INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2017

Paper- 6: LAWS, ETHICS & GOVERNANCE

Time Allowed: 3 Hours | **Full Marks: 100**

The figures in the margin on the right side indicate full marks.
This paper contains four questions.
All questions are compulsory, subject to instruction provided against each questions.
All workings must form part of your answer.
Assumptions, if any, must be clearly indicated.

SECTION - A

1. Answer all questions:

(a) Multiple choice questions: **1×10 = 10**

(i) Which of the following is an invitation for offer?
(A) A tender to supply goods at a certain time
(B) A request for a loan
(C) Bids in an auction sale
(D) A catalogue of goods for sale

(ii) Where seller delivers to the buyer a quantity of goods less than the contracted to sell, the buyer
(A) May reject them
(B) Should not reject them as more quantity might be supplied.
(C) May resell them.
(D) Give less price for them.

(iii) A person who has ultimate control over the affairs of the factory under factories Act, 1948 is called as
(A) Occupier
(B) Manager
(C) Chairman

(D) Managing Director

(iv) A bearer instrument is negotiated by
- **(A) Delivery**
- **(B) Delivery and endorsement**
- **(C) Endorsement**
- **(D) Stamping and attestation**

(v) X, Y AND Z are partners in a firm. X, without the authority of Y and Z buys certain shares in his name out of partnership money. These shares will constitute.
- **(A) Partnership liability**
- **(B) Partnership property**
- **(C) Partnership net worth**
- **(D) Partnership capital**

(vi) Under PML Act, 2002, Every Scheduled of offence is a
- **(A) Predict Offence**
- **(B) Predicate Offence**
- **(C) Preventive Offence**
- **(D) Impredicate Offence**

(vii) The Chief Information Commissioner shall hold office for a term of
- **(A) 3 years**
- **(B) 5 years**
- **(C) 6 years**
- **(D) 7 years**

(viii) Which of the following is suggesting that one person should not occupy the role of Chairman and Chief Executive of a public listed company?
- **(A) The Hampel Committee Report, 1998**
- **(B) The Cadbury Committee Report, 1992**
- **(C) The Greenbury Committee Report, 1995**
- **(D) The Smith report on Audit Committees, 2003**

(ix) Business ethics calls for avoidance of
- **(A) Competition**
- **(B) Publicity**
- **(C) Monopoly**
- **(D) Self-interest**

(x) Business ethics has a ________ application.
- **(A) Universal**
- **(B) Natural**
- **(C) Practical**
- **(D) Physical**

Answer:

(i)	(D)	(iii)	(A)	(v)	(B)	(vii)	(B)	(ix)	(C)
(ii)	(A)	(iv)	(A)	(vi)	(B)	(viii)	*	(x)	(A)

- Correct Answer is Higgs Report (2003)

(b) Fill in the blanks: **1×5 = 5**

(i) "Sale" is an _____________contract.

(ii) No child shall be permitted or required to work between___________.

(iii) Any individual or ____________may be a partner in a limited liability partnership.

(iv) Every public authority shall, within ___________of the enactment of RTI Act, 2005 designate as many officers as the Central Public Information Officers or State Public Information Officers, as the case may be.

(v) A ____________arise where the professional have to decide between compliance with principles and actions which are beneficial to the business organization at large.

Answer:

(i) Executed

(ii) 7 p. m. to 8 a. m.

(iii) Body corporate

(iv) One hundred days

(v) Conflict of interest

(c) State whether the following statements are True (or) False: **1×5 = 5**

(i) A promissory note must be conditional.

(ii) Two persons agreed to produce a film and share the profits of hiring it out; it is not held to be sufficient to constitute a partnership.

(iii) Any contract or agreement between the employer and employee whereby an employee either relinquishes or reduces his right to minimum wages or any privileges or concession is allowed under Minimum Wages Act, 1948.

(iv) Under the Companies Act, 2013, 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.

(v) Ethics, also known as moral philosophy, is not a branch of Philosophy.

Answer:

(i)	False	(ii)	False	(iii)	False	(iv)	True	(v)	False

(d) Match the following **1×5 = 5**

	Column 'A'		Column 'B'
1.	Order of Performance of Reciprocal Promise	(A)	Not completed 15 years of age
2.	Waiver	(B)	Seven Principles of Public Life
3.	Child	(C)	Laws of Contract
4.	Permanent Disablement Benefit	(D)	Forgoing or giving up certain Rights
5.	Leadership	(E)	90% of wages

Answer:

	Column 'A'		Column 'B'
1.	Order of Performance of Reciprocal Promise	(C)	Laws of Contract
2.	Waiver	(D)	Forgoing or giving up certain Rights
3.	Child	(A)	Not completed 15 years of age
4.	Permanent Disablement Benefit	(E)	90% of wages
5.	Leadership	(B)	Seven Principles of Public Life

SECTION - B

2. Answer any three questions: **15×3 = 45**

(a) (i) A stands surety for B for any amount which C may lend to B from time to time during the next three months subject to a maximum of ₹50,000. One month later A revokes the guarantee, when C had lent to B ₹5,000. Referring to the provisions of the Indian Contract Act, 1872, decide whether A is discharged from all the liabilities to C for any subsequent loan. What would be your answer in case B makes a default in paying back to C the money already borrowed i.e. ₹5,000? **4**

(ii) Mr. S agreed to purchase 100 bales of cotton from V, out of his large stock and sent his men to take delivery of the goods. They could pack only 60 bales. Later on, there was an accidental fire and the entire stock was destroyed including 60 bales that were already packed. Referring to the provisions of the Sale of Goods Act, 1930, explain as to who will bear the loss and to what extent? **8**

(iii) Define 'Hazardous Process' under The Factories Act, 1948. **3**

Answer:

(i) The problem as asked in the question is based on the provisions of the Indian Contract

Act 1872,as contained in Section 130 relating to the revocation of a continuing guarantee as to future transactions which can be done mainly in the following two ways:

1. By Notice: A continuing guarantee may at any time be revoked by the surety as to future transactions, by notice to the creditor.
2. By death of surety: The death of the surety operates, in the absence of any contract to the contrary, as a revocation of a continuing guarantee, so far as regards future transactions. (Section 131). The liability of the surety for previous transactions however remains.

Thus applying the above provisions in the given case, A is discharged from all the liabilities to C for any subsequent loan.

Answer in the second case would differ i.e. A is liable to C for ₹ 5,000 on default of B since the loan was taken before the notice of revocation was given to C.

(ii) Section 26 of the Sale of Goods Act,1930 provides that unless otherwise agreed, the goods remain at the seller's risk until the property there in is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at buyer's risk whether delivery has been made or not. Further Section 18 read with Section 23 of the Act provide that in a contract for the sale of unascertained goods, no property in the goods is transferred to the buyer, unless and until the goods are ascertained and where there is contract for the sale of unascertained or future goods by description, and goods are of that description, in a deliverable state and are unconditionally appropriated to the contract, either by the seller with the assent of the buyer or by the buyer with the assent of the seller, the property in the goods thereupon passes to the buyer. Such assent may be express or implied. Applying the aforesaid law to the facts of the case in hand, it is clear that Mr. S has the right to select the good out of the bulk and he has sent his men for same purpose.

Hence the problem can be answered based on the following assumption and the answer would be:

Where the bales have been selected with the consent of the buyer's representatives: In this case the property in the 60 bales has been transferred to the buyer and goods have been appropriated to the contract. Thus loss arising due to fire in case of 60 bales would be borne by Mr. S. As regards 40 bales, the loss would be borne by Mr. V, since the goods have not been identified and appropriated.

(iii) "Hazardous process" means any process or activity in relation to an industry specified to the First Schedule where, unless special care is taken, raw materials used therein or the intermediate or finished products, bye-products, wastes or effluents thereof would—

(i) Cause material impairment to the health of the persons engaged in or connected therewith, or

(ii) Result in the pollution of the general environment

Provided that the State Government may, by notification in the Official Gazette, amend the First Schedule by way of addition, omission or variation of any industry specified in the said Schedule;

(b) (i) P Ltd., contracts with SK Traders to make and deliver certain machinery to them by 30.04.2017 for ₹11.50 lakhs. Due to labour strike, P Ltd. could not manufacture and deliver the machinery to SK Traders. Later, SK Traders procured the machinery from another manufacturer for ₹12.75 lakhs. SK Traders was also prevented from performing a contract which it had made with MK Traders at the time of their contract with P Ltd. and were compelled to pay compensation for breach of contract. Advise SK Traders the amount of compensation which it can claim from P Ltd., referring to the legal provisions of the Indian Contract Act, 1872? 7

(ii) What are the conditions precedents to retrenchment of workmen under Industrial Dispute Act? 4

(iii) Who is an insurable employee under ESI Act, 1948? 4

Answer:

(i) Section 73 of the Indian Contract Act, 1872 provides for consequences of breach of contract. According to it, when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract, compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract, to be likely to result from the breach of it. Such compensation is not given for any remote and indirect loss or damage sustained by reason of the breach. It is further provided in the explanation to the section that in estimating the loss or damage from a breach of contract, the means which existed of remedying the inconvenience caused by the non-performance of the contract must be taken into account.

Applying the above principle of law to the given case, P Ltd is obliged to compensate for the loss of ₹1.25 lakhs (i.e. ₹12.75 minus ₹11.50 = ₹ 1.25 lakhs) which had naturally arisen due to default in performing the contract by the specified date.

Regarding the amount of compensation which SK Traders were compelled to make to MK Traders, it depends upon the fact whether P Ltd knew about the contract of SK Traders for supply of the contracted machinery to MK Traders on the specified date. If so, P Ltd is also obliged to reimburse the compensation which SK Traders had to pay to MK Traders for breach of contract. Otherwise P Ltd is not liable.

(ii) Under ID Act the conditions precedents to retrenchment of workmen are:

No workmen employed in any industry that has been in continuous service for not less than one year under an employer can be retrenched by that employer until: The workman has to be given one month's notice in writing indicating the reasons for retrenchment or the workman has to be paid in lieu of such notice, wages for the period of the notice. The workman has to be paid at compensation which is equivalent to fifteen days' average pay (for every completed year of continuous service) or any part thereof in excess of six months; and Notice in the prescribed manner is to be served on the Appropriate Government (or such authority as may be specified by the Appropriate Government by notification in the Official Gazette).

(iii) Every employee of a factory or establishment to which the Act applies is an insurable person. Section 38 states that subject to provisions of the Act, all employees in factories or establishments to which this Act applies shall be insured in manner as provided in Act. However the following persons are not insurable and Act does not provide any benefit to them:

(a) Workers in mines subject to Mines Act, 1952[Sec 2(12)]
(b) Workers in a railway running shed[Sec 2(12)]
(c) Any member of [the Indian] naval, military or air forces [Sec2(9)]
(d) Any person so employed whose wages (excluding remuneration for overtime work) exceed [such wages as may be prescribed by the Central Government]:

(c) (i) "It would be safer for the drawer to cross a cheque 'not negotiable' with the words 'account payee' added to it". Explain, how it is safer for the drawer in such case. 8

(ii) Explain provisions relating to unlimited liability in case of fraud under LLP Act. 7

Answer:

(i) As per the instructions issued by Reserve Bank of India on 09.09.1992, it would be safer for the drawer to cross a cheque 'not negotiable' with the words 'account payee' added to it. The effect of the words "not negotiable' on a crossed cheque is that the title of the transferee of such a cheque cannot be better than that of its transferor (Section 130 of Negotiable Instrument Act). The addition of the words 'not negotiable' does not restrict the further transferability of the cheque; it only takes away the main feature of negotiability, which is, that a holder with a defective title can give a good title to subsequent holder, in due course. Anyone who takes a cheque marked 'not negotiable' takes it at his own risk. The object of crossing a cheque 'not negotiable' is to award protection to the drawee or holder of the cheque against miscarriage or dishonesty in the course of transit by making it difficult to get the cheque so crossed cashed, until it reaches its destination.

The words 'Account Payee' on a cheque are a direction to the collecting banker that the amount collected on the cheque is to be credited to the account of the payee. If he credits the proceeds to a different account, he is prima facie guilty of negligence and will be liable to the true owner for the amount of the cheque. But such a crossing does not affect the paying banker who is under no duty to ascertain that the cheque in fact has been collected for the account of the person named as the payee.

Thus the cheque crossed 'not negotiable' with the words 'account payee' added to it protects the drawer of the cheque in two ways. (1) The main feature of negotiability is lost i.e. the holder in due course cannot get a better title than that of the transferor. (2) The collecting banker must take utmost care to inquire into the title of its customer and satisfy itself that there is no defect in the title of the customer presenting such cheque of collection.

(ii) **Unlimited liability in case of fraud (Sec 30)**

In order to check the misuse of corporate veil by a LLP for the purpose of defrauding the creditors or any other person or for any fraudulent purpose the liability of the limited liability partnership and partners who acted with intent to defraud creditors or for any fraudulent purpose shall be unlimited for all or any of the debts or other liabilities of the limited liability partnership;

If any such act is carried out by a partner, the limited liability partnership is liable to the same extent as the partner unless it is established by the limited liability partnership that such act was without the knowledge or the authority of the limited liability partnership.

Where the business of a LLP is carried out for fraudulent purpose every person who was knowingly been a party to the carrying on of the business in the manner aforesaid shall be punishable with imprisonment for a term which may extend to two years and with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees. Moreover, the limited liability partnership and any such partner or designated partner or employee shall be liable to pay compensation to any person who has suffered any loss or damage by reason of such conduct:

However, the limited liability partnership shall not be liable if any such partner or designated partner or employee has acted fraudulently without knowledge of the limited liability partnership.

(d) (i) Under which circumstances can an unpaid seller exercise his right of lien? Distinguish between right of lien and right of stoppage of goods in transit, under the Sale of Goods Act, 1930. 6

(ii) An employee working in an establishment covered by the E.P.F. and M.P. Act, 1952, leaves his employment and takes up employment in another establishment. State in this connection:

(I) How shall the amount accumulated to his P.F. account be transferred?

(II) What steps shall be taken if the establishment in which he has joined is not covered by the Act?

(III) What would be your answer if the establishment in which he was previously

working is not covered by the Act? 6

(iii) What is the time limit for retention of record impounded during the proceedings conducted under the PMLA, 2002? 3

Answer:

(i) Section 47 of the Sale of Goods Act, 1930 lays down cases in which an unpaid seller is entitled to lien. They are as follows:

(ii) Where goods have been sold without any stipulation as to credit.

(iii) Where goods have been sold on credit but the term of credit expired, or

(iv) Where the buyer becomes insolvent.

Distinction between right of lien and right of stoppage of goods in transit

(1) The essence of a right of lien is to retain possession whereas the right of stoppage in transit is right to regain possession.

(2) Seller should be in possession of goods under lien while in stoppage in transit (i) Seller should have parted with the possession (ii) possession should be with a .carrier and (iii) buyer has not acquired the possession.

(3) Right of lien can be exercised even when the buyer is not insolvent but it is not the case with right of stoppage in transit.

(4) Right of stoppage in transit begins when the right of lien ends. Thus the end of the right of lien is the starting point of the stoppage in transit.

(ii) Section 17-A of EPF & MP Act. 1952 provides for the transfer of accounts of an employee in case of his leaving the employment and taking up employment in another establishment and to deal with the case of an establishment to which the Act applies and also to which it does not apply. The option to get the amount transferred is that of the employee.

Where an employee of an establishment to which the Act applies leaves his employment and obtains re-employment in another establishment to which the Act does not apply, the amount of accumulations to the credit of such employee in establishment left by him shall be transferred, within such time as may be specified by the Central Government in this behalf, to the credit of his account in the provident fund of the establishment in which he is reemployed, if the employee so desires and the rules in relation to that provident fund permit such transfer [Sub-Section (1)].

Conversely, when an employee of an establishment to which the Act does not apply leaves his employment and obtains re-employment in another establishment to which the Act applies, the amount of accumulations to the credit of such employee in the provident fund permit, may be transferred to the credit of his account in the fund or as the case may be, in the provident fund of the establishment in which he is employed [Sub-Section (2)].

(iii) Authorities empowered to issue summons may impound and retain in his custody for such period, as he thinks fit, any records produced before him in any proceedings under this Act:

Provided that an Assistant Director or a Deputy Director cannot —
(a) impound any records without recording his reasons for so doing; or
(b) retain in his custody any such records for a period exceeding three months, without obtaining the previous approval of the Director.

(e) (i) E was an employee of T E Ltd. The whole of the undertaking of T E Ltd. was taken over by a new company, ATE 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

(ii) State the modes by which a partner may transfer his interest in the firm in favour of another person under the Indian Partnership Act. What are the rights of such a transferee? 5

(iii) Describe the objectives of the Child Labour (Prohibition & Regulation) Act, 1986. 5

Answer:

(i) According to Section 4(1) of the Payment of Gratuity Act, 1972, gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years on his super annulations, or, on his retirement or resignation or on his death or disablement due to accident or disease.

The condition of the completion of five years of continuous service is not essential in case of the termination of the employment of any employee due to death or disablement for the purpose of this section. Disablement means such disablement as incapacitates an employee for the work which he was capable of performing before the accident or disease resulting in such disablement.

The given problem fulfils all the above requirements as stated. Therefore, E is entitled to recover gratuity after becoming permanently disabled, and continuous service of five years is not required in this case. Hence, the company cannot refuse to pay gratuity on the ground that he has served only for a year.

(ii) Modes by which a partner may transfer his interest in the firm:
According to Section 29 of the Indian Partnership Act, 1932 a partner may transfer his interest in the firm by sale, mortgage or charge. The transfer may be absolute or partial. The transfer does not entitle the transferee, during the continuance of the firm:

(i) to interfere in the conduct of the business of the firm, or
(ii) to require accounts of the firm, or
(iii) to inspect the books of the firm

On transfer of interest by a partner, the transferee only becomes entitled to receive share of profit of the transferring partner. But in this case also the transferee has to accept the account of profits agreed to by the partners [Section 29(1)].

If the firm is dissolved or if the transferring partner ceases to be a partner, the transferee is entitled to receive the transferring partner's share in the assets of the firm. For the purpose of ascertaining that share, he is entitled to an account as from the date of the dissolution (Section 29(2)).

(iii) The basic objective of the Child Labor (Prohibition & Regulation) Act, 1986 is to prohibit the engagement of children in certain employments and to regulate the conditions of work or children in certain other employments. The objective of the Act can be summarized as under:
(i) To ban the employment of children in specified occupations and processes
(ii) To lay down a procedure to decide modification to the schedule of banned occupations and processes.
(iii) To regulate the conditions of work of children in employments where they are not prohibited from working
(iv) To lay down enhanced penalties for employment of children in violation of the provisions of this Act and other Acts which forbid the employment of children.

SECTION - C

3. Answer any one question: 15×1 = 15

(a) (i) What is Shelf Prospectus? Explain it with relevant provisions. 9
(ii) Who are the Appellate Authorities under RTI Act, 2005? 6

Answer:

(i) **Shelf Prospectus [Section 31]**

(1) Any class or classes of companies, as the Securities and Exchange Board may provide by regulations in this behalf, may file a shelf prospectus with the Registrar at the stage of the first offer of securities included therein which shall indicate a period not exceeding one year as the period of validity of such prospectus which shall commence from the date of opening of the first offer of securities under that prospectus, and in respect of a second or subsequent offer of such securities issued during the period of validity of that prospectus, no further prospectus is required.

(2) A company filing a shelf prospectus shall be required to file an information memorandum containing all material facts relating to new charges created, changes in the financial position of the company as have occurred between the first offer of securities or the previous offer of securities and the succeeding offer of securities and such other changes as may be prescribed, with the Registrar within the prescribed time, prior to the issue of a second or subsequent offer of securities under the shelf prospectus.

Provided that where a company or any other person has received applications for the allotment of securities along with advance payments of subscription before the making of any such change, the company or other person shall intimate the changes to such applicants and if they express a desire to withdraw their application, the company or other person shall refund all the monies received as subscription within fifteen days thereof.

(3) Where an information memorandum is filed, every time an offer of securities is made under sub - section (2), such memorandum together with the shelf prospectus shall be deemed to be a prospectus.

Explanation: — For the purposes of this section, the expression "shelf prospectus" means a prospectus in respect of which the securities or class of securities included therein are issued for subscription in one or more issues over a certain period without the issue of a further prospectus.

(ii) The Appellate Authorities under RTI Act 2005

First Appeal: First appeal to the officer senior in rank to the PIO in the concerned Public Authority within 30 days from the expiry of the prescribed time limit or from the receipt of the decision (delay may be condoned by the Appellate Authority if sufficient cause is shown).

Second Appeal: Second appeal to the Central Information Commission or the State Information Commission as the case may be; within 90 days of the date on which the decision was given or should have been made by the First Appellate Authority, (delay may be condoned by the Commission if sufficient cause is shown).

Third Party appeal against PIO decision must be filed within 30 days before first Appellate Authority; and, within 90 days of the decision on the first appeal, before the appropriate Information Commission which is the second appellate authority.

- Burden of proving that denial of Information was justified lies with the PIO.
- First Appeal shall be disposed of within 30 days from the date of its receipt. Period extendable by 15 days if necessary. (S.19)

(b) (i) Explain the provisions relating to Removal and Resignation of an Auditor. 6

(ii) What is the time limit to get the information under RTI Act, 2005? 4

(iii) Enumerate the range of activities as outlined in the Statement of Responsibilities of Internal Auditors. 5

Answer:

(i) **Removal, resignation of Auditor [Section 140]**

(1) The auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the prescribed manner.

Provided that before taking any action under this sub-section, the auditor concerned shall be given a reasonable opportunity of being heard.

(2) The auditor who has resigned from the company shall file within a period of thirty days from the date of resignation, a statement in the prescribed form with the company and the Registrar, and in case of companies referred to in sub-section (5) of section 139, the auditor shall also file' such statement with the Comptroller and Auditor-General of India, indicating the reasons and other facts as may be relevant with regard to his resignation.

(3) If the auditor does not comply with sub-section (2), he or it shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees

(ii) Under RTI Act 2005 the time limit to get the information is:

- 30 days from the date of application
- 48 hours for information concerning the life and liberty of a person
- 5 days shall be added to the above response time, in case the application for information is given to Assistant Public Information Officer.
- If the interests of a third party are involved then time limit will be 40 days (maximum period + time given to the party to make representation).
- Failure to provide information within the specified period is a deemed refusal

(iii) The range of activities as outlined in the Statement of responsibilities of Internal Auditors is as follows:

(i) Reviewing and appraising the soundness, adequacy and application of accounting, financial, and other operating controls, and promoting effective control at reasonable cost.
(ii) Ascertaining the extent of compliance with established policies, plans and procedures.
(iii) Ascertaining the extent to which company's assets are accounted for and safeguarded from losses of all kinds.
(iv) Ascertaining the reliability of management data developed within the organisation.

(v) Appraising the quality of performance in carrying out assigned responsibilities.
(vi) Recommending operating improvements.

SECTION – D

4. Answer any one question: **15×1 = 15**

(a)(i) Explain Evolution ethics? **8**
(ii) What are the difference between Ethical Code and Ethical Contract? **7**

Answer:

(i) **Evolution of Ethics**

Social conduct has evolved along with the evolution of society. When your elders tell you 'Do not cheat', they are referring to a social code of conduct. Social conduct has developed in society over hundreds of years. The codes of conduct have been passed down from generation to generation, and there is a pattern to the evolution of such codes. Acceptable behaviour is promoted and elevated as a social value, and unacceptable behaviour is rejected and condemned. In ancient India, there was no moral problem with the custom of sati-immolating the wife on the funeral pyre or the deceased husband. But society has evolved humanely and has condemned the act as unacceptable and morally reprehensible. The laws of a country are based on the customs or moral codes of its society. Penalties are prescribed for bad actions, actions that contradict the established laws. The laws are a measure against those people who cross the limits of the code of social conduct, and ensure that good citizens are protected from the negative consequences of the law-breakers.

The object of the social codes of conduct is to maintain, promote, and elevate harmonious relationships.

'Honour your parents' is one such code. It maintains a peaceful relationship between parents and children and promotes respect for each other in the family. It is because of its salutary effects, it is considered as one of the fundamental values to be cultivated.

(ii) **Ethical Code & Contract – Differences**

Ethical codes or code of ethics are guidelines intended to serve the interests of a profession; its members and communities that are served, and hereby commit oneself to the highest ethical and professional conduct. Ethical codes are adopted by organizations lo assist the members in understanding the difference between 'right and wrong', and applying that understanding in decision making. An ethical code generally implies documents at three levels: code of business ethics, codes of conduct for employees, and codes of professional practice. Thus, code of ethics focuses on the social issue of the organization emphasizing on development of business, plan of business development that plans to conduct business at the highest level.

Code of ethics decides the code of conduct for employees, and set out the procedures to be used in specific ethical situations such as conflict of interests and prescribes procedures to determine whether a violation of the code of ethics occurred, and if so what remedies need to be imposed. Ethical contract is an agreement between two or more parties; whereby parties of the contract are legally bound and committed to its promises. It also takes into consideration reasons for breaches in contract, and the way in which these ethical considerations may impact upon them.

(b)(i) Discuss Ethics as a Principal **7**

(ii) What steps are suggested for a finance and accounting professional to resolve ethical conflicts? **8**

Answer:

(i) **Ethics as a Principle**

We have established that social evolution has developed definite principles of civic behaviour, 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 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

(ii) **Conflict resolution Process**

A finance and accounting professional should determine:

(a) The appropriate course of action,

(b) Weigh the consequences of each possible course of action:

(i) If the matter remains unresolved, the professional should consult with other appropriate persons within the firm and if required, with persons responsible for governance of the organisation (e.g. Board of Directors).

(ii) The following steps are suggested to resolve the issues:

(a) Documentation: He should document the substance of the issue and details of any discussions held or decisions taken, concerning t h at issue.

(b) Legal Advice: If a significant conflict cannot be resolved, a professional may obtain advice from the relevant professional body or legal advisors without breach of confidentiality.

(c) Withdrawal: If after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional should, where possible, refuse to remain associated with the matter creating the conflict, withdraw from the engagement team or specific assignment or resign from the employing organization.