

**MOCK TEST PAPER – 1**  
**INTERMEDIATE (IPC): GROUP – I**  
**PAPER – 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION**  
**SUGGESTED ANSWERS/HINTS**

**DIVISION A**

1	2	3	4	5	6	7	8	9	10
(c)	(b)	(b)	(c)	(a)	(d)	(d)	(d)	(a)	(d)
11	12	13	14	15	16	17	18	19	20
(c)	(d)	(b)	(b)	(a)	(d)	(b)	(a)	(c)	(b)
21									
(b)									

**DIVISION B**

**1. (a) Sweat equity shares of a class of shares already issued.**

According to section 54 of the Companies Act, 2013, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely—

- (i) the issue is **authorised by a special resolution** passed by the company;
- (ii) the **resolution specifies** the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- (iii) where the equity shares of the company are **listed on a recognised stock** exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as prescribed under Rule 8 of the *Companies (Share and Debentures) Rules, 2014*,

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

Data Limited can issue Sweat equity shares by following the conditions as mentioned above. It does not make a difference that the company is just a few months old.

**(b) The fundamental principles relating to ethics may be summarized as under:**

1. **The Principle of Integrity:** It calls upon all accounting and finance professionals to adhere to honesty and straightforwardness while discharging their respective professional duties.
2. **The Principle of Objectivity:** This principle requires accounting and finance professionals to stick to their professional and financial judgment.
3. **The Principle of Confidentiality:** This principle requires practitioners of accounting and financial management to refrain from disclosing confidential information related to their work.
4. **The Principle of Professional Competence and due care:** Finance and accounting professionals need to update their professional skills from time to time in order to provide competent professional services to their clients.

5. **The Principle of Professional Behaviour:** This principle requires accounting and finance professionals to comply with relevant laws and regulations and avoid such actions which may result in discrediting the profession.
- (c) A formal communication flows along prescribed channels which all organizational members desirous of communicating with one another are obliged to follow. Every organization has built-in hierarchical system, communication in an organization is multidirectional. On the basis of various directions in which communications are sent, we can classify formal communication in these forms:
- (i) Downward Communication
  - (ii) Upward Communication
  - (iii) Horizontal or Lateral Communication
  - (iv) Diagonal or Crosswise Communication

Communication generally flows from top to bottom.

Downward communication means communication from superior to subordinate in the hierarchical system of the organization. It includes orders and instructions.

In upward communication, message flows from the subordinate to superior in the form of request, reports, instructions complaints and suggestions.

Communication between co-workers with different areas of responsibility is called horizontal (lateral) communication. Communication among the functional managers of a company is the best example of horizontal communication.

Diagonal communication means communication among the various Department/employees of the organization without any hierarchical system in case of emergency.

2. (a) (1) **Correct:** In accordance with the provisions of Section 17 of the Payment of Bonus Act, 1965 where, in an accounting year an employer has paid any puja bonus or other customary bonus to an employee, the employer shall be entitled to deduct (adjust) the amount of bonus so paid from the amount of bonus payable to the employee in respect of that accounting year and the employee shall be entitled to receive only the balance.
- (2) **Incorrect.** University Employee: Under section 32 of the Payment of Bonus Act, 1965 various employees are listed to whom the Payment of Bonus Act, 1965 does not apply. Under this section persons employed by universities and other educational institutions are not eligible for bonus as the Payment of Bonus Act, 1965 does not apply to them. Therefore, a university teacher shall not be entitled to bonus under the Payment of Bonus Act, 1965.
- (b) Economic growth has to be environmentally sustainable. There is no economic growth without ecological costs. Industrialization and rapid development have affected the environment. Everybody should realize that such development is related to environmental damage and resource depletion.

Therefore, an element of resource regeneration and positive approach to environment has to be incorporated in development programs. Sustainable development refers to maintaining development over time. Sustainable development is development that meets the needs of the present without comprising the ability of future generations to meet their own needs. A nation or society should satisfy its social, economic and other requirement without jeopardizing the interest of future generations.

High economic growth means high rate of extraction, transformation and utilization of non-renewable resources. Therefore, it is suggested that economic growth has to be environmentally sustainable because it is sure that there is no economic growth without ecological cost.

- (c) **Active Listening:** - Most of us assume that listening is a natural trait, but practically very few of us listen properly. What we regularly do is- "we hear but do not listen". Hearing is through ears and

listening is by mind. Listening happens when we understand and message as intended by sender. Many managers are so used to helping people solve problems that their first cause of action is transforming solutions and giving advice instead of listening with full attention directed towards understanding what the co-worker or staff member needs. Therefore, every employer and worker needs a listening ear.

If one does not learn how to listen, a great deal of what people are trying to tell you would be missed. In addition, appropriate response would not be possible. Active listening is important for several reasons.

- (i) It aids the organization in carrying out its missions.
- (ii) It helps individuals to advance in their careers.
- (iii) It provides information that helps them to learn about important happenings in the organization, as well as assisting them in doing their own jobs well.
- (iv) It also helps in building strong personal relationships.

**3. (a) Contribution to Provident Fund under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952:** Section 6 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 regulates contribution to Provident Fund Scheme established under the Act.

The employer's contribution shall be 10% of the basic wages, dearness allowance and retaining allowance (if any), payable to each of the employees whether employed by him directly or by through a contractor.

The employee's contribution shall be equal to the contribution payable by the employer in respect of him.

In case the employee so desires, he may contribute an amount exceeding ten percent of his basic wages, dearness allowance and retaining allowance (if any), subject to the condition that the employer shall not be under an obligation to pay any contribution over and above his contribution payable under this section.

Here, Dearness allowance dearness allowance shall be deemed to include also the cash value of any food concession allowed to the employee. Retaining allowance means the sum paid for retaining the service, when the factory is not working.

The Central Government may by notification make the employer's contribution equal to 12% for certain establishments class of establishments.

**(b)** Under section 20 of the Companies Act, 2013 a document may be served on a company or an officer thereof by sending it to the company or the officer at the registered office of the company by registered post or by speed post or by courier service or by leaving it at its registered office or by means of such electronic or other mode as may be prescribed. However, in case where securities are held with a depository, the records of the beneficial ownership may be served by such depository on the company by means of electronic or other mode.

Under section 20 (2), save as provided in the Act or the rule thereunder for filing of documents with the registrar in electronic mode, a document may be served on Registrar or any member by sending it to him by post or by registered post or by speed post or by courier or by delivering at his office or address, or by such electronic or other mode as may be prescribed. However, a member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting.

**(c)** Common Policies under CSR are as under:

- Commitment to diversity in hiring employees and barring discrimination;
- Adoption of internal controls reforms;
- Management teams that view employees as assets rather than costs;

- High performance workplaces that integrate the views of line employees into decision-making processes;
- Adoption of operating policies that exceed compliance with social and environmental laws;
- Advanced resource productivity, focused on the use of natural resources in a more productive, efficient and profitable fashion (such as recycled content and product recycling); and

Taking responsibility for conditions under which goods are produced directly or by contract employees domestically or abroad.

(d) Following are the salient characteristics of groups in an organization:

- (1) **Group Goal:** Every group establishes its own group goals that provide motivation for their existence.
- (2) **Group Structure:** It is based on the roles to be performed.
- (3) **Group Patterns of Communication:** It is the pattern of message flow in a group.
- (4) **Group Climate:** It is the emotional environment of a group based on:
  - (i) Bonding and trust among members
  - (ii) Participative spirit
  - (iii) Openness and
  - (iv) High performance goals

4. (a) (i) According to Section 134 of the Indian Contract Act, 1872, the surety is discharged by any contract between the creditor and the principal debtor, by which the principal debtor is released or by any act or omission of the creditor, the legal consequence of which is the discharge of the principal debtor. In the given case, B does not supply the necessary material as per the agreement. Hence, C is discharged from his liability.
- (ii) According to Section 136 of the Indian Contract Act, 1872, where a contract to give time to the principal debtor is made by the creditor with a third person and not with the principal debtor, the surety is not discharged. In the given question the contract to give time to the principal debtor is made by the creditor with X who is a third person. X is not the principal debtor. Hence, A is not discharged.

(b) The given statement is **Incorrect**: Apparently, it seems that public interest and consumer interest are synonymous, but it is not so. They may be differentiated as under:

- (i) In the name of public interest, many Governmental policies are formulated which manifest themselves in anti-competitive behaviour. If the consumer is at the fulcrum, consumer interest and welfare should have primacy in all governmental policy formulations.
- (ii) Consumer is a member of a broad class of people who purchase, use, maintain and dispose of products and services. They are being affected by pricing policy, financing practice, quality of goods, services and trade practices. They are clearly distinguished from manufacturers who produce goods for wholesalers, retailers who sell goods in public interest.

Public interest is something in which the society as a whole has some interest, and is seen as an externality to competitive markets. There is also a justifiable apprehension that in the name of public interest, Governmental policies may be fashioned and introduced which may not be in the ultimate interest of the consumers. In fact, in such situations, there is the possibility that a conflict could arise between public interest and consumer interest.

(c) **Guidelines for drafting a Press Release:** The term press release in its narrower sense is used for releases covering news. The press release contains worthwhile material which has some news value.

The press release should be written in a journalistic style. It should provide facts or information of interest to the readers and should attempt to cover all aspects of a specific subject. There should not be any loose ends. It should be on a subject which is recent or in news. The release should not be generally lengthy. It should be concise and to the point. It has not much place for subsidiary or background material.

The introduction or lead should be in a summary format as it is a news story.

The releases should have a consistent format. Generally, the name of the organization from where the release emanates is given on the top. The date and place are indicated on the top right side. The release should have a title and a sub-title also, if necessary. It should have a suitable introductory paragraph. In the case of releases from non-official organization, it is desirable also to mention the designation of the person issuing the release and his telephone number.

5. (a) Section 118 of the Companies Act, 2013 provides that every company shall prepare, sign and keep minutes of proceedings of every general meeting, including the meeting called by the requisitionists and all proceedings of meeting of any class of shareholders or creditors or Board of Directors or committee of the Board and also resolution passed by postal ballot within thirty days of the conclusion of every such meeting concerned. Minutes kept shall be evidence of the proceedings recorded in a meeting.

By virtue of Rule 25 of the Companies (Management and Administration ) Rules 2014 read with section 118 of the Companies Act, 2013 each page of every such book shall be initialled or signed and the last page of the record of proceedings of each meeting or each report in such books shall be dated and signed by, in the case of minutes of proceedings of a general meeting, by the chairman of the same meeting within the aforesaid period of thirty days or in the event of the death or inability of that chairman within that period, by a director duly authorized by the Board for the purpose.

Therefore, the minutes of the meeting referred to in the case given above can be signed in the absence of Mr. Venkat, by any director who is authorized by the Board.

- (b) **Factors which influence the ethical behaviour at work-** Ethical decisions in an organization are influenced by three key factors:

1. Individual moral standards: One may have great control over personal ethics outside workplace.
2. The influence of managers and co-workers: The activities and examples set by co-workers along with rules and policies established by the firm are critical in gaining consistent ethical compliance in an organization.
3. The opportunity to engage in misconduct: If a company fails to provide good examples and direction for appropriate conduct; confusion and conflict will develop and result in the opportunity for unethical behavior.

- (c) **Elements of Culture:** A number of elements that can be used to describe or influence Organizational Culture:

- ◆ **The Paradigm:** What the organization is about; what it does; its mission and values.
- ◆ **Control Systems:** The processes in place to monitor what is going on.
- ◆ **Organizational Structures:** Reporting lines, hierarchies, and the way that work flows through the business.
- ◆ **Power Structures:** Who makes the decisions and how power is distributed across the organization.
- ◆ **Symbols:** These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms.

- ◆ **Rituals and Routines:** Management meetings, board reports and so on may become more habitual than necessary.
- ◆ **Stories and Myths:** build up about people and events, and convey a message about what is valued within the organization.

6. (a) **Distinction between Holder and Holder in Due Course:**

1. A holder may become the possessor or payee of an instrument even without consideration, whereas a holder in due course is one who acquires possession for consideration.
2. A holder in due course as against a holder must become the possessor payee of the instrument before the amount thereon become payable.
3. A holder in due course as against a holder must have become the payee of the instrument in good faith i.e., without having sufficient cause to believe that any defect existed in the transferor's title.

- (b) According to section 52 of the Companies Act, 2013, where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a "securities premium account" and the provisions of this Act relating to reduction of share capital of a company shall, except as provided in this section, apply as if the securities premium account were the paid-up share capital of the company.

The securities premium account may be applied by the company—

- (a) towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares;
  - (b) in writing off the preliminary expenses of the company;
  - (c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;
  - (d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or
  - (e) for the purchase of its own shares or other securities under section 68
- (c) (i) **Economic cycles:** In good times, companies are relaxed in their accounting procedures or disclosures, as there is a pervasive feel-good effect. But when times of hardship follow, then the hit taken by them is almost fatal, as was proved in the Enron case. So, companies need to watch out for economic cycles and be vigilant in good times as well as bad.
- (ii) **Accounting rules:** In the era of globalization and massive cross border flow of capital, accounting rules are changing faster than ever before. The rules have become more complex and it is difficult to identify deviations from these complex set of requirements. The complexity of these principles and rules and the difficulty associated with identifying abuse are reasons which may promote unethical behaviour.
- (d) Specimen of press release announcing a new business location

----- (Name and address of company)

- To serve you better with even more space, we are moving to a new facility on Vikas Marg, just near to V3S Mall, Delhi.
- To celebrate the expansion, we are offering up to 75 percent off our regular prices during the week of March 22-28, 2019.
- For preferred customers like you, we are holding a presale on March 20, 2019.
- Come and get the best buys while they last.