

Paper 6- Laws, Ethics and Governance

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Full Marks:100

Time allowed: 3 hours

Section A

1. Answer all questions

(a) Multiple Choice Questions:

20 x 1 = 20

- (i) Anchal purchased a motor car from Kamal who had no title to it. Anchal used the motor car for several months. True owner spotted the motor car and demanded it from Anchal. In such case
- (a) Anchal is bound to hand-over the motor car to true owner.**
- (b) Anchal is not bound to return the motor car to true owner as he has paid in full settlement to Kamal.
- (c) Anchal shall advise true owner to approach Kamal.
- (d) True owner has no right to claim either from Anchal or from Kamal.
- (ii) Which of the following agreement is wagering agreement under the Indian Contract Act, 1872?
- (a) Crossword competition involving application of skill and knowledge.
- (b) Contract of Insurance.
- (c) A promise to pay B ₹ 1,000 if it rains on Monday.**
- (d) A agrees to pay B ₹ 1,000 if two straight lines should enclose a space.
- (iii) Under Sale of Goods Act, which of the delivery of goods is called as delivery by attornment?
- (a) Actual
- (b) Symbolic
- (c) Constructive**
- (d) Physical
- (iv) Where the price of the goods under a contract of sale is to be fixed by the valuation of a third party who fails to fix the valuation, but goods are supplied to the buyer, under section 10 of the Sale of Goods Act, 1930, the buyer is
- (a) liable to pay the reasonable price of the goods.**
- (b) liable to pay the minimum price of the goods.
- (c) not liable to pay any price until fixed by the valuer.
- (d) liable to pay the maximum retail price.
- (v) Under Factories Act, 1948, where work of the same kind is carried out by two or more sets of workers during different period of the day, each of such period is called a _____
- (a) Relay
- (b) Shift**

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- (c) Recess
(d) Overtime
- (vi) Under Payment of Wages Act, 1936, deduction on account of payment to cooperative societies shall not be more than
(a) 50% of wages
(b) 75% of wages
(c) 90% of wages
(d) 60% of wages
- (vii) Under Employee's State Insurance Act, in order to qualify for sickness benefit, the insured worker is required to contribute for
(a) 70 days in a contribution period of 6 months.
(b) 78 days in a contribution period of 3 months.
(c) 91 days in a contribution period of 3 months.
(d) 78 days in a contribution period of 6 months.
- (viii) Ankit purchased goods worth ₹ 20,000 from Anuj. In lieu of cash payment, Ankit accept a bill of exchange of ₹ 20,000 to be payable after three months. This is an example of
(a) Accomodation Bill
(b) Fictitious Bill
(c) Genuine Bill
(d) Documentary Bill
- (ix) Under the Negotiable Instruments Act, 1881, whether acceptance of a bill of exchange in the following situation shall be treated as 'qualified' acceptance where the acceptor
(a) undertakes to pay only ₹ 10,000 for a bill drawn for ₹ 15,000.
(b) declares the payment to be independent of any other event.
(c) writes, 'Accepted, payable at ABC Bank'.
(d) writes, 'Accepted, payable at Delhi'.
- (x) When a partnership firm is continued even after the expiry of fixed term is called
(a) Perpetual partnership
(b) Fixed partnership
(c) Contract partnership
(d) Partnership at will
- (xi) A person who is not a partner of a Partnership Firm, but he may liable for firm's debt as if he was a Partner. Such a person is called
(a) Nominal Partner
(b) Sleeping Partner
(c) Partner by estoppels
(d) Partner for profit only

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- (xii) Any person aggrieved by an order made by the Adjudicating Authority under PMLA 2002, may prefer an appeal to
- (a) Civil Court
 - (b) Appellate Tribunal**
 - (c) Special Court
 - (d) High Court
- (xiii) Under Companies (Registration Offices and Fees) Rules, 2014, every foreign company shall file with the Registrar of Companies along with the financial statement in form _____ which belong to the list of all the places of business established by the foreign company in India.
- (a) FC 4
 - (b) FC 2
 - (c) FC 1
 - (d) FC 3**
- (xiv) The supervisory board under the German Model is known as
- (a) Aufsichtsrat**
 - (b) Kiertsu
 - (c) Vorstand
 - (d) Kyosei
- (xv) An audit committee has four fold relationship and therefore has to interact with management, internal auditor, public and
- (a) Cost auditor
 - (b) Statutory auditor**
 - (c) Tax auditor
 - (d) Management auditor
- (xvi) Which one of the following categories of person have the right to information under section 3 of Right to Information Act, 2005?
- (a) Only aggrieved persons
 - (b) All the Indian Resident and Foreign National staying in India
 - (c) All the citizens of India**
 - (d) Non Resident Indians
- (xvii) Business ethics are needed to create a faith about the quality, quantity, price etc. of products. The customers have more trust and faith in the businessmen who follow ethical rules. They feel that such businessmen would not cheat them. Which one of the following is appropriate for it?
- (a) Sefeguarding consumers' right
 - (b) Improve customers' confidence**
 - (c) Survival of business
 - (d) Consumer movement

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- (xviii) 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 of their official duties. This principle of public life is called
- (a) Selflessness
 - (b) Honesty
 - (c) Objectivity
 - (d) Integrity**
- (xix) There are many types of ethical conflicts in the
- (a) Business place
 - (b) Office place
 - (c) Work place**
 - (d) Public place
- (xx) Which one of the following is said to be "unethical behavior"?
- (a) Encouraging communication
 - (b) Economic cycles**
 - (c) Employees awareness
 - (d) Objectivity

(b) Match the following:

5 x 1 = 5

	Column 'A'		Column 'B'
1.	Doctrine of Privity of Contract	A	Section 2(h) of Indian Contract Act
2.	Ethics	B	Dunlop Pneumatic Tyre Co Ltd V Selfridge & Co.
3.	Contract	C	1 st April, 1949.
4.	Offer	D	Greek Word Ethike
5.	Factories Act, 1948	E	Proposal

Answer:

1.	B	Dunlop Pneumatic Tyre Co Ltd V Selfridge & Co.
2.	D	Greek word Ethike
3.	A	Section 2(h) of Indian Contract Act
4.	E	Proposal
5.	C	1 st April, 1949

Section B

2. Answer any Three questions:

3 x 15 = 45

2 (a) (i) State the grounds upon which a contract may be discharged under the provisions of the Indian Contracts Act, 1872. 8

Answer:

When the rights and obligations created by a contract come to an end, the contract is said to be discharged or terminated. In other words, discharge of contract means termination of contractual relationship between the parties.

Modes of discharge of contracts:

The following are the various modes or methods by which a contract is discharged.

1. Discharge by performance
2. Discharge by agreement
3. Discharge by lapse of time
4. Discharge by operation of law
5. Discharge by impossibility of performance
6. Discharge by breach of contract

1. Discharge by performance:

Performance is the usual mode of discharge of a contract. Performance may be:

(a) Actual performance (b) attempted performance.

Actual performance is the fulfillment of the obligations arising from a contract by the parties to it, in accordance with the terms of the contract.

Offer of performance is also known as attempted performance or tender of performance. A valid tender of performance is equivalent to performance.

2. Discharge by agreement:

The parties may agree to terminate the existence of the contract by any of the following ways:

a. Novation:

Substitution of a new contract in place of the existing contract is known as "Novation of Contract". It discharges the original contract. The new contract may be between the same parties or between different parties. Novation can take place only with the consent of all the parties.

b. Alteration:

Alteration means change in one or more of the terms of the contract. In case of novation there may be a change of the parties, while in the case of alteration, the parties remain the same. But there is a change in the terms of the contract.

c. Rescission:

Rescission means "cancellation". All or some of the terms of a contract may be cancelled. Rescission results in the discharge of the contract.

d. Remission:

Remission means acceptance of a lesser performance than what is actually due under the contract. There is no need of any consideration for remission.

e. Waiver:

Waiver means giving up or foregoing certain rights. When a party agrees to give up its rights, the contract is discharged.

3. Discharge by lapse of time:

Every contract must be performed within a fixed or reasonable period. Lapse of time discharges the contract. The Indian Limitation Act has prescribed the period within which the existing rights can be enforced in courts of law.

4. Discharge by operation of law:

A contract may be discharged by operation of law in the following cases.

- a) Death
- b) Insolvency
- c) Unauthorized material alteration.
- d) Merger

a. Death:

In contracts involving personal skill or ability, death terminates the contracts. In other cases, the rights and liabilities of the deceased person will pass on to his legal representatives.

b. Insolvency:

The insolvency of the promisor discharges the contract. The promisor is discharged from all liabilities incurred prior to his adjudication.

c. Unauthorized material alteration:

Material alteration in the terms of the contract without the consent of the other party discharges the contract. Change in the amount of money to be paid, date of payment, place of payment etc. are examples of material alteration.

d. Merger:

When inferior rights of a person under a contract merge with superior rights under a new contract, the contract with inferior rights will come to an end.

5. Discharge by breach:

Breach means failure of a party to perform his obligations under a contract. Breach brings an end to the obligations created by a contract.

6. Discharge by impossibility of performance:

Impossibility of performance results in the discharge of the contract. An agreement which is impossible is void, because law does not compel to do impossible things.

2 (a) (ii) How the surety is discharged from liability.

7

Answer:

Discharge of a Surety

A. By revocation which may be by way of –

- (i) Giving notice **(Section 130)**: A specific guarantee cannot be revoked by the surety if the liability has already accrued. But continuing guarantee can be revoked by notice as to future transactions.
- (ii) Death of surety **(Section 131)**: Surety stands discharged for future transactions unless is contrary is not there in the contract. But deceased surety's estate cannot be liable for any transactions between the creditors and principal debtors after the death of the surety even if the creditor has no notice thereof.
- (iii) Novation i.e. substitution of with a new contract for an old one.

B. By conduct of creditor –

(i) By Variance in terms of contract (Section 133)

Any variance, made without surety's consent, in the terms of the contract between the principal (debtor) and the creditor, discharges the surety as to transactions subsequent to the variance.

(ii) By release or discharge of principal debtor (Section 134)

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.

(iii) When creditor compounds with, gives time to, or agrees not to sue, principal debtor (Section 135)

A contract between the creditor and the principal debtor, by which the creditor makes a composition with, or promises to give time to, or not to sue, the principal debtor, discharges the surety, unless the surety assents to such contract.

(iv) Discharge of Surety by Creditor's Act or Omission Imparting Surety's Eventual Remedy (Section 139)

If the creditor does any act which is inconsistent with the rights of the surety, or omits to do any act which his duty to the surety requires him to do, and the eventual remedy of the surety himself against the principal debtor is thereby impaired, the surety is discharged.

C. By invalidation of contract:

- (i) **Guarantee Obtained by Misrepresentation Invalid (Section 142)** — Any guarantee which has been obtained by means of misrepresentation made by the creditor, or with his knowledge and assent, concerning a material part of the transaction, is invalid and thus discharge the surety to that extent.
- (ii) **Guarantee Obtained by Concealment Invalid (Section 143)** — Any guarantee which the creditor has obtained by means of keeping silence as to material circumstances is invalid and thus discharge the surety to that extent.
- (iii) **Guarantee on Contract that Creditor shall not Act on it until Co-Surety joins (Section 144)** — Where a person gives a guarantee upon a contract that the creditor shall not act upon it until another person has joined in it as co-surety, the guarantee is not valid if that other person does not join.
- (iv) If there is failure of consideration between creditor and principal debtor.

2 (b) (i) State the provisions relating to Inspectors as per The Payment of Bonus Act, 1965.

8

Answer:

An inspector can exercise all or any of the following powers according to Sec. 27, namely:

- (a) Require an employer to furnish such information as he may consider necessary.
- (b) Enter and inspect, at all reasonable hours, any premises of or place in any factory, mine, oilfield, plantation, port, railway company, shop or other establishment to which this act applies, for the purpose of examining any register, record or notice or other document.
- (c) Examine with respect to any matter relevant to any of the purposes aforesaid, the employer or any person whom he finds in such premises or place and who, he has reasonable cause to believe, is an employee employed therein;
- (d) Make copies of, or take extracts from, any register, record, notice or other document, as he may consider relevant and where he has reason to believe that any offence under this Act has been committed by an employer, search and seize with such assistance as he may think fit, such register, record, notice or other document as he may consider relevant in respect of that offence;
- (e) Exercise such other powers as may be prescribed.

Any person required to produce any register, record, notice or other document or to give any information by an Inspector under shall be deemed to be legally bound to do so.

2 (b) (ii) When and under what circumstances a person can receive pension under Employees Provident Fund Scheme? 7

Answer:

The circumstances are as follows:

(a) On Superannuation:

Superannuation means reaching the retirement age with at least ten years of service.

(b) Before Superannuation:

On attaining the age between 50 and retirement age and at least ten years of service.

(c) Death:

Death while in service or while not in service.

(d) Permanent Disablement:

On becoming permanently unfit for employment which the person was doing at the time of such disablement.

2 (c) (i) When compensation is not payable (Workmen's Compensation Act, 1923). 7

Answer:

Compensation is not payable when:

- (a) Any injury which does not result in the total or partial disablement of the workmen for a period exceeding 3 days;
- (b) The employee was under the influence of drugs/alcohol at the time of accident.
- (c) Employee willfully disobeys any safety rule
- (d) Employee willfully removes/disregards any safety guards/equipments;
- (e) Employee has refused to get himself medically examined cost of which is borne by the employer.

2 (c) (ii) What is the law relating to recovery of amount of gratuity under the Payment of Gratuity Act, 1972 in case the said amount is not paid by the employer? 8

Answer:

Section 8 provides that if the amount of gratuity payable under this Act is not paid by the employer, within the prescribed time, to the person entitled thereto, the controlling authority

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shall, on an application made to it in this behalf by the aggrieved person, issue a certificate for that amount to the Collector, who shall recover the same, together with compound interest thereon at the rate of nine per cent per annum, from the date of expiry of the prescribed time, as arrears of land revenue and pay the same to the person entitled thereto.

Controlling Authority may give a reasonable opportunity of showing cause. After hearing both the parties, the Controlling Authority, issues orders for payment of gratuity with interest specifying the last date for such payment.

2 (d) (i) Distinguish between Negotiability and Assignment.

10

Answer:

Difference between Negotiation and Assignment:

	Negotiation	Assignment
1	Negotiation may be effected by mere delivery if the instrument is bearer one or endorsement and delivery if it is an order instrument.	Assignment should always be on a written document signed by transferor.
2	Transferee gets the title of Holder in due course.	Title of the transferee is always subject to the title of the transferor.
3	Consideration is always presumed.	Consideration must be proved.
4	No information of transfer needs to be given to the debtor in order to bind him.	Notice of assignment is must in order to bind the debtor.

2 (d) (ii) E was an employee of Tea Estate Ltd. The whole of the undertaking of Tea Estate Ltd. was taken over by a new company – Asia Tea Estate Ltd. The services of E remained continuous in new company. After serving for one year E met with an accident and became permanently disabled. E applied to the new company for the payment of gratuity. The company refused to pay gratuity on the ground that E has served only for a year in the company. Examine the validity of the refusal of the directors in the light of the provisions of the Payment of Gratuity Act, 1972.

5

Answer:

The refusal of the directors is not valid

- ✓ since E is entitled to gratuity;
- ✓ since the condition of continuous service of five years is not applicable in case the employment of an employee is terminated due to death or disablement due to accident or disease.

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2 (e) (i) Z rents out his house situated at Delhi to W for a rent of ₹10,000 per month. A sum of ₹ 5 lac, the house tax payable by Z to the Municipal Corporation being in arrears, his house is advertised for sale by the corporation. W pays the Corporation, the sum due from Z to avoid legal consequences. Referring to the provisions of the Indian Contract Act, 1872 decide whether W is entitled to get the reimbursement of the said amount from Z.

5

Answer:

W is entitled to recover from Z the amount paid to the Municipal Corporation:

- ❖ Since there is a contract between W and Z, viz., quasi contract;
- ❖ Since Z is bound to make the payment of house tax to the Municipal Corporation;
- ❖ Since W is interested in such payment;
- ❖ Since W is not himself liable for such payment.

2 (e) (ii) Jayanta, the owner of a car handovers the car with key to Partha (the mercantile agent) to sell the car at a price not below ₹1,00,000. Partha (the agent) sold at ₹90,000 to Amitava, who buys in good faith and without notice of reserve price/or any fraud. Partha misappropriated the money also. Jayanta filed a suit against Amitava to recover the car. Advice with reason whether Jayanta can succeed.

5

Answer:

In the instant case, Amitava has purchased the car in good faith for ₹ 90,000/-. The agent, Partha on the one hand has concealed the information as to the reserve price fixed by the owner of the car on the other hand misappropriated the money also.

The principal is liable for any fraud or misrepresentation done by the agent with in his authority regardless of the fact that Act has resulted in benefit to the agent or the principal. No liability where agent exceeds the authority. The principal is not liable for acts of agent done in excess of authority. Sometimes the acts can be separated as within the authority and beyond the authority. Principal is bound for those acts which are within the authority. But where acts are not separable, the principal may repudiate the entire transactions.

2 (e) (iii) Bill of Exchange dated 1st February, 2015 payable two months after date was presented to the maker for payment 10 days after maturity. What is the date of maturity.

5

Answer:

If a bill is made payable a stated number of months after date, it becomes payable three days after corresponding date of months after the stated number of months (section 23 read with section 22 of NI Act, 1881).

Therefore in this case the date of maturity of the bill is 4th April 2015 provided it is not Sunday or Public Holidays (1st April + 3 days).

Section C

3. Answer any one question:

15×1 = 15

- | | |
|--|----------|
| (a) (i) Enumerate the provision relating to ACT NOT TO APPLY TO CERTAIN ORGANIZATIONS under the Right to Information Act, 2005? | 5 |
| (ii) What are the areas of operations by an Internal Audit involved? | 5 |
| (iii) Explain Red Herring Prospectus under the Companies Act, 2013. | 5 |

Answer:

3. (a) (i) According to the Section 24 of the Right to Information Act 2005, ACT NOT TO APPLY TO CERTAIN ORGANIZATIONS as follows:

(1) Nothing contained in this Act shall apply to the intelligence and security organisations specified in the Second Schedule, being organisations established by the Central Government or any information furnished by such organisations to that Government:

Provided that the information pertaining to the allegations of corruption and human rights violations shall not be excluded under this sub-section:

Provided further that in the case of information sought for is in respect of allegations of violation of human rights, the information shall only be provided after the approval of the Central Information Commission, and notwithstanding anything contained in section 7; such information shall be provided within forty-five days from the date of the receipt of request.

(2) The Central Government may, by notification in the Official Gazette, amend the Schedule by including therein any other intelligence or security organisation established by that Government or omitting therefrom any organisation already specified therein and on the publication of such notification, such organisation shall be deemed to be included in or, as the case may be, omitted from the Schedule.

(3) Every notification issued under sub-section (2) shall be laid before each House of Parliament.

(4) Nothing contained in this Act shall apply to such intelligence and security organisation being organisations established by the State Government, as that Government may, from time to time, by notification in the Official Gazette, specify:

Provided that the information pertaining to the allegations of corruption and human rights violations shall not be excluded under this sub-section:

Provided further that in the case of information sought for is in respect of allegations of violation of human rights, the information shall only be provided after the approval of the State Information Commission and, notwithstanding anything contained in section 7, such information shall be provided within forty-five days from the date of the receipt of request.

- (5) Every notification issued under sub-section (4) shall be laid before the State Legislature.
- (ii) According to The Institute of Internal Auditors, internal audit involves five areas of operations, which may be discussed as follows:-
- (a) **Reliability and Integrity of Financial and operating Information:** Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
 - (b) **Economical and Efficient Use of Resources:** Internal auditor should ensure the economic and efficient use of resources available.
 - (c) **Compliance with Laws, Policies, Plans, Procedures, Regulations:** Internal auditor should review the systems established to ensure compliance with those policies, plans and procedures, law and regulations which could have a significant impact on operations and should determine whether the organization is in compliance thereof.
 - (d) **Accomplishment of established Goals for operations:** Internal auditor should review operations, programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
 - (e) **Safeguarding of assets:** Internal auditor should verify the existence of assets and should review means of safeguarding assets.

(iii) Red Herring Prospectus [Section 32 of the Companies Act, 2013]

- (1) A company proposing to make an offer of securities may issue a red herring prospectus prior to the issue of a prospectus.
- (2) A company proposing to issue a red herring prospectus under sub-section (1) shall file it with the Registrar at least three days prior to the opening of the subscription list and the offer.
- (3) A red herring prospectus shall carry the same obligations as are applicable to a prospectus and any variation between the red herring prospectus and a prospectus shall be highlighted as variations in the prospectus.
- (4) Upon the closing of the offer of securities under this section, the prospectus stating therein the total capital raised, whether by way of debt or share capital, and the closing price of the securities and any other details as are not included in the red herring prospectus shall be filed with the Registrar and the Securities and Exchange Board.

Explanation - For the purposes of this section, the expression "red herring prospectus" means a prospectus which does not include complete particulars of the quantum or price of the securities included therein.

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3. (b) (i) How many Independent Directors have to be appointed in a company under the Companies Act, 2013? 5
- (ii) State the procedure for shifting of a registered office of the company from one state to another state under the provisions of the Companies Act, 2013. 5
- (iii) AB Ltd. has advanced a loan of ₹ 2,00,000 to one of its directors in Contravention of the provision of Section 185 of the Companies Act, 2013. State the consequences of such contravention. 5

Answer:

3. (b) (i) Number of Independent Directors

The following class or classes of companies shall have at least two directors as independent directors –

- (i) the Public Companies having paid up share capital of ten crore rupees or more; or
- (ii) the Public Companies having turnover of one hundred crore rupees or more; or
- (iii) the Public Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees.

Provided that in case a company covered under this rule is required to appoint a higher number of independent directors due to composition of its audit committee, such higher number of independent directors shall be applicable to it.

Provided further that any intermittent vacancy of an independent director shall be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy, whichever is later.

Provided also that where a company ceases to fulfill any of three conditions laid down in sub-rule (1) for three consecutive years, it shall not be required to comply with these provisions until such time as it meets any of such conditions.

Explanation - For the purposes of this rule, it is here by clarified that, the paid up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the last date of latest audited financial statements shall be taken into account.

Provided that a company belonging to any class of companies for which a higher number of independent directors has been specified in the law for the time being in force shall comply with the requirements specified in such law.

- (ii) Procedure for shifting the registered office from one state to another state (Section 13, of the Companies Act, 2013):
In order to shift the registered office from one state to another the following procedure will have to be followed:

- (i) Hold a Board Meeting for the purpose of calling a general meeting of the members of the company in which the shifting of the registered office from one state to another will have to be approved;
- (ii) The general meeting of the members will have to pass a special resolution approving the change of address of the registered office from one state to another as required by section 13 (1) of the Companies Act 2013.
- (iii) Make an application to the Central Government in such form and manner as may be prescribed, for getting its approval under section 13 (4) of the Companies Act 2013.
- (iv) Under section 13 (7) of the Companies Act 2013, where an alteration of the Memorandum results in the transfer of the registered office of the company from one state to another, a certified copy of the order of the Central Government approving the alteration shall be filed by the company with the registrar of each of the states, within such time and in such manner as may be prescribed, and the registrars shall register the same. The registrar of the state where the registered office is being shifted to shall issue a fresh certificate of incorporation indicating the alteration.
- (v) The change in name will be effective only after the issue of the fresh certificate of incorporation by the Registrar of the state where the registered office is being shifted to.

(iii) Loans to Directors (Sec. 185 of Companies Act 2013)

According to Sec. 185 (1) no company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person.

Contravention: If any loan is advanced or a guarantee or security is given or provided in contravention of the provisions of sub-section (1), the company shall be punishable with fine which shall not be less than five lakh rupees but which may extend to twenty five lakh rupees, and the directors or the other person to whom any loan is advanced or guarantee or security is given or provided in connection with any loan taken by him or the other person, shall be punishable with imprisonment which may extend to six months or with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees, or with both.

Section D

4. Answer any one question: 1 x 15 = 15

4 (a) (i) A Cost and Management Accountant has certain professional ethics to follow while working in the company. Briefly state the obligations performed and threats faced by the Accountant. 10

(ii) Explain Ethics as principle. 5

Answer:

4. (a) (i) The obligation performed by a CMA may be enumerated as follows:

1. Investor Protection – The finance and accounting professionals are entrusted with the duty to provide an assurance to the investors regarding the credibility of the financial information of the business enterprise.
If these professionals do not behave ethically the investors are at the risk of being cheated.
2. Stock Markets – Every fraud has a negative impact on investors and stock markets. If accounting professionals do not conform to the ethical behavior, it would result in more accounting frauds and scams resulting in negative market sentiments, downfall of stock markets and ultimately hampering the growth of the economy.
3. Prevention of scams - Scams has always shaken the confidence of public in finance and accounting professionals. Ethical behavior is required on the part of the professionals so as to restore public confidence.
4. Public interest – The working of finance and accounting professionals affects, not just one individual, department or organization, but all the stake-holders, the public at large and the confidence of the general public in the corporations.
The professionals are expected to serve in public interest. They must carry out their duties diligently ignoring their personal interests.

The threats faced in carrying out their obligations are:

1. Self-interest threats – These threats arise where a professional's financial interest conflicts with his professional duties.
E.g.: Incentive based remuneration.
2. Self-review threats – These threats occur when the same professional is required to review any work who actually carried out that work. Such threats attack the objectivity of the professional.
E.g.: Detection of error after submission of work.
3. Advocacy threats – These are when a professional is required to give his submission with respect to his client's position such that the professional's objectivity may be compromised.

E.g.: A professional working as an employee, also promotes its shares.

4. Familiarity threats – Familiarity threats occur where a professional too readily accepts his client's view-point even though he has not gathered sufficient appropriate audit evidence, because of the reason of his close relationship or trust on the client.
5. Intimidation threats – These arise when a professional is threatened not to perform his duties or to reduce the scope of his work.

- 4. (a) (ii)** We have established that social evolution has developed definite principles of civic behavior, which have attained the status of principles. By principle, we understand that something proceeds and depends on it for its cause. For instance, when one kicks a football, force is the principle that propels it into motion and the ball remains in motion till the force lasts. In other words, the physical world functions strictly according to the laws of physics. It is expected that people also submit their behavior, both in thoughts and in actions, to these principles. An action is valid as long as it reflects the principle, just as the speed of the moving ball depends on the force it receives.

All moral actions are directed towards their object, the good, which is the principle of all happiness. This is not only the sole purpose of our existence but our co-existence with others as well. We cannot be happy alone; we can only be happy together. The universal idea of the good is applied to individual instances. Individuals are good in their own particular way, and are good in so far as they share the essence of goodness. The universal good is a pure or general idea. It is formed through a process of abstraction of the essence from individuals or particulars.

- 4 (b) (i) What are the seven principles of Public life? Explain. 8**
(ii) What are the consequences of unethical behavior? 7

Answer:

- 4 (b) (i)** The Seven Principles of Public Life are as follows:

Selflessness	Holders of public office should take decisions solely in terms 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 of 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.
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)** 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 unethical behavior of authorities across the states. An Accountant is often compelled to do injustice to his professional ethics. Such compulsion include
- (1) Acts contrary to law and regulation.
 - (2) Acts contrary to ethics or professional standards.
 - (3) To facilitate unethical or illegal management strategies.
 - (4) Give wrong information or mislead statutory authorities like Auditor or Regulators.
 - (5) Issue or report misleading information to the Regulators, Government, Tax and various revenue collecting authorities.