

Paper 6 – Laws, Ethics and Governance

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Full Marks :100

Time allowed: 3 hours

I. Choose the correct answer from the given four alternatives:

[20 × 1 = 20]

(a) Multiple choice questions:

(a) Multiple choice questions:

- (i) A contract is a combination of
- (a) Agreement and free consent
 - (b) agreement and consideration
 - (c) **agreement and enforceability**
 - (d) agreement and competence of parties
- (ii) The provisions regarding maximum number of members in a partnership are given in
- (a) The Partnership Act
 - (b) **The Companies Act**
 - (c) The Societies Registration Act
 - (d) The Co-operative Societies Act
- (iii) X and Y agree to divide the profits of a business in equal shares but the loss if any is to be borne by X only. The partnership agreement is
- (a) void
 - (b) voidable
 - (c) **lawful**
 - (d) illegal
- (iv) First aid boxes or cupboard equipped with prescribed contents and not less than one in number must be provided and maintained in every factory so as to be accessible during all working hours for every
- (a) 200 workers for any time
 - (b) **150 workers for any time**
 - (c) 500 workers for any time
 - (d) 30 workers for any time
- (v) XYZ Ltd., to which the Payment of Wages Act, 1936 is applicable, fixes the wages period of 36 days. You as a Cost and Management Accountant of the Company, how would advice the company.
- (a) There is no problem in the above act of the Company

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

- (b) **As per Section 4(2) of the Act, no wage period can exceed one month. So the company would be advised accordingly.**
- (c) The wages period can be more than 30 days subject to approval of appropriate Government
- (d) The company should take permission of Inspector of the factory.
- (vi) Under Section 14 of The Prevention of Money Laundering Act, 2002 gives immunity to _____ against civil proceedings for furnishing information
- (a) an individual
- (b) a HUF
- (c) an agency
- (d) **a Banking Company**
- (vii) One of the following is not a objective of the RTI Act.
- (a) Accountability
- (b) Eliminate corruption (responsibility)
- (c) **Freedom of speech**
- (d) Transparency
- (viii) When the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the
- (a) Preceding day
- (b) **Next preceding business day**
- (c) Same day of next week
- (d) 3rd day following the day holiday
- (ix) In case of an employee who has not completed 15 years of age at the beginning of the Accounting year, the minimum bonus will be
- (a) ₹ 100 or 8.33% of salary or wages whichever is higher.
- (b) **₹ 60 or 8.33% of salary or wages whichever is higher.**
- (c) ₹ 60 or 8.33% of salary or wages whichever is lower.
- (d) 8.33% of salary or wages.
- (x) Every LLP firm shall have at least _____ designated partners who are individuals.
- (a) **two**
- (b) three
- (c) four
- (d) Five
- (xi) K owns a residential flat in Chennai. He is entitled to quiet possession and enjoyment of his property. This is called –
- (a) Rights in Personam
- (b) **Rights in Rem**

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

- (c) Constitutional Right
(d) There is no right at all
- (xii) X sells the goodwill of his retail store to Y for ₹ 5 lacs and promises not to carry on the same business for ever and anywhere in India. This agreement is:
(a) Valid
(b) **Void**
(c) Voidable
(d) Illegal
- (xiii) In a Contract of Guarantee there is/are:
(a) One contract
(b) Two contracts
(c) **Three contracts**
(d) Four contracts
- (xiv) Right of Stoppage in transit can be exercised by the Unpaid Seller, where the Buyer:
(a) is solvent
(b) **becomes insolvent**
(c) acts fraudulently
(d) acts smartly
- (xv) "Nemo dat quad non habet", means:
(a) no one is greater than god
(b) **none can give who does not himself possess**
(c) everyone can give everything he has
(d) everyone is bound by is habit
- (xvi) According to Sec 2(n) "Occupier" of a factory means _____
(a) The person who has established the factory
(b) The person who has highest profit share in the factory
(c) **The person who has ultimate control over the affairs of the factory**
(d) The person who has ultimate control over the employees of the factory
- (xvii) A factory employs 250 workers. All the workers including workers above 60 years of age and below 15 years of age went on strike. The employer
(a) can deduct fine from all the workers
(b) **cannot deduct fine from workers who are under the age of 15**
(c) no fine can be imposed from workers who are 60 years and above
(d) cannot deduct any fine from any worker.
- (xviii) Permanent disablement benefit is paid at the rate of _____ of wages.
(a) 120%

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

- (b) 100%
- (c) 79%
- (d) **90%**

(xix) Workers will be entitled to overtime wages if they have worked for more than _____.

- (a) Forty-eight hours in any four week
- (b) Forty-eight hours in any three week
- (c) Forty-eight hours in any two week
- (d) **Forty-eight hours in any week**

(xx) Appropriate Government reviews the rates of minimum wages within:

- (a) 2 years
- (b) 4 years
- (c) **5 years**
- (d) 6 years

(b) Match the following:

[5 × 1 = 5]

	Column 'A'		Column 'B'
1.	True test of Partnership	A	Sale Goods Act, 1930
2.	Agreement in restraint of trade	B	Factories Act, 1948
3.	Doctrine of Caveat Emptor	C	Cox V Hickman
4.	Spittoons	D	Seven Principles of Public Life
5.	Integrity	E	Void

Answer:

	Column 'A'		Column 'B'
1.	True test of Partnership	C	Cox V Hickman
2.	Agreement in restraint of trade	E	Void
3.	Doctrine of Caveat Emptor	A	Sale Goods Act, 1930
4.	Spittoons	B	Factories Act, 1948
5.	Integrity	D	Seven Principles of Public Life

2. Answer any Three questions:

[3 × 15 = 45]

- (a) (i) What are essential elements of a valid acceptance? **8**
- (ii) What are the different categories of Industrial Disputes? **7**

Answer:

2.(a)(i)

(a) **Acceptance must be absolute and unqualified; it must conform to the offer:**

As per section 7 in order to convert a proposal into a promise, the acceptance must:

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

- (1) **Be absolute and unqualified:** if the parties are not ad idem on all matters concerning the offer and acceptance, there is no contract. An invitation with variation is no acceptance, it is simply a counter proposal which must be accepted by the original proposer before any contract is made. A counter offer puts an end to the original offer and cannot be revived by subsequent acceptance unless it is renewed.
- (2) **Be expressed in some usual and reasonable manner,** unless the proposal prescribes the manner in which it is to be accepted. If the proposal prescribes a manner in which it is to be accepted, and the acceptance is not made in such a manner, the proposer may, within a reasonable time after the acceptance is communicated to him, insist that his proposal shall be accepted in the prescribed manner, and not otherwise; but if he fails to do so, he accepts the acceptance.
- (b) **Specific offer can be accepted by the person to whom it is made,** whereas general offer can be accepted by anyone competent to contract and meeting the conditions of offer. It was held in *Boulton V Jones (1857)* 27 LJ ex 117 case that a specific offer can be accepted only by the person to whom it is made. A general offer can be accepted by any one as held in case of *Carlill v Carbolic Smoke ball co*, *Harbanslal V Harbanslal*,
- (c) **Acceptance may be express or implied:** As per section 9 in so far as the proposal or acceptance of any promise is made in words, the promise is said to be express. In so far as such proposal or acceptance is made otherwise than in words, the promise is said to be implied. It can be inferred from the conduct of the parties. When a person boards in Metro Rail it is an implied acceptance.
- (d) **Acceptance should be of the whole proposal and not in part;** Acceptor should accept the whole proposal in total and not in parts. Part acceptance is no acceptance binding upon the proposer.
- (e) **Acceptance should be according to the mode prescribed or usual and reasonable mode;** acceptor cannot accept the proposal in a manner different from the manner prescribed in the offer. If no such mode is prescribed it should be usual and reasonable mode. Silence cannot be a mode of acceptance. In *Surender Nath V Kedar Nath*, AIR 1936 cal 87, the Calcutta High court held that where an offeror requires that the acceptance should be sent in writing to a particular person, section 7 of the Contract Act is not violated when the offeree instead of writing to particular person, sent his agent in person to communicate the acceptance.
- (f) **Communication of acceptance is must;** a mental determination to accept unaccompanied by any external indication will not be sufficient acceptance. To constitute an acceptance such acceptance must be communicated to the offeror or his authorized agent. Example: A makes an offer to B to supply certain goods at a certain price. B writes the letter of acceptance and puts the letter in the drawer of his table and forgets all about it. Hence putting the letter of acceptance in the drawer

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

does not amount to communication of acceptance without any external manifestation of the intention to accept the offer (Brogden v Metropolitan Railway co, 1877 AC 666). A mere mental assent is not a sufficient acceptance of an offer. To constitute an acceptance such assent must be communicated to the offeror or his authorised agent.

(g) Acceptance must be given before its lapse; Acceptance must be given before the offer lapses by expiry of time fixed or by expiry of reasonable time if no time is so fixed or before it is withdrawn or revoked by the offeror. In Ramasgate Victoria Hotel co V Montefiore (1866) LR 1 Exch 109 it was held that a person who applied for shares in a company in June was not bound by any allotment made in November.

2. (a)(ii)

(A) The Second Schedule of the Industrial Disputes Act deals with matters within the jurisdiction of Labour Courts which fall under the category of Rights Disputes. Such disputes are as follows: (1) The propriety or legality of an order passed by an employer under the standing orders; (2) The application and interpretation of standing orders which regulate conditions of employment. (3) Discharge or dismissal of workmen including reinstatement of, or grant of relief to, workmen wrongfully dismissed; (4) Withdrawal of any customary concession or privilege; (5) Illegality or otherwise of a strike or lock-out; and (6) All matters other than those specified in the Third Schedule.

(B) The Third Schedule of the Industrial Disputes Act deals with matters within the jurisdiction of Industrial Tribunals which could be classified as Interest Disputes. These are as follows:- (1) Wages, including the period and mode of payment; (2) Compensatory and other allowances; (3) Hours of work and rest intervals; (4) Leave with wages and holidays; (5) Bonus, profit sharing, provident fund and gratuity; (6) Shift working otherwise than in accordance with standing orders; (7) Classification by grades; (8) Rules of discipline; (9) Rationalization; (10) Retrenchment of workmen and closure of establishment; and (11) Any other matter that may be prescribed.

- (b) (i) Limited Liability Partnerships are body corporate. Do you agree? Justify. 5**
(ii) The Minimum Wages Act, 1948 prescribes payment of wages in cash only. Comment. 4
(iii) State your views on the following: 2×3=6
- (a) Consideration for sale of goods must be in terms of money.**
 - (b) In an auction sale, a bid once made cannot be withdrawn by the bidder.**
 - (c) A partner is not an agent of other partners in a partnership firm.**

Answer:

2. (b)(i)

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

Limited Liability Partnerships formed and registered under Limited Liability Partnership Act, 2008 are body corporate. All LLPs have the following features:

- (i) A Limited Liability Partnership is a body corporate formed and incorporated under this Act and is legal entity separate from that of its partners.
- (ii) A limited liability partnership shall have perpetual succession.
- (iii) Any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.
- (iv) Save as otherwise provided, the provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership.
- (v) Any individual or body corporate may be a partner in a limited liability partnership.

2. (b)(ii)

- (1) Minimum wages payable under this Act shall be paid in cash.
- (2) Where it has been the custom to pay wages wholly or partly in kind, the Appropriate Government being of the opinion that it is necessary in the circumstances of the case may by notification in the Official Gazette authorise the payment of minimum wages either wholly or partly in kind
- (3) If Appropriate Government is of the opinion that provision should be made for the supply at essential commodities at concession rates the Appropriate Government may by notification in the Official Gazette authorise the provision of such supplies at concessional rates.
- (4) The cash value of wages in kind and of concessions in respect of supplies of essential commodities at concessional rates authorised under sub-sections (2) and (3) shall be estimated in the prescribed manner.

2. (b)(iii)

- (a) Correct: It is one of the essentials of the contract of sale, that price must be paid in terms of money.
- (b) Incorrect: The bidder can withdraw his bid anytime before the fall of the hammer i.e., completion of sale.
- (c) Incorrect: The basis of the partnership is mutual agency, hence a partner is an agent of all other partners.

- (c) (i) **Anita and Binita are friends, Binita treats Anita during Anita's illness. Binita does not accept payment from Anita for treatment and Anita promises Binita's son Sunit to pay him ₹ 12,000. Anita being in poor circumstances is unable to pay. Sunit sues Anita for the money. Can Sunit recover? 4**
- (ii) **A worker was caught red handed for theft and was suspended for four days after proper enquiry. Is he entitled to bonus payable to an employee under The Payment of Bonus Act, 1965? 2**
- (iii) **Explain the right of workers to warn about imminent danger under the Factories Act, 1948. 4**

- (iv) State the salient features of 'The Child Labour Technical Advisory Committee' formed to assist Central Government for the purpose of addition of any occupation or processes. 5

Answer:

2. (c)(i)

No, Sunit cannot recover the money from Anita. The agreement between Sunit and Anita is not a contract in the absence of consideration. In this case, Sunit's mother, Binita, voluntarily treats Anita during her illness. Apparently it is not a valid consideration because it is voluntary whereas consideration to be valid must be given at the desire of the promisor-void Section 2(d). The question now is whether this case is covered by the exception given in Section 25(2) which inter-alia provides: "If it is a promise to compensate a person who has already voluntarily done something for the promisor" Thus as per the exception the promise must be to compensate a person who has himself done something for the promisor and not to a person who has done nothing for the promisor. As Binita's son, Sunit to whom the promise was made, did nothing for Anita, So Anita's promise is not enforceable even under the exception.

2. (c)(ii)

As per section 9 of Payment of Bonus Act, notwithstanding anything contained in this Act, an employee shall be disqualified from receiving bonus under this Act, if he is dismissed from service for-

- (a) Fraud; or
- (b) Riotous/violent behavior while on the premises of the establishment; or
- (c) Theft, misappropriation or sabotage of any property of the establishment.

In the given case, though the employee was proved guilty, was not dismissed from the service and hence he is entitled to get bonus.

2. (c)(iii)

As per section 41H of The Factories Act, 1948, it is the right of workers to warn about imminent danger

- (1) Where the workers employed in any factory engaged in a hazardous process have reasonable apprehension that there is a likelihood of imminent danger to their lives or health due to any accident, they may bring the same to the notice of the occupier, agent, manager or any other person who is in-charge of the factory or the process concerned directly or through their representatives in the safety Committee and simultaneously bring the same to the notice of the Inspector.
- (2) It shall be the duty of such occupier, agent, manager or the person incharge of the factory or process to take immediate remedial action if he is satisfied about the existence of such imminent danger and send a report forthwith the action taken to the

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

nearest Inspector.

- (3) If the occupier, agent manager or the person incharge referred to in sub-section (2) is not satisfied about the existence of any imminent danger as apprehended by the workers, he shall, nevertheless, refer the matter forthwith to the nearest Inspector whose decision on the question of the existence of such imminent danger shall be final.

2. (c)(iv)

In the exercise of the power so conferred upon the Central Government, the Central Government is assisted by an advisory committee called "The Child Labour Technical Advisory Committee" to advice for the purpose of addition of any occupation or processes to the schedule (Sec. 5).

- The Committee shall consist of a Chairman and such other members not exceeding ten, as may be appointed by the Central Government.
- The Committee shall meet as often as it may consider necessary and shall have power to regulate its own procedure.
- The Committee may, if it deems it necessary so to do, constitute one or more sub-committees and may appoint to any such sub-committee, whether generally or for the consideration of any particular matter, any person who is not a member of the committee.

The term of office of, the manner of filling casual vacancies in the office of, and the allowance, if any, payable to the Chairman and other members of the committee, and the conditions and restrictions subject to which the committee may appoint any person who is not a member of the committee as a member of any of its sub-committees shall be such as may be prescribed.

- (d) (i) What are the regulations of hours and period of the work of children under the provisions of the Child Labour (Prohibition and Regulation) Act, 1986. 7**
- (ii) Employees provident funds and Miscellaneous Provisions Act, 1952 is not applicable to certain establishments. List out those establishments. 5**
- (iii) A workmen employed in an industrial establishment can be retrenched any time under the provisions of the Industrial Dispute Act, 1947. Comment. 3**

Answer:

2. (d)(i)

REGULATION OF CONDITIONS OF WORK OF CHILDREN

(A) Hours and period of work (Sec7)

No child shall be required or permitted to work in any establishment in of such number of hours, as may be prescribed for such establishment or class of establishments.

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

- (i) The period of work on each day shall be so fixed that no period shall exceed three hours and that no child shall work for more than three hours before he has had an interval for rest for at least one hour.
- (ii) The period of work of a child shall be so arranged that inclusive of his interval for rest, under subsection (2), it shall not be spread over more than six hours, including the time spent in waiting for work on any day.
- (iii) No child shall be permitted or required to work between 7 p.m. and 8 a.m.
- (iv) No child shall be required or permitted to work overtime.
- (v) No child shall be required-or permitted to work in, any establishment on any day on which he has already been working in another establishment.

(B) Weekly holidays (Sec 8)

Every child employed in an establishment shall be allowed in each week, a holiday of one whole day, which day shall be specified by the occupier in a notice permanently exhibited in a conspicuous place in the establishment and the day so specified shall not be altered by the occupier more than once in three months.

2. (d)(ii)

The Employees Provident Fund and Miscellaneous Provisions Act, 1952 does not apply to certain establishments as specified under Section 16 of the said Act. They are as follows:

- (a) Any establishment registered Under the Co-operative Societies Act 1912 or under any other law for the time being in force in any state relating to co-operative societies employing less than 50 persons and working Without the aid of power or
- (b) To any establishment belonging to or under the Control of the Central Government or a State Government and whose employees are entitled to the benefit of Contributory Provident Fund or old age pension. Or
- (c) Any other establishment set up under any Central Provincial or State Act and whose employees are entitled to any Contributory provident fund or old age pension.
- (d) Any newly setup establishment (less than 3 years).

Central Government having regard to the financial position of any class of establishment or other circumstances of the case may exempt that class of establishment from the operation of this Act for such period as specified in the notification Issued for this purpose.

2. (d)(iii)

Retrenchment:

An workman employed in an industrial establishment and rendered not less than one year service cannot be retrenched without 3 (three) months notice in writing indicating the reasons for retrenchment and prior permission of the Appropriate Government is obtained.

Any retrenchment without permission of the Appropriate Government is punishable with the

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

imprisonment for a term which may extend to one month or with fine which may extend to INR 1000 or both.

- (e) (i) **What is material alteration under Negotiable Instruments Act, 1881? What are the effects of Material Alteration?** 8
- (ii) **Where there are two debts one for ₹ 1,000 and another for ₹ 1,200 falling due on the same day and if the debtor pays ₹ 800, whether the appropriation can be made pro-rata for the two debts?** 7

Answer:

2. (e)(i)

Sections 87, 88 and 89 of the Negotiable Instruments Act, 1881 explain about the "Effect of Material Alteration".

A contract is formed by the union of two consents. Every negotiable instrument is a result of the union of two consents. Later, any alteration made by any party to the contract or by any other third person, it becomes material alteration, and such material alteration causes the instrument as void.

Effect of Material Alteration: [Sec. 87]

Any material alteration of a negotiable instrument renders the same void as against anyone who is a party thereto at the time of making such alteration and does not consent thereto, unless it was made in order to carry out the common intention of the original parties.

Alteration by indorsee: And any such alteration, if made by an indorsee discharge his indorser from all liability to him in respect of the consideration thereof.

Instances of the material alterations:

The following are some of the instances of material alterations-

- (i) Alteration in date;
- (ii) Alteration in the time of payment;
- (iii) Alteration in the place of payment;
- (iv) Alteration in the sum payable;
- (v) Making order cheque into bearer cheque

2. (e)(ii)

When a debtor owes several distinct debts to a creditor and makes a payment insufficient to satisfy the whole indebtedness a question arises about the appropriation of the payment. Section 59 to 61 lay down the following three rules in this regard:

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

- (i) **Where the debtor intimates (Sec 59)** - If the debtor expressly intimates at the time of actual payment that the payment should be applied towards the discharge of a particular debt, the creditor must do so.
- (ii) **Where the debtor does not intimate and the circumstances are not indicative (Sec 60)**
- Where the debtor does not expressly intimate or where the circumstances attending on the payment do not indicate any intention, the creditor may apply it at his discretion to pay lawful debt actually due and payable to his from the debtor.
- (iii) **Where the debtor does not intimate and the creditor fails to appropriate (Sec 61)** -
Where the debtor does not expressly intimate and where the creditor fails to make any appropriation, the payment shall be applied in discharge of the debts in chronological order, i.e., in order of time. If the debts are of equal standing, the payment shall be applied in discharge of each proportionately.

So, the given case, as per section 61, the appropriation can be made proportionately, if neither party appropriates specifically.

3. Answer any one question:

[1 × 15 = 15]

- (a) (i) **A company wants to buy back its own shares in the current financial year. State the defaults which make the company ineligible to buy back its own shares as outlined in The Companies Act, 2013.** **7**
- (ii) **What do you mean by 'Third Party Information' as per RTI Act, 2005?** **8**

Answer:

3. (a) (i)

As per Sec. 70 of the Companies Act, 2013, no company shall directly or indirectly purchase its own shares or other specified securities –

- (a) Through any subsidiary company including its own subsidiary companies;
- (b) Through any investment company or group of investment companies; or
- (c) If a default, is made by the company, in the repayment of deposits accepted either before or after the commencement of this Act, interest payment thereon, redemption of debentures of preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company:
- (1) Provided that the buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.
- (2) No company shall, directly or indirectly, purchase its own shares or other specified securities in case such company has not complied with the provisions of section 92 (submit annual return), section 123 (declare dividend), section 127 (failure to

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

distribute dividend) and section 129 (contravention of provisions of financial statement).

3. (a) (ii)

Third Party Information [Section 11 of Right to information Act, 2005]

- (1) Where a Central Public Information Officer or a State Public Information Officer, as the case may be intends to disclose any information or record, or part thereof on a request made under this Act, which relates to or has been supplied by a third party and has been treated as confidential by that third party, the Central Public Information Officer or State Public Information Officer, as the case may be, shall, within five days from the receipt of the request, give a written notice to such third party of the request and of the fact that the Central Public Information Officer or State Public Information Officer, as the case may be, intends to disclose the information or record, or part thereof, and invite the third party to make a submission in writing or orally, regarding whether the information should be disclosed, and such submission of the third party shall be kept in view while taking a decision about disclosure of information.
 - (2) Where a notice is served by the Central Public Information Officer or State Public Information Officer, as the case may be, under sub-section (1) to a third party in respect of any information or record or part thereof, the third party shall, within ten days from the date of receipt of such notice, be given the opportunity to make representation against the proposed disclosure.
 - (3) Notwithstanding anything contained in section 7, the Central Public Information Officer or State Public Information Officer, as the case may be, shall within forty days after receipt of the request under section 6, if the third party has been given an opportunity to make representation under sub-section (2) make a decision as to whether or not to disclose the information or record or part thereof and give in writing the notice of his decision to the third party.
 - (4) A notice given under sub-section (3) shall include a statement that the third party to whom the notice is given is entitled to prefer an appeal under section 19 against the decision.
-
- (b) (i) **Mr. Joseph is the director of a Public Limited Company. He has been removed by the company before the expiry of his term, by passing an ordinary resolution in general meeting. Is the company justified in its action? Is Mr. Joseph entitled to claim compensation for loss of his office?** **6**
 - (ii) **'Financial Reporting Council (FRC) is responsible for promoting high standards of Corporate Governance'. Explain his statement alongwith the aims of FRC.** **5**
 - (iii) **What is the time limit within which the Board has to appoint an Independent director and at which meeting the Independent director is appointed under the Companies Act, 2013?** **4**

Answer:

3. (b) (i)

- (a) Yes, the company is justified in this action;
- (b) As per section 169 of Companies Act, 2013, a company has the power to remove a director by ordinary resolution before the expiry of his office. Mr. Joseph is not entitled to claim any compensation for loss of his office. As per Section 202, a director is not entitled to any compensation for loss of office. In the present case Mr. Joseph is removed by passing an ordinary resolution, and such removal is valid being authorized under Section 169. There is no entitlement of a director to claim compensation for such removal in view of section 202. Only a managing director, or a director holding office of manager, or a director in whole time employment are entitled to compensation for loss of office [Section 202].

3. (b) (ii)

The Financial Reporting Council (FRC) has six operating bodies; the Accounting Standards Board (ASB), the Auditing Practices Board (APB), the Board for Actuarial Standards (BAS), the Professional oversight Board, the Financial Reporting Review Panel (FRRP), and the Accountancy and Actuarial Discipline Board (AADB). The importance placed on corporate governance is evidenced by the fact that, in March 2004, the FRC set up a new committee to lead its work on corporate governance.

Overall, the FRC is responsible for promoting high standards of corporate governance. It aims to do so by:

- Maintaining an effective Combined Code on Corporate Governance and promoting its widespread application;
- Ensuring that related guidance, such as that on internal control, is current and relevant,
- Influencing EU and Global Corporate Governance developments;
- Helping to promote boardroom professionalism and diversity;
- Encouraging constructive interaction between company boards and institutional shareholders.

3. (b) (iii)

Section 149(5) of the Companies Act, 2013 inter alia provides that company existing on before the commencement of this Act, which are falling within the ambit of section 149(4), shall have to appoint Independent Directors within one year from the commencement of Companies Act, 2013 or rules made in this behalf, as may be applicable.

Further, as per section 152(2) read with Schedule IV to the Companies Act, 2013, inter alia provides that, the appointment of the Independent Director shall be approved by the Company in its meeting of shareholders.

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

4. Answer any one question:

[1 × 15 = 15]

- (a) (i) Outline the need for Ethics in business. 10
(ii) What kind of threats can ethical business behaviour counter? 5

Answer:

4. (a) (i)

Need For Business Ethics:

Business ethics is currently a very prominent business topic, and the debates and dilemmas surrounding business ethics have attracted enormous amount of attention from different quarters of organizations and society. Hence, it has emerged as an increasingly important area of study. Some of the major reasons why a good understanding of business ethics is important can be stated as follows:-

- (a) **Stop business malpractices:** Some unscrupulous businessmen do business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, false claims or representations about their products etc. These business malpractices are harmful to the consumers. Business ethics help to stop these business malpractices.
- (b) **Improve customers' confidence:** Business ethics are needed to improve the customers' confidence about the quality, quantity, price, etc. of the products. The customers have more trust and confidence in the businessmen who follow ethical rules. They feel that such businessmen will not cheat them.
- (c) **Survival of business:** Business ethics are mandatory for the survival of business. The businessmen who do not follow it will have short-term success, but they will fail in the long run. This is because they can cheat a consumer only once. After that, the consumer will not buy goods from that businessman. He will also tell others not to buy from that businessman. So this will defame his image and provoke a negative publicity. This will result in failure of the business. Therefore, if the businessmen do not follow ethical rules, he will fail in the market. So, it is always better to follow appropriate code of conduct to survive in the market.
- (d) **Safeguarding consumers' rights:** Consumer sovereignty cannot be either ruled out or denied. Business can survive so long it enjoys the patronage of consumer. The consumer has many rights such as right to health and safety, right to be informed, right to choose, right to be heard, right to redress, etc. But many businessmen do not respect and protect these rights. Business ethics are must to safeguard these rights of the consumers.

- (e) **Protecting employees and shareholders:** Business ethics are required to protect the interest of employees, shareholders, competitors, dealers, suppliers, etc. It protects them from exploitation through unfair trade practices.
- (f) **Develops good relations:** Business ethics are important to develop good and friendly relations between business and society. This will result in a regular supply of good quality goods and services at low prices to the society. It will also result in profits for the businesses thereby resulting in growth of economy.
- (g) **Creates good image:** Business ethics create a good image for the business and businessmen. If the businessmen follow all ethical rules, then they will be fully accepted and not criticised by the society. The society will always support those businessmen who follow this necessary code of conduct.
- (h) **Smooth functioning:** If the business follows all the business ethics, then the employees, shareholders, consumers, dealers and suppliers will all be happy. So they will give full cooperation to the business. This will result in smooth functioning of the business. So, the business will grow, expand and diversify easily and quickly. It will have more sales and more profits.
- (i) **Consumer movement:** Business ethics are gaining importance because of the growth of the consumer movement. Gone are the days when the consumer can be taken for ride by the unscrupulous business by their false propoganda and false claims, unfair trade practices. Today, the consumers are aware of their rights and well informed as well as well organised. Now they are more organised and hence cannot be cheated easily. They take actions against those businessmen who indulge in bad business practices. They boycott poor quality, harmful, high-priced and counterfeit (duplicate) goods. Therefore, the only way to survive in business is to be honest and fair. Consumer forums and Consumer Associations are more active and vocal now.
- (j) **Consumer satisfaction:** Today, the consumer is the king of the market. Any business simply cannot survive without the consumers. Therefore, the main aim or objective of business is consumer satisfaction. If the consumer is not satisfied, then there will be no sales and thus no profits too. Consumer will be satisfied only if the business follows all the business ethics, and hence are highly needed.
- (k) **Importance of labour:** Labour, i.e. employees or workers play a very crucial role in the success of a business. Therefore, business must use business ethics while dealing with the employees. The business must give them proper wages and salaries and provide them with better working conditions. There must be good relations between employer and employees. The employees must also be given proper welfare facilities.
- (l) **Healthy competition:** The business must use business ethics while dealing with the competitors. They must have healthy competition with the competitors. Healthy

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

competition brings about efficiency, breaks compliancy and leads to optimal utilisation of scarce resources, hence is always welcome. They must not do cut-throat competition. Similarly, they must give equal opportunities to small-scale.

4. (a) (ii)

(i) Self-interest Threats:

Occur as a result of the financial or other interest of Finance and Accounting professional or personal interest of key personnel.

(ii) Self-Review Threats:

When a previous judgment of the Finance and accounting Professional is to be re-evaluated.

(iii) Advocacy Threats:

When a professional promotes a position or opinion to such extent that some objectivity may have to be compromised.

(iv) Familiarity Threats:

When a professional has close relationships with the work environment which may impair his selfless attitude towards work.

(v) Intimidation Threats:

When a professional may be prohibited from acting objectively by actual or perceived threat.

(b) (i) Write down the seven principles of public life. 8

(ii) What are the reason and consequences of Unethical Behavior? 7

Answer:

4. (b) (i)

The seven principles of public life are:

Selflessness	Holders of Public Office should take decisions solely in tells of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family or their friends.
Integrity	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might influence them in the performance or their official duties.
Objectivity	In carrying out public business including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Answer to MTP_Intermediate_Syllabus 2012_Jun 2017_Set 1

Accountability	Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
Openness	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
Honesty	Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
Leadership	Holders of public office should promote and support these principles by sound leadership and prove to be an example in whatever they perform.

4. (b) (ii)

The reasons for which unethical behavior might arise in the organization are:

- (i) Over Emphasis on Short Term Profitability: Manipulating accounting entries to show better profitability (window dressing) to raise further capital from the market.
- (ii) Ignoring small unethical issues: Companies need to develop an environment where small ethical lapses are taken seriously so that they do not recur in the future.
- (iii) Economic cycles: when the company is doing well, no one is bothered to understand its actual financial position. However, when the economy takes a downward turn, finance and accounting managers may take decisions by compromising over the established principles. To prevent disclosure of unethical problems in times of depression, companies need to be careful and vigilant also during prosperous time periods.
- (iv) Market complexity: In the era of globalization and massive cross border flow of capital, accounting rules have become more complex. The complexity of principles and rules and the difficulty associated with identifying abuse are reasons which may promote unethical behavior.
- (v) Money - Mindedness: Most business organizations try to display better financial condition by window dressing. Following such a principle towards - showing profits rather than-earning profits leads to unethical accounting and financial practices.

Consequences of Unethical Behavior -

Unethical behavior has adverse effects on business. Moreover, working for an unethical, deceptive, unfair or dishonest organization requires one to take unethical or compromised decisions which also take a toll on physical, mental and emotional health of individuals.

Firstly, if a company is unethical, the word spreads fast, and the reputation and goodwill of the company is at stake. Such impact can be of a permanent nature destroying the company's reputation possibly forever.

Secondly, unethical behavior can also have a detrimental impact on the productivity of a company due to mistrust and lack of faith among the employees.

Thirdly, unethical behavior can, not only cause a company to lose good and valuable employees, but also it can be quite difficult to find new employees.

Moreover, indulgence in unethical behavior shall not only be instrumental in expediting the cost of training of new employees in terms of money, but also loss of valuable time which could be spent in production. Such disruptions or slowing down of production will result in greater customer dissatisfaction and fewer new customers. It is proved that good ethics carries many benefits, and its violations - penalties, and therefore refraining from unethical behavior should be the sine-qua-non consideration for an organization.