

INTERMEDIATE (IPC)

GROUP I - PAPER 2

NOV 2017

BUSINESS LAWS, ETHICS
AND COMMUNICATION

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 8

Time Allowed – 3 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Wherever necessary suitable assumptions may be made and disclosed by way of note.

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1. (a) 'Ramesh' and 'Suresh' are engaged in business having same nature. 5
'Ramesh' stands surety for 'Suresh' for any amount which 'Kamlesh' may lend to 'Suresh' from time to time during the next 6 months subject to a maximum of ₹ 85,000. 3 months later, 'Ramesh' revokes the guarantee, when 'Kamlesh' had lent to 'Suresh' ₹ 35,000. Decide whether 'Ramesh' is discharged from all the liabilities to 'Kamlesh' for any subsequent loan under the provisions of the Indian Contract Act, 1872. Would your answer differ in case 'Suresh' makes a default in paying back to 'Kamlesh' the money already borrowed i.e. ₹ 35,000 ?

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- (b) MN Ltd. is engaged in the manufacture of consumer goods and has got a good brand value. Over the years, it has built a good reputation and its Balance Sheet as at March 31, 2017 shows the following position : 5

Authorized Share Capital (25,00,000 equity shares of face value of ₹ 10/- each)	₹ 2,50,00,000
Issued, subscribed and paid-up capital (10,00,000 equity shares of face value of ₹ 10/- each, fully paid-up)	₹ 1,00,00,000
Free Reserves	₹ 3,00,00,000

The Board of Directors are proposing to declare a bonus issue of 1 share for every 2 shares held by the existing shareholders. The Board wants to know the conditions and the manner of issuing bonus shares under the provisions of the Companies Act, 2013. Advise.

- (c) “Ethics programs are not helping to manage values associated with quality management, strategic planning and diversity management.” Do you agree ? Give reasons. 5
- (d) Negotiation is said to be an art of finding a mutually acceptable agreement between parties. What are the various approaches through which the process of negotiation can be made acceptable ? 5

2. (a) (i) In 2016, Axis Electronics Corporation, an establishment in public sector starts to sell mobile sets manufactured by it, in addition to Air conditioners, so as to compete with private sector establishments of mobile sets in the market. The income from sale of mobile sets is 28 percent of the gross income of the Axis Electronics Corporation. The employees of the Corporation went to strike for demand of Bonus. 4

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Decide, whether the demand of the employees is tenable under the provisions of the payment of Bonus Act, 1965. Would your answer be different if the income from sale of mobile sets is only 18 percent of the gross income of the Corporation ?

- (ii) Artha Steels Ltd. decided to forfeit the amount of gratuity of its employees 'A' and 'C' on account of disorderly conduct and other acts which caused loss to the property belonging to the Company. 'A' and 'C' committed the following acts :

- (i) 'A' refused to surrender the occupied land belonging to the Company.
- (ii) 'C' after superannuation continued to occupy the quarter of the Company for six months.

Against the decision of the Company, 'A' and 'C' applied to the appropriate authorities for relief. The Company contented that the right to gratuity is not a statutory right and the forfeiture of the amount of gratuity was within the law. Examine the contention of the Company and the decision taken by the Company to forfeit the amount of gratuity in the light of the Payment of Gratuity Act, 1972.

- (b) Explain how the following measures can help in managing ethics in the work place : 2+2
=4

- (i) Codes of Conduct and Ethics
- (ii) Appointing an Ombudsperson

- (c) Write short notes on the following : 2+2

- (i) The Caux Round Table (CRT) =4
- (ii) Euphemisms

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3. (a) (i) 'A' gives to 'M' a continuing guarantee to the extent of ₹ 8000 for the fruits to be supplied by 'M' to 'S' from time to time on credit. Afterwards, 'S' became embarrassed and without the knowledge of 'A', 'M' and 'S' contract that 'M' shall continue to supply 'S' with fruits for ready money and that payments shall be applied to the then existing debts between 'S' and 'M'. Examining the provision of the Indian Contract Act, 1872, decide whether 'A' is liable on his guarantee given to 'M'. **4**
- (ii) Distinguish between 'Contract of Indemnity' and 'Contract of Guarantee'. **4**
- (b) What are the matters to be considered by a finance and accounting professional when he is required to resolve an ethical conflict in the application of fundamental principles? **4**
- (c) What are the factors influencing ethical communication? Explain them. **4**
4. (a) (i) A Limited has an Authorized Capital of 10,00,000 equity shares of the face value of ₹ 100/- each. Some of the shareholders expressed their opinion in the Annual General Meeting that it is very difficult for them to trade in the shares of the Company in the share market and requested the Company to reduce the face value of each share to ₹ 10/- and increase the number of shares to 1,00,00,000. Examine whether the request of the shareholders is possible and if so, how the Company can alter its share capital as per the provisions of the Companies Act, 2013. **4**
- (ii) What do you mean by 'Pari Passu' clause in a debenture. State the particulars that are required to be filed with the Registrar of Companies in case such debentures are secured by way of a charge on certain immovable assets of the Company. **4**

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- (b) Explain the concept of Corporate Social Responsibility and its meaning to different people. 4
- (c) Explain the elements that can be used to influence an organisational culture. 4
5. (a) (i) 'K' is an employee of 'Sumit'. He fraudulently obtains from Sumit a cheque crossed 'not negotiable'. He later transfers the cheque to 'D' who gets the cheque encashed from XYZ Bank, which is not the drawee bank. Sumit comes to know about the fraudulent act of 'K', sues XYZ Bank for the recovery of money. Examine with reference to the relevant provisions of the Negotiable Instruments Act, 1881, whether Sumit will be successful in his claim? Would your answer be still the same in case 'K' does not transfer the cheque and gets the cheque encashed from XYZ Bank himself? 4
- (ii) 'E' is the holder of a bill of exchange made payable to the order of 'F'. The bill of exchange contains the following endorsements in blank :
- First endorsement 'F',
- Second endorsement 'G',
- Third endorsement 'H' and
- Fourth endorsement 'I'
- 'E' strikes out, without I's consent, the endorsements by 'G' and 'H'. Decide with reasons whether 'E' is entitled to recover anything from 'I' under the provisions of Negotiable Instruments Act, 1881.

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- (b) The paid-up share capital of SAB Private Limited is ₹ 1 crore, consisting of 8 lakhs Equity Shares of ₹ 10 each, fully paid-up and 2 lakhs Cumulative Preference Shares of ₹ 10 each, fully paid-up. JVN Private Limited and SARA Private Limited are holding 3 lakhs Equity Shares and 50,000 Equity Shares respectively in SAB Private Limited. JVN Private Limited and SARA Private Limited are the subsidiaries of PQR Private Limited. With reference to the provisions of the Companies Act, 2013 examine whether SAB Private Limited is a subsidiary of PQR Private Limited? Would your answer be different if PQR Private Limited has 8 out of 9 Directors on the Board of SAB Private Limited? 4
- (c) Mr. 'X' is the Chief Financial Officer of a Public Limited Company and the management of the Company orders him to do certain changes in the financial statements against the prescribed Accounting Standards which was refused by him. Mr. 'X' is against those changes. In the light of the above situation, explain the pressures which are normally faced by the finance and accounting professionals in an organization in the compliance of fundamental principles of ethics. 4
6. (a) ABC Ltd. having a networth of ₹ 80 crores and turnover of ₹ 30 crores wants to accept deposits from public other than its members. Referring to the provisions of the Companies Act, 2013, state the conditions and the procedures to be followed by ABC Ltd. for accepting deposits from public other than its members. 8

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- (b) State whether the following statements are correct or incorrect. 1×4
=4
- (i) Debenture with voting rights can be issued only if permitted by the Articles of Association.
- (ii) A bearer of a share warrant of a Company is not a member of the Company unless the Articles of Association so provide.
- (iii) An insolvent may be a member of the Company.
- (iv) A partnership firm may hold shares in a Company by holding shares in the individual names of the partners as joint holders.
- (c) Ram Prasad is a retired teacher and due to his ill health he lives with his nephew at Delhi. He has a house at Delhi which he wants to gift to his nephew. Draft a Gift Deed for Ram Prasad. 4

7. Answer any **four** of the following : 2+2
=4

- (a) With reference to the provisions of the Employees Provident Fund and Miscellaneous Provisions Act, 1952 explain the following :
- (i) Liability of an employer in case of transfer of an establishment to another person.
- (ii) Whether the payment of contribution to provident fund of an employee, to be made by his employer, who has become insolvent, a preferential payment ?
- (b) Shyam Dairy Ltd., a dairy products manufacturing company wants to set-up a new processing unit at Jaipur. Due to paucity of funds, the existing shareholders are not willing to fund for expansion. Hence, the Company approached XYZ Ltd. for subscribing to the shares of the Company for expansion purposes. Can Shyam Dairy Ltd. issue shares only to XYZ Ltd. under the provisions of the Companies Act, 2013 ? If so, state the conditions. 4

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- (c) To remove the Managing Director, 40% members of Tiger Farms Limited submitted requisition for holding an extra-ordinary general meeting. The Company failed to call the said meeting and hence the requisitionists held the meeting. Since the Managing Director did not allow the holding of the meeting at the registered office of the Company, the said meeting was held at some other place and a resolution for removal of the Managing Director was passed. Examine the validity of the said meeting and the resolution passed therein under the provisions of the Companies Act, 2013. **4**
- (d) Intimidation threats may occur when an accounting professional may be prohibited from acting objectively by threats, actual or perceived. Give two examples of each such threats when the accounting professional is working as **2+2 =4**
- (i) An Auditor
- (ii) An Employee in a Company
- (e) Explain the principles of "Interpersonal Communication" with reference to : **2+2 =4**
- (i) Situational Context
- (ii) Cultural Context

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