company is in 30% tax bracket. Calculate cost of debt capital, if it was issued at 10% premium.

- (A) 15%
- (B) 14%
- (C) 15.55%
- (D) 12.73%

Question 26

According to CAPM the cost of capital (k_e) is :

- (A) $R_f + (R_m - R_f) \beta$
- (B) $R_m + (R_m - R_f) \beta$
- (C) $R_f + (R_f - R_m) \beta$
- (D) $R_f + (R_m - R_f)$

Question 27

BNK Ltd. has a cost of debt (pre-tax) of 7%, a cost of equity of 11%, and a cost of preferred stock of 8%. The firm has 1,04,000 shares of common stock outstanding at a market price of ₹ 20 a share. There are 40,000 shares of preferred stock outstanding at a market price of ₹ 34 a share. The bond issue has a total face value of ₹ 5,00,000 and sells at 102% of face value. The tax rate is 34%.

What is the approx. weighted average cost of capital for BNK Ltd. using market value weights ?

- (A) 6.14%
- (B) 6.54%
- (C) 8.60%
- (D) 9.14%

Question 28

A company has currently 25,000 equity shares of ₹ 100 each and its' earnings as available for equity shareholders are ₹ 4,00,000. Its current market price is ₹ 128 and the growth rate of EPS is expected to be 10%. Calculate the cost of equity using Earnings-price Ratio approach.

- (A) 15%
- (B) 13.75%

- (C) 16.25%
- (D) 14.5%

Question 29

Which of the following is a condition for setting up a SEZ unit ?

- (A) Must be formed by splitting of an existing business
- (B) Must be formed by reconstructing an existing business
- (C) Must not to be formed by transferring a previously owned plant and machinery
- (D) All of the above

Question 30

Which of the following is not a type of Feasibility Studies conducted during primary stage of a project financing to undertake a macro view of project ?

- (A) Market Feasibility
- (B) Environmental Feasibility
- (C) Technical Feasibility
- (D) Financial Feasibility

Question 31

Financial aspects of project is judged with reference to :

- (A) Availability of land and site
- (B) Availability of servicing facilities like machine shops, electric repair shop etc.
- (C) NPV, Benefit Cost Ratio, Internal Rate of Return, Sensitivity and Risk Analysis
- (D) Availability of work force as per required skill and arrangements proposed for training-in-plant and outside

Question 32

Which among the following is not an assumption of Walter's Model ?

- (A) Firm's Internal Rate of return and cost of equity capital are constant
- (B) All earnings are either distributed or reinvested immediately
- (C) All investments are financed through retained earnings
- (D) The firm has a limited lifespan

Question 33

Which of the following form of dividend is not prevalent in India ?

- (A) Cash dividend
- (B) Bond Dividend
- (C) Stock Dividend
- (D) None of the above

Question 34

Modigliani and Miller argued that the dividend decision :

- (A) Is relevant as the value of the firm is not based just on the earning power of its assets
- (B) Is irrelevant as the value of the firm is based on the earning power of its assets
- (C) Is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway
- (D) Is relevant as cash outflow always influences other firm decisions

Question 35

The market price of J Ltd. is ₹ 200 per share as per Gordon Model EPS is ₹ 20 per share. The cost of capital is 11%. The rate of return on investment is 12%. What is the retention ratio ?

- (A) 80%
- (B) 50%
- (C) 100%
- (D) 60%

Question 36

The following information is available in respect of H Ltd. :

No. of shares outstanding :	3 lakh
Net profit :	₹ 18 lakh
Equity capitalization rate :	16%
Rate of return on investment :	20%

Based on Walter's model, what is the approx. share price (₹), if the Dividend payout ratio is 50% ?

- (A) 42
- (B) 46
- (C) 58
- (D) 52

Question 37

..... refers to the difference between current assets and current liabilities.

- (A) Operational working capital
- (B) Differential working capital
- (C) Net working capital
- (D) Gross working capital

Question 38

Current assets are those assets :

- (A) Which cannot be sold by the companies for profit making
- (B) Which are not liquid for the company

- (C) Which can be converted to cash within a period of one year
- (D) All of the above

Question 39

A company is considering a project with initial outlay of ₹ 5,00,000. The project is expected to last for 5 years with salvage value of ₹ 78,000. It is expected to generate CFAT of ₹ 1,28,000 per annum during its life. If the cost of capital of the company is 12%, the approx. NPV of the project will be :

- (A) ₹ 5660 positive
- (B) ₹ 5660 negative
- (C) Zero
- (D) Cannot be determined

Question 40

An aggressive current assets policy indicate :

- (A) Higher liquidity and poor-risk
- (B) Higher risk and poor liquidity
- (C) Higher risk and higher liquidity
- (D) Lower risk with lower liquidity

Question 41

The following information is extracted from Z Ltd. :

Net Working capital ₹ 2,80,000 Current Ratio 2.4

Liquid ratio 1.6

Amount of Current Assets is ₹ :

- (A) 2,00,000
- (B) 2,80,000
- (C) 4,80,000
- (D) 3,60,000

Question 42

If a firm has ₹ 100 in inventories, a current ratio equal to 1.2, and a quick ratio equal to 1.1, what is the firm's Networking Capital (₹) ? Assume no prepaid expenses.

- (A) 1000
- (B) 100
- (C) 200
- (D) 1,200

Question 43

Maximum permissible bank finance as per the first method of Tandon Committee norms was ₹ 57,75,000 while current liabilities are reported at ₹ 75,00,000. Current assets are equal to ₹ :

- (A) 1,45,99,000
- (B) 1,98,00,000

- (C) 1,25,00,000
- (D) 1,52,00,000

Question 44

Which of the following is not a characteristic of Systematic Risk ?

- (A) Macro in nature
- (B) External in nature
- (C) Uncontrollable by an organization
- (D) None of the above

Question 45

Which of the following is not one of the key motives of holding cash by a firm ?

- (A) Forecasting motive
- (B) Transactional motive
- (C) Speculative motive
- (D) Contingency motive

Question 46

How long does primary trends lasts for ?

- (A) One to three years
- (B) Three to five weeks
- (C) Four to six months
- (D) Two to ten weeks

Question 47

..... hypothesis holds that security prices adjust rapidly to all publicly available information such as functional statements and reports and investment advisory reports etc.

- (A) The Strong Form of Efficiency
- (B) Semi-strong form of Efficiency
- (C) The Weak Form theory
- (D) All of the above

Question 48

..... charts have a thin vertical line showing the price range for a given period that is shaded different colors based on whether the stock ended higher or lower.

- (A) Candlestick Charts
- (B) Point and Figure Charts
- (C) Bar Chart
- (D) Line Chart

Question 49

An investor is holding 100 shares of Right Choice Ltd. for last 5 years that he bought for ₹ 52,500. During the holding period, he received dividends worth ₹ 10,250 and currently the shares can be sold for ₹ 650 each. What is the annualized rate of return (%) on his investments ?

- (A) 43.33
- (B) 8.67
- (C) 17.33
- (D) 19.52

Question 50

A portfolio manager has invested in a particular fund which has generated a return of 12% with a standard deviation of 3.6%. If the risk-free rate of return in the market is 6%, the Sharpe ratio of the fund will be :

- (A) 0.75%
- (B) 1.16%
- (C) 1.10%
- (D) 1.67%

Question 51

Portfolio approach to investing is primarily focused on :

- (A) Diversification
- (B) Value Protection
- (C) Return Appreciation
- (D) Risk Optimization

Question 52

Which of the following is not an assumption of Capital Asset Pricing Model (CAPM) ?

- (A) Single-period transaction horizon
- (B) Perfect capital market
- (C) Investors cannot borrow and lend at the risk-free rate of return
- (D) Perfect capital market

Question 53

The first ratio to measure risk-adjusted return and one of the most referenced risk/return measures used in finance was introduced by :

- (A) William F. Sharpe
- (B) Modigliani and Merton H. Miller
- (C) William J. Baumol
- (D) James E. Walter

Question 54

Which of the following is an outcome of conducting social cost-benefit analysis ?

- (A) Integrated way of comparing the different effects
- (B) Comparison of Project Alternatives
- (C) Presentation of the uncertainties and risks
- (D) All of the above

Question 55

The cost of equity capital is all of the following EXCEPT :

- (A) The minimum rate that a firm should earn on the equity-financed part of an investment
- (B) A return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged
- (C) By far the most difficult component cost to estimate
- (D) Is generally lower than the after-tax cost of debt

Question 56

A Company's Raw material storage period is 20 days; Finished goods storage period is 25 days; Receivables (Debtors) collection period is 40 days; Credit period allowed by suppliers (Creditors) is 50 days.

What is the length of operating cycle of the company ?

- (A) 85 days
- (B) 40 days
- (C) 35 days
- (D) 135 days

Question 57

80% of sales of ₹ 12,00,000 of a firm are on credit. It has a Receivable Turnover of 8. What is the Average collection period (360 days a year) and Average Debtors of the firm (₹) ?

- (A) 45 days and 1,20,000
- (B) 36 days and 1,00,000
- (C) 45 days and 1,50,000
- (D) 360 days and 1,25,000

Question 58

A firm has inventory turnover of 4 and cost of goods sold is ₹ 7,50,000. With better inventory management, the inventory turnover is increased to 6. This would result in :

- (A) Increase in average inventory
- (B) Decrease in average inventory
- (C) Decrease in cost of goods sold
- (D) Increase in cost of goods sold

Question 59

A firm has EBIT of ₹ 50,000. Market value of 10% debt is ₹ 80,000 and overall capitalization rate is 20%. Market value of Equity under NOI Approach will be ₹ :

- (A) 2,50,000
- (B) 1,70,000
- (C) 30,000
- (D) 1,30,000

Question 60

Assume that a firm has accurately calculated the net cash flows relating to an investment proposal. If the net present value of this proposal is greater than zero and the firm is not under the constraint of capital rationing, then the firm should :

- (A) Calculate the IRR of this investment to be certain that the IRR is greater than the cost of capital
- (B) Compare the profitability index of the investment to those of other possible investments
- (C) Calculate the payback period to make certain that the initial cash outlay can be recovered within an appropriate period of time
- (D) Accept the proposal, since the acceptance of value-creating investments should increase shareholder wealth

PART-II**Question 61**

In what order do managers typically perform the managerial functions ?

- (A) Organising, planning, controlling, leading
- (B) Organising, leading, planning, controlling
- (C) Planning, organising, leading, controlling
- (D) Planning, organising, controlling leading

Question 62

“Unity of Command” means :

- (A) An employee shall receive orders from one senior only
- (B) A group of activities with common objectives shall have one head but different plans
- (C) A group of activities with common objectives shall have one head and one plan
- (D) More than one manager should supervise the employees

Question 63

Identify the correct sequence of steps in planning.

- (I) Selecting a course of action
- (II) Determining alternative courses

- (III) Establishing objectives
- (IV) Formulating derivative plans
- (V) Evaluation of alternatives
- (VI) Establishment of planning premises

Select the correct answer from the options given below :

- (A) (III), (VI), (II), (IV), (I), (V)
- (B) (VI), (III), (II), (V), (I), (IV)
- (C) (III), (IV), (II), (V), (I), (VI)
- (D) (III), (VI), (II), (V), (I), (IV)

Question 64

According to Chester Barnard, "..... is a function by which the concern is able to define the role positions" the jobs related and the co-ordination between authority and responsibility '.

- (A) Planning
- (B) Organizing
- (C) Directing
- (D) Staffing

Question 65

Which one of the following is not one of Drucker's five guiding principles of management ?

- (A) Making people's strengths effective and their weaknesses irrelevant
- (B) Enhancing the ability of people to contribute
- (C) To operate the organisation's status system
- (D) Integrating people in a common venture by thinking through, setting and exemplifying the organisational objectives, values and goals

Question 66

Major flaw in Scientific theory by Frederick W. Taylor is

- (A) No planning for future needs
- (B) De-emphasis on team work
- (C) Following best working practices
- (D) Maximizing efficiency

Question 67

According to Henry Fayol, "to manage is"

- (A) The art of getting things done through and with people in formally organised groups
- (B) To forecast, to plan, to organise, to command and to control
- (C) A distinct process consisting of planning, organizing, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources
- (D) The art of getting things done through people

Question 68

The systems theory of management believes that each business

- (A) has two different types of workers
- (B) is an open system, much like a living organism
- (C) there existed four core functions of management
- (D) will be most efficient if it uses a bureaucratic structure

Question 69

A person who develops a long-range course of action or set of goals to align with the organization's vision known as :

- (A) Navigator
- (B) Strategist
- (C) Captivator
- (D) Mobilizer

Question 70

Which of the following is the first phase of the strategic management process ?

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

Question 71

According to Porter, suppliers are more able to exercise bargaining power over buyers when :

- (A) The supply industry is dominated by a few large firms
- (B) The supply industry is populated by a large number of small firms
- (C) When buyers have the ability to take over suppliers
- (D) There are few buyers in the market

Question 72

Potential rivals will not find it difficult to enter a market where :

- (A) Existing firms have long-term contracts with the biggest customers
- (B) Product differentiation is very strong
- (C) Existing firms have the ability to retaliate strongly
- (D) Economies of scale are insignificant

Question 73

In Porter's five forces model, what is meant by the term 'substitute' ?

- (A) A substitute refers to an alternative manufacturing process
- (B) A substitute is an alternative product or service that performs the same function for the consumer

- (C) A substitute is a rival firm offering the same products
- (D) A substitute is something else consumers would rather spend their money on

Question 74

..... clearly and quickly works through the complexity of key issues, problems and opportunities to affect actions.

- (A) Mobilizer
- (B) Strategist
- (C) Navigator
- (D) Entrepreneur

Question 75

As per Allison and Kaye, “..... is an organization's process of defining its strategy, or direction and making decisions on allocating its resources to pursue this strategy.’

- (A) Strategic formulation
- (B) Strategic planning
- (C) Strategic forecasting
- (D) Strategic follow-up

Question 76

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

- (A) Vision
- (B) Mission
- (C) Strategy
- (D) Objective

Question 77

Under a cost leadership strategy

- (A) The company divides the market according to the cost associated with marketing
- (B) The company sells its product below cost
- (C) The company tries to reduce its cost of production
- (D) The company reduces cost by sacrificing quality

Question 78

In importance is given to speed and reliability.

- (A) Flexible response strategy
- (B) Service strategy
- (C) Response strategy
- (D) Low-Cost Strategy

Question 79

..... strategy is to maintain their market position by preserving existing customer base.

- (A) Market Challenger
- (B) Market Nicher
- (C) Market Leader
- (D) Market Follower

Question 80

Which of the following strategies is not a human resource management strategy ?

- (A) Training and development
- (B) Restructuring strategies
- (C) Resistance management
- (D) Mentorship programs

Question 81

..... strategy is used when the products are homogeneous in nature and company is not able to differentiate that.

- (A) Quality strategy
- (B) Differentiation strategy
- (C) Response strategy
- (D) Price or cost strategy

Question 82

..... Is 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) Service strategy
- (B) Business strategies
- (C) Logistics strategy
- (D) Differentiation strategy

Question 83

..... refers to the process of conducting research on a company and its operating environment to formulate a strategy.

- (A) Candlestick analysis
- (B) Strategic analysis
- (C) Sensitivity analysis
- (D) Simulation analysis

Question 84

How often should a SWOT Analysis be performed ?

- (A) Only when specific issues need to be addressed
- (B) Only when the business starts
- (C) At least once per year
- (D) Every 3-5 year

Question 85

'Build,' 'Hold,' 'Harvest,' and 'Divest' are the strategies pursued in :

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

Question 86

Which is generally the reason for adoption of divestment strategy ?

- (A) Business acquired proves to be mismatch
- (B) Persistent negative cashflows
- (C) Severity of competition
- (D) None of the above

Question 87

What is the term used in Ansoff's matrix for increasing market share with existing products in existing markets ?

- (A) Product development
- (B) Market penetration
- (C) Diversification
- (D) Market development

Question 88

Managers not having control over many activities is a drawback of :

- (A) Matrix Structure
- (B) Vertical Structure
- (C) Network Structure
- (D) Horizontal Structure

Question 89

..... is a process through which a strategy is put into action.

- (A) Strategic analysis
- (B) Strategy implementation

- (C) SWOT analysis
- (D) Strategic turnaround

Question 90

McKinsey's 7-S framework helps analyze organizations and improve their effectiveness. The seven elements to be coordinated are : shared values, structure, systems, style.

- (A) Strategy, service levels and specialization
- (B) Strategy, staff and skills
- (C) Service levels, stock and staff
- (D) Specialization, skills and standards

Question 91

In a matrix organization, the functional departments like manufacturing, marketing, accounting and personnel constitute the, while the project organization or product divisions form the

- (A) Vertical chains of command, Horizontal chains of command
- (B) Horizontal chains of command, Vertical chains of command
- (C) Vertical chains of command, Vertical chains of command
- (D) Horizontal chains of command, Horizontal chains of command

Question 92

..... is defined as a set of assumptions, beliefs, values and norms which are shared by people and groups in the organization and control the way they interact with each other and with stakeholders outside the organization.

- (A) Vision Statement
- (B) Mission Statement
- (C) Organizational Culture
- (D) Business Policy

Question 93

What is the term for the act of recreating a core business process with the goal of improving product output, quality or reducing costs ?

- (A) Business Process Improvement
- (B) Business Process Enhancement
- (C) Business Process Management
- (D) Business Process Reengineering

Question 94

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

- (A) Boost effectiveness and produce higher quality products for the end customers
- (B) Improve efficiency in the production processes

- (C) Providing more meaningful work to employees
- (D) All of the above

Question 95

..... Is an approach to setting goals and measuring the productivity of firms based on best industry practices or against the products, services and practices of their competitors or other acknowledged leaders in the industry.

- (A) Benchmarking
- (B) Business Process Reengineering
- (C) Total Quality Management
- (D) Quality Engineering

Question 96

..... refers to a process when a company compares itself with the competitors inside its industry.

- (A) Functional Benchmarking
- (B) Competitive Benchmarking
- (C) Generic Benchmarking
- (D) Industrial Benchmarking

Question 97

A receives that highest level of training in the statistical tools of Six Sigma. They develop the plans for Six Sigma project implementation.

- (A) Yellow Belt
- (B) Green Belt
- (C) Red Belt
- (D) Black Belt

Question 98

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

- (A) Continuous improvement
- (B) Identifying customers and their needs
- (C) Situation based decisions
- (D) System approach to management

Question 99

Which of the following is not Benchmarking Wheel stage process ?

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

Question 100

Which of the following is a disadvantage of Enterprise Resource Planning ?

- (A) Can have a high upfront cost
- (B) Can be difficult to implement
- (C) Requires change management during and after implementation
- (D) All of the above

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

34	B
35	B
36	A
37	C
38	C
39	A
40	B
41	C
42	C
43	D
44	D
45	A
46	A
47	B
48	A
49	B
50	D
51	A
52	C
53	A
54	D
55	D
56	C
57	A
58	B
59	B
60	D
Part II: Strategic Management	
61	C
62	A
63	D
64	B
65	C
66	B

67	B
68	B
69	B
70	D
71	A
72	D
73	B
74	C
75	B
76	A
77	C
78	A
79	D
80	C
81	D
82	C
83	B
84	C
85	A
86	B
87	B
88	C
89	B
90	B
91	A
92	C
93	D
94	D
95	A
96	B
97	D
98	C
99	D
100	D