# GUIDELINE ANSWERS

## EXECUTIVE PROGRAMME

**DECEMBER 2023**

**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)
ICSI House, 22, Institutional Area, Lodi Road, New Delhi 110 003
*Phones* : 011-45341000; *Fax* : +91-11-24626727
*E-mail* : info@icsi.edu; *Website* : www.icsi.edu

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** | **Applicability of Amendments to Laws** |
|---|---|
| December Session | upto 31 May of that Calender year |
| June Session | upto 30 November of previous Calender Year |

## C O N T E N T S

**EXECUTIVE PROGRAMME EXAMINATION**

DECEMBER 2023

## CORPORATE & MANAGEMENT ACCOUNTING

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

*Total number of questions : 100*

**PART I**

1. This amount is made available to be distributed to the owners in the event of closure of the business after payment of all liabilities :

   (A) Net Worth

   (B) Non-current Investments

   (C) Capital

   (D) Capital and Non-Current Investments

2. These are the books meant for specific transactions of similar nature :

   (A) Journals

   (B) Ledgers

   (C) Subsidiary Books

   (D) Cash Book

3. These represent possession of properties that have no physical existence but can be measured in terms of money and have value attached to them :

   (A) Tangible Real Accounts

   (B) Intangible Real Accounts

   (C) Personal Accounts

   (D) Representative Personal Accounts

4. These accounts always show debit balances :

   (A) Personal Accounts

   (B) Real Accounts

   (C) Nominal Accounts

   (D) Representative Personal Accounts

5. It is the quick reference to all the balances :

   (A) Journal

   (B) Subsidiary Books

   (C) Cash Book

(D) Trial Balance

6. You are given with the shareholdings details of the following persons in SK Ltd.:

(i) A is holding 10% of equity shares as on the Balance Sheet date.

(ii) B is holding 10% of preference shares as on the Balance Sheet date.

(iii) C held 20% of equity shares till 25th of March of the respective Balance Sheet year.

(iv) D held 25% of equity shares during some period in the five years immediately preceding the current year Balance Sheet date.

Which from the above can be included in the schedule of shareholders forming part of Financial Statements of the year to be prepared for disclosure requirements as per Schedule III of the Companies Act, 2013 ?

(A) (i) only

(B) (i) and (ii) only

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

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

7. K Ltd. signed an agreement with its labour union on 20th October, 2023 to increase wages from 1st January, 2023. In this case, the additional wages payable from 1st January to 31st March, 2023 :

(A) Should be shown by adding with wages of the accounting year 2023-24 in the Profit and Loss Account of the accounting year 2023-24.

(B) Should be shown separately in the Profit and Loss Account of the accounting year 2023-24

(C) Should be shown in the form of a Note under the Profit and Loss Account of the accounting year 2023-24

(D) Need not be shown as an item in the Profit and Loss Account and Notes

8. Profit on sale of investments realized by a manufacturing company is shown in the Statement of Profit and Loss under :

(A) Revenue from operations

(B) Other Income

(C) Extraordinary Items

(D) Exceptional Items

9. As per Schedule III of the Companies Act, 2013 unamortised portion of the Discount on Issue of Shares/Discount on Borrowings etc. must be shown under the head:

(A) Miscellaneous Expenses

(B) Other Expenses

(C) Other Current Assets irrespective of the fact when the amount is to be amortised

(D) Either in Non-Current Assets or Other Current Assets depending on when the amount is to be amortised

10. Current maturities of all Long-Term Borrowings will be disclosed under .............

(A) Long-Term Borrowings

(B) Short-Term Borrowings

(C) Other Current Liabilities

(D) Either in Long-Term Borrowings or Short-Term Borrowings

11. PV Ltd. issued 40,000 shares of ₹ 10 each at a premium of ₹ 2 per share. The shares were payable as ₹ 2 on application, ₹ 5 on allotment (including premium) and ₹ 5 on call. All the shares were applied for and allotted. All monies were received with the exception of the call money on 1000 shares which were forfeited. If 400 of these shares were re-issued as fully paid @ ₹ 8 per share, the amount transferrable to Capital Reserve Account is :

(A) ₹ 1,200

(B) ₹ 2,000

(C) ₹ 4,200

(D) ₹ 5,000

12. A public company can allot its shares if the minimum subscription fixed .................. has been subscribed by the public.

(A) In the Articles of Association

(B) In the Prospectus

(C) By the SEBI

(D) By the Registrar of Companies

13. On 1st May, 2023, Z Ltd. makes an issue of 10,000 equity shares of ₹ 10 each payable as ₹ 2 on application, ₹3 on allotment with premium and ₹ 6 on first and final call after three months from allotment. One shareholder who was allotted with 200 shares paid first and final call with allotment money. If the directors have decided to allow interest on calls in advance as Table F, then the interest payable is :

(A) NIL

(B) ₹ 15

(C) ₹ 18

(D) ₹ 36

14. A limited company decides to buy-back 50,000 equity shares of ₹ 20 each at a premium of 15% Earlier if the company offered one buy-back scheme from 1st April 2023 to its equity shareholders and closed it on 30th April, 2023. From which date the second offer of buy-back shall be made available ?

(A) 1st June, 2023

(B) 1st August, 2023

(C) 1st November, 2023

(D) 1st May 2024

15. A listed company, after the completion of a buy-back under Rule 17, shall file a return in Form No. SH-11 along with the fee with :

(A) The Registrar of Companies

(B) The Securities and Exchange Board of India (SEBI)

(C) The Central Government

(D) The Registrar of Companies and SEBI

16. If the sinking fund created for redemption of debentures is non-cumulative, then the interest received from Sinking Fund Investment is :

(A) Credited to Debenture-holder Account

(B) Credited to Sinking Fund Account

(C) Credited to Profit and Loss Account

(D) Credit to General Reserve Account

17. A company purchased 1000, 12% debentures of ₹ 100 each @ ₹ 97 (cum-interest) on 1st May, 2023. The company has the practice to close its books of accounts on 31st December every year. Interest on debentures is payable half-yearly on 30th June and 31st December. In this purchase, the amount to be debited to Debenture Redemption Account is :

(A) ₹93,000

(B) ₹ 97,000

(C) ₹ 1,00,000

(D) ₹ 1,10,000

18. Issue of .................... signals the management's confidence in accelerating or maintaining the profit growth.

(A) Right Shares

(B) Bonus Shares

(C) Sweat-equity shares

(D) All of the above

19. Beta Ltd. granted 5000 options to employees and directors under Employee Stock Option Scheme on 1st April, 2023 @ ₹ 170 when the market price was ₹ 310. If the vesting period is 2.5 years, the amount to be amortised every year is:

(A) ₹ 2,80,000

(B) ₹ 3,40,000

(C) ₹ 6,20,000

(D) ₹ 2,33,333.33

20. Visva Ltd. issued 50,000 shares of ₹ 10 each. The entire issue was underwritten by Ragu. If the net liability (including firm underwriting) and firm underwriting are respectively 20,000 and 5,000 shares, the applications received are :

(A) 30,000

(B) 25,000

(C) 20,000

(D) 35,000

21. When a company purchases its own shares out of free reserves, a sum equal to the .......... of the shares so purchased shall be transferred to the Capital Redemption Reserve Account.

(A) Nominal Value

(B) Market Value

(C) Purchase Price

(D) Highest value of the above three

22. A company gave an offer to purchase its own shares having a nominal value of ₹ 180 crores for a consideration of ₹ 200 crores. The amount to be deposited in the Escrow Account shall be :

(A) ₹ 200 crores

(B) ₹ 180 crores

(C) ₹ 35 crores

(D) ₹ 25 crores

23. If debentures are issued by a company at a discount, it is prudent to write-off the discount :

(A) In the year itself

(B) In five equal annual installments

(C) During the life time of the debentures

(D) During the period allowed by the trustees of debenture-holders

24. The voting right in respect of shares with differential rights in a company shall not exceed .................. of the total voting power including voting power in respect of equity shares with differential rights issued at any point of time.

(A) 24%

(B) 50%

(C) 74%

(D) 75%

25. A commission called as Over-riding Commission is paid by the company to the principal underwriters to encourage :

(A) Full underwriting

(B) Speedy underwriting

(C) Firm underwriting

(D) Sub-underwriting

26. In a limited company there are two wholetime directors, one part-time director and one manager. In a financial year the net profit of the company before provision for income tax and managerial remuneration but after depreciation and provision for repairs is ₹ 10,40,000. Depreciation as per Schedule II is ₹ 3,00,000, provision for repairs of plant is ₹ 60,000 and actual expenses on repairs is ₹ 50,000. In this year, the amount of managerial remuneration payable shall be :

(A) ₹ 52,500

(B) ₹ 55,000

(C) ₹ 1,15,500

(D) ₹ 1,21,000

27. The sitting fee payable to women directors should be :

(A) NIL

(B) Less than the sitting fee payable to male directors

(C) More than the sitting fee payable to male directors

(D) Not less than the sitting fee payable to other directors

28. The net profit of BT Ltd. during the past five financial years was as follows :

2018-19—₹ (0.40) crores

2019-20—₹ 0.90 crores

2020-21—₹ 1.5 crores

2021-22—₹ 1.2 crores

2022-23—₹ 1.8 crores

In this case, the minimum amount to be spent by the company for Corporate Social Responsibility activities in the year 2023-24 is :

(A) ₹ 4,90,000

(B) ₹ 2,94,000

(C) ₹ 3,00,000

(D) ₹ 7,50,000

29. Segment reporting given as per AS 17 helps the users of the financial statements to have :

(A) A better understanding about the performance of the enterprise

(B) A better assessment about the risks and returns of the enterprise

(C) A more informed judgments about the enterprise as a whole

(D) All the above

30. An audit query shall be :

(A) A question asked by an auditor to gather information

(B) An explanation required by an auditor on certain points identified during an audit

(C) Findings from an audit

(D) Any of the above

31. If the financial years of both the subsidiary and holding companies do not coincide, the preceding year's balance sheet and other statements of the subsidiary company should be attached with the consolidated financial statements. Such information attached to the balance sheet of a holding company in respect of its subsidiary companies could not be more than :

(A) One month

(B) Three months

(C) Six months

(D) Nine months

32. AZ Ltd. acquired 6000 equity shares of BZ Ltd. out of its 8000 equity shares of ₹ 10 each at a price of ₹ 1,50,000 on 01.04.2022. The balance sheet of BZ Ltd. on 01.01.2022 showed a reserve of ₹ 20,000 and profit & loss account credit balance of ₹ 50,000. During the year 2022, if BZ Ltd. made a profit of ₹ 40,000 then the goodwill is :

(A) ₹ 30,000

(B) ₹ 40,000

(C) ₹ 60,000

(D) ₹ 80,000

33. Balance Sheet as on 31st Mrach 2023 :

| Liabilities | H. Ltd. (₹) | S.Ltd. (₹) | Assets | H.Ltd. (₹) | S.Ltd. (₹) |
|---|---|---|---|---|---|
| Share capital | | | Sundry | | |
| Share of ₹ 10 each | 1,50,000 | 1,00,000 | Assets Investment | 1,00,000 | 1,52,000 |
| P & L Account | 25,000 | 32,000 | 8000 | | |
| Creditors | 35,000 | 20,000 | shares in S Ltd. | 1,10,000 | ...... |
| | 2,10,000 | 1,52,000 | | 2,10,000 | 1,52,000 |

If shares have been acquired by H.Ltd. on 30th December, 2022 and on that date the credit balance in P & L Account of S Ltd. was ₹ 22,000 (no dividend was declared since that date), the minority interest is :

(A) ₹26,400

(B) ₹ 24,400

(C) ₹ 22,000

(D) ₹ 20,000

34. While preparing the consolidated balance sheet, some of the items are shown by adding the amount of holding company and subsidiary company and some of the items are shown in the amount belonging to the holding company without considering the amount of the subsidiary company. In this context, which of the following items is shown in the consolidated balance sheet by aggregating the amount of holding company and subsidiary company ?

(A) Share capital

(B) Proposed dividend

(C) Dividend payable

(D) Reserves and surplus

35. Which of the following profit & loss on revaluation of fixed assets of subsidiary company should be treated as a revenue item and adjusted with balance of the profit and loss account of the holding company while preparing the consolidated profit and loss account ?

(A) Profit related to the period after the date of acquisition of shares by holding company

(B) Profit related to the period before the date of acquisition of shares by holding company

(C) Loss related to the period after the date of acquisition of shares by holding company

(D) All the above

36. Which one of the following is not a corrective measure to improve Economic Value Added (EVA) ?

(A) Reducing the asset-turnover ratio

(B) Selling out the under-utilised assets

(C) Redeploying the capital invested to projects having higher operating performance

(D) All the above

37. The following details are given for painting decision of a car manufacturing company : Net operating profit before interest and tax ₹ 80 crores

Equity capital employed ₹ 100 crores 10% Debentures ₹ 40 crores

Weighted Average Cost of Capital 11% If tax rate is 30%, the Economic Value Added (EVA) is :

(A) ₹ 76 crores

(B) ₹ 53.2 crores

(C) ₹ 37.8 crores

(D) ₹ 15.4 crores

38. RR Ltd. in its capital structure has 1,00,000 equity shares of ₹ 10 each and 5000 preference shares of ₹ 100 each. At present the market value of equity shares is ₹ 16 and preference share is ₹120. In this case, the Market Value Added (MVA) is :

(A) ₹ 6,00,000

(B) ₹ 12,00,000

(C) ₹ 16,00,000

(D) ₹ 22,00,000

39. Which of the following is the new reporting clause added in the Companies (Auditor's Report) Order, 2020 ?

(A) Reporting requirement on Managerial Remuneration

(B) Reporting requirement on resignation of statutory auditors

(C) Reporting requirements on transactions with related parties

(D) Reporting requirements on maintenance of cost records

40. Board's Report and annexures thereto of a company shall be signed by the chairperson of the company if he/she is authorized by the Board. If he/she is not so authorized, it should be signed by :

(A) The Managing Director

(B) Any two directors

(C) Any one director

(D) At least two directors, one of whom shall be a managing director

41. Using the following information find out the net cash flow from investing activities:

| | 31.12.2021 (₹) | 31.12.2022 (₹) |
|---|---|---|
| Building (WDV) | 2,00,000 | 4,00,000 |

Building costing ₹50,000 on which ₹ 20,000 had accumulated depreciation was sold for ₹ 25,000. Depreciation charged on building for the year ended on 31.12.2022 was ₹ 30,000.

(A) ₹2,00,000

(B) ₹ 2,25,000

(C) ₹ 2,35,000

(D) ₹ 2,60,000

42. Following information are given :

| Particulars | 2021 (₹) | 2022 (₹) |
|---|---|---|
| Equity Share Capital | 4,50,000 | 6,50,000 |
| 10% Debentures | 3,00,000 | 1,50,000 |
| Long term loan | ..... | 80,000 |
| Securities Premium | 60,000 | 75,000 |

If interest paid on debentures was ₹ 30,000, the net cash flow from financing activities is :

(A) ₹ 85,000

(B) ₹ 1,15,000

(C) ₹ 1,40,000

(D) ₹ 2,90,000

43. Which of the following items are taken into account while preparing Cash Flow Statement under AS-3 ?

(i) Bonus issue of shares

(ii) Dividend received

(iii) Surplus on revaluation of non-current assets

(iv) Accumulated profit

(v) Proposed dividend

(A) (ii), (iii), (v)

(B) (ii)

(C) (i), (ii), (iv), (v)

(D) (ii), (iv), (v)

44. With the help of cash flow statements users can assess the reliability of ....................

(A) Net profit

(B) Net worth

(C) Value of assets

(D) Extent of liability

45. Cash from operations is equal to :

(A) Net profit plus decrease in current assets

(B) Net profit plus decrease in current liabilities

(C) Net profit plus bonus shares issued

(D) Net profit minus right shares issued

46. Exclusion of an enterprise from the applicability of Accounting Standards would be permissible if .................. of the activity of such enterprise is commercial, industrial or business in nature.

(A) No part

(B) Less than 10%

(C) Less than 50%

(D) Less than 75%

47. Non-corporate entities whose equity or debt instruments are listed on any stock exchange in or outside India are classified under ............ with regard to obligatory requirements to follow accounting standards.

(A) Level I

(B) Level II

(C) Level III

(D) Level IV

48. Entities which are required to or voluntarily opt to prepare and present interim financial report should comply with :

(A) AS 12

(B) AS 17

(C) AS 25

(D) AS 28

49. AS 28, dealing with Impairment of Assets, should be applied in accounting for the impairment of all assets except :

(A) Inventories

(B) Financial assets

(C) Assets arising from construction contracts

(D) All the above

50. Both executive and non-executive directors are considered as Key Management Personnel (KMP) under :

(A) IFRS

(B) IGAAP

(C) IASB

(D) All the above

51. Which of the following institute, through a joint venture with the Chartered Institute of Management Accountants, has established the Chartered Global Management Accountant designation ?

(A) Chartered Professional Accountants Canada

(B) Chartered Accountants Australia and New Zealand

(C) American Institute of Certified Public Accountants

(D) Australian Accounting Standards Board

52. External Reporting Board (XRB) is functioning from :

(A) Canada

(B) Japan

(C) Australia

(D) New Zealand

53. Financial Accounting Standards Board (FASB) is an independent, private sector and not-for-profit organization establishes financial accounting and reporting standards for ........... in USA.

(A) Private Companies

(B) Public Companies

(C) Not-for-profit organisations

(D) All the above

54. As a part of accounting policy for valuation of intangible assets, Ind AS 28 permits :

(A) Cost model

(B) Revaluation model

(C) Consideration model

(D) Cost or revaluation model

55. If Market Value Added (MVA) is positive, it states that the market-to-book ratio is :

(A) Zero

(B) More than one

(C) Less than one

(D) Infinity

56. Listed companies having net worth of .......... were required to prepare their financial statements by adopting Indian Accounting Standards (Ind ASs) for the accounting period ending on or after 1st April, 2017.

(A) Less than ₹ 500 crores

(B) ₹ 500 crores or more

(C) ₹ 1000 crores or more

(D) No limit

57. Joint arrangements coming under the scope of Ind AS 111 shall be in the form of :

(A) Joint operations

(B) Joint venture

(C) Joint operations or Joint ventures

(D) Joint operations and Joint ventures

58. Ind AS 1 allows classification of expenses based on :

(A) Nature

(B) Function

(C) Nature or Function

(D) Nature and Function

59. Which of the following is a disclosure requirement of AS 3 in a Cash Flow Statement ?

(A) Disclosure of the amount of cash and cash equivalents in specific situations

(B) Cash flows arising from changes in ownership interest in subsidiaries

(C) Investments in subsidiaries, associates and joint ventures

(D) Cash flows associated with extraordinary activities

60. Preparation of consolidated financial statements is a mandatory requirement under :

(A) Ind AS 27

(B) AS 21

(C) Both Ind AS 27 and AS 21

(D) Neither Ind AS 27 nor AS 21

**PART II**

61. Which is responsible for cost incurrence ?

(A) Cost unit

(B) Cost center

(C) Cost object

(D) Cost driver

62. It is an exercise towards recovery of overhead :

(A) Absorption of overhead

(B) Allocation of overhead

(C) Apportionment of overhead

(D) Distribution of overhead

63. Following data are taken from the cost records of a manufacturing concern :

| | ₹ |
|---|---|
| Material consumed | 6000 |
| Wages paid | 9000 |
| Selling overheads | 1500 |

Works on cost was 50% of wages. If the sales and profit respectively ₹ 25,000 and ₹ 2,575, the rate of administrative overhead on works cost is :

(A) 12%

(B) 15%

(C) 18%

(D) 21%

64. When responsibility accounting took roots in performance appraisal, the concept which acquires significance is :

(A) Cost centre

(B) Profit centre

(C) Production centre

(D) Performance centre

65. Every company specified in item (A) of Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 shall get its cost records audited if the overall turnover of the company from all its products and services during the immediately preceding financial year is :

(A) ₹ 50 crores

(B) More than ₹ 50 crores

(C) ₹ 50 crores or more

(D) More than ₹ 100 crores

66. The Cost Auditor appointed by the category of companies specified in rule 3 of cost audit shall continue in such capacity as cost auditor :

(A) Till the expiry of 180 days from the closure of the financial year

(B) Till the submission of cost audit report for the financial year

(C) Till the end of the financial year following the financial year for which the auditor has been appointed

(D) Till the expiry of 180 days from the closure of the financial year or till he/she submits the cost audit report whichever is later

67. Form for filing Cost Audit Report with the Central Government is :

(A) Form CRA-3

(B) Form CRA-4

(C) Form CRA-5

(D) Form CRA-7

68. Costs which are common to many different activities, products and services and which can be prorated among services and products on an arbitrary basis only are classified as :

(A) Organizational level costs

(B) Facility level costs

(C) Batch level costs

(D) Product level costs

69. The budget period for which normally a budget is prepared depends upon :

(A) Costing technique to be employed

(B) Amount involved

(C) Market demand

(D) Size of the organization

70. The following are the data for a 60% activity to produce 600 units :

| Particulars | ₹ p.u. |
|---|---|
| Materials | 100 |
| Wages | 50 |
| Expenses | 15 |

Factory overheads (40% Fixed)—₹ 40,000

Administrative overheads (40% variable)— ₹ 30,000

Total cost of overheads at 80% capacity :

(A) ₹ 70,000

(B) ₹ 74,000

(C) ₹ 82,000

(D) ₹ 88,000

71. AX Ltd. plans to sell 1,10,000 units of product X in the first quarter, 1,20,000 units in the second quarter, 1,30,000 units in the third quarter and ₹ 1,40,000 units in the last quarter. At the beginning of the first quarter, there are 15,000 units of product X in stock. If the company wants to have an inventory equal to one-fifth of the sales for the next quarter, the number of units to be produced in the second quarter will be :

(A) 1,20,000 units

(B) 1,22,000 units

(C) 1,34,000 units

(D) 1,18,000 units

72. Following is the summary of forecasted incomes and expenditures of AZ Ltd. for the months from January to March, 2024 :

| Month | Sales (₹) | Purchase (₹) | Wages (₹) |
|---|---|---|---|
| December' 23 | 60,000 | 36,000 | 9,000 |
| January' 24 | 62,000 | 38,000 | 8,000 |

| | | | |
|---|---|---|---|
| February' 24 | 64,000 | 33,000 | 10,000 |
| March' 24 | 58,000 | 39,000 | 8,500 |

Cash balance on 01.02.2024 will be ₹ 5,000 Advance tax payable in March'24 is ₹ 10,000 If credit allowed by suppliers is two months and allowed to customers is one month, and lag in payment of wages one month. The expected closing balance of cash at the end of February' 24 will be :

(A) ₹ 21,000

(B) ₹ 23,000

(C) ₹ 36,000

(D) ₹ 38,000

73. The difference between owner's equity at the beginning and at the end of an accounting period is the :

(A) Net worth

(B) Net profit/loss

(C) Net assets

(D) Equity share capital

74. When inventory is ₹ 1,00,000, prepaid expenses are ₹ 20,000, current liabilities are ₹ 80,000 and quick-ratio is 2.5. Current ratio will be .................... .

(A) 5.0

(B) 4.5

(C) 4.0

(D) 4.8

75. From the following information, find the average collection period :

Total sales – ₹ 4,00,000

Debtors – ₹ 40,000

Cash Sales – ₹ 80,000

No. of days in a year – 360

Creditors – ₹ 20,000

Sales returns – ₹ 20,000

Reserve for bad debts – ₹ 7,000

Bills receivable – ₹ 15,000.

(A) 48 days

(B) 50 days

(C) 52 days

(D) 66 days

76. Following information are given :

Sales = ₹ 15,00,000

Gross profit ratio = 20%

Stock Turnover ratio = 8

If closing stock is more than opening stock by ₹20,000, the value of closing stock is :

(A) ₹ 1,70,000

(B) ₹ 1,60,000

(C) ₹ 1,50,000

(D) ₹ 1,40,000

77. Higher level management mostly involved in decision making by selecting best alternatives from among the available. Hence, reporting to higher level management should be with :

(A) More types of reports

(B) More frequent reports

(C) More detailed report

(D) All the above

78. Which one of the following is not the general principles to be followed in management reporting ?

(A) Report should be elaborate

(B) Report uncontrollable factors also

(C) Even with marginal error

(D) Unchanged format

79. This form of reporting to management helps to present and compare a fairly long period data within a short space :

(A) Routine report

(B) Tabular report

(C) Graphic report

(D) Descriptive report

80. Absorption costing is required for :

(A) External financial reporting

(B) Internal financial reporting

(C) Income tax reporting

(D) External financial reporting and Income tax reporting

81. From the information given below, find out the selling price per unit if Break-Even Point is to be brought down to 10,000 units :

Selling Price p.u. ₹ 120

Variable cost p.u. ₹ 90

Fixed expenses ₹ 3,30,000.

(A) ₹ 150

(B) ₹ 143

(C) ₹123

(D) ₹ 153

82. Product X can be produced either by plant A or Plant B. Plant A can produce 200 units of X per hour and Plant B can produce 300 units per hour. Contribution per unit from Plant A is ₹10 and Plant B is ₹ 8. If total machine hours available during the year is 4000, the plant to be used to earn a maximum profit is :

(A) Plant A

(B) Plant B

(C) Plant A and B (50 : 50)

(D) Plant A or B

83. Given :

Sales – ₹ 1,60,000

Marginal Cost – ₹ 1,20,000

Break-even sales – ₹ 1,00,000

Profit will be :

(A) ₹ 40,000

(B) ₹ 25,000

(C) ₹ 20,000

(D) ₹ 15,000

84. Following are given :

Sales – 10,000 units

Break-even sales – 5,000 units

Selling Price – ₹ 12 p.u.

Fixed cost – ₹ 15,000

Find the variable cost per unit :

(A) ₹ 4.50

(B) ₹ 9.00

(C) ₹ 10.00

(D) ₹ 12.50

85. Ashok Ltd. is having 12% debentures for ₹ 20,00,000 in its capital structure. If the incomes of the company are subject to 30% tax, the cost of debt is :

(A) 15.6%

(B) 12%

(C) 8.40%

(D) 3.60%

86. Given : Earnings per share – ₹ 40 Dividend payout ratio – 60% Required rate of return from equity – 30% Growth rate of dividend – 15% Intrinsic value of equity is :

(A) ₹ 80

(B) ₹ 92

(C) ₹ 160

(D) ₹ 184

87. The expected earnings per share of RR Ltd. for the current year are ₹ 8. The standard P/E ratio of the industry to which the company belongs to is 16 to 18 and the company is in the medium growth stage. The maximum price at which an investor should buy the shares of RR Ltd. is :

(A) ₹ 128

(B) ₹ 136

(C) ₹ 144

(D) ₹ 145

88. The Ind ASs are named and numbered in the same way as the corresponding :

(A) International Financial Reporting Standards (IFRS)

(B) Generally Accepted Accounting Principles (GAAP)

(C) National Advisory Committee in Accounting Standards (NACAS)

(D) Accounting Standards of Accounting Standard Board (ASB)

89. Valuation of shares based on rate of dividend is suitable for small shareholders because :

    (A) They are interested in dividend

    (B) Their investment is small

    (C) They will hold shares for a short period

    (D) They have no access to Stock Exchanges

90. Which method of valuation of shares is otherwise called as dual method of valuation ?

    (A) Value based on price earnings ratio

    (B) Value based on fair value

    (C) Value based on yield

    (D) Value based on net assets

91. In the earning value approach of valuation of business, past earnings of the business, after some adjustments, multiplied by a capitalization factor. This capitalization factor is calculated on the basis of the ............. rate of return on investments.

    (A) Minimum

    (B) Maximum

    (C) Standard

    (D) Expected

92. The net profit earned by MM Ltd. during the last three years were respectively ₹1,70,000, ₹ 2,20,000 and ₹ 2,40,000. Capital employed is ₹ 15,00,000. If the fair return on the net capital employed is 10%, the value of goodwill on the basis of three years purchase of the average super profits of past three years is :

    (A) ₹ 2,10,000

    (B) ₹ 1,50,000

    (C) ₹ 1,80,000

    (D) ₹ 60,000

93. Ind AS 102 applies to :

    (A) Employees share based payments

    (B) Non-employees share based payments

    (C) Both Employees and Non-employees share based payments

    (D) Items covered by AS 10

94. Which method of transfer pricing should be followed when the supplier division is a monopoly producer or the user division is a monopoly consumer ?

(A) Cost based transfer pricing

(B) Market based transfer pricing

(C) Opportunity cost transfer pricing

(D) Negotiated transfer pricing

95. In case of restrictions due to limiting factors, to maximize profit, the management should decide based on :

(A) Highest P/V ratio

(B) Least Break-Even Point

(C) Highest Margin of Safety

(D) Highest Contribution per unit

96. Following data are available :

Share Capital :

50,000 equity shares of ₹ 10 each

20,000, 10% preference shares of ₹ 10 each

Market price per equity share is ₹ 58

Profit after tax ₹ 3,10,000

Rate of tax 30%

Equity dividend paid 20%

The Price Earnings ratio is :

(A) 10 times

(B) 9.35 times

(C) 6.2 times

(D) 8.4 times

97. As per Capital Asset Pricing Model (CAPM), which of the following factor causes systematic risk ?

(A) Inflation

(B) Tax policy

(C) Gross Domestic Product (GDP)

(D) All the above

98. The actual return provided by a security is 24% whereas expected return is 22.4%. Its risk free rate is 8% and return on a broad market index is 20%. The beta of the security, if it is correctly priced in the market under CAPM, is :

(A) 1.0

(B) 1.2

(C) 1.5

(D) 2.4

99. Arbitrage Pricing Theory is based on the assumption that :

(A) Intention of all market participants is wealth maximization

(B) Market participants will bring back market equilibrium

(C) There are transaction costs

(D) Short-selling is not possible

100. GK Traders earned ₹ 3,60,000 during 2022. The normal rate of capitalization is 12%. The assets of the firm were ₹ 27,00,000 and liabilities were ₹ 6,00,000. The value of goodwill under capitalization method is :

(A) ₹ 9,00,000

(B) ₹ 10,00,000

(C) ₹ 7,00,000

(D) ₹ 12,00,000

| ANSWER KEY<br>CORPORATE AND MANAGEMENT ACCOUNTING | |
|---|---|
| **Question** | **Answer** |
| **PART I** | |
| Q1 | A |
| Q2 | C |
| Q3 | B |
| Q4 | B |
| Q5 | D |
| Q6 | B |
| Q7 | B |
| Q8 | B |
| Q9 | D |
| Q10 | C |
| Q11 | A |
| Q12 | B |
| Q13 | D |
| Q14 | D |
| Q15 | D |
| Q16 | C |
| Q17 | A/C |
| Q18 | B |
| Q19 | A |
| Q20 | A/D |
| Q21 | A |
| Q22 | C |
| Q23 | C |
| Q24 | C |
| Q25 | D |
| Q26 | C |
| Q27 | D |
| Q28 | C |
| Q29 | D |
| Q30 | D |
| Q31 | C |
| Q32 | A |

| | |
|---|---|
| Q33 | A |
| Q34 | B |
| Q35 | C |
| Q36 | A |
| Q37 | * |
| Q38 | * |
| Q39 | B |
| Q40 | D |
| Q41 | C |
| Q42 | B |
| Q43 | B |
| Q44 | A |
| Q45 | A |
| Q46 | A |
| Q47 | A |
| Q48 | C |
| Q49 | D |
| Q50 | A |
| Q51 | C |
| Q52 | D |
| Q53 | D |
| Q54 | D |
| Q55 | B/C |
| Q56 | A |
| Q57 | C |
| Q58 | A |
| Q59 | D |
| Q60 | A |
| **PART II** | |
| Q61 | D |
| Q62 | A |
| Q63 | B |
| Q64 | B |
| Q65 | C |
| Q66 | D |
| Q67 | B |
| Q68 | A |
| Q69 | A |

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

***Notes ****

| | |
|---|---|
| Q. No. 17 | Correct option is A i.e. Rs. 93000. Option C may also be considered as correct because question is asking for amount to be debited in debenture redemption A/c. |
| Q. No. 20 | Correct option is D i.e. 35000 (net liability of 20000 is including of firm underwriting. So, effectively application were received for 35000 including firm underwriting (50000-15000). However, Option A may also be considered as correct as application were received from outside is 30000 excluding firm underwriting. |
| Q. No. 37 | None of the options are correct. Correct answer is Rs. 41.8 crore (Economic Value Added = [NOPAT + Interest ]- Weighted average cost of capital* Capital Employed) [(80-4*.70) + 4] - 140*11% |
| Q. No. 38 | None of the options are correct as correct answer is Rs. 700000 [1600000+600000]-[1000000+500000] |
| Q. No. 55 | Correct option is C i.e. less than one if book to market ratio. Correct option is B i.e. more than one if market to book ratio. |

***

# SECURITIES LAWS AND CAPITAL MARKETS

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

*Total number of questions : 6*

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

**PART – I**

**Question 1**

*(a)* *Edelweiss Mutual Fund's portfolio related information are as below :*

| *Stock* | *No. of Shares* | *Price in (₹)* |
|---|---|---|
| *Reliance* | *1,10,000* | *1,548.24* |
| *Tata* | *2,57,000* | *548.65* |
| *Suzlon* | *5,05,000* | *329.51* |
| *Wipro* | *4,75,000* | *913.67* |
| *Richard* | *3,20,000* | *517.29* |

*The fund does not involve borrowed money, but its accrued management fee with the portfolio manager is ₹ 25,00,000. The number of units outstanding is 8,65,63,000. You are required to compute the value of the portfolio and NAV.*

*(5 marks)*

*(b)* *Tata Aviation Ltd., having nation-wide terminals, is in the process of delisting its equity shares from recognized stock exchange. As per the provision of the delisting regulation, the company is providing exit opportunity to its public shareholder; so the company has got approval from shareholders of the company on 18th March, 2023. Following details are made available to you by the company :*

*No. of equity shares outstanding are 43,48,33,000*

| | | |
|---|---|---|
| *Shares hold by promoters* | : | *14,87,67,800* |
| *Shares hold by public shareholders* | : | *28,60,65,200* |
| *Floor price* | : | *90 per shares* |
| *Indicative price* | : | *97 per share* |

*You are required to calculate the amount to be deposited at the time of opening Escrow account and mention the date of opening of Escrow account as per the provisions of the SEBI (Delisting of Equity Shares) Regulations, 2021.*

*(5 marks)*

*(c)* *PQR Ltd. listed its shares in NSE. Its promoters hold 56.5% of paid-up equity*

*share capital as on 31st March, 2022. On 10th October, 2022, some of the promoters who were having convertible warrants in the company, has converted their 12 lakh into equity shares. Consequent to the conversion, the Promoters' holdings increased by 3.95%. Prakash, one of the promoters of the company was holding 16.5% of equity share capital in the company. He proposed to gift 2% of equity shares of the company through transfer to his immediate relative, Vipin. Answer the following in the light of SEBI(SAST) Regulations, 2011.*

*(i) Whether the proposed transfer trigger an obligation upon Vipin for open offer ?*

*(ii) Would the transaction be covered under creeping acquisition ?*

*(iii) Would the promoters be permitted to avail any exemption under the regulations ?*

*(2+2+1=5 marks)*

*(d) What is concurrent audit ? Explain its scope with respect to issuance of DIS and verification of DIS.*

*(5 marks)*

**Answer 1(a)**

| **Stock** | **No. of Shares** | **Price in (₹)** | **Total Price in (₹)** |
|---|---:|---:|---:|
| Reliance | 1, 10,000 | 1548.24 | 17,03,06,400 |
| Tata | 2,57,000 | 548.65 | 14,10,03,050 |
| Suzlon | 5,05,000 | 329.51 | 16,64,02,550 |
| Wipro | 4,75,000 | 913.67 | 43,39,93,250 |
| Richard | 3,20,000 | 517.29 | 16,55,32,800 |
| | | Value of Portfolio | 1,07,72,38,050 |

**NAV per unit =** (Investment + Recoverable + Accrued Income – Liabilities – Accrued expenses) / No. of units

$$\text{NAV} = \frac{₹\ 1{,}07{,}72{,}38{,}050 - ₹\ 25{,}00{,}000}{8{,}65{,}63{,}000}$$

$$= \frac{₹\ 1{,}07{,}47{,}38{,}050}{8{,}65{,}63{,}000}$$

NAV = ₹ 12.415 per unit

**Answer 1(b)**

In the delisting offer, as per the provisions of the SEBI (Delisting of Equity Shares) Regulations, 2021, the acquirer shall open an interest bearing escrow account with a Scheduled Commercial Bank, not later than seven working days from the date of obtaining the shareholders' approval, and deposit therein an amount equivalent to twenty five percent of the total consideration, calculated on the basis of the number of equity shares outstanding with the public shareholders multiplied with the floor price or the indicative price, if any given by the acquirer, whichever is higher.

The acquirer shall enter into a tripartite agreement with the Manager to the offer and the Bank for the purpose of opening the escrow account and shall authorize the Manager to the offer to operate such account.

In the given question, Indicative price is higher than floor price. Hence, Indicative price shall be considered while calculating total consideration. Therefore, amount to be deposited to the Bank at the time of opening of escrow account is 25% of the total consideration.

= 25% of (28,60,65,200 x ₹ 97)

= ₹ 6,93,70,81,100

Based on the SEBI (Delisting of Equity Shares) Regulations, 2021 the acquirer is required to open an escrow account not later than seven working days from the date of shareholders' approval. The shareholders' approval is obtained on 18th March, 2023 and hence, the escrow account must be opened not later than 26th March 2023 (considering Sunday as one holiday and ignoring other holidays as they are not provided in the question).

**Answer 1(c)**

Under Regulation 3 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, no acquirer, who together with persons acting in concert with him, has acquired and holds shares or voting rights in a target company entitling them to exercise twenty-five per cent or more of the voting rights in the target company but less than the maximum permissible non-public shareholding, shall acquire within any financial year additional shares or voting rights in such target company entitling them to exercise more than five per cent of the voting rights, unless the acquirer makes a public announcement of an open offer for acquiring shares of such target company in accordance with these regulations.

(i) and (ii): By virtue of conversion of warrants into shares, the promoter shareholding in the company has already enhanced by 3.95%. A further transfer of shares(gift) constituting 2 % of the equity share capital of the company to an immediate relative in the same financial year would increase the gross acquisition of shares by the promoter group in excess of 5 % threshold under regulation 3(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. Therefore, the requirement to make an open offer is triggered in the given case unless promoters fulfil the conditions for exemption under Regulation 10 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. In other words, the transactions including the proposed transfer would be considered for the purpose of calculating the creeping acquisition limit of 5 %.

(iii) Regulation 10 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011provides that he acquisitions shall be exempt from the obligation to make an open offer under regulation 3 on acquisition pursuant to inter se transfer of shares amongst qualifying immediate relatives or among persons named as promoters in the shareholding pattern filed by the target company for not less than 3 years prior to the proposed acquisition. In the given situation, the transfer would qualify as inter-se transfer between immediate relatives under the Regulation 10 and so it is exempt from the requirement of making an open offer provided that acquirer shall, within twenty-one working days of the date of acquisition, submit a report in such form as may be specified along with supporting documents to the SEBI.

**Answer 1(d)**

**Concurrent Audit**

National Securities Depository Limited vide its Circular No. NSDL/POLICY/ 2006/0021 dated June 24, 2006 provides for concurrent audit of the Depository Participants. The Circular provides that w.e.f. August 1, 2006, the process of demat account opening, control and verification of Delivery Instruction Slips (DIS) is subject to Concurrent Audit.

Depository Participants have been advised to appoint a firm of qualified Chartered Accountant(s) or Company Secretary(ies) holding a certificate of practice for conducting the concurrent audit. However, the participants in case they so desire, may entrust the concurrent audit to their Internal Auditors. In respect of account opening, the auditor should verify all the documents including KYC documents furnished by the clients and verified by the officials of the Participants.

The scope of concurrent audit with respect to control and verification of DIS cover the areas given below:

(I) Issuance of DIS: The procedure followed by the Participants with respect to:

(a) Issuance of DIS booklets including loose slips.

(b) Existence of controls on DIS issued to Clients including pre-stamping of Client ID and unique pre-printed serial numbers.

(c) Record maintenance for issuance of DIS booklets (including loose slips) in the back office.

(II) Verification of DIS: The procedure followed by the Participants with respect to:

(a) Date and time stamping (including late stamping) on instruction slips.

(b) Blocking of used/reported lost/stolen instruction slips in back- office system/ manual record.

(c) Blocking of slips in the back-office system/manual record which are executed in DPM directly.

(d) Two step verifications for a transaction for more than Rs. 5 lakhs, especially in case of off-market transactions.

(e) Instructions received from dormant accounts.

The Concurrent Auditor should conduct the audit in respect of all accounts opened, DIS issued and controls on DIS as mentioned above, during the day, by the next working day. In case the audit could not be completed, he should ensure that the audit is completed within a week's time.

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

**Question 2**

*(a) Comment on the following in light of SEBI (Collective Investment Schemes) Regulations, 1999 :*

*(i) Can a collective investment scheme provide guaranteed returns ?*

*(ii)* *What is the offer period for the CIS ?*

*(iii)* *State the period for issue of Unit Certificates by a Collective Investment Management Company ?*

*(iv)* *What is the penal interest payable by the person registered under a Collective Investment Scheme on his failure to refund the amount within the specified period to the applicant investor.*

*(4 marks)*

*(b)* *Bombay Stock Exchange wants to establish an additional trading floor. Explain briefly the meaning and procedure for establishing an additional trading floor.*

*(4 marks)*

*(c)* *Hon'ble Justice Z, a retired Chief Justice of a High Court, attained the age of 64 years on 31st December, 2022. The Central Government had appointed him as the Presiding Officer of the Securities Appellate Tribunal (SAT) with effect from 1st January, 2023. You are required to state with reference to SEBI Act, 1992 :*

*(a)* *The term for which he may be appointed as Presiding Officer of the SAT.*

*(b)* *Whether he can be re-appointed as such and remains as Presiding Officer of the Securities Appellate Tribunal.*

*(4 marks)*

*(d)* *Samrudhi Enterprises Ltd. established a Trust. The Trust holds some shares of the company obtained by it for the purpose of implementation of Share Based Employee Benefit Scheme in the company. Answer the following in the light of SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 :*

*(i)* *In what manner the shares held by the Trust will be disclosed to the stock exchange ?*

*(ii)* *Can shares held by the Trust be included in the category of public holding?*

*(4 marks)*

*(e)* *Comment on the following :*

*(i)* *Can a Debenture Trustee act for issue of debentures of an associate ?*

*(ii)* *Is appointment of Debenture Trustee compulsory ?*

*(iii)* *Can a debenture issue be transferred ? If so, when can a debenture trustee relinquish his assignments ?*

*(iv)* *Is there any registration fee to be paid by the Debenture Trustee ?*

*(4 marks)*

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

**Question 2A**

*(i)* *State with reasons whether the companies are allowed to make public issue under SEBI (ICDR) Regulations, 2018.*

(a) *Jain, a promoter of XY Ltd. is categorized as a willful defaulter by SBI in accordance with the guidelines issued by the RBI. The company requires funds for its business expansion and plans to make IPO.*

(b) *Sinha is one of the Board of Directors of VG Garments Ltd., against whom a warrant for arrest in relation to a Scheduled offence has been issued by the Court. Sinha left India to keep off criminal prosecution and refused to return to India.*

*(4 marks)*

(ii) *RRR Ltd. is a listed company. It has not satisfied the requirements of listing agreement with the Recognized Stock Exchange. The Stock Exchange decided for compulsory delisting of the securities from the trading platform. In the light of SEBI (Delisting of Equity Shares) Regulations, 2021, answer the following :*

(a) *Whether the Stock Exchange can initiate compulsory delisting of shares of the company ?*

(b) *Who are the members included in the Panel constituted by the Stock Exchange ?*

(c) *What is the timeline stipulated by the Stock Exchange to make representation by the company ?*

(d) *In the case of compulsory delisted company, whether the promoter of the company can act as an intermediary in the securities market ?*

*(4 marks)*

(iii) *State with reasons whether the following persons can be appointed as 'Trustee' of Joe Pharma Ltd., a listed company, which has proposed to implement Share Based Employee Benefit Schemes :*

(a) *Excellent Consultants Ltd. is holding 9% of paid-up capital in the company.*

(b) *Karnatak Bank Securities Ltd. has been one of the leading promoters of the company.*

*(4 marks)*

(iv) *Explain the term Confidentiality of request under the SEBI (Informal Guidance) Scheme, 2003.*

*(4 marks)*

(v) *Elucidate the obligations of the Company under the SEBI (Issue of Sweat Equity) Regulations, 2002.*

*(4 marks)*

**Answer 2(a)**

(i) The Collective Investment Scheme is prohibited to provide guaranteed assured returns, as per the SEBI (Collective Investment Schemes) Regulations, 1999. However, the indicative return may be indicated in the offer document only, if the same is assessed by the appraising agency and expressed in monetary terms.

(ii) Collective investment scheme shall not be open for subscription for more than fifteen days. However, collective investment scheme may be kept open for subscription for a maximum of another fifteen days subject to issuance of public notice by the Collective Investment Management Company before the expiry of initial fifteen days.

(iii) SEBI (Collective Investment Schemes) (Amendment) Regulations, 2022 had dispensed the requirement of unit certificates. It now requires that the Collective Investment Management Company shall issue to the applicant, whose application has been accepted, the units only in dematerialized form within a period of five working days from the date of closure of the subscription list.

(iv) The Collective Investment Management Company shall refund the application money to the applicants, if the collective investment scheme fails to receive the minimum subscription amount. In the event of failure to refund the amounts within the specified period, the Collective Investment Management Company shall pay interest to the applicants at a rate of 15% per annum on the expiry of five working days from the date of closure of the subscription list.

**Answer 2(b)**

Additional trading floor means a trading ring or trading facility offered by a recognized stock exchange outside its area of operation to enable the investors to buy and sell securities through such trading floor under the regulatory framework of that stock exchange.

In accordance with Section 13A of the Securities Contracts (Regulation) Act, 1956, a stock exchange may establish an additional trading floor with the prior approval of the SEBI in accordance with the terms and conditions stipulated by the SEBI. Earlier, the trading in the stock exchange was with the physical presence of brokers on the trading floor of a stock exchange. Now, all stock exchanges have screen-based trading. Further, the brokers can have terminals at any place in India and hence the concept of 'trading floor' has become obsolete.

**Answer 2(c)**

As per Section 15M of the SEBI Act, 1992, a person shall not be qualified for appointment as the Presiding Officer of the Securities Appellate Tribunal, unless he is, or has been, a Judge of the Supreme Court or a Chief Justice of a High Court or a Judge of High Court for at least seven years.

Further, as per Section 15N, the Presiding Officer of the Securities Appellate Tribunal shall hold office for a term of five years from the date on which he enters upon his office, and shall be eligible for reappointment for another term of maximum five years. However, a person shall not hold office as the Presiding Officer after he has attained the age of 70 years.

Keeping in view the above provisions, Mr. Z can be appointed as Presiding Officer of SAT since at the date of the appointment he has attained the age of 64 years. After five years, he will attain the age of 69 years and hence can be re-appointed. However, on the attainment of the age of 70 years, Mr. Z shall have to vacate the office of Presiding Officer and he shall not be re-appointed as Presiding Officer of Securities Appellate Tribunal.

**Answer 2(d)**

Regulation 3(9) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 provides the manner of disclosing shares held by the Trust. It is prescribed that for the purpose of disclosures to the recognised stock exchange, the shareholding of the trust shall be shown as “non-promoter and non-public” shareholding. The shares held by the trust shall not form part of the public shareholding which needs to be maintained at a minimum of twenty five per cent as prescribed under the Securities Contracts (Regulation) Rules, 1957. Accordingly,

(i) Shares held by the Trust of Samrudhi Enterprises Ltd. are required to be shown as "non- promoter and non-public shareholding" while disclosing the shareholding pattern to the stock exchange.

(ii) Shares held by the Trust of Samrudhi Enterprises Ltd. shall not form part of the public shareholding which needs to be maintained at a minimum of 25% as prescribed under the Securities Contracts (Regulation) Rules, 1957.

**Answer 2(e)**

(i) A debenture trustee cannot act for issue of debentures of an associate.

(ii) Debenture Trustee appointment is compulsory in the following cases:

- Section 71(5) of the Companies Act, 2013, stipulate that no company shall issue a prospectus or make an offer or invitation to the public or to its members exceeding 500 for the subscription of its debentures, unless the company has, before such issue or offer, appointed one or more debenture trustees and the conditions governing the appointment of such trustees shall be such as may be prescribed.
- SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 states that the issuer shall appoint a debenture trustee in case of an issue of debt securities.
- SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, provides that an issuer making an initial public offer of convertible debt instruments shall also appoint at least one debenture trustee in accordance with the provisions of the Companies Act, 2013 and the SEBI (Debenture Trustees) Regulations, 1993.

(iii) Yes, a debenture issue can be transferred. A debenture trustee can relinquish its assignments in respect of the debenture issue of any body corporate only when another debenture trustee is appointed in its place by the body corporate.

(iv) Fees for the initial as well as permanent registration is to be paid by the applicant for Debenture Trustee. The break-up of fee is given below:

| **Type** | **Fees prescribed in Debenture Trustee Regulations** | **Tenure (years)** |
|---|---|---|
| Initial Registration (at the time of grant of certificate of registration) | ₹ 20,00,000/- | 5 |
| Continuing fees | ₹ 9,00,000/- | After completion of initial period of 5 years, for every three years. |

**Answer 2A(i)**

(a) As per the Regulations of 5(1) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, an issuer shall not be eligible to make an initial public offer if the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower. In the given case, Jain, one of the promoters of XY Ltd. is categorized as a wilful defaulter by SBI in accordance with the guidelines issued by the RBI. Hence, XY Ltd. cannot proceed to IPO for its business expansion.

(b) Further, an issuer shall not be eligible to make an initial public offer if any of its promoters or directors is a fugitive economic offender. Sinha, the director of VG Garments Ltd., against whom a warrant for arrest was issued by the Court and he left India to keep off criminal prosecution and refused to return to India. Hence, Mr. Sinha being fugitive economic offender, his company is not permitted to make a public issue under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

**Answer 2A(ii)**

a) As per the Regulation 32(1) of the SEBI (Delisting of Equity Shares) Regulations, 2021, a Recognized Stock Exchange may by a reasoned order, delist equity shares of a company on any of the grounds prescribed in the rules specified under the Securities Contracts (Regulation) Act, 1956. Provided that no order shall be issued under this sub-regulation unless the company has been given a reasonable opportunity of being heard.

b) The decision regarding the compulsory delisting shall be taken by a panel to be constituted by the recognised stock exchange consisting of:

- Two directors of the recognized stock exchange and among the two one shall be a public representative.
- One representative of an investor association recognized by the SEBI.
- One representative of the Ministry of Corporate Affairs or Registrar of Companies.
- The Executive Director or Secretary of the recognized stock exchange.

c) Before passing an order, the recognised stock exchange shall give a notice in at least one English national newspaper with wide circulation, one Hindi national newspaper with wide circulation in their all India editions and one vernacular newspaper of the region where the relevant recognised stock exchange is located, of the proposed delisting, giving a time period of not less than fifteen working days from the date of such notice, within which representations, if any, may be made to the recognised stock exchange by any person aggrieved by the proposed delisting and shall also display such notice on its trading systems and website. The recognised stock exchange shall, while passing any order of compulsory delisting, consider the representation, if any, made by the company and also any representation received in response to the notice.

d) Where a company has been compulsorily delisted, the company, its whole-time directors, persons responsible for ensuring compliance with the securities laws, its promoters and the companies which are promoted by any of them shall not act as an intermediary in the securities market for a period of ten years from the date of such delisting.

**Answer 2A(iii)**

In accordance with Regulation 3(4) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021:

(a) any person shall not be appointed as a trustee of the trust if such person, beneficially holds 10% or more of the paid-up share capital or the voting rights of the company. In the given case, Excellent Consultants Ltd. is holding 9%, which is less than 10% of the paid-up capital of the company. So, Excellent Consultants Ltd. can be appointed as a Trustee.

(b) any person shall not be appointed as trustee if he is a director, key managerial personnel or promoter of the company or its group company including its holding, subsidiary or associate company or any relative of such director, key managerial personnel or promoter. Karnatak Bank Securities Ltd. has been one of the leading promoters of the Joe Pharma Ltd. and hence, cannot be appointed as Trustee.

**Answer 2A(iv)**

**Confidentiality of request**

(a) Any person submitting a letter or written communication under this scheme may request that it receive confidential treatment for a specified period of time not exceeding 90 days from the date of the Department's response. The request shall include a statement of the basis for confidential treatment.

(b) If the Department determines to grant the request, the letter or written communication will not be available to the public until the expiration of the specified period.

(c) If it appears to the Department that the request for confidential treatment should be denied, the requestor will be so advised and such person may withdraw the letter or written communication within 30 days of receipt of the advice, in which case the fee, if any, paid by him would be refunded to him.

(d) In case where a request has been withdrawn under clause (c), no response will be given and the letter or written communication will remain in the SEBI files but will not be made available to the public.

(e) If the letter or written communication is not withdrawn, it shall be available to the public together with any written staff response.

**Answer 2A(v)**

The obligations of the Company had been specified under the SEBI (Issue of Sweat Equity) Regulations, 2002, where it was prescribed that the company shall ensure –

(a) The explanatory statement to the notice for general meeting shall contain disclosures as specified.

(b) The Auditor’s certificate shall be placed in the general meeting of shareholders.

(c) The company shall within seven days of the issue of sweat equity, issue or send statement to the exchange, disclosing:

   (i) number of sweat equity shares;

   (ii) price at which the sweat equity shares are issued;

   (iii) total amount invested in sweat equity shares;

(iv) details of the persons to whom sweat equity shares are issued; and

(v) the consequent changes in the capital structure and the shareholding pattern after and before the issues of sweat equity.

However, SEBI has notified the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 on August 13, 2021, hence the SEBI (Issue of Sweat Equity) Regulations, 2002 has been repealed. Therefore, in accordance with Regulation 41 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the obligations of the Company are as under:

(a) the explanatory statement to the notice for a general meeting shall contain disclosures as are specified under section 54(1)(b) of the Companies Act, 2013 and Regulation 32(1) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(b) the secretarial auditor's certificate required under regulation 36 is placed in the general meeting of the shareholders.

(c) the company, within seven days of the issue of sweat equity shares, sends a statement to the recognised stock exchange, disclosing:

i. number of sweat equity shares issued;

ii. price at which the sweat equity shares are issued;

iii. total amount received towards sweat equity shares;

iv. details of the persons to whom sweat equity shares have been issued; and

v. the consequent changes in the capital structure and the shareholding pattern before and after the issue of sweat equity shares.

**Question 3**

*(a) Morgan Care Limited (''MCL'') is a public limited company, which has its equity shares listed on both BSE Limited and National Stock Exchange of India Limited. Carlton Price Private Limited (''CPPL'') is a part of the promoter group of MCL since it is closely held by certain promoters of MCL. However, currently CPPL neither holds any equity shares in MCL nor has any role in the management of MCL. The 'Promoter and Promoter Group' of MCL collectively hold 65.44% of the total paidup capital of CPPL, as on date. Being a public listed company, MCL has issued a 'Code of practice and procedures for fair disclosure of unpublished price sensitive information (''UPSI'') and code of' conduct to regulate, monitor and report trading by insiders of MCL in accordance with the SEBI (Prohibition of Insider Trading Regulations), 2015. CPPL now intends to acquire 50,000 equity shares, constituting 0.06% of the paid-up capital of MCL (''Proposed Acquisition''), which is beyond the thresholds stipulated by the board of directors of MCL for trading by designated persons. In view of the above facts, answer the following questions :*

*(i) What category of persons are required to obtain a pre-clearance from the compliance officer of a listed entity prior to trading ?*

*(ii) Will CPPL be required to obtain a pre-clearance from the compliance officer of MCL for the Proposed Acquisition ?*

*(iii) Does the compliance officer have discretionary powers under the SEBI (PIT Regulations) to reject a pre-clearance request on any reason it deems fit ?*

(iv) *Is the compliance officer required to consider certain factors while approving or rejecting an application seeking pre-clearance for a proposed transaction ?*

(v) *Is there any provision in the SEBI (PIT Regulations) that provides for the examination of acts of a compliance officer ?*

*(1+1+1+1+1=5 marks)*

(b) *What is Enterprise Value ? Compute the Enterprise value from the following information of XYZ Ltd., if the current market price per share is ₹ 93 :*

| ***Liabilities*** | ***(₹ in lakh)*** | ***Assets*** | ***(₹ in lakh)*** |
|---|---|---|---|
| *Share capital (Face value Rs. 2)* | *840* | *Non-current assets* | *2,490* |
| *Reserves and surplus* | *56* | *Current Assets* | *900* |
| *Minority interest* | *110* | *Cash and cash equivalent* | *96* |
| *Short-term debt* | *2,280* | | |
| *Long-term debt* | *200* | | |
| | *3,486* | | *3,486* |

*(2+3=5 marks)*

(c) *Mukharjee holds certain securities on 31st March, 2022, issued in his favour under the "Collective Investment Scheme (CIS)", for consideration, Mukharjee transferred the said securities in favour of another person. One month after the date on which the income on these securities become due, the transferee lodged the instrument of transfer. Decide in the light of the provisions of the Securities Contracts (Regulation) Act, 1956.*

(i) *Whether in the given case, Mukharjee is entitled to receive and retain the income on these securities for the financial year ended 31st March, 2022 ?*

(ii) *What would be your answer in case the transferee lodged the instrument of transfer 10 days after the date on which the income on these securities became due ?*

*(2+3=5 marks)*

**Answer 3(a)**

(i) When the Trading window is open, trading by designated persons shall be subject to pre-clearance by the Compliance Officer, if the value of the proposed trades is above such thresholds as the board of directors may stipulate. Further, Regulation 9 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) states that board of directors or such other analogous authority shall in consultation with the compliance officer specify the designated persons to be covered by the code of conduct on the basis of their role and function in the organisation.

(ii) CPPL will be required to obtain a pre-clearance from the compliance officer of MCL for the Proposed Acquisition only if it is designated as a 'designated person' by the board of directors of MCL, in consultation with the compliance officer.

(iii) The compliance officer, under the provisions of the PIT Regulations, is entrusted with ensuring adherence to the PIT Regulations. A compliance officer is not empowered to make any decision based on subjective criteria or reject an application for pre-clearance of a transaction for any ground other than those pertaining to PIT Regulations.

(iv) The compliance officer is required to approve or reject a request for pre-clearance after necessary assessment limited to the PIT Regulations and the Code of Conduct of the company. Clause 8 of Schedule B states that prior to approving any trades, the compliance officer shall be entitled to seek declarations to the effect that the applicant for pre-clearance is not in possession of any unpublished price sensitive information. He shall also have regard to whether any such declaration is reasonably capable of being rendered inaccurate.

(v) Regulation 2(1)(c) of the PIT Regulations lays down that the compliance officer acts under the overall supervision of the board of directors of the listed company or the head of the organization, as the case may be. Additionally, Clause 1 of Schedule B of the PIT Regulations also requires the compliance officer to report to the board of directors and provide reports to the Chairman of the audit committee or board of directors at such frequency as may be stipulated by the board of directors, but not less than once in a year. Hence, any act of the compliance officer may be referred to the board of directors and the audit committee for examination with the extant laws.

**Answer 3(b)**

Enterprise value means the value calculated as market capitalization of a company plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Enterprise value = Market capitalization + Debt + Minority interest + preferred shares − total cash and cash equivalent

Calculation of Enterprise value of XYZ Ltd. is as under:

Market capitalization = ₹ 840 lakh/ ₹ 2 x ₹ 93 per share = ₹ 39,060 lakh

Enterprise value = Market capitalization + Debt + Minority interest + preferred stock − total cash and cash equivalent

Enterprise value = ₹ 39,060 + ₹ 2280 + ₹200+ ₹ 110 - ₹ 96 = ₹ 41,554 lakh

**Answer 3(c)**

Section 27A (1) of the Securities Contracts (Regulation) Act, 1956 provides that it shall be lawful for the holder of any securities, being units or other instruments issued by the collective investment scheme, whose name appears on the books of the collective investment scheme issuing the said security to receive and retain any income in respect of units or other instruments issued by the collective investment scheme declared by the collective investment scheme in respect thereof for any year, though the said security, being units or other instruments issued by the collective investment scheme, has already been transferred by him for consideration, unless the transferee who claims the income in respect of units or other instruments issued by the collective investment scheme from the transfer or has lodged the security and all other documents relating to the transfer which may be required by the collective investment scheme with the collective investment scheme for being registered in his name within fifteen days of the date on which the income in respect of units or other instruments issued by the collective investment scheme became due.

In view of the above-

(i) Mr. Mukharjee is entitled to retain the income received by him as the transferee has lodged an instrument for transfer one month after the date on which the income became due.

(ii) The answer in the second case would differ. The holder i.e. Mr. Mukharjee, cannot receive and retain the income since the instrument for transfer was lodged with the company within the statutory period of 15 days by the transferee. Accordingly, the transferee would be entitled to receive the income on these securities. However, section 27A(1) will not affect the right of transferee to enforce his rights, if any, against the transferor or any other person if the CIS refuses to register, the transfer of the security in the name of the transferee.

**Question 4**

*(a) Discuss the compliance requirement under the SEBI (LODR) Regulations, 2015 pertaining to Risk Management Committee. Examine the validity of the agenda, 'RNG Ltd. intends to pass ordinary resolution in relation to appointment of independent director' with respect to Regulation 25 of SEBI (LODR) Regulations, 2015. Whether the appointment of X, as an alternate director is valid at the place of independent director Y ?*

*(8 marks)*

*(b) The following information is available from the audited balance sheet of SZ Ltd.*

| | *(₹ in lakh)* |
|---|---|
| *Equity Share capital (3,000 lakh share of ₹ 10 each)* | *30,000* |
| *Share Premium A/c* | *3,000* |
| *General Reserve* | *10,000* |
| *Secured Loans* | *40,000* |
| *Unsecured Loans* | *22,000* |

*Compute the maximum limit up to which buy-back is permitted in the financial year 2022-2023.*

*(7 marks)*

**Answer 4(a)**

The provisions for Risk Management Committee are covered under the Regulation 21 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and provided as under:

(1) The board of directors shall constitute a Risk Management Committee.

(2) The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least One Independent Director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise Independent Directors.

(3) The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.

(3A) The risk management committee shall meet at least twice in a year.

(3B) The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.

(3C) The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than 180 days shall elapse between any two consecutive meetings.

(4) The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit such function shall specifically cover cyber security. The role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II.

(5) The provisions of this regulation shall be applicable to:

i the top 1000 listed entities, determined on the basis of market capitalization as at the end of the immediately preceding financial year, and,

ii a high value debt listed entity.

(6) The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

RNG Ltd. intends to pass an ordinary resolution in relation to appointment of independent director. As per the Regulation 25 (2A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, any appointment or reappointment or removal of an independent director shall be subject to the approval of shareholders through special resolution in a general meeting. Hence, appointment of independent director is not valid under the SEBI (LODR) Regulations, 2015 unless passed by way of special resolution.

With effect from 1st October, 2018, no person shall be appointed or continued as an Alternate director for an independent director of a listed company. In the given case, X is intended to be appointed as Alternate director at the place of independent director Y, which is not valid.

**Answer 4(b)**

In accordance with Regulation 4 of the SEBI (Buy-Back of Securities) Regulations, 2018 the maximum limit of any buy-back shall be twenty-five per cent or less of the aggregate of paid-up capital and free reserves of the company, based on the standalone or consolidated financial statements of the company, whichever sets out a lower amount. In respect of the number of equity shares bought back in any financial year, the maximum limit shall be twenty-five per cent and be construed with respect to the total paid-up equity share capital of the company in that financial year.

Further, Section 68 of the Companies Act, 2013 provides that the buy-back is twenty-five per cent or less of the aggregate of paid-up capital and free reserves of the company. Provided that in respect of the buy-back of equity shares in any financial year, the reference to twenty-five per cent in this clause shall be construed with respect to its total paid-up equity capital in that financial year.

Therefore, the buy-back of equity shares in any financial year should not exceed 25% of its total paid up equity capital in that financial year (₹ 30,000 lakh ×25% = ₹ 7,500 Lakh).

Further, Section 68 of the Companies Act, 2013 provides that the ratio of the aggregate of secured and unsecured debts owed by the company after buy- back is not more than twice the paid-up capital and its free reserves.

In case buyback of shares is done out of free reserves and securities premium, a company is required transfer a sum equal to the nominal value of the shares buyback to Capital Redemption Reserve ('CRR'). Thus, shareholders' fund after buyback would also include CRR. Therefore, X is to be deducted from free reserve as well.

Let the amount of buy-back be 'x

(secured + unsecured debts) / (paid up capital + Free Reserves) ≤2
₹ 62000 /[₹ 30000 – x + (₹ 3000 + ₹ 10000 – x )] <=2
₹ 62000 / (₹ 43000 - 2x) = 2
₹ 62000 = 86000 - 4x
- ₹ 24000= -4x
x = ₹ 6000

From the above two situations, the maximum limit upto which buy-back is permitted in the financial year 2022-23 is ₹ 6000 lakhs.

**PART-II**

**Question 5**

*(a) QIBs are an investment institution who buy the shares of a company on a large scale. Qualified Institutional Buyers are those Institutional investors who are generally perceived to possess expertise and the financial proficiency to evaluate and to invest in the Capital Markets. Based on these, Sujith Limited, is manufacturer of steel and other products, issued 200 crores equity shares through compulsory book building process.*

*The following bids were received from QIBs and Mutual fund :*

| *No.* | *Types of QIB bidders* | *No. of shares bid for (in crores)* |
|---|---|---|
| *1* | *A1* | *30* |
| *2* | *A2* | *10* |
| *3* | *A3* | *90* |
| *4* | *MF1* | *30* |
| *5* | *MF2* | *30* |
| *6* | *MF3* | *70* |
| | *Total* | *260* |

*A1-A3 (QIB bidders other than MFs) and MF1-MF3 (QIB bidders which are MFs). As a company secretary of the company, advise the Board of directors to allot the shares as per the SEBI (Disclosure and Investor Protection) Guidelines, 2000.*

*(5 marks)*

*(b)* *The option contracts are given below; you are required to compute profit or loss to each investor :*

*(i)* *Ravi writes a call option to buy share at an exercise price of ₹ 70 for a premium of ₹ 11 per share. The share price rises to ₹ 73 by the time the option expires.*

*(ii)* *Narain buys a put option at an exercise price of ₹ 78 for a premium of ₹ 7 per share. The share price falls to ₹ 66 by the time the option expires.*

*(2+3=5 marks)*

*(c)* *All the registered merchant bankers are hereby advised to disclose on their website. Elucidate the investor charter to be published or disclosed by the merchant banker.*

*(5 marks)*

**Answer 5(a)**

**SEBI (Disclosure and Investor Protection) Guidelines, 2000 has been repealed in the year 2009.**

**Answer 5(b)**

**(i)**

| **Ravi writes call option** | |
|---|---|
| Exercise price | ₹ 70 |
| Actual price on the date of exercise | ₹ 73 |
| Action taken by the writer | Exercise the option |
| Gross pay off by option writer to buyer (₹73- ₹70) | ₹ 3 |
| Premium received | ₹ 11 |
| **Net pay off** | **₹ 8** |

Hence, Ravi will have a profit of ₹ 8 per share.

**(ii)**

| **Narain buys Put option** | |
|---|---|
| Actual price on exercise date | ₹ 66 |
| Exercise price | ₹ 78 |
| Action taken by the buyer of option | Exercise the option |

| | |
|---|---|
| Gross Pay off to Narain ( ₹78- ₹66) | ₹ 12 |
| Premium paid | ₹ 7 |
| **Net pay off / profit to Narain** | **₹ 5** |

Net profit to Narain from the transaction will be ₹ 5 per share.

**Answer 5(c)**

With a view to provide investors an idea about the various activities pertaining to primary market issuances as well as exit options like Takeovers, Buybacks or Delisting, an Investor Charter has been developed in consultation with the Merchant Bankers. This charter is a brief document in an easy to understand language and contains different services to the investors at one single place for ease of reference. All the registered Merchant Bankers have to disclose on their website, Investor Charter for each of the following categories, as prescribed by SEBI:

1. Initial Public Offer (IPO) and Further Public Offer (FPO) including Offer for Sale (OFS);
2. Rights Issue;
3. Qualified Institutions Placement (QIP);
4. Preferential Issue;
5. SME IPO and FPO including OFS;
6. Buyback of Securities;
7. Delisting of Equity Shares;
8. Substantial Acquisitions of Shares and Takeovers.

Additionally, in order to bring about transparency in the Investor Grievance Redressal Mechanism, it has also been decided that all the registered Merchant bankers shall disclose on their respective websites, the data on complaints received against them or against issues dealt by them and redressal thereof, on each of the aforesaid categories separately as well as collectively, latest by 7th of succeeding month as per the format prescribed by the SEBI.

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

**Question 6**

*Write short notes on the following :*

*(a) Custodial services*

*(b) Co-investment Portfolio Manager*

*(c) Qualified stock broker*

*(d) Nifty*

*(e) Block Mechanism in Demat Account*

*(3 marks each)*

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

**Question 6A**

(i) Aggarwal purchases 10,000 shares of AB Ltd. at ₹ 20. He obtains a complete hedge of shorting 400 Nifty at ₹ 1,200 each. He closes out his position at the closing price of the next day at which point the share of AB Ltd. dropped 2.3% and the Nifty future dropped 2%. Calculate the overall profit or loss.

(ii) Explain the effect of refusal to grant certificate to an intermediary.

(iii) Can an AIF change its category pursuant to registration ? Is the sponsor/management mandated to have an interest in AIF ?

*(5 marks each)*

**Answer 6(a)**

**Custodial services**

A custodian holding a certificate of registration as on the date of commencement of the SEBI (Custodian) (Amendment) Regulations, 2022, may provide custodial services in respect of silver or silver related instruments held by a mutual fund only after taking prior approval of the SEBI.

"Custodial Services" in relation to securities or goods of a client or gold or gold related instruments or silver or silver related instruments held by a mutual fund or title deeds of real estate assets held by a real estate mutual fund scheme in accordance with the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 means, the safekeeping of such securities or goods or gold or gold related instruments or silver or silver related instruments or title deeds of real estate assets and providing services incidental thereto, and includes-

(i) maintaining accounts of securities or goods or gold or gold related instruments or silver or silver related instruments or title deeds of real estate assets of a client;

(ii) undertaking activities as a Domestic Depository in terms of the Companies (Issue of Indian Depository Receipts) Rules, 2004;

(iii) collecting the benefits or rights accruing to the client in respect of securities or goods or gold or silver related instruments or title deeds of real estate assets;

(iv) keeping the client informed of the actions taken or to be taken by the issuer of securities, having a bearing on the benefits or rights accruing to the client;

(v) keeping the client informed of the actions taken or to be taken with respect to the goods held on its behalf; and

(vi) maintaining and reconciling records of the above-mentioned services.

**Answer 6(b)**

**Co-investment Portfolio Manager**

Co-investment means investment made by a Manager or Sponsor or investor of Category I and II Alternative Investment Fund(s) in investee companies where such

Category I or Category II Alternative Investment Fund(s) make investment. However, Co-investment by investors of Alternative Investment Fund shall be through a Co-investment Portfolio Manager as specified under the Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020.

Further, 'Co-investment Portfolio Manager' is defined under the SEBI (Portfolio Managers) Regulations, 2020. It means a Portfolio Manager who is a Manager of a Category I or Category II Alternative Investment Fund(s); and

(i) provides services only to the investors of such Category I or Category II Alternative Investment Fund(s), and

(ii) makes investment only in unlisted securities of investee companies where such Category I or Category II Alternative Investment Fund(s) make investments:

Provided that the Co-investment Portfolio Manager may provide services to investors from any other Category I or Category II Alternative Investment Fund(s), which are managed by them and are also sponsored by the same Sponsor(s)."

**Answer 6(c)**

**Qualified Stock Broker**

Qualified Stock Broker means a stock broker referred under Regulation 18 D of the SEBI (Stock Brokers) Regulations, 1992.

According to Regulation 18D (1), the SEBI may designate a stock broker as a qualified stock broker having regard to its size and scale of operations, likely impact on investors and securities market, as well as governance and service standards, on the basis of the following parameters and the appropriate weightages thereon:

a) the total number of active clients;

b) the available total assets of clients with the stock broker;

c) the trading volumes of the stock broker;

d) the end of day margin obligations of all clients of a stock broker;

e) compliance score as may be specified by the Board;

f) grievance redressal score as may be specified by the Board; and

g) the proprietary trading volumes of the stock broker.

Regulation 18D (2) prescribes that –

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

a) appropriate governance structure and processes;

b) appropriate risk management policy and processes;

c) scalable infrastructure and appropriate technical capacity;

d) framework for orderly winding down;

e) robust cyber security framework and processes; and

f) investor services including online complaint redressal mechanism.

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

**Answer 6(d)**

**NIFTY**

National Stock Exchange Fifty or Nifty is the market indicator of NSE. It is a collection of 50 stocks. It is also referred to as Nifty 50. It is owned and managed by India Index Services and Products Ltd. (IISL).

Nifty is calculated through the free-float market capitalization weighted method. It multiplies the Equity capital (expressed in terms of number of shares outstanding) with a price to derive the market capitalization. To determine the Free-float market capitalization, equity capital (as stated earlier) is multiplied by a price which is further multiplied with IWF (Investible Weight Factors) which is the factor for determining the number of shares available for trading freely in the market. The Index is determined on a daily basis by taking into consideration the current market value (free float market capitalization) divided by base market capital and then multiplied by the Base Index Value of 1000.

**Answer 6(e)**

**Block Mechanism in Demat Account**

SEBI, vide its circular, had introduced block mechanism in the demat account of clients undertaking sale transactions on optional basis, for ease of operations in Early Pay-in mechanism. When the client intends to make a sale transaction, shares will be blocked in the demat account of the client in favour of Clearing Corporation. If sale transaction is not executed, shares shall continue to remain in the client's demat account and will be unblocked at the end of the T Day. Thus, this mechanism will do away with the movement of shares from client's demat account for early pay-in and back to client's demat account if trade is not executed.

SEBI vide this circular has provided that the facility of block mechanism shall be mandatory for all Early Pay-In transactions with effect from November 14, 2022. Further, SEBI vide its Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2022/143 dated October 27, 2022 has issued a clarification on "Block Mechanism in demat account of clients undertaking sale transactions". As per the clarification the block mechanism shall not be applicable to clients having arrangements with custodians registered with SEBI for clearing and settlement of trades.

**Answer 6A(i)**

(i) Calculation of Profit/loss on cash market

| | | |
|---|---|---|
| Value of Shares Purchased(A) | = 10,000×₹ 20 | = ₹2,00,000 |
| Value of Shares by next day(B) | =10,000× | |

| | |
|---|---|
| [₹ 20- (2.3% of ₹20) i.e. ₹ 0.46] | = ₹1,95,400 |
| **Therefore, Loss in cash market (C) (A-B)** | **= ₹4,600** |
| Calculation of Profit/loss on Future market | |
| Value of Future sold (D) = 400 Nifty @ ₹ 1200 each | =₹ 4,80,000 |
| Value of Future next day (E) = 400×[₹ 1200-(2% of ₹1200) i.e. ₹ 24] | =₹ 470,400 |
| **Profit in Future Market (F) (D-E)** | **=₹ 9,600** |
| Therefore, net profit to Aggarwal is (₹9600-₹4600) (F – C) | = ₹ 5,000 |

**Answer 6A(ii)**

**Effect of refusal to grant certificate to an intermediary.**

Section 12 of the SEBI Act, 1992 requires that any intermediary in the capital market shall function as such only under a Certificate of Registration issued by SEBI. Where an intermediary has failed to make an application or where the existing intermediary has been refused grant of certificate under these regulations, the Intermediary has to;

i. Forthwith cease to act as such intermediary;

ii. Transfer its activities to another intermediary which has been granted a certificate for carrying on such activity or allow its clients or investors to withdraw or transfer their securities or funds held in its custody without any additional cost to such client or investor;

iii. Make provisions as regards liability incurred or assumed by the intermediary;

iv. Take such other action within the time period and in the manner, as may be required under the relevant regulations or as may be directed by the SEBI.

While refusing grant of certificate to an intermediary, the SEBI may impose such conditions upon the intermediary as it deems fit for protection of investors or clients of the intermediary or the securities market and such conditions shall be complied with.

**Answer 6A(iii)**

As per Regulation 7(2) of the SEBI (Alternative Investment Funds) Regulations, 2012, an Alternative Investment Fund (AIF) which has been granted registration under a particular category cannot change its category subsequent to registration, except with the approval of the SEBI.

However, as per Circular No. CIR/IMD/DF/12/2013 dated 07th August, 2013, only AIFs who have not made any investments under the category in which they were registered earlier shall be allowed to make application for change in category. Such AIFs are required to make an application in Form A along with necessary supporting documents. Application fees of Rs. 1,00,000/- must be paid along with the application to SEBI. AIFs are not required to pay registration fees for such applications.

If the AIF has received commitments/ raised funds prior to application for change in category, the AIF shall be required to send letters/emails to all its investors providing them the option to withdraw their commitments/ funds raised without any penalties/charges. Any fees collected from investors seeking to withdraw commitments/ funds shall be returned to them. Partial withdrawal may be allowed subject to compliance with the minimum investment amount required under the AIF Regulations.

The AIF shall not make any investments other than in liquid funds/ banks deposits until approval for change in category is granted by SEBI.

On approval of the request from SEBI, the AIF is required to send a copy of the revised placement memorandum and other relevant information to all its investors.

Regulation 10(d) of the SEBI (Alternative Investment Funds) Regulations, 2012, envisage that in order to ensure that the interest of the Manager/Sponsor is aligned with the interest of the investors in the AIF, the sponsor/manager shall have a certain continuing interest in the AIF which shall not be through the waiver of management fees. For Category I and II AIFs, such interest must be not less than two and half percent of the corpus or five crore rupees, whichever is lesser and for Category III AIFs, the continuing interest must be not less than five percent of the corpus or ten crore rupees, whichever is lesser.

For angel funds, such continuing interest shall be not less than two and half percent of the corpus or fifty lakh rupees, whichever is lesser.

***

# ECONOMIC, BUSINESS AND COMMERCIAL LAWS

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

*Total number of questions : 6*

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

**PART I**

**Question 1**

*(a) Discuss the provision of RBI related to constitution of ''Monetary Policy Committee'' under the Reserve Bank of India Act, 1934.*

*(b) What are the various conditions which are to be satisfied by Non-Banking Financial Company (NBFC) to the satisfaction of Reserve Bank of India for registration ?*

*(c) Foreign Venture Capital Investment is the investment made by non-resident investors by purchasing securities or units issued by Indian entities. List the sectors in which Foreign Venture Capital Investor is allowed to invest.*

*(d) Explain the coverage of Export Promotion of Capital Goods (EPCG) Scheme in Foreign Trade Policy, 2023.*

*(5 marks each)*

**Answer 1(a)**

Section 45ZB of the Reserve Bank of India Act, 1934 states that:

(1) The Central Government may, by notification in the official Gazette, constitute a committee to be called the Monetary Policy Committee of the bank.

(2) The Monetary Policy Committee shall consist of the following members, namely:

  (a) The Governor of the Bank — Chairperson, ex-officio;

  (b) Deputy Governor of the Bank, in charge of Monetary Policy- Member, ex-officio;

  (c) One officer of the bank to be nominated by the Central Board- Member, ex-officio; and

  (d) Three persons to be appointed by the Central Government- Members**.**

(3) The Monetary Policy Committee shall determine the policy rate required to achieve the inflation target.

(4) The decision of the Monetary Policy Committee shall be binding on the Bank.

**Answer 1(b)**

The Reserve Bank of India, for the purpose of considering the application for registration of non-Banking Financial Company (NBFC) may require to be satisfied by an inspection of the books of the non-banking financial company or otherwise that the following conditions are fulfilled:

a) that the non-banking financial company is or shall be in a position to pay its present or future depositors in full as and when their claims accrue;

b) that the affairs of the non-banking financial company are not being or are not likely to be conducted in a manner detrimental to the interest of its present or future depositors;

c) that the general character of the management or the proposed management of the non-banking financial company shall not be prejudicial to the public interest or the interests of its depositors;

d) that the non-banking financial company has adequate capital structure and earning prospects;

e) that the public interest shall be served by the grant of certificate of registration to the non-banking financial company to commence or to carry on the business of India;

f) that the grant of certificate of registration shall not be prejudicial to the operation and consolidation of the financial sector consistent with monetary stability, and economic growth considering such other relevant factors which the Reserve Bank of India may, by notification in the Official Gazette, specify; and

g) any other condition, fulfilment of which in the opinion of the Reserve Bank of India, shall be necessary to ensure that the commencement of or carrying on of the business in India by a non-banking financial company shall not be prejudicial to the public interest or in the interests of the depositors.

The Reserve Bank of India may, after being satisfied that the specified conditions are fulfilled, grant a certificate of registration subject to such conditions which it may consider fit to impose.

**Answer 1(c)**

List of sectors in which Foreign Venture Capital Investor is allowed to invest is as follows:

a) Biotechnology;

b) IT related or hardware and software development;

c) Nanotechnology;

d) Seed research and development;

e) Research and development of new chemical entities in pharmaceutical sector;

f) Dairy industry;

g) Poultry industry;

h) Production of bio-fuels;

i) Hotel-cum-convention centres with seating capacity of more than three thousand;

j) Infrastructure sector.

**Answer 1(d)**

a. Export Promotion Capital Goods (EPCG) scheme covers manufacturer exporters with or without supporting manufacturer(s), merchant exporters tied to supporting manufacturer(s) and service providers. Name of supporting manufacturer(s) shall be endorsed on the EPCG Authorisation before installation of the capital goods in the factory / premises of the supporting manufacturer(s). In case of any change in supporting manufacturer(s), the RA shall intimate such change to jurisdictional Customs Authority of existing as well as changed supporting manufacturer(s) and the Customs at port of registration of Authorisation.

b. EPCG Scheme also covers a service provider who is certified as a Common Service Provider (CSP) by the DGFT - HQs, Department of Commerce in a Town of Export Excellence or Prime Minister Mega Integrated Textile Region and Apparel Parks (PM MITRA) subject to provisions of Foreign Trade Policy/Handbook of Procedures with the following conditions:

i. Common utility services like providing Electricity, Water, Gas, Sanitation, Sewerage, Telecommunication, Transportation etc. shall not be considered for benefit of CSP;

ii. Export by users of the common service shall be counted towards fulfilment of EO of the CSP provided the EPCG Authorisation details of the CSP is mentioned in the respective Shipping bills and concerned RA must be informed about the details of the users prior to such export;

iii. Such export will not count towards fulfilment of specific export obligation in respect of other EPCG Authorisations of the user;

iv. Authorisation holder shall be required to submit Bank Guarantee (BG) which shall be equivalent to the duty saved. BG can be given by CSP or by any one of the users or a combination thereof, at the option of the CSP; and

v. Capital goods shall be installed within a Town of Export Excellence or PM MITRA.

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

**Question 2**

*(a) ''The entities raising External Commercial Borrowings (ECB) are required to follow the guidelines for hedging issued, if any, by the concerned sectoral or prudential regulator in respect of foreign currency exposure.'' Discuss these guidelines.*

*(4 marks)*

*(b) Can an Indian Trust or Society make overseas direct investment ? What are the eligibility criteria for an Indian Trust or Society for making Overseas Direct Investment under the Foreign Exchange Management (Overseas Investment) Regulations, 2022 ?*

*(4 marks)*

*(c) Whether following remittances by Resident Individuals need prior approval of Reserve Bank of India :*

*(i) Geeta gifts to her sister in New York USD 2,45,000.*

*(ii) Manav spends USD 3,50,000 as fees for an Academic Course in New Zealand.*

*(iii) Ishan spends USD 1,75,000 on European Tour.*

*(iv) Ashima is going to Australia for Emigration and she wants to draw USD 2,75,000.*

*(4 marks)*

*(d) When can the assets created out of Foreign Contribution be disposed of under Section 22 of the The Foreign Contribution (Regulation) Act, 2010.*

*(4 marks)*

*(e) List the instruments included as Non-Debt instruments under Foreign Direct Investment– Regulation and Policy.*

*(4 marks)*

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

**Question 2A**

*(i) What are the duties, powers and functions of ''Board of Approval'' regarding orderly development of Special Economic Zones under Special Economic Zones Act, 2005 ?*

*(ii) Discuss the salient features of Foreign Contribution (Regulation) Amendment Act, 2020.*

*(iii) Discuss the ''Financial Inclusion and Development Functions'' of RBI under Reserve Bank of India Act, 1934.*

*(iv) State the guidelines for FDI in Pension Sector along with Entry Route and percentage of Equity/FDI under Foreign Direct Investment–Regulation and Policy.*

*(v) What are entry routes of Foreign Direct Investment in India under Foreign Direct Investment–Regulation and Policy ?*

*(4 marks each)*

**Answer 2(a)**

The entities raising External Commercial Borrowing (ECB) are required to follow the guidelines for hedging issued, if any, by the concerned sectoral or prudential regulator in respect of foreign currency exposure. Infrastructure space companies shall have a Board approved Risk Management Policy. Further, such companies are required to mandatorily hedge 70 per cent of their ECB exposure in case the average maturity of the ECB is less than 5 years. The designated AD Category-I bank shall verify that 70 per cent hedging requirement is complied with during the currency of the ECB and report the position to through Form ECB 2.

The following operational aspects with respect to hedging should be ensured:

- *Coverage:* The ECB borrower will be required to cover the principal well as the coupon through financial hedges. The financial hedge for all exposures on account of ECB should start from the time of each such exposure (i.e., the day the liability is created in the books of the borrower).
- *Tenor and Rollover:* A minimum tenor of one year for the financial hedge would be required with periodic rollover, duly ensuring that the exposure on account of ECB is not unhedged at any point during the currency of the ECB.
- *Natural Hedge:* Natural hedge, in lieu of financial hedge, will be considered only to the extent of offsetting projected cash flows / revenues in matching currency, net of all other projected outflows. For this purpose, an ECB may be considered naturally hedged if the offsetting exposure has the maturity/ cash flow within the same accounting year. Any other arrangements/ structures, where revenues are indexed to foreign currency will not be considered as a natural hedge.

Overseas investors are eligible to hedge their exposure in Rupee through permitted derivative products with AD Category I banks in India. The investors can also access the domestic market through branches / subsidiaries of Indian banks abroad or branches of foreign banks with Indian presence on a back-to-back basis.

**Answer 2(b)**

Yes, an Indian Registered Trust or Society can make Overseas Direct Investment by following certain conditions.

*Eligibility Criteria for Overseas Direct Investment (ODI) by Registered Trust or Society:*

Any person being a registered Trust or a registered Society engaged in the educational sector or which has set up hospitals in India may make ODI in a foreign entity with the prior approval of the Reserve Bank, subject to the following conditions, namely: -

(i) the foreign entity is engaged in the same sector that the Indian Trust or Society is engaged in;

(ii) the Trust or the Society, as the case may be, should have been in existence for at least three financial years before the year in which such investment is being made;

(iii) the trust deed in case of a Trust, and the memorandum of association or rules or bye-laws in case of a Society shall permit the proposed ODI;

(iv) such investment has the approval of the trustees in case of a Trust and the governing body or council or managing or executive committee in case of a Society;

(v) in case the Trust or the Society require special license or permission either from the Ministry of Home Affairs, Central Government or from the relevant local authority, as the case may be, the special license or permission has been obtained and submitted to the designated AD bank.

**Answer 2(c)**

(i) Within the limits of Liberalised Remittance Scheme (LRS) of USD 2,50,000 USD, any resident individual may remit up-to USD 2,50,000 in one Financial Year as gift to a person residing outside India.

Hence, the RBI approval is not needed by Geeta.

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

Hence RBI approval is not needed by Manav.

(iii) For private visits abroad, other than visit to Nepal and Bhutan, resident individual can obtain foreign exchange up to an aggregate amount of USD 2,50,000, from an Authorised Dealer, in any one financial year, irrespective of the number of visits undertaken during the year.

Further, all tour related expenses including cost of rail/road/water transportation; cost of Euro Rail; passes/ tickets, etc. outside India; and overseas hotel/lodging expenses are to be subsumed under the Liberalised Remittance Scheme (LRS) limit. The tour operator can collect this amount either in Indian rupees or in foreign currency from the resident traveler.

Hence, RBI approval is not needed by Ishan.

(iv) A person wanting to emigrate can draw foreign exchange from AD Category I bank and AD Category II up to the amount prescribed by the country of emigration or USD 250,000. Remittance of any amount of foreign exchange outside India in excess of this limit may be allowed only towards meeting incidental expenses in the country of immigration and not for earning points or credits to become eligible for immigration by way of overseas investments in government bonds; land; commercial enterprise; etc.

Hence, the RBI approval is needed by Ashima as the amount exceeds USD 2,50,000

**Answer 2(d)**

Section 22 of Foreign Contribution (Regulation) Act 2010 provides that where any person who was permitted to accept foreign contribution under this Act *ceases* to *exist or has become defunct,* all the assets of such person shall be disposed of in accordance with the provisions contained in any law for the time being in force under which the person was registered or incorporated and in the absence of such law, the Central Government may having regard to the nature of assets created out of foreign contribution received under this Act by notification, specify that all such assets shall be disposed of by such authority, as it may specify, in such manner and procedure as may be prescribed.

**Answer 2(e)**

Non-Debt Instruments means the following instruments namely:

i. All investments in equity instruments in incorporated entities: public, private, listed, unlisted;

ii. Capital participation in LLP;

iii. All instruments of investment recognised in the FDI policy notified from time to time;

iv. Investment in units of Alternative Investment Fund (AIFs), Real Estate Investment Trust (REITs) and Infrastructure Investment Trust;

v. Investment in units of Mutual funds or Exchange Traded Funds (ETFs) which invest more than fifty per cent in equity;

vi. Junior-most layer (i.e., equity tranche) of securitisation structure;

vii. Acquisition, sale or dealing directly in immovable property;

viii. Contribution to trusts; and

ix. Depository receipts issued against equity instruments.

**Answer 2A(i)**

Section 9 of the Special Economic Zones Act, 2005 casts upon the Board the duty to promote and ensure orderly development of the Special Economic Zones. The powers and functions of the Board of Approval *inter alia,* include:

a) granting of approval or rejecting proposal or modifying such proposals for establishment of the Special Economic Zones;

b) granting approval of authorized operations to be carried out in the Special Economic Zones by the Developer;

c) granting of approval to the Developer or Units (other than the Developers or the Units which are exempt from obtaining approval under any law or by the Central Government) for foreign collaborations and foreign direct investments (including investments by a person resident outside India) in the Special Economic Zone for its development, operation and maintenance;

d) granting of approval or rejecting proposal for providing infrastructure facilities in a Special Economic Zone or modifying such proposals;

e) granting a license, notwithstanding anything contained in the Industries (Development and Regulation) Act, 1951, to an industrial undertaking referred to in section 3(d) of Industries Development & Regulation (IDR) Act, if such undertaking is established, as a whole or part thereof, or proposed to be established, in a Special Economic Zone;

f) Suspension of the letter of approval granted to a Developer and appointment of an Administrator under Section 10(1) of the Act;

g) disposing of appeals preferred under Section 15(4) & Section 16(4) of the Act;

h) Performing such other functions as may be assigned to it by the Central Government.

Section 9 (3) states that the Board may, if so required for the purposes of this Act or any other law for the time being in force relating to Special Economic Zones, by notification, decide as to whether a particular activity constitutes manufacture as defined in clause (r) of section 2 and such decision of the Board shall be binding on all Ministries and Departments of the Central Government

Section 9(4) empowers the Board of Approval to delegate such powers and functions as it may deem fit to one or more Development Commissioners for effective and proper discharge of the functions of the Board. Section 9(5) stipulates that the Board shall, in exercise of its powers and performance of its functions, be bound by such directions on questions of policy, as the Central Government may give in writing to it from time to time.

The decision of the Central Government whether a question is one of policy or not shall be final.

**Answer 2A(ii)**

The salient features of the Foreign Contribution (Regulation) Amendment Act, 2020 *inter alia,* are as under: —

a) Amended Section 3(1) (c) of the Act to include “public servant” also within its ambit, to provide that no foreign contribution shall be accepted by any public servant;

b) Amended Section 7 of the Act to prohibit any transfer of foreign contribution to any person;

c) Amended section 8(1) of the Act to reduce the limit for defraying administrative expenses from existing “fifty per cent.” to “twenty per cent.”

d) Insertion of new sub-section (1A) after sub-section (1) of section 12, sub-section (1A) provides that every person who makes an application under sub-section (1) shall be required to open ‘‘FCRA Account’’ in the manner specified in section 17 and mention details of such account in his application.’

e) Insertion of a new Section 12A empowering the Central Government to require Aadhaar number, etc., as identification document;

f) Insertion of a new Section 14A enabling the Central Government to permit any person to surrender the certificate granted under the Act.

g) Amended Section 17 of the Act to provide that every person who has been granted certificate or prior permission under section 12 shall receive foreign contribution only in an account designated as "FCRA Account" which shall be opened by him in such branch of the State Bank of India at New Delhi, as the Central Government may, by notification, specify and for other consequential matters relating thereto.

**Answer 2A(iii)**

The mushrooming of unauthorized and unregulated money lenders in the financial system of the country necessitated the RBI to do something more than what has been provided in the Rule Books. Financial literacy or financial inclusion, though, not explicitly expressed in the RBI Act, 1934, or the Banking Regulation Act, 1949, sub-section (16) of Section 17 of the RBI Act, 1934, enables RBI to do all such matters and things as may be incidental to or consequential to the exercise of its powers or the discharge of its duties under the Act.

Further, India being a country with significant illiteracy, there remains an obligation on the part of the 'State' to educate the people and also to include them into the organized financial system of the country to get the benefits of professional banking system of the country. The amendment to the Banking Regulation, 1949, inserting Section 26A, which provides for establishment of Depositor Education and Awareness Fund, is a step towards achieving this objective, which makes it amply clear that the statute casts a responsibility on the RBI to focus towards achieving financial literacy in the country. Section 26A provides that the Fund shall be utilised for promotion of depositors' interests and for such other purposes which may be necessary for the promotion of depositors' interests as may be specified by the RBI from time to time. Not only has the BR Act, 1949, even the RBI Act, 1934, mandated the RBI to maintain expert staff to study various aspects of rural credit and development, which emphasizes the premier role to be played by RBI in promoting financial literacy and financial inclusion among the citizens living even in the remote areas of the country.

**Answer 2A(iv)**

i. Foreign investment in Pension Funds is allowed as per the Pension Fund Regulatory and Development Authority (PFRDA) Act, 2013.

ii. Foreign investment in Pension Fund will be subject to the condition that entities bringing in foreign equity investment as per Section 24 of the PFRDA Act shall obtain necessary registration from the Pension Fund Regulatory and Development Authority and comply with other requirements as per the PFRDA Act 2013 and rules and regulations framed under it for so participating in Pension Fund Management activities in India.

iii. An Indian pension fund shall ensure that its ownership and control remain at all times in the hands of resident Indian entities as determined by the Government of India/ PFRDA as per the rules / regulations issued by them from time to time.

| Sector | Percentage of Equity/FDI | Entry Route |
|---|---|---|
| Pension Sector | 49% | Automatic |

**Answer 2A(v)**

Investments can be made by non-residents in the equity shares/fully, compulsorily and mandatorily convertible debentures/fully, compulsorily and mandatorily convertible preference shares of an Indian company, through the automatic Route or the Government Route.

Under the Automatic Route, the non-resident investor or the Indian company does not require any approval from Government of India for the investment.

Under the Government Route, approval of the Government of India is required. Proposals for foreign investment under Government Route, are considered by respective Administrative Ministry/Department.

Foreign Investment in sectors/activities under government approval route will be subject to Government approval where:

(i) An Indian company is being established with foreign investment and is not owned by a resident entity; or

(ii) An Indian company is being established with foreign investment and is not controlled by a resident entity; or

(iii) The control/ownership of an existing Indian company, currently owned or controlled by resident Indian citizens and Indian companies, which are owned or controlled by resident Indian citizens, will be/is being transferred/passed on to a non-resident entity as a consequence of transfer of shares and/or fresh issue of shares to non-resident entities through amalgamation, merger/demerger, acquisition etc.;

(iv) Investment by NRIs, a company, trust and partnership firm incorporated outside India and owned and controlled by non-resident Indians, under Schedule IV of Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 on non-repatriation basis will be deemed to be domestic investment at par with the investment made by residents.

## PART II

### Question 3

(a) Can Competition Commission of India during pendency of inquiry issue interim order ? Discuss with relevant case laws.

(b) What is the basic purpose of Competition Law and Policy ?

(c) Explain the concept of Competition Advocacy u/s 49 of the Competition Act, 2002.

(d) Explain the provisions relating to ‘‘Right to legal representation’’ in context of the Competition Act, 2002.

(e) The Competition Act, 2002 provides for the constitution of a fund called the ‘‘Competition Fund.’’ Elaborate the given statement.

*(3 marks each)*

### Answer 3(a)

Section 33 of the Competition Act, 2002 provides that where during an inquiry, the Commission is satisfied that an act in contravention of section 3(1) or section 4(1) or section 6 has been committed and continues to be committed or that such act is about to be committed, the Commission may, by order, temporarily restrain any party from carrying on such act until the conclusion of such inquiry or until further orders, without giving notice to such party, where it deems it necessary.

In the case of *Competition Commission of India v. Steel Authority of India (Civil Appeal No. 7779 of 2010, judgment dated September 09, 2010), Hon'ble* Supreme Court observed that the power under section 33 of the Competition Act, 2002, has to be exercised by the Commission sparingly and under compelling and exceptional circumstances.

The Commission while recording a reasoned order *inter alia* should:

(a) record its satisfaction which has to be of much higher degree than formation of a prima facie view under section 26 (1) of the Act in clear terms that an act in contravention of stated provisions has been committed and continues to be committed or is about to be committed;

(b) It is necessary to issue order of restraint and

(c) from the record before the Commission, it is apparent that there is every likelihood of the party to the *lis* suffering irreparable and irretrievable damage or there is definite apprehension that it would have adverse effect on competition in the market.

**Answer 3(b)**

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

**Answer 3(c)**

Under Section 49 of the Competition Act, 2002, the Central Government / State Government may seek the opinion of Competition Commission of India on the possible effects of the policy on competition or any other matter. In this context Section 49 envisages that while formulating a policy on competition, the Government may make a reference to the commission for its opinion on possible effect of such a policy on the competition, or any other matter.

On the receipt of such a reference the Commission shall give its opinion on it to the Central Government/ State Government within sixty days of making of such a reference and the latter may formulate the policy as it deems fit. The role of the Commission is advisory and the opinion given by the Commission shall not be binding upon the Central Government/ State Government in formulating such policy. The Commission is also empowered to take suitable measures for the:

(i) Promotion of competition advocacy;

(ii) creating awareness about the competition;

(iii) imparting training about competition issues.

Creating awareness about benefits of competition and imparting training in competition issues is expected to generate conducive environment to promote and foster competition, which is sine-qua non for accelerating economic growth.

**Answer 3(d)**

A person preferring an appeal to Appellate Tribunal under the Competition Act, 2002 may either appear in person or authorize one or more Chartered Accountants or Company Secretaries or Cost Accountants or Legal Practitioners or any of its officers to present his or its case before the Appellant Tribunal.

The Central Government or State Government or any local authority or any enterprise preferring an appeal to the Appellant Tribunal may authorise one or more Chartered Accountants or Company Secretaries or Cost Accountants or Legal Practitioners or any of its officers to act as presenting officers and every person so authorised may present the case with respect to any appeal before the Appellant Tribunal.

The Competition Commission of India may authorise one or more Chartered Accountants or Company Secretaries or Cost Accountants or Legal Practitioners or any of its officers to act as presenting officers and every person so authorised may present the case with respect to any appeal before the Appellant Tribunal.

*Explanation* — The expressions "Chartered Accountant" or "Company Secretary" or "Cost Accountant" or "Legal Practitioner" shall have the meanings respectively assigned to them in the Explanation to section 35 of the Competition Act, 2002.

**Answer 3(e)**

The Competition Act, 2002 provides for the constitution of a fund called the "Competition Fund" for meeting the establishment and other expenses of the Competition Commission in connection with the discharge of its functions and for the purposes of this Act. The following shall be credited to the "Competition Fund": -

(a) all government grants received by the commission;

(b) the fees received under the Act;

(c) the interest on the amounts accrued on the monies referred under clauses (a) and (b).

The Fund shall be administered by a Committee of such Members of the Commission, as may be determined by the Chairperson and the Committee so appointed, shall spend monies out of the Fund only for the objects for which the Fund has been constituted.

**Question 4**

*(a) Explain the provisions of appointment of ''Director General'' under the Competition Act, 2002.*

*(b) What factors are important to determine 'relevant geographic market' and 'relevant product market' under the Competition Act, 2002 ?*

*(5 marks each)*

**Answer 4(a)**

Director General is an important functionary under the Competition Act, 2002. He is to assist the Commission in conducting inquiry into contravention of any of the provisions of the Act and for performing such other functions as are, or may be, provided by or under the Act.

Section 16 of the Competition Act, 2002 empowers the Central Government to appoint a Director General and such number of additional, joint, deputy or assistant Director Generals or other advisers, consultants or officers for the purposes of assisting the Commission in conducting inquiry into the contravention of any provision of the Act.

Additional, joint, deputy and assistant Director Generals, other advisors, consultants and officers shall however, exercise powers and discharge functions subject to the general control, supervision and directions of the Director General.

The salary, allowances and other terms and conditions and service of Director General, consultants, advisors or other officers assisting him shall be such as may be prescribed by the Central Government. The Director General, advisers, consultants and officers assisting him are to be appointed from amongst the persons of integrity and outstanding ability and who have experience in investigation, and knowledge of accountancy, management, business, public administration, international trade, law or economics and such other qualifications as may be prescribed.

**Answer 4(b)**

*Factors for Relevant Geographic Market*

The Commission shall while determining the 'relevant geographic market' have due regard to all or any of the following factors namely;

a) regulatory trade barriers;

b) local specification requirements;

c) National procurement policies;

d) adequate distribution facilities;

e) transport costs;

f) language;

g) consumer preferences;

h) need for secure regular supplies or rapid after sales service;

i) characteristics of goods or nature of services;

j) costs associated with switching supply or demand to other areas.

*Factors for Relevant Product Market*

The Commission shall while determining the 'relevant product market' have due regard to all or any of the following factors namely;

a) physical characteristics or end use of goods or nature of services;

b) price of goods or service;

c) consumer preferences;

d) exclusion of in- house production;

e) existence of specialized producers;

f) classification of industrial products;

g) costs associated with switching demand or supply to other goods or services;

h) categories of customers.

**PART III**

**Question 5**

(a) Ratan Properties Pvt. Ltd. is developing a residential site in Jodhpur. *Aryansh purchases a plot of 5000 square feet. Before the plot could be developed, war breaks out and the residential site is requisitioned by Government of India for war purposes for temporary period. Ratan Properties Pvt. Ltd, claims impossibility to deliver plot to Aryansh. Examine the claim under the Indian Contract Act, 1872.*

*(4 marks)*

*(b) Malti is the daughter of Harish who has divided all the assets among his two sons Dhruv and Tarun with the condition that some provision must be made for the marriage of Malti. Later the brothers refuse to contribute towards the marriage of Malti on the pretext that there is absence of privity of contract between Malti and the two brothers. Will Malti succeed ? Discuss as per the provisions of Indian Contract Act, 1872.*

*(4 marks)*

*(c)* *Amit who is Hindu, provided in partition between him and his three sons in the partition deed that if any one of his sons wants to sell his share, he should not sell it to a stranger, rather he should sell it to his brother at Rs. 1000 only. Examine the validity of condition imposed in partition deed under provisions contained in Transfer of Property Act, 1882.*

*(4 marks)*

*(d)* *Raichand & Sons supplied deficient pipes and fitting materials to Rakesh & Sons. Rakesh & Sons preferred an application before the State Commission, for which State Commission had awarded Rs. 1.5 Crore as compensation to be paid by Raichand & Sons to Rakesh & Sons. When the opposite party Raichand & Sons preferred an appeal to the National Commission, they were asked to pay 50 percent of the award money. Examine the validity of requirement of deposit for making appeal to National Consumer Dispute Redressal Commission under the Consumer Protection Act, 2019.*

*(4 marks)*

*(e)* *Raman bought the car of Rupali. But the car remained in garage of Rupali. The price remained unpaid. The car was destroyed by a fire but there was no fault of Rupali in this. Rupali claims money of the car. Examine the validity of her claim as per the Sale of Goods Act, 1930.*

*(4 marks)*

**Answer 5(a)**

The problem is based on section 56 of Indian Contract Act, 1872 relating to doctrine of impossibility. A contract which is entered into to perform something that is clearly impossible is void.

Para 2 of Section 56 provides that a contract to do an act, which after the contract is made, becomes impossible or by reason of some event which the promisor could not prevent, unlawful, becomes void when the act becomes impossible or unlawful.

In *Satyabarta Ghose v Mugneeram Bangur & Co. AIR 1954 SC 44* the Supreme Court interpreted the term impossible appearing in second paragraph of section 56. The Court observed that the word ‘impossible’ has not been used here in the sense of physical or literal impossibility: The performance of an act may not be literally impossible but it may be impracticable and useless from the point of view of the object and, purpose which the parties had in view; and if an untoward event or change of circumstances totally upsets the very foundation upon which the parties rested their bargain; it can very well be said that the promisor found it impossible to do the act which he promised to do. In this case, A undertook to sell a plot of land to B but before the plot could be developed, war broke out and the land was, temporarily requisitioned by the Government. A offered to return earnest money to B in cancellation of contract. B did not accept and sued A for specific performance. A pleaded discharge by frustration. The Court held that Section 56 on the ground that the requisition was of temporary in nature and there was no time limit within which A was obliged to perform the contract. The impossibility was not of such a nature which would strike at the root of the contract.

The problem is based on the case hence impossibility cannot be pleaded. The claim of Ratan Properties Pvt. Ltd. is invalid.

**Answer 5(b)**

A stranger to a contract cannot sue for want of privity of contract.

But there are exceptions to this doctrine which include cases of family arrangement. In case of family arrangement or settlement between male members of a Hindu family which provide for the maintenance or expenses for marriage of female members, the latter though not parties to the contract possess an actual beneficial right which place them in a position of beneficiaries under the contract and can therefore, sue.

In the given case Malti can sue and will succeed.

**Answer 5(c)**

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

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

Hence, condition imposed by Amit is invalid.

**Answer 5(d)**

Supreme Court in the case of *Manohar Infrastructure and Constructions Private Limited v. Sanjeev Kumar Sharma & Ors, judgment dated December 07, 2021* held that the condition of pre-deposit for entertaining appeal under Section 51 of the Consumer Protection Act, 2019 is mandatory. Section 51 of the Consumer Protection Act, 2019 provides that no appeal by a person, who is required to pay any amount in terms of order of the State Commission shall be entertained by the NCDRC unless the appellant has deposited 50 percent of that amount.

The Hon'ble Court in answering the question laid down the following:

1) Pre-deposit of 50 per cent of amount as ordered by the State Commission under second proviso to Section 51 of the Consumer Protection Act, 2019 is mandatory for entertainment of an appeal by the National Commission;

2) The object of the said pre-deposit condition is to avoid frivolous appeals;

3) The said pre-deposit condition has no nexus with the grant of stay by the NCDRC.

Therefore, it is mandatory for Raichand & Sons to deposit the money before preferring an appeal to National Consumer Dispute Redressal Commission (NCDRC) under the Consumer Protection Act, 2019.

**Answer 5(e)**

There may be **two alternative** answers of this question

***Alternative Answer 1**:*

When it is presumed that ownership has passed on to the Raman and rule of *res perit domino* is applicable

Section 26 of Sale of Goods Act, 1930 discusses the passing of risk. The general rule is that goods remain at the seller's risk until the ownership is transferred to the buyer. After the ownership has passed to the buyer, the goods are at the buyer's risk whether the delivery has been made or not.

For example: A buys goods of B and property has passed from B to A; but the goods remain in B's warehouse and the price is unpaid. Before delivery, B's warehouse is burnt down for no fault of B and goods are destroyed. A must pay B the price of the goods; as he was the owner. The rule is *res perit domino*- the loss falls on the owner.

So, payment or delivery of goods is not a criterion to determine who will bear the loss. If there is no other agreement expressly between buyer and seller, and delivery is not delayed due to fault of Rupali in this case, then the rule of res perit domino prevails.

*Then Rupali will succeed in her claim.*

***Alternative Answer 2**:*

Where according to agreement between the buyer and seller, risk and ownership passes at different point of time or when delivery is delayed due to fault of either party, *then the rule of res perit domino does not apply.*

But the parties may agree that risk will pass at the time different from the time when ownership is passed. For example, the seller may agree to be responsible for the goods even after the ownership is passed to the buyer or vice versa.

In the case of *Consolidated Coffee Ltd. v. Coffee Board, (1980) 3 SCC 358,* one of the terms adopted by coffee board for auction of coffee was the property in the coffee knocked down to a bidder would not pass until the payment of price and in the meantime the goods would remain with the seller but at the risk of the buyer. In such cases, risk and property passes on at different stages.

In the case of *Multanmal Champalal v. Shah Co., AIR 1970 Mysore 106,* goods were despatched by the seller from Bombay to Bellary through a public carrier. According to the terms of the contract, the goods were to remain the property of the seller till the price was paid though the risk was to pass to the buyer when they were delivered to public carrier for despatch. When the goods were subsequently lost before the payment of the price (and the consequent to the passing of the property to the buyer), the Court held that the loss was to be borne by the buyer.

It was further held in the same that the buyer was at fault in delaying delivery unreasonably and therefore on that ground also he was liable for the loss, because such loss would not have arisen but for such delay.

Thus, where delivery has been delayed through the fault of either the buyer or the seller, in such a case, the goods are at the risk of the party at fault as regards any loss which might not have occurred but for such fault.

*Rupali's claim may fail on aforesaid basis.*

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

**Question 6**

(a) *What is Endorsement under the Negotiable Instruments Act, 1881 ? Name the various types of Endorsements.*

*(3 marks)*

(b) *In the light of Consumer Protection Act, 20l9, highlight the concept of Product Liability Action and discuss the liability of the Product Manufacturer.*

*(3 marks)*

*(c) Adnan and Tara are partners in a partnership firm which is not registered. Diti is a retailor who sells goods produced by Adnan and Tara's partnership firm on credit basis. Since Diti is unable to make payment for credit sales made in previous year, Adnan and Tara intent to sue Diti. Advice whether the partnership firm can sue Diti under provisions of Indian Partnership Act, 1932 ?*

*(3 marks)*

*(d) What influence does money laundering have on economic development ?*

*(3 marks)*

*(e) Samantha is gifted a house by her father with the condition that she must transfer a paddy field to her sister. Is this transfer valid ? Explain as per provisions contained in Transfer of Property Act, 1882.*

*(3 marks)*

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

**Question 6A**

*Distinguish between the following :*

*(i) Mistake of Fact and Mistake of Law*

*(ii) Tenancy at will and Tenancy by sufferance*

*(iii) Novation and Alteration*

*(iv) FOB contracts and CIF Contracts*

*(v) Actionable claim and Non-actionable claim.*

*(3 marks each)*

**Answer 6(a)**

Where the maker or holder of a negotiable instrument signs the same otherwise than as such maker for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto (called Allonge), or so, signs for the same purpose; a stamped paper intended to be completed as a negotiable instrument, he is said to endorse the same. (Section 15 of the Negotiable Instruments Act, 1881). The person to whom the instrument is endorsed is called endorsee.

In other words, 'endorsement' means and involves the writing of something on the back of an instrument for the purpose of transferring the right, title and interest therein to some other person.

An endorsement may be:

(a) Blank or General;

(b) Special or Full;

(c) Restrictive; or

(d) Partial and

(e) Conditional or Qualified.

**Answer 6(b)**

According to Section 83 of the Consumer Protection Act, 2019, a Product Liability Action may be brought by the complainant against a product manufacturer or a product service provider or a product seller, as the case may be, for any harm caused to him on account of a defective product.

Section 84 of the Consumer Protection Act, 2019 states that a product manufacturer shall be liable in a product liability action, if:

(i) The product contains a manufacturing defect; or

(ii) The product is defective in design; or

(iii) There is a deviation from manufacturing specifications; or

(iv) The product does not conform to the express warranty; or

(v) The product fails to contain adequate instructions of correct usage to prevent any harm or any warning regarding improper or incorrect usage.

A product manufacturer shall be liable in a product liability action even if he proves that he was not negligent or fraudulent in making the express warranty of a product.

**Answer 6(c)**

Section 69(2) of Indian Partnership Act 1932, places a bar on the institution of a suit by or on behalf of a firm against a third party if the firm is not registered and the persons suing are or have not been shown in the Register of Firms as partners in the firm.

Section 69 bars the very institution of a suit by an unregistered firm or by its partners. Registration is a condition precedent to the right to institute the suit and, therefore, the condition precedent must first be fulfilled before the institution of the suit. If, therefore, on the date of the institution of a suit, the firm is not registered, the subsequent registration cannot validate the suit. The only option left to the Court is to dismiss the suit *(Prithvi Singh vs. Hasan Ali,* (1950) Bonn. L.R. 862).. A suit by the firm is really a suit by all the partners who were its partners at the time of the accrual of the cause of action and, therefore, all must join in the institution of the suit.

Thus, in this case partnership firm of Adnan and Tara, being unregistered, cannot sue Diti.

**Answer 6(d)**

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centres, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti-money laundering regimes.

Differences between national anti-money laundering systems will be exploited by launderers; who tend to move their networks to countries and financial systems with weak or ineffective countermeasures.

Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organised crime can become.

As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence, of organised crime. Fighting money laundering and terrorist financing is therefore a part of creating business friendly environment which is a precondition for lasting economic development.

**Answer 6(e)**

Yes, such transfer is valid as per Doctrine of Election.

Section 35 of the Transfer of Property Act deals with doctrine of election. Suppose, a property is given to you and in the same deed of gift you are asked to transfer something belonging to you to another person. If you want to take the property you should transfer your property to someone else, otherwise you cannot take the property which is transferred to you by someone. Election may be defined as "the choosing between two rights where there is a clear intention that both were not intended to be enjoyed".

The foundation of doctrine of election is that a person taking the benefit of an instrument must also bear the burden, and he must not take under and against the same instrument. It is, therefore, a branch of a general rule that no one may approbate and reprobate.

**Answer 6A(i)**

Mistakes are of two kinds: (i) mistake of law, and (ii) mistake of fact.

If there is a mistake of law of the land, the contract is binding because everyone is deemed to have knowledge of law of the land and ignorance of law is no excuse *(ignorantia juris non-excusat).*

But mistake of foreign law and mistake of private rights are treated as mistakes of fact and are excusable. The law of a foreign country is to be proved in Indian Courts as ordinary facts. So, mistake of foreign law makes the contract void. Similarly, if a contract is made in ignorance of private right of a party, it would be void, e.g., where A buys property which already belongs to him.

**Answer 6A(ii)**

*Tenancy-at-will:* Tenancy-at-will is a tenancy recognised by law. This comes into existence where a tenant holds over with the consent is let into occupation. If the tenant continues to be in possession after the expiration of tenancy and pays the rent to the landlord, the tenancy may be one from year to year or from month to month. During a period when the tenant is in possession after expiry of the period, if the tenant stays with the consent of the landlord till such time as further period is fixed or a fresh contract is made, the tenant is called a tenant-at-will. The landlord will decide for what further period shall the tenancy be given. 'A tenancy-at-will is implied when a person is in possession by the consent of the owner and is not held in view of any tenancy for a certain time. The tenancy-at-will does not mean that the landlord has to give a proper notice to quit. The tenant-at-will cannot sublet during that period because no valid contract for further extension in his favour has been made. The death of the landlord or tenant determines the tenancy, i.e., the tenancy comes to an end.

*A tenancy by sufferance:* This is a tenancy which is created by fiction of law. If a tenant continues to be in possession after the determination of the period of the lease without the consent of the landlord, he becomes a tenant by sufferance. A tenant-at-will is in possession with the consent of the landlord, whereas a tenant by sufferance is in possession without his permission after the term of the lease comes to an end. This type of tenant is not regarded as a trespasser because the tenant had in his favour a valid lease to start with. No notice is necessary to such a tenant for eviction. This tenant is not responsible for rent. He is liable to pay compensation for use and occupation of the land.

**Answer 6A(iii)**

*Novation:* Novation is when a new contract is substituted for an existing contract either between the same parties or between different parties, the consideration mutually being the discharge of the old contract.

*Alteration:* Alteration is the change of one or more of the material terms of the contract between the same parties

**Answer 6A(iv)**

*FOB (Free on Board) Contract:* Under an FOB contract, it is the duty of the seller to put the goods on board a ship at his own expenses. The property in goods passes to the buyer only after the goods have been put on board the ship and they are at buyer's risk as soon as they are put on board the ship, usually named by the buyer. The seller must notify the buyer immediately that the goods have been delivered on board so that the buyer may insure them. If he fails to do so the goods shall be deemed to be at seller's risk during such sea transit.

*CIF or CFI (Cost, Insurance, Freight) Contract:* A CIF contract is a contract for the sale of insured goods to be implemented by transfer of proper documents.

In such types of contracts, the seller not only bears all the expenses of putting the goods on board the ship as in an F.O.B. contract but also to bear the freight and insurance charges. Under CIF contract, the seller assumes the costs and risks associated with transport until delivery, which is when the buyer assumes responsibility.

**Answer 6A(v)**

*Actionable Claim:* “Actionable claim” is defined in Section 3 of the Transfer of Property Act as follows:

A claim to any debt, other than a debt secured by mortgage of immoveable property or by hypothecation or pledge of moveable property, or to any beneficial interest in moveable property not in the possession, either actual or constructive, of the claimant, which the Civil courts recognize as affording grounds for relief, whether such debt or beneficial interest be existent, accruing, conditional or contingent.

*Non-Actionable Claim*

(i) Debentures are secured debts and therefore not regarded as actionable claims.

(ii) Copy right though a beneficial interest in immoveable property is not an actionable claim since the owner has actual or constructive possession of the same (*Savitri Devi* v. *Dwarka Bhatya*, (1939) All 305).

Again, an actionable claim includes a beneficial interest in the moveable property not in possession. Now, a benefit of a contract for the purchase of goods is a beneficial interest in moveable property.

***

# FINANCIAL AND STRATEGIC MANAGEMENT

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

*Total number of questions : 100*

## PART I

1. The market value of each share of X Ltd company is ₹ 40, and its equity share capital is ₹ 400 crores comprising of shares of face value of ₹100 each. The market value of the company is ................ .

   (A) 16000 lakh

   (B) 1600 lakh

   (C) 1 lakh

   (D) 16 lakh

2. Which among the following is not true ?

   (A) Capital budgeting is the process of evaluating and selecting long-term investments that are in line with the goal of investors' wealth maximization

   (B) The common traditional capital budgeting techniques are Payback Period and Accounting Rate of Return

   (C) Modified Internal Rate of Return (MIRR) is the discount rate that equates the present value of the expected cash inflows with the initial cash outflow

   (D) All the above statements are true

3. A project has net cash flows of ₹ 11,000 per annum for four years. The Initial cash outflow is ₹ 34,000. Which of the following statement is correct concerning the project's internal rate of return (IRR) ?

   (A) The IRR is less than 10%

   (B) The IRR is greater than 10%, but less than 13%

   (C) The IRR is greater than 13%, but less than 15%

   (D) The IRR is greater than or equal to 15%

4. The shareholder value maximisation model holds that the primary goal of the firm is to maximise :

   (A) Accounting profit

   (B) Liquidity

   (C) Market value

   (D) Working capital

5. The project planning activities and goals include defining :

   (1) The specific work to be performed and goals that define and bind the project

(2) Estimates to be documented for planning, tracking, and controlling the project

(3) Commitments that are planned, documented, and agreed to by affected groups

(4) Project alternatives, assumptions, and constraints

Select the correct answer from the options given below :

(A) (1), (2) and (3) only

(B) (2), (3) and (4) only

(C) (1), (2), (3) and (4)

(D) (1), (3) and (4) only

6. Y Ltd. is considering a project which requires initial investment of ` 20,000. Cost of capital is 10%. Estimated cash flows after tax are as follows :

| | |
|---|---|
| Year 1 | 8000 |
| Year 2 | 5000 |
| Year 3 | 6000 |
| Year 4 | 7000 |
| Year 5 | 5000 |

What is the project's discounted payback period ?

(A) 3 years & 6.52 months

(B) 4 years & 2.32 months

(C) 3 years & 10.27 months

(D) 4 years & 8.25 months

7. According to ..................., the movements of the market are divided into three classifications, the primary movement, the secondary movement, and the daily/minor fluctuations.

(A) The Dow Theory

(B) The Elliot Wave Theory

(C) Random Walk Theory

(D) Efficient Market Hypothesis

8. A dividend policy that helps in creating confidence among the investors, stabilizes the market price of shares and helps in marinating the goodwill of the company is :

(A) Regular dividend policy

(B) Stable dividend policy

(C) Both (A) and (B)

(D) Neither (A) nor (B)

9. Which of the following would be consistent with a more aggressive approach to financing working capital ?

   (A) Financing short-term needs with shortterm funds.

   (B) Financing permanent inventory buildup with long-term debt.

   (C) Financing some long-term needs with short-term funds.

   (D) Financing seasonal needs with shortterm funds.

10. .................. are usually taken as proxy for risk-free return as it is issued by the Government and duration is not very long.

   (A) Commercial Papers

   (B) Commercial Bills

   (C) Treasury Bills

   (D) Certificate of Deposits

11. The venture capital financing is a ............. financing of new high risky venture promoted by skilled entrepreneurs who lack ............. and funds but have .................... .

   (A) Debt, Experience, Skill

   (B) Equity, Experience, Idea

   (C) Debt, Experience, Idea

   (D) Equity, Skill, Idea

12. A company has an existing EPS of ₹ 7.5; it makes an FPO of 15000 shares (Face value ₹ 10) issued at a price of ₹ 25 per share. The additional funds thus raised are expected to earn a post-tax return of 28%. What will be the expected impact on EPS considering the EPS on existing shares to be constant ?

   (A) EPS will remain 7.5

   (B) EPS will be greater than 7.5

   (C) EPS will be below than 7.5

   (D) Information not sufficient for calculation

13. Commercial paper is a ................. issued by .................. interest rate of which is linked to .................. .

   (A) Debenture, Corporates, 1 Yr Gov. Securities Yield

   (B) Promissory Note, Corporates, 1 Yr Gov. Securities Yield

   (C) Promissory Note, Banks, 1 Yr Gov. Securities Yield

   (D) Promissory Note, Banks, RBI Repo Rate

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

(A) Explicit Cost

(B) Future Cost

(C) Opportunity Cost

(D) None of the above

15. CC Industries Ltd. has net assets of ₹ 1,70,000 which have been financed with ₹ 58,000 of debt, ₹ 1,00,000 of equity and a general reserve of ₹ 12,000. The firm's total profits after interest and taxes for the year ended 31st March 2022 were ₹ 15,000. It pays 10% interest on borrowed funds and is in the 30% tax bracket. It has 1000 equity shares of ₹ 100 each, selling price at a market price of ₹ 130 per share. What is the weighted average cost of capital using book value weights if Earnings-price Ratio approach is followed and growth rate of EPS is zero ?

(A) 7.68%

(B) 9.97%

(C) 8.72%

(D) 10.11%

16. Gamma Ltd. has furnished the following information : Earnings Per Share (EPS) ₹ 4 Dividend payout ratio 25% Market price per share ₹ 50 Rate of tax 30% Growth rate of dividend 10% The company wants to raise additional capital of ₹ 12 lakhs including debt of ₹ 6 lakhs. The cost of debt (before tax) is 10% up to ₹ 3 lakhs and 15% beyond that. The weighted average cost of capital of additional funds raised by the company on the basis of dividend growth model is approx. :

(A) 9.35%

(B) 11.35%

(C) 10.45%

(D) 12.25%

17. Retention ratio is 0.60 and return on equity is 15.5%, D0 = 10, P0 = 70 then Ke = ?

(A) 14.9%

(B) 25.84%

(C) 16.1%

(D) 24.91%

18. Ranu & Co. has issued 10% debenture of face value 100 for ₹ 10 lakh. The debenture is expected to be sold at 5% discount. It will also involve floatation costs of ₹ 10 per debenture. The debentures are redeemable at a premium of 10% after 10 years. Calculate the cost of debenture if the tax rate is 30%.

(A) 8.97%

(B) 9.56%

(C) 8.25%

(D) 10.12%

19. A company has a cost of equity of 10% and an interest rate of 6%. The company's debt-to-equity ratio is 1.5, and the corporate tax rate is 40%. What is the company's weighted average cost of capital ?

(A) 7.2%

(B) 6.16%

(C) 7.6%

(D) 8.4%

20. Which of the following actions will not generally cause an increase in WACC ?

(A) Increase in proportion of equity

(B) Increase in proportion of debt

(C) Both (A) and (B)

(D) Neither (A) nor (B)

21. A company's beta is 1.5. The market return is 15% and the risk-free rate is 10%. What is the expected return of the company's stock based on CAPM ?

(A) 17.5%

(B) 15%

(C) 11.5%

(D) 25%

22. Following information is provided by the Lake Ltd. for the year ending 31 March 2023 :

Raw material storage period — 60 days

WIP conversion period — 22 days

Finished goods storage period — 29 days

Debt collection period — 40 days

Creditor's payment period — 60 days

Annual operating cost including depreciation of ₹ 2,00,000 was ₹ 20,00,000.

[1 Year = 360 days]

You are required to calculate working capital on cash cost basis, assuming no cost classification is available.

(A) 4,66,667

(B) 4,55,000

(C) 5,05,555

(D) 10,55,000

23. A Factoring firm has credit sales of ₹ 300 lakhs and its average collection period is 36 days. The financial controller estimates bad debt losses are around 2% of

credit sales. The firm spends ₹ 1,50,000 annually on debtor's administration. This cost comprises of telephonic and fax bills along with salaries of staff members. These are the avoidable costs. A Factoring firm has offered to buy the firm's receivables. The factor will charge 1% commission and will pay an advance against receivables on an interest @ 12% p.a. after withholding 10% as reserve. What is the approx. Net annual benefit of factoring to the firm in rupees ? Ignore capital cost.

(A) (1,73,400)

(B) 1,73,400

(C) (1,56,000)

(D) 1,26,000

24. Which of the following is a factor that affects the optimal level of working capital?

(A) Sales revenue

(B) Competitive position of firm

(C) Fixed assets

(D) Management style

25. Which among the following is not a systematic risk ?

(A) Interest Rate Risk

(B) Purchasing Power Risk

(C) Market Risk

(D) Business Risk

26. Which of the following indicates aggressive working capital policy ?

(A) Higher liquidity and poor risk

(B) Higher risk and higher liquidity

(C) Higher risk and poor liquidity

(D) Lower risk with lower liquidity

27. Which of the following is a technique used to manage working capital ?

(A) Factoring

(B) IPO

(C) Mergers and Acquisitions

(D) Divestment

28. Which of the following statements is not covered in Credit Monitoring Arrangements report ?

(A) Particulars of current and proposed limits

(B) Comparative statement of current assets and current liabilities

(C) Statement of contingent liabilities

(D) Ratio Analysis

29. Maximum permissible bank finance as per the first method of Tandon Committee norms was ₹ 57,41,813 while current liabilities are reported at ₹32,50,000. Current assets = ?

(A) 10905750

(B) 9905720

(C) 10907550

(D) 10509750

30. Which of the following is the most important determinants of a firm's cash reserve requirements ?

(A) Size of the firm

(B) Industry type

(C) Sales and profitability

(D) Seasonal fluctuations in sales

31. Which of the following is not a stage in evolving plan of a project ?

(A) Concept Planning

(B) Concept Definition

(C) Project Start-up

(D) Project Close-out

32. Which of the following dividend types is not prevalent in India ?

(A) Cash Dividend

(B) Bond Dividend

(C) Property Dividend

(D) Stock Dividend

33. Bharat Ltd is an all-equity firm that has projected earnings before interest and taxes of ₹ 5,50,000 forever. The current cost of equity is 15% and tax rate 30%. The company is in the process of issuing ₹ 17,00,000 of bonds at par that carry an 8% annual coupon. What is the value of the firm after issuing bonds if the EBIT increases by 50% after bond issue ?

(A) 45,60,133

(B) 49,15,333

(C) 39,16,667

(D) 42,25,600

34. ............ assumes that co-movement between stocks is due to change or movement in the market index.

(A) Single Index Model

(B) Multi Index Model

(C) Markowitz model of Risk-Return Optimization

(D) Capital Assets Pricing Model

35. Which one of the following approaches of the capital structure pleads that debt financing initially increases the value of the firm; however excess debt financing beyond a particular point reduces the value of the firm ?

(A) Net income approach

(B) Net operating income approach

(C) Traditional approach

(D) M&M approach

36. Mr. Dashan recently came back from a conference titled Capital Structure Theory and was extremely excited about what he learned concerning Modigliani and Miller's capital structure propositions. He has been trying to choose between three potential capital structures for his firm, Dashmart Corporation, and believes that Modigliani and Miller's work may guide him in the right direction. The capital structures Mr. Dashan is considering are :

CS I : 100% equity.

CS II : 50% equity and 50% debt.

CS III : 100% debt.

If he uses Modigliani and Miller's propositions and includes all their assumptions including the assumption of no taxes, which capital structure is he most likely to choose ? Which capital structure would be chosen in case of tax regime ?

(A) CS I and CS II

(B) CS I and CS III

(C) CS II and CS III

(D) Any of the above CS I, II and III

37. Tarmarind Ltd. wants to implement a project for which ₹25 lakhs is required. Following financing options are at hand :

| | |
|---|---|
| Option 1 : | |
| Equity Shares | 25,000@ ₹ 100 |
| Option 2 : | |
| Equity Shares | 10,000@₹ 100 |
| 12% Preference Shares | 5,000@₹ 100 |
| 10% Debentures | 10,000@₹ 100 |

Calculate the indifference point & EPS at that level of EBIT assuming corporate tax to be 35%.

(A) ₹ 2,94,872; ₹ 11.80

(B) ₹ 3,20,513; ₹ 8.33

(C) ₹ 2,94,872; ₹ 7.67

(D) ₹ 3,20,513; ₹ 12.82

38. **Assertion** (A) : The capital structure should involve minimum risk of financial insolvency.

**Reason** (R) : The use of excessive debt threatens the solvency of the company.

(A) Both (A) and (R) are true and (R) is correct explanation of (A)

(B) Both (A) and (R) are true but (R) is not correct explanation of (A)

(C) (A) is true, but (R) is false

(D) (A) is false, but (R) is true

39. One-fourth of the total market value of X Ltd. consists of loan stock, which has a cost of 11%. Another company, Y Ltd., is identical in every respect to X Ltd., except that its capital structure is all-equity, and its cost of equity is 15%. According to Modigliani and Miller, if we ignored taxation and tax relief on debt capital, what would be the cost of equity of X Ltd. ?

(A) 16.33%

(B) 15.50%

(C) 17.00%

(D) 14.83%

40. According to the residual dividend theory, dividend payment is determined on the basis of :

(A) The availability of excess funds after all investment opportunities with positive net present value are undertaken.

(B) The preference of shareholder for a consistent dividend payout ratio

(C) The desire to maintain a stable dividend payout ratio regardless of investment opportunity

(D) The goal of maximizing shareholder wealth by paying out all available earning as dividend

41. Determine the market price of share of XYZ Ltd as per Gordon's model, given that equity capitalisation rate = 11%, expected earning = ₹ 20, rate of return on investment = 10% & retention ratio = 30%.

(A) 165

(B) 175

(C) 185

(D) 195

42. Following information is available in respect of Rama Ltd. :

No. of shares outstanding : 4 lakh

Net profit : ₹ 20 lakh

Equity capitalization rate : 15%

Rate of return on investment : 20%

You are required to calculate Dividend payout ratio to keep share price at ₹ 40.

(A) 30%

(B) 40%

(C) 45%

(D) 50%

43. The repurchase of stock is considered .............. decision rather than .............. decision.

(A) financing; an investment

(B) an investment; a financing

(C) a dividend; a financing

(D) an investment; a dividend

44. Ram Ltd is a listed company. Its ₹ 1 ordinary shares are quoted on the stock exchange. The Board of Ram Ltd. is aware that the market is expecting Ram Ltd. to pay a dividend of ₹ 90 lakh to be paid at the year end, but in order to fund the investment in an important new project, the Board is considering offering a scrip dividend of 1 share for every 10 shares held instead of a cash dividend. Profit after tax and interest is forecast to be ₹ 250 lakh in the current financial year, and Ram Ltd. equity comprises of :

Ordinary share capital (₹ 1 shares) ₹ 1,000 lakh

Reserves ₹ 350 lakh

Ram Ltd's share price is ₹ 1.5 per share.

What is the approx. expected share price of Ram Ltd after the scrip dividend has been issued ?

(A) ₹1.42

(B) ₹ 1.28

(C) ₹ 1.36

(D) ₹ 1.45

45. When IRR is greater than ............, the price per share ............. and dividend pay-out is expected to ......... .

(A) Cost of equity capital, increases, decrease

(B) Cost of debt capital, decreases, increase

(C) Cost of capital, increases, decrease

(D) Cost of capital, decreases, increase

46. According to "Bird-in-hand Theory", investors are ................ .

(A) Risk Averse and Put premium on certain return and discount on certain return

(B) Risk takers and Put premium on uncertain return and discount on certain return

(C) Risk neutral and put no premium or discount on return

(D) Risk Averse and put premium on uncertain return and discount on certain return

47. The MM hypothesis of the irrelevance of dividends is based on which of the critical assumption ?

(i) Investors can forecast future prices & dividends with certainty.

(ii) The firm has a given investment policy which does not change.

(iii) All financing is done only through retained earnings.

(iv) There are no taxes.

(v) Perfect capital market in which all investors are rational.

(A) (i), (ii) and (iii) only

(B) (iii), (iv) and (v) only

(C) (i), (ii), (iv) and (v) only

(D) (ii), (iii), (iv) and (v) only

48. ............. helps to analyze the level of fixed cost which is invested in day-today activities of business firm.

(A) Operating Leverage

(B) Financial Leverage

(C) Combined Leverage

(D) Profit Volume relationship

49. When EBIT is less than Finance Break-even point, the result is ................ .

(A) Positive Financial leverage

(B) Negative Financial leverage

(C) Higher Financial Leverage

(D) No Financial leverage

50. If the combined leverage and operating leverage figures of a company are 2.5 and 1.25 respectively, find the financial leverage and P/V ratio, given that the equity dividend per share is ₹ 2, interest payable per year is ₹ 1 lakh, total fixed cost ₹ 0.5 lakh and sales ₹ 10 lakhs.

(A) 3.125; 25%

(B) 2.00; 40%

(C) 2.00; 25%

(D) 3.00; 40%

51. Trading on equity represents :

(A) high volume of equity shares traded on stock market.

(B) use of equity trading to enhance the returns of long-term interest bearing funds.

(C) use of equity trading to enhance the returns of preferred funds.

(D) use of long-term interest bearing funds to enhance return on equity.

52. ................. is also known as double edged sword.

(A) Operating leverage

(B) Financial leverage

(C) Combined leverage

(D) Financial break-even point

53. Which of the following is a modern technique of capital budgeting ?

(A) Accounting Rate of Return

(B) Internal Rate of Return

(C) Modified Internal Rate of Return

(D) Discounted Pay-back Period

54. Following data is available for A Ltd.

Financial Leverage - 3 : 1, Interest - ₹ 2,000, Operating Leverage - 4 : 1, Variable cost (% to sales) - 66.67%, Income Tax Rate - 45%. Amount of contribution will be :

(A) ₹ 6,000

(B) ₹ 12,000

(C) ₹ 36,000

(D) ₹ 18,000

55. Operating leverage is 8 and financial leverage is 2.2769. How much change in sales will be required to bring 80% change in EBIT ?

(A) 10%

(B) 80%

(C) 11.429%

(D) 30%

56. Profitability index of Project ₹ is 1.50 when its cash flow is discounted at 12%. Initial investment on project was ₹ 1,44,200. This project generates equal cash flow over the five year's time. How much cash flow will be generated by the project each year ?

(A) 50,000

(B) 60,000

(C) 52,615

(D) 71,220

57. A professional kitchen is attempting to choose between gas and electricity for its main heat source. Once a choice is made, the kitchen intends to keep to that source indefinitely. Each gas oven has a net present value (NPV) of ₹ 60,000 over its useful life of 5 years. Each electric oven has an NPV of ₹ 75,000 over its useful life of 7 years. The cost of capital is 8%. Which should the kitchen choose and why ?

(A) Gas because its average NPV per year is higher than electric

(B) Electric because its NPV is higher than gas

(C) Gas because its equivalent annual benefit is higher

(D) Electric because its equivalent annual benefit is higher

58. The following data is available for Project A whose initial investment is ₹ 80,000 and salvage value after 5 years are ₹ 4,500.

| Year | CFAT (₹) |
|---|---|
| 1 | 35,000 |
| 2 | 30,000 |
| 3 | 20,000 |
| 4 | 20,000 |
| 5 | 2,500 |

What is the NPV of Project A if the Ke of the company is 10% ? Ignore taxation.

(A) ₹ 9,622

(B) ₹ 6,827.5

(C) ₹ 7,500

(D) ₹ 8,500

59. A project under consideration whose useful life is 4 years, will have no change in revenue but will save cost of ₹ 1,60,000 annually. It has IRR of 15%. What is the project cost i.e., initial investment ?

(A) ₹ 10,66,667

(B) ₹ 4,80,200

(C) ₹ 5,32,800

(D) ₹ 4,56,800

60. Initial capital cost ₹ 100 crores, Annual unit sales 1.25 crores, Selling Price ₹ 100 per unit. Variable cost ₹ 50 per unit, Fixed Cost 12.50 crores per year, Cost of capital is 6%. What will be approx. % change in NPV for 5% reduction in Sale Price per unit considering duration of the project is 3 years ? Ignore taxation and depreciation and assume no interest cost.

(A) 49.66%

(B) 24.81%

(C) 4.96%

(D) 12.58%

**PART II**

61. Scalar chain indicates :

(A) Employees should have complementary skill sets that allow them to specialize in certain areas.

(B) There has to be unity of command for each employee.

(C) The team comes before the individual.

(D) Each company should have clear hierarchical structures and that should be known to employees.

62. Koontz and O'Donnell believed that there ought to be five key functions of management.

Which one is not part of those five functions ?

(A) Planning

(B) Organizing

(C) Staffing

(D) Motivating

63. Y is a clothing brand that also offers consumers washable diaper products. According to Porter's Five Forces model, which one of the following indicates that the power of buyers in Y's industry is high ?

(A) Y has few rivals in the diaper products

(B) Y's diaper products have a number of special features, differentiating them from those offered by its rivals.

(C) Their products are crucial to the buyer and substitutes to the material required for production are not available.

(D) Y's customer typically uses comparison websites to see how much their diapers are costlier from a number of different sellers

64. Ranu, a top-level manager of a large manufacturing plant, tries to ensure that the material spoilage is not more than 5%. She is performing the management process of :

(A) Organizing

(B) Controlling

(C) Planning

(D) Leading

65. In projects like Civil Construction and Ship building, which of the following is more suitable ?

(A) PERT

(B) CPM

(C) Both

(D) Neither CPM nor PERT

66. Which of the following signifies Attractive Industry as per Porter's five forces model ?

(A) High Barrier to enter

(B) Strong buyers bargaining power

(C) Strong supplier bargaining power

(D) Intense Competition

67. Which of the following is about communication with the employees and other stakeholders of the ogranisation, which let them see where the organization is aspiring to head in the future ?

(A) Mission statement

(B) Vision statement

(C) Goals

(D) Objectives

68. Strategic Planning process is modelled in cyclical framing of various steps. Which one of the following is not part of the cycle ?

(A) Deliberating mission of the Organisation

(B) Developing goals based on Vision statement

(C) Examining internal environment (strengths and weaknesses)

(D) Examine external environment (opportunities and threats)

69. Following are the components of Six Sigma process :

(a) Analyse

(b) Define

(c) Measure

(d) Control

(e) Improve

Identify the correct flow of Six Sigma process :

(A) (a), (b), (c), (d), (e)

(B) (b), (c), (a), (e), (d)

(C) (a), (b), (c), (e), (d)

(D) (b), (a), (c), (e), (d)

70. Which of the following is not an advantage of GE matrix ?

(A) It helps to prioritize the limited resources in order to achieve the best returns.

(B) It provides synergy benefit that could exist between two or more business units.

(C) Managers become more aware of how their products or business units perform.

(D) Identifies the strategic steps the company needs to make to improve the performance of its business portfolio.

71. Following is based on the participation of all members of an organization to improving processes, products, services, and the culture they work in :

(A) TQM

(B) BPR

(C) Benchmarking

(D) Six Sigma

72. ..................... is the essence of strategic planning process, and occupies highest level of strategic decision-making.

(A) Corporate Level Strategy

(B) Business Level Strategy

(C) Functional Level Strategy

(D) Operational Level Strategy

73. Business Policy also includes dealing with :

(A) Acquisition of resources with which organizational goals can be achieved

(B) The process that is conducted periodically to keep the strategies up to date

(C) Process of improving product or services being offered by the business at present.

(D) Research and its operating environment

74. Which of the following is not a parameter considered in "Competitive Positioning and Value Creation Frontier" by Hill and Jones ?

(A) Sustainability

(B) Innovation

(C) Responsiveness

(D) Efficiency

75. Which of the following is not regarding an organization's Mission statement ?

(A) It talks about how you will get to where you want to be.

(B) It describes where the company wants to be.

(C) It describes what an organization does and what makes it different.

(D) It talks about the present leading to its future.

76. Which of the following is not a stage in implementing HR strategies ?

(A) Assessing the current HR capacity

(B) Forecasting HR requirements

(C) Developing organizational strategies to support the HR strategies

(D) Gap Analysis

77. Which of the following is not an exclusively production strategy under Competitive Priorities category ?

(A) Price strategy

(B) Quality strategy

(C) Low cost strategy

(D) Eco-friendly products strategy

78. Which of the following is not an element of Logistics Strategy plan ?

(A) Customer service policy

(B) Inventory location policy

(C) Logistics organisation structure

(D) Delivery policy

79. AB Ltd. currently sells its products in US and China. While it is a market leader in US, AB Ltd has struggled to maintain its market share in China. It has decided to pull out of China entirely and focus on its US markets. Which is the following level of strategy does AB's decision relate to ?

(A) Operational

(B) Functional

(C) Corporate

(D) Business

80. Following is the means by which a firm is effectively able to differentiate itself from its competitors by capitalising on its strengths (both existing as well as potential) to provide consistently better value to its customers than its competitors :

(A) Marketing strategy

(B) Business policy

(C) Corporate strategy

(D) Finance strategy

81. Working Capital Management is a part of :

(A) Investment decision

(B) Financing decision

(C) Dividend decision

(D) Asset management

82. Which of the following is not a core focus area of complete situation analysis ?
   (A) The Problem
   (B) The Product
   (C) The People
   (D) The Broad Context
83. Benchmarking against external organisations that do not compete directly with the competitors inside its industry is called :
   (A) Competitive benchmarking
   (B) Collaborative benchmarking
   (C) Non-competitive benchmarking
   (D) Generic benchmarking
84. Which of the following is/are tools of BPR ?
   (A) Visualization for end process and benchmarking
   (B) Change management
   (C) Business process mapping
   (D) All of the above
85. Profitability of a company depends on which of the following factor as per value creation ?
   (A) The value customer places on the company's products
   (B) The price that a company charges for its products
   (C) The costs of creating those products
   (D) All of the above
86. Which of the following is the 'Mini-Maxi' strategy in TOWS analysis ?
   (A) Conservative strategy
   (B) Competitive strategy
   (C) Aggressive strategy
   (D) Defensive strategy
87. ABC Ltd has updated the packaging of its products as well as slightly reducing its selling price. According to Ansoff's product/market matrix, which of the following strategies has ABC Ltd adopted ?
   (A) Market development
   (B) Product development
   (C) Market penetration
   (D) Diversification

88. Rate relating to Sky Ltd. is shown below, which product is cash cows among the following ?

| Product | Percentage Market Share | Market Growth rate |
|---|---|---|
| Alpha | 65 | High |
| Beta | 30 | High |
| Gamma | 50 | Low |
| Delta | 15 | Low |

(A) Gamma

(B) Beta

(C) Delta

(D) Alpha

89. With which of the four perspectives of a balanced scorecard, is the objective 'reduce employee turnover' is associated with ?

(A) Financial

(B) Internal processes

(C) Learning and growth

(D) Customer

90. If Industry Attractiveness is 'Low' and Business Strength is 'Average' , then which of the following strategy should be followed as per GE Matrix ?

(A) Invest/Expand

(B) Select/Earn

(C) Harvest/Divest

(D) Hold/Selective

91. The ADL Matrix is technique that is based on the :

(A) Market Growth Strategy

(B) Market Relative Share

(C) Strategic Business Units (SBU)

(D) Product Life Cycle

92. Identify steps that are involved in using the ADL Matrix :

(A) Identify the industry maturity category

(B) Determining competitive position

(C) Plot the position of the matrix

(D) All of the above

93. Which of the following is a strategic alternative according to Glueck and Jauch ?

(a) Internal Growth

(b) Retrenchment

(c) Differentiation

(d) Cost Focus

**Options :**

(A) Both (c) and (d)

(B) Both (a) and (b)

(C) (b) only

(D) All of the above

94. Which of the following is not a certification of six sigma ?

(A) Champion

(B) Black belt

(C) Blue belt

(D) Master Black belt

95. As per Porter's five force theory, low raw materials substitute is a factor of :

(A) Buyer Power

(B) Supplier Power

(C) Threat of new entry

(D) Threat of substitutes entry

96. Which of the following is not a commonly known style of leadership ?

(A) Transactional Leadership

(B) Charismatic Leadership

(C) Transformational Leadership

(D) Independent Leadership

97. Which of the following is not a type of a Strategic Control techniques ?

(A) Premise control

(B) Strategic surveillance

(C) Monitoring control

(D) Special alert control

98. Which of the following is a soft factor identified by McKinsey's 7 S Model ?

(A) Skills

(B) System

(C) Structure

(D) Strategy

99. What is meant by the element of “style” in the 7-S framework ?

(A) Why customers should buy from them.

(B) Whether a business is doing ethical Commerce.

(C) What are the capabilities of employees.

(D) How is the behavioral patterns and of managerial styles of Managers.

100. Balanced Score Card was developed for :

(A) evaluating financial performance of business organization

(B) addressing customer concerns

(C) optimizing business process

(D) all the above

| ANSWER KEY<br>FINANCIAL AND STRATEGIC MANAGEMENT | |
|---|---|
| **Part I: Financial Management** | |
| **Question** | **Answer** |
| **Part -I** | |
| 1 | A |
| 2 | C |
| 3 | B |
| 4 | C |
| 5 | C |
| 6 | C |
| 7 | A |
| 8 | C |
| 9 | C |
| 10 | C |
| 11 | B |
| 12 | C |
| 13 | B |
| 14 | C |
| 15 | B |
| 16 | **C** |
| 17 | D |
| 18 | A |
| 19 | B |
| 20 | B |
| 21 | A |
| 22 | B |
| 23 | D |
| 24 | A |
| 25 | D |
| 26 | C |
| 27 | A |
| 28 | C |
| 29 | A |
| 30 | D |
| 31 | A |
| 32 | C |
| 33 | B |

| | |
|---|---|
| 34 | A |
| 35 | C |
| 36 | * |
| 37 | B |
| 38 | A |
| 39 | A |
| 40 | A |
| 41 | B |
| 42 | * |
| 43 | A |
| 44 | C |
| 45 | C |
| 46 | A |
| 47 | C |
| 48 | A |
| 49 | B |
| 50 | C |
| 51 | D |
| 52 | B |
| 53 | * |
| 54 | B |
| 55 | A |
| 56 | B |
| 57 | C |
| 58 | A |
| 59 | D |
| 60 | A |
| **Part II: Strategic Management** | |
| 61 | D |
| 62 | D |
| 63 | D |
| 64 | B |
| 65 | B |
| 66 | A |
| 67 | B |
| 68 | B |
| 69 | B |
| 70 | B |

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

***Notes :***

*Answers for these questions are incorrect. Hence, whether these questions are attempted or not by the candidates, marks to be awarded.

***