

IPCC

Business Law, Ethics and Communication

Total No. of Questions: 14

Maximum Marks : 100

Total No. of Pages: 11

Total Hours : 3

All questions are compulsory

Part A

Question 1. Read the following paragraph and answer the questions given below the para:

As per as mentioned in Section 10 the payment of Bonus Act 1965 employer is liable to pay the minimum bonus and confers a right to the workmen, the said obligation and right is subject to exemption under Section 36. If the appropriate Government having regard to the financial position and other relevant circumstances of any establishment or class of establishment is of opinion that it will not be in public interest to apply all or any of the provisions of this Act thereto, it may by notification in the Official Gazettee, exempt for such period as may be specified therein and subject to such conditions as it may think fit to impose, such establishment or class of establishments from all or any of the provisions of this Act.

There are two stages in Section 36.

(1) The Government shall consider the financial position and other relevant circumstances of an establishment or class of establishment.

(2) It should be of the opinion that it would not be in the public interest to apply all or any of the provisions of the Act.

The expression 'financial position' includes loss suffered by the establishment during the accounting year. The expression 'other relevant circumstances' will include every consideration as to whether the workmen had principally contributed to the financial loss of the company during that accounting year.

If the bonus liability is negligible as compared to loss suffered, company should not be relieved of liability to pay minimum bonus.

If the loss sustained by the employer is not due to any misconduct on the part of employees, the employer is liable to pay statutory minimum bonus.

Questions:

(a) What right and obligations are conferred on the employee and employer, respectively under the payment of Bonus Act 1965?

Answer. Right of an employee: To receive minimum bonus from his employer in respect of every accounting year.

Obligation of the employer: Employer shall be bound to pay to every employee in respect of every accounting year, minimum bonus which shall be 8.33% of the salary or wage earned by the employee during the accounting year or Rs. 100, whichever is higher, whether or not the employer has any allocable surplus in the accounting year. If the employee has not completed 15 years of age at the beginning of the accounting year he will be entitled to a minimum bonus which shall be 8.33% of the salary or wage during the accounting year Rs. 60, whichever is higher.

(b) When can appropriate government exempt an establishment from the payment of minimum bonus?

Answer. If appropriate Government is of the opinion that having regard to the financial position of the establishment or it is in the public interest then it may grant an exemption to the establishment(s) from the application of provision(s) of the Act. Exemption in relation to the application of the provision(s) of the Act, will depend upon the circumstances of each case.

(c) Does the term "financial position" include loss?

Answer. For granting an exemption from the applicability of the provisions of the Act, appropriate government will consider all the relevant conditions. If the establishment is continuously suffering from losses year after year then appropriate government may grant an exemption but a circumstance where the establishment's bonus liability in relation to the loss is insignificant then appropriate government may not grant the exemption. The financial condition includes the term "losses".

(d) Will negligible loss entitle the establishment from exemption to pay minimum bonus?

Answer. No, the negligible loss will not entitle the establishment exemption to pay the minimum bonus.

(e) What is the significance of the term 'other relevant circumstances'?

Answer. The term other relevant circumstances means every circumstances like loss suffered by the employer as a result of misconduct on the part of the employee, net worth of the establishment etc. But if the loss was not suffered because of the employee's misconduct then employer is bound to pay the minimum bonus as decided in J.K. chemicals Ltd vs. Govt. of Maharashtra (1996) Bombay H.C.].

(10 marks)

Question 2. State the validity of the following statements with appropriate reason:

(i) A bill drawn in favour of a minor is valid.

Answer (i). Valid. Any bill drawn in favour of a minor is not void and can be sued upon by him, because he though incompetent to contract, may yet accept a benefit.

(ii) A bill drawn in Calcutta on a merchant in Mumbai but endorsed in Paris is a foreign bill.

Answer (ii) Invalid. As per section 11 of the Negotiable Instruments Act, 1881 any negotiable instrument drawn or made in India and made payable in or drawn upon any person resident in India shall be deemed to be an inland instrument.

(iii) Special endorsement should be made by an endorser by signing his name and also by writing the name of the endorsee.

Answer (iii) Valid. As per section 15 of the Negotiable Instrument Act, 1881 the endorsement which includes in addition to the signature of the endorser the person to whom or to whose order the instrument is payable is specified is called as special endorsement.

(iv) Acceptance is required in case of promissory note.

Answer (iv). Invalid as acceptance is required only in case of Bill of Exchange and not in the case of a promissory note and a cheque.

(v) Negotiable Instruments Act ordinarily is not applicable to Hundis.

Answer (v) Valid. The Negotiable Instrument, Act 1881 ordinarily is not applicable to hundis but, the parties to the Hundis may agree to be governed by the Negotiable Instrument Act.

(5 marks)

Question 3. Multiple choices questions:

i) A promissory note or bill of exchange in which no time for payment is mentioned is payable:

- a) On demand
- b) after sight
- c) at fixed period after sight
- d) at maturity

- ii) When the last day of grace falls on a day which is public holiday, the instrument is due and payable on :
- a) the succeeding business day
 - b) the due date after grace period i.e. on public holiday
 - c) the due date before grace period
 - d) the preceding business day
- iii) A bill delivered conditionally is called an
- a) 'crow'
 - b) 'escrow'
 - c) 'crowes'
 - d) None of above
- iv) The following is the specimen of :
- SPECIMEN*:(1) Pay to A only S. Mukerjee
(2) For the account of A only N. Aiyar
- a) General endorsement
 - b) Conditional endorsement
 - c) Special endorsement
 - d) Restrictive endorsement
- v) "Sans Frais" words are added at the end of the endorsement to indicate that :
- a) no expenses should be incurred on account of the bill.
 - b) expenses should be incurred on account of the bill.
 - c) expenses should be incurred on account of the bill only to the extent of 5% of the bill amount.
 - d) expenses should be incurred on account of the bill only to the extent of 10% of the bill amount.
- vi) Bills of exchange drawn up in the vernacular are generally known as :
- a) Hundis
 - b) Draft
 - c) Cheque
 - d) Bill of exchange
- vii) Which of the following is a valid promissory note?
- a) "A, I owe you some amount".
 - b) "A, I owe you Rs. 1000".
 - c) "I promise to pay A or order Rs. 1000".
 - d) "I promise to pay the bearer Rs. 1000".
- viii) A person who is ordered to pay the amount of bill of exchange is known as
- a) Drawer
 - b) Drawee

- c) Payee
 - d) Creditor.
- ix) Acceptance is required only in case of;
- a) Bill of exchange.
 - b) Cheque.
 - c) Promissory note
 - d) All of these.
- x) A bill drawn in favour of a minor is;
- a) Void
 - b) Valid but not negotiable
 - c) Valid
 - d) None of these.

Answer.

- (i) a
- (ii) d
- (iii) b
- (iv) b
- (v) a
- (vi) a
- (vii) c
- (viii) b
- (ix) a
- (x) c

(5 marks)

Question 4 .State whether the following statements are true or false and give reasons thereof with reference to the Employees Provident Funds and Miscellaneous Provisions Act,1952.

i) Basic wages include the cash value of food concessions.

Answer. This statement is false because the expression basic wages does not include the cash value of food concessions. Basic wages means all emoluments which are earned by an employee while on duty or on leave or on holidays with wages in either case in accordance with the terms of the contract of employment and which are paid or payable in cash to him.

ii) The chairman of the executive committee is appointed by the Central Board.

Answer. This statement is false because the Chairman of the executive committee is appointed by the Central Government and not the Central Board.

iii) Default in payment of contribution by employer is a cognizable offence.

Answer. This statement is true because according to Section 14AB of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, offences relating to default in payment of contribution by the employer is a cognisable offence. A cognizable offence is one where the police can arrest a person without warrant.

iv) Employee Provident Fund Appellate Tribunal shall consist of three judges.

Answer. This statement is false as the Employee Provident Fund Appellate Tribunal shall consist of one judge.

v) An employer generally has to deposit 50% of the money due from him so as to go on appeal.

Answer. This statement is false as an employer under Section 7-O of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 has to deposit 75% of the money due from him so as to go on appeal.

(5 marks)

Question 5. Mann Group of Industries sold its toy unit to Small Group of Industries. Mann Group contributed 25% of total contribution in Pension Scheme, which was due before sale under the provisions of Employees Provident Fund and Miscellaneous Provisions Act, 1952. The transferee company (Small Group of industries) refused to bear the remaining 75% contribution in the Pension Scheme. Decide, in the light of the Employees Provident Fund and Miscellaneous Provisions Act, 1952, who will be liable to pay for the remaining contribution in case of transfer of establishment and up to what extent?

Answer. As per Section 17-B where an employer in relation to an establishment, transfers that establishment in whole or in part by sale, gift, lease or license or in any other manner whatsoever, the employer and the person to whom the establishment is so transferred shall jointly or severally be liable to pay the contribution and other sums due from the employer under any provision of this Act or the Scheme or the Pension Scheme, as the case may be, in respect of the period up to the date of such transfer. It is provided that the liability of the transferee shall be limited to the value of the assets obtained by him by such transfer.

It would be thus evident from the foregoing provisions that Section 17-B deals with the liability of transferor and transferee in regard to the money due under:

- (a) the Act; or
- (b) the Scheme;
- (c) Pension Scheme.

In the case of transfer of the establishment brought in by sale, gift, lease, or any other manner whatsoever, the liability of the transferor and the transferee is joint and several, but is limited with respect to the period up to the date of the transfer. Also the liability of the transferee is further limited to the assets obtained by him from the transfer of the establishment. Therefore, in the instant case, both the companies has joint and several liability. Mann group of Industry has contributed an amount due upto the date of transfer (i.e. 25 % of the total contribution to pension scheme) and the transferee company i.e. Small Group of Industries is liable for the 75 % of the contribution subject to the amount of assets obtained in the transfer.

(5 marks)

Question 6. Fill in the blanks with the suitable words given in the brackets:

(i) In case of an employee who is employed in a seasonal establishment and who works only during the season is entitled to receive gratuity at the rate of (seven) days for each season.

(7 / 10 / 26 / 30)

(ii) When an employee becomes disabled due to any accident or disease and is not in a position to do the same work and re-employed on reduced wages on some other job, the gratuity will be calculated for the period subsequent to the disablement on the basis of the (reduced) wages as drawn by him at the time of the termination of services.

(increased / reduced / same / proportionate)

(iii) If the services of an employee have been terminated for act of violence on his part in the course of his employment, then gratuity payable to such employee may be (wholly or partially) forfeited.

(wholly or partially / wholly / partially / or may not be)

(iv) The Payment of Gratuity (Amendment) Act, 1987 has prescribed for compulsory insurance for employees, however, if the employer of the establishment is under the control of the (Central Government) then such establishment is exempted from the operations of abovementioned provision.

(Central government / Private company / foreign Company / AOP)

(v) If an employer fails to pay the premium to the insurance or to contribute to an approved gratuity fund, then it shall be liable to pay an amount of (gratuity including interest), if any, for delayed payments, to the controlling authority.

(gratuity including interest / gratuity excluding interest / Rs 10,000 / Nil)

(vi) The Appropriate Government may, by notification, and subject to such conditions as may be specified in the notification, exempt any factory from the operation of the provisions of this Act, if it is in the opinion that the employees of such factory are in receipt of gratuity or pensionary benefits (not less than) the benefits conferred under this Act.

(not more than / not less than / equal to / not equal to)

(vii) If an employee has a family at the time of making a nomination, then nomination made by such employee in favour of a person who is (not a member) of his family shall be avoid.

(member / relative / not a member / a distant relative)

(viii) If an employee dies without making a nomination then his (legal heir) is eligible for the payment of gratuity and he shall apply to the employer within one year from the date of gratuity became payable to him.

(Agent / authorised representative / relative / legal heir)

(ix) In case of gratuity becoming payable to the nominee who is a (minor), the controlling authority shall invest the gratuity amount deposited by him for the benefit of such minor in term deposit with the State Bank of India or any of its subsidiaries or any nationalized Bank.

(minor / major / senior citizen / female senior citizen)

(x) The amount of gratuity (cannot be attached) in execution of any decree or order of any civil, revenue or criminal court.

(can be attached / cannot be attached)

(10 marks)

Question 7 Multiple choice questions:

(i) The uncalled capital of the company which can be called up only in the event of its winding up is known as :

- (a) Called up capital
- (b) Reserve capital
- (c) Authorised capital
- (d) Issued capital

(ii) “Capital Reserve” is :

- (a) an amount regarded as NOT free for distribution through the profit and loss account.
- (b) available only for the creditors on the winding up of the company
- (c) a part of revenue reserve
- (d) None of the above

- (iii) Deferred shares are :
- (a) Also known as preference shares.
 - (b) Also known as equity shares
 - (c) also known as “founders’ shares”, since they are often held by the promoters of the company
 - (d) All of above
- (iv) Fully paid shares that have been legally consolidated is known as :
- (a) Equity shares
 - (b) Preference shares
 - (c) Stock
 - (d) Right shares
- (v) An instrument of transfer signed by the transferor in which the name of the transferee and the date of the transfer are not filled is called :
- (a) Blank Transfer
 - (b) Forged Transfer
 - (c) Partial Transfer
 - (d) Valid Transfer

(5 marks)

Answer.

- 1 (b)
- 2. (a)
- 3. (c)
- 4. (c)
- 5. (a)

Question 8. Read the following paragraph and answer the questions given below:

Central Government can order for conversion of loan into shares if it is in the public interest. Section 81(4) empowers the Central Government to convert its debentures or loan amount in a company into capital. Any such conversion has naturally the effect of increasing the share capital of the company. Section 94A has been enacted to provide for the same. Sub-sections (1) and (2) of Section 94A provide that where the Central Government or any public financial institution has converted its debentures or loans into capital, the capital of the company shall stand increased by an equal amount and the company’s memorandum shall stand altered accordingly. According to Sub-section (3) of Section 94A, in either case mentioned in Sub-sections (1) and (2) the Central Government is required to send a copy of the order to the Registrar and also to the company. On the receipt of such order from the Central Government, the company shall file in the prescribed form, within 30 days from the date of such receipt, a return with the Registrar with regard to the increase of capital. On the receipt of the Central Government’s order as aforesaid and the return from the company, the Registrar shall carry out the necessary alterations in the memorandum of the company.

Questions:

- (i) What would be the effect of conversion of debentures / loan into capital on the share capital of the Company?

Answer. The share capital of the company shall stand increased by an equal amount and the company's memorandum shall stand altered accordingly.

(ii) What are the formalities company will have to undergo once the order is passed by the Central Government to convert its Loan / debentures into capital?

Answer. On the receipt of such order by the Company from the Central Government, the company shall file in the prescribed form, within 30 days from the date of such receipt, a return with the Registrar with regard to the increase of capital.

(iii) Explain the provisions relating to alteration of share capital clause in the Memorandum of Association (i.e. alteration other than mentioned in the above paragraph).

Answer. A company limited by shares may, if so authorized by its articles, by passing a resolution in the general meeting, alter the capital clause of its Memorandum of Association in any of the following ways:

1. Increase its share capital by issuing new shares;
2. Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
3. Convert all or any of its fully paid-up shares of any denomination;
4. Sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum; and
5. Cancel the shares which have not been taken up by any person and thereby diminish the amount of its share capital.

The powers conferred by this Section can be exercised by a company by passing an ordinary resolution at a general meeting and shall not be required to be confirmed by court.

A cancellation of shares in pursuance of this Section can be exercised shall not be deemed to be a reduction of share capital within the meaning of this Act.

The company is required to give a notice to the Registrar of Companies within 30 days of the alteration. The Registrar shall then record the notice, and make the necessary alterations in the Memorandum or Articles or both.

(2+2+6 = 10 Marks)

Question 9. X holds of 100 partly paid up shares of PQR Ltd. X wants to transfer these partly paid up shares to Z. Advice X about the formalities to transfer these shares in the name of Z.

Answer. As per Section 110 (2) where the application is made by the transferor and relates to partly paid shares, the transfer must not be registered unless the company gives notice of the application to the transferee and the transferee makes no objection to the transfer within two weeks from the receipt of the notice. Notice to the transferee shall be deemed to have been duly given if it is dispatched by prepaid registered post to the transferee at the address given in the instrument of transfer, and shall be deemed to have been duly delivered at the time at which it would have been delivered in the ordinary course of post [Section 110(3)].

In the abovementioned case X is supposed to apply to the Company. Company on receipt of application for transfer of shares must inform Z that the shares which he intends to purchase are partly paid up. Here it is assumed that Z is aware about the shares being partly paid. Z may give his "No Objection" to transfer these shares in his favour.

(5 Marks)

Question 10.

(a) M/s Arya Engineering Ltd. was incorporated on 1.4.2007. No General Meeting of the

company has been held so far. Explain the provisions of the Companies Act, 1956 regarding the time limit for holding the first annual general meeting of the Company and the power of the registrar to grant extension of time for the first annual general meeting.

Answer. A company shall hold its first Annual General Meeting (AGM) within 18 months from the date of its incorporation.

It shall not be necessary for a company to hold any AGM in the year of its incorporation or in the following year if it holds AGM within 18 months from the date of its incorporation. In the given case the company M/s Arya Engineering Ltd. was incorporated on 1.4.2007. It should have conducted its first AGM within a period of 18 months i.e. 30th September 2008. However the company has not held the meeting till date, thus violating the provisions of Section 166 of the Companies Act. It is to be further noted that the Registrar does not have power to grant extension of time to hold the first AGM.

(b) Board of Directors of PQR Ltd., called for EGM on 14th January, 2008. Mr. X who is newly appointed as Company Secretary is confused over the issue of sending notices to joint shareholders of the company. Advise Mr. X by referring to the provisions of Companies Act, 1956.

Answer. In the case of joint shareholders, notices and other documents required to be served by a company will be deemed to be properly served if the service is effected on the first named of the joint holders as entered in the register of members [Section 53(4)]. But this does not prevent the company from issuing notice or other document to the other joint holders also at its discretion, if the circumstances of any case require the same.

(5 X 2=10 Marks)

Part B

Question 11. Identify the threats that an accounting professional would have to face in the following situations:

(i) Where the accounting professional has applied for a job opening in the client company.

Answer. Where the accounting professional has applied for a job opening in the client company, there could arise a self interest threat.

(ii) Where a former senior partner is the chief financial officer of the client company.

Answer. Where a former senior partner is the chief financial officer of the client company, there could arise a familiarity threat.

(iii) Where the accounting professional is being threatened with litigation.

Answer. Where the accounting professional is being threatened with litigation, there could arise an intimidation threat.

(iv) Where the accounting professional has to report on the operation of a financial system after being involved in its designing.

Answer. Where the accounting professional has to report on the operation of a financial system after being involved in its designing, there could arise a self-review threat.

(8 marks)

Question 12. With the end of Copenhagen summit, the term “Global Warming” is the talk of the town. You are required to explain the term “Global Warming” and state its ill effects.

Answer. Greenhouse gases - carbon dioxide, nitrous oxide, methane and chlorofluorocarbons,

occur naturally in the atmosphere to absorb and hold heat from the sun, preventing it from escaping back into space, to keep the earth's temperature about 33°C warmer than it would otherwise be, so that life can evolve and flourish. However, industrial, and other human activities during the last 50 years have released substantially more greenhouse gases into the atmosphere, particularly by the burning of fossil fuels such as oil and coal rising the levels of greenhouse gases and resulting in increasing amounts of heat, raising temperatures around the globe. Average global temperatures are now at least 1°C higher than in 1900 and are expected to rise by up to 4.5°C during this century. This rising heat will expand the world's deserts; melt the polar ice caps, causing sea levels to rise; make several species of plants and animals extinct; disrupt farming; and increase the distribution and severity of diseases. Bodies of water such as lakes and oceans will warm, and this will dramatically shift the geographical distribution of fish and other marine species and increase the frequency and magnitude of droughts. The increase in levels of greenhouse gases would require reducing current emissions of greenhouse gases by 60 to 70 percent-an amount that would seriously damage the economies of both developed and developing nations.

(7 marks)

Part C

Question 13. Fill in the blanks:

- (i) Message is the mechanism by which the idea or subject matter of the communication is transmitted to the receiver.
- (ii) A Formal communication flows along prescribed channels which all organizational members desirous of communicating with one another are obliged to follow.
- (iii) Ombudsman is a person appointed by a company to listen to people's grievances and solve their problems.
- (iv) Single Strand Chain, Gossip Chain , Probability Chain & Cluster Chain are different types of grapevine chains.
- (v) Paralanguage is described as a wide range of vocal characteristics which help to express and reflect the speaker's attitude

(5 marks)

Question 14. Draft a notice for calling the Board of Directors meeting of M/s. MN Limited where Mr. RS is co-opted as an Additional Director and also to consider buy-back of company's equity shares to an extent of 10%, of issued share capital.

Answer. Notice: Meeting of Board of Directors:

Notice

Notice is hereby given that meeting of the Board of Directors of the company will be held at the registered office on.....at.....a.m./p.m. to transact the following:

Agenda

1. Confirmation of the minutes of the previous Board Meeting held on.....to.....
2. Discussion of the progress in business.

3. Co-option of Mr. RS. as an Additional Director of the company.
4. Buy back of 10% of the equity shares of the company.
5. Any other matter with the permission of the chair.

Place:

By Order of the Board of Directors

Date:

(10 marks)