



# INTERMEDIATE EXAMINATION

SET 2

## MODEL ANSWERS

TERM – DEC 2025

### PAPER – 5

SYLLABUS 2022

#### BUSINESS LAWS AND ETHICS

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

#### SECTION – A (Compulsory)

1. Choose the correct option:

[15 x 2 = 30]

- (i) Which right is not part of Article 19(1)?
  - a. Freedom of speech and expression
  - b. Freedom to form associations
  - c. Right to property
  - d. Freedom of profession
- (ii) What is a defining characteristic of supreme legislation?
  - a. It can be repealed by executive orders
  - b. It is subject to judicial review by subordinate courts
  - c. It cannot be controlled or checked by any authority other than the sovereign itself
  - d. It must receive prior approval from the head of state
- (iii) The Constitution of which country was the first to begin with a Preamble?
  - a. USA
  - b. India
  - c. Britain
  - d. Canada
- (iv) What is the bailor's duty according to Section 150 of the Indian Contract Act regarding faults in the goods bailed?
  - a. No disclosure is required if the goods appear to be in working condition.
  - b. The bailor must disclose known faults that materially interfere with use or expose the bailee to extraordinary risks.
  - c. The bailor can remain silent unless specifically asked by the bailee.
  - d. The bailor is only responsible for faults that cause financial loss.
- (v) A quasi contract :
  - a. is a contract
  - b. in an agreement
  - c. creates only a legal obligation
  - d. is none of these
- (vi) The general rule of Sale of Goods Act is, risk prima facie passes with:
  - a. Ownership
  - b. Possession
  - c. Delivery
  - d. Custody



- (vii) When an Instrument is drawn conditionally or for a special purpose as a collateral security and not for the purpose of transferring property therein, it is called an:
- Escrow Instrument
  - Inchoate Instrument
  - Ambiguous Instrument
  - None of the above.
- (viii) The dissolution of partnership means:
- It means the dissolution of partnership between all the partners of a firm
  - It means the change in the relations of the partners
  - It means the reconstitution of the firm.
  - None of the above.
- (ix) A limited liability partnership (LLP) is a \_\_\_\_\_ formed and incorporated under this Act and is a separate legal entity from that of its partners.
- Partnership
  - Body corporate
  - Hybrid Entity
  - None of the above
- (x) LLP shall file its Annual Return in which form:
- Form 12
  - Form 11
  - Form 10
  - Form 9
- (xi) For a factory built after the commencement of the Factories Act, what is the mandated minimum cubic space per worker in a workroom?
- 9.9 cubic meters
  - 14.2 cubic meters
  - 4.2 cubic meters
  - 500 cubic feet
- (xii) When must a company file a red herring prospectus with the Registrar under Section 32?
- At least 21 days prior to opening of the subscription list
  - At least 7 days prior to closing of the offer
  - At least 3 days prior to the opening of the subscription list and the offer
  - Within 24 hours of allotment
- (xiii) For listed companies, within how many days must the duplicate share certificate be issued from the date of submission of complete documents?
- 30 days
  - 60 days
  - 90 days
  - 45 days

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- (xiv) Which one cannot be transacted through postal ballot?
- Appointment of auditor;
  - Election of a Director;
  - Buy back of shares by a company;
  - Change in place of registered office outside the local limits of any city, town or village.
- (xv) What is the primary purpose of a value chain in a business context?
- To eliminate all indirect costs
  - To visualize the full sequence of activities where value is added to products or services
  - To manage employee performance metrics
  - To consolidate financial statements

**Answer:**

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)
c	c	a	b	c	a	a	b	b	b	b	c	d	a	b

**Section – B****(Answer any five questions out of seven questions given. Each question carries 14 Marks)****[5 x 14 = 70]**

2. (a) Discuss the rule of "No Consideration – No Contract" as per Section 25 of the Indian Contract Act, 1872. Are there any exceptions to this rule? Support your answer with examples. [7]
- (b) Analyse the differences between Contract of Indemnity and Contract of Guarantee. [7]

**Answer:****(a) No Consideration - No Contract:**

According to Section 25 of The Indian Contract Act, 1872, the general rule is *ex-nudopacto non oritur action* i.e. an agreement made without consideration is void. For example if A promises to pay B ₹ 1000 without any obligation from B, this is a void agreement for want of consideration. However, the Act itself provides exceptions to this rule in section 25 itself. As per section 25, an agreement made without consideration is not void in the following circumstances:

- Promise made on account of natural love and affection.
- Promise to compensate for voluntary services.
- Promise made to pay a time barred debt.

Also, an agreement without consideration is not void in the following cases:

- Gift actually made.
- Creation of agency.
- Charitable subscription

Example: Ram told Shyam that he will sell his office space to him if he killed a Union Minister. This consideration in lieu of office space is an unlawful consideration and hence this will not become a contract.

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**(b)** The contract of indemnity differs from the contract of guarantee in the aspects shown in the following table:

Sl. No.	Contract of Indemnity	Contract of Guarantee
1.	In this contract there are two parties – the indemnifies and the indemnified	In this contract three parties are involved – principal debtors, surety and creditor
2.	The primary liability is on the indemnifier	The principal liability is on the principal debtors. Secondary liability is on the surety.
3.	The indemnifier is not acting at the request of the debtor.	The surety gives contract at the request of the principal debtor.
4.	The possibility of any loss happening is the only contingency against which the indemnifier undertakes to indemnify.	There is an existing debt for which the surety gives guarantee to the creditor on behalf of the principal debtor.
5.	The indemnifier cannot sue the third party in his own, unless there is an assignment.	The surety is entitled to proceed against the principal debtor when he is obliged to perform the guarantee
6.	The contract is between the indemnifier and indemnified.	The contract is between the principal debtor - creditor; surety - creditor; principal debtor - surety.
7.	Defined u/s 124	Defined u/s 126

3. (a) **Demonstrate the procedure of appointment of auditor as per the Limited Liability Partnership Act, 2008.** [7]

(b) **Discuss various types of instruments recognized under the Negotiable Instruments Act.** [7]

**Answer:**

**(a)** Appointment of auditor of LLP:

- A Chartered Accountant in practice is qualified for appointment as an auditor of LLP. The auditor(s) shall be appointed for each financial year of the LLP to audit its accounts. The designated partners may appoint an auditor(s)-
- At any time for the first financial year but before the end of the first financial year,
- At least 30 days prior to the end of each financial year (other than the first financial year);
- to fill a casual vacancy in the office of auditor, including in the case when the turnover or contribution of LLP exceeds the limits; or
- to fill up the vacancy caused by the removal of an auditor.
- If the designated partners have failed to appoint auditor(s), the partners may appoint an auditor or auditors. An auditor appointed shall hold office in accordance with the terms of his or their appointment and shall continue to hold such office till the period-
- the new auditors are appointed or
- they are re-appointed.



Rule 24(14) provides that where no auditor has been appointed, any auditor in office shall be deemed to be re-appointed unless-

- the LLP agreement requires actual reappointment; or
- the majority of partners have determined that he should be reappointed and have given notice to this effect to the LLP.

A notice may be in hardcopy or electronic form and must be authenticated by the person or persons giving it. The above shall be applicable to removal and resignation of auditors.

The remuneration of an auditor may be fixed by the designated partners or in accordance with the procedure laid down in the LLP agreement.

(b) There are various types of instruments mentioned in this Act as follows:

- Inland instrument – a promissory note, bill of exchange or cheque drawn or made in India and made payable in, or drawn upon any person resident in, India shall be deemed to be an inland instrument.
- Foreign instrument – a promissory note, bill of exchange or cheque not drawn, made or made payable, in India, shall be deemed to be a foreign instrument.
- Ambiguous instrument – where an instrument may be construed either as a promissory note or bill of exchange, the holder may at his election, treat it as either and the instrument shall be thenceforward treated accordingly.
- Instruments payable on demand – A promissory note or bill of exchange, in which no time for payment is specified, and a cheque, are payable on demand.
- Inchoate stamped instruments – Where one person signs and delivers to another a paper stamped in accordance with the law relating to negotiable instruments for the time being in force in India and either wholly blank or having written thereon an incomplete negotiable instrument, he thereby gives prima facie authority to the holder thereof to make or complete, as the case may be, upon it a negotiable instrument, for any amount specified therein and not exceeding the amount covered by the stamp. The person so signing shall be liable upon such instrument, in the capacity in which he signed the same, to any holder in due course for such amount provided that no person other than a holder in due course shall recover from the person delivering the instrument anything in excess of the amount intended by him to be paid there under.

4. (a) Discuss the components of minimum wages as laid down under Section 7 of the Code on Wages, 2019. [7]
- (b) Discuss the procedure prescribed under Section 7 of the Payment of Gratuity Act, 1972 for the determination of gratuity amount. How should the employer proceed when the gratuity becomes payable, and what steps are involved in cases of delay or inadmissibility of the claim? [7]

**Answer:**

(a) The Code lays down the various components of minimum wage that the appropriate Government shall fix. Under Section 7, the Code lays down that:

1. Any minimum rate of wages fixed or revised by the appropriate Government under section 8 may consist of:
  - a basic rate of wages and an allowance at a rate to be adjusted, at such intervals and in such manner



as the appropriate Government may direct, to accord as nearly as practicable with the variation in the cost of living index number applicable to such workers (hereinafter referred to as “cost of living allowance”); or

- a basic rate of wages with or without the cost of living allowance, and the cash value of the concessions in respect of supplies of essential commodities at concession rates, where so authorised; or
- an all-inclusive rate allowing for the basic rate, the cost of living allowance and the cash value of the concessions, if any.

2. The cost of living allowance and the cash value of the concessions in respect of supplies of essential commodities at concession rate shall be computed by such authority, as the appropriate Government may by notification, appoint, at such intervals and in accordance with such directions as may be specified or given by the appropriate Government from time to time.

- (b) Section 7 prescribes the procedure for determination of the amount of gratuity. As soon as the gratuity becomes amount of gratuity so determined. The notice shall be in Form L.

The employer shall arrange to pay the amount of gratuity within 30 days from the date of its becoming payable to the person to whom it is payable. If it is not paid within the stipulated period the employer is liable to pay interest at the rate of 10% per annum. If the delay in payment is due to the fault of the employee and the employer has obtained permission in writing from the controlling authority for the delayed payment, on this ground, no interest is payable.

If the claim for gratuity is not found admissible, issue a notice in Form ‘M’ to the applicant employee, nominee or legal heir, as the case may be, specifying the reasons why the claim for gratuity is not considered admissible. In either case a copy of the notice shall be endorsed to the controlling authority.

5. (a) Describe the key characteristics of a company as per the Companies Act. [7]  
(b) Examine the duties of an auditor as per the Companies Act, 2013. [7]

**Answer:**

(a) Characteristics of a ‘company’-

- Separate legal entity – Company is a separate legal person and artificial person. It is distinguished from the shareholders of the company. It has its own independent corporate existence.
- Limited liability – The liability of the members of a limited company having share capital is limited to the extent of the nominal value of the shares held by them. The shareholders cannot be called upon to pay more than the unpaid value of his shares, whatever may be the indebtedness of the company.
- Perpetual succession- The Company has its existence from the time of incorporation to winding up. Members may come and members may go but the company survives up to the winding up;
- Separate property – The company is having right to acquire and transfer properties in its own name.
- Common seal – The common seal is used by the company for affixing it in the documents such as contract etc., since it is an artificial person and cannot sign on its own in the documents.

Now the use of common seal has been made optional as per the 2015 Amendment to Companies Act, 2013. The Companies Act, 2013 required common seal to be affixed on certain documents (such as bill of exchange, share certificates, etc.) All such documents which required affixing the common seal may now instead be signed by two directors or one director and a company secretary of the company.

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- Transferability of shares – The shares of the members, except in the private company, may be freely transferable.
- Capacity to sue and be sued – Being a separate legal entity the company is having capacity to sue others and it can be sued by others.

**(b)** The duties of an auditor have been laid down by the Companies Act, 2013, provided in Section 143. The Act explains the duties in a simplified manner, although the list given is not exhaustive.

1. Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place and shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor and amongst other matters inquire into the following matters, namely:  
—
  - whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its member;
  - whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
  - where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debenture and other securities have been sold at a price less than that at which they were purchased by the company;
  - whether loans and advances made by the company have been shown as deposits;
  - whether personal expenses have been charged to revenue account;
2. Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefor.
3. Every auditor shall comply with the auditing standards.
4. The Central Government may, after consultation with the National Advisory Committee on Accounting and Auditing Standards, by notification, lay down auditing standards:  
Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.
5. Notwithstanding anything contained in this section, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.
6. No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section
7. The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statement or other document which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made there under or under any order made under sub-section (11) and to





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the best of his information and knowledge, the said accounts, financial statement or other document give a true and fair view of the state of the company's affairs as at the end of its financial year and such other matters as may be prescribed.

8. If it is done in good faith.
9. The provisions of this section shall mutatis mutandis apply to—
- the cost accountant in practice cost accountant conducting cost audit under section 148; or
  - the conducting secretarial audit under section 204.
6. (a) **Mr. A is a director of PQR Ltd. appointed by its shareholders by passing an ordinary resolution. Only after six months of his appointment, a news was published in a local daily mentioning his name. As per the news, Mr. A asked for a bribe of huge amount from a supplier of the company. Following this, a month later, shareholders of the company removed Mr. A from the office of the director and appointed Mr. B in his place for the time being at the said meeting. Now, Mr. A is arguing that his removal before completion of his tenure on the basis of media reports is not only unfortunate but also illegal as the allegation has not yet been proved. Examine the validity of removal of Mr. A and also discuss whether the temporary appointment of Mr. B is valid or not.** [7]
- (b) **Explain the procedure a company must follow after receiving a director's resignation under Section 168(1) of the Companies Act, 2013.** [7]

**Answer:**

- (a) As per Section 169 of Companies Act, 2013, shareholders have been given the inherent right to remove the directors appointed by them. Directors can be either removed by shareholders or by Tribunal. It is not necessary that there should be proof of mismanagement, breach of trust, misfeasance or other misconduct on the part of the directors. Special notice shall be required of any resolution to remove a director under this section, or to appoint somebody in place of a director so removed, at the meeting at which he is removed.

Where the shareholders feel the policies pursued by the directors or any of them are not to their liking, they have the option to remove the directors by passing an ordinary resolution in the same way as they have the right to appoint directors by passing an ordinary resolution.

Therefore, the removal of Mr. A is legally permissible and valid.

The vacancy is created under this situation after the removal of Mr. A and in the same meeting Mr. B is being appointed for the time being. The newly appointed director, Mr. B, has to hold the post until the duration up to the new formal appointment of the director is made. Thus, appointment of Mr. B is also valid and as per law.

- (b) A director may resign from his office by giving a notice in writing to the company as per Section 168 (1) of the Companies Act, 2013. On receipt of such notice, the Board shall take note of the same and the company shall intimate the Registrar in such manner, within such time and in such form as may be prescribed and shall also place the fact of such resignation in the report of directors laid in the immediately following general meeting by the company.

The director may also forward a copy of his resignation along with detailed reasons for the resignation to the Registrar within thirty days of resignation in such manner as may be prescribed.





The resignation of a director shall take effect from the date on which the notice is received by the company or the date, if any, specified by the director in the notice, whichever is later. However, under Section 168 (2) of the Companies Act, 2013, the director who has resigned shall be liable even after his resignation for the offences which occurred during his tenure.

7. (a) **List and briefly describe each of the Seven Principles of Public Life.** [7]  
(b) **Identify the key reasons highlighting the importance of business ethics.** [7]

**Answer:**

(a) The Committee submitted its first report in the year 1995 containing the seven principles of public life. The said principles have been amended over year. The seven principles of public life as amended up to and as on 2015 are as follows-

- Selflessness – Holders of public office should act solely in terms of the public interest.
- Integrity - Holders of public office must avoid placing themselves under any obligation to people or organizations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
- Objectivity - Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
- Accountability - Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
- Openness - Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
- Honesty - Holders of public office should be truthful
- Leadership - Holders of public office should exhibit these principles in their own behavior. They should actively promote and robustly support the principles and be willing to challenge poor behavior wherever it occurs.

(b) Importance of business ethics:

- Public expects business to exhibit high levels of ethical performance and social responsibility;
- Encouraging business firms and their employees to behave ethically is to prevent harm to society;
- Promoting ethical behavior is to protect business from abuse by unethical employees or unethical competitors;
- High ethical performance also protects the individuals who work in business.
- Improving consumer confidence
- Business become conscious of social responsibilities;
- Create good image of business;
- Goodwill;
- Profitability;
- Survival of heated competition
- Safety from legal perspectives



8. (a) Mr. Grey, who is so badly drunk that he cannot sit properly on his chair, enters into an agreement with Mr. Leo on 15th July, 2025 in the evening to sell his office space to him within 15th August, 2025. Next day Mr. Grey declares that he was over drunk last night and now he is not willing to transfer the office space to Mr. Leo. Now, Mr. Grey is arguing that as Mr. Leo has already signed the agreement, he will have to transfer the property in his name. Discuss whether the contract is valid and present your expert comment. [7]
- (b) Demonstrate how the provisions relating to the Audit Committee can be applied under Section 177 of the Companies Act, 2013. [7]

**Answer:**

- (a) Section 12 of the Indian Contract Act, 1872 provides that a person is said to be of sound mind for the purposes of making contract if, at the time when he makes it, he is capable of understanding it and of forming a rational judgment as to its effect upon his interest.

In this case Mr. Grey when he made the contract in the evening of 15th July 2025, he was not capable of understanding the agreement and of forming rational judgment as to effect upon his interest.

As per the provision of the Indian Contract Act, 1872 Mr. Grey cannot contract whilst such drunkenness lasts. Therefore, the contract between Mr. Grey and Mr. Leo is not a valid contract.

- (b)
1. The Board of Directors of every listed public company and such other class or classes of companies, as may be prescribed, shall constitute an Audit Committee.
  2. The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority, provided that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.
  3. Every Audit Committee of a company existing immediately before the commencement of this Act shall, within one year of such commencement, be reconstituted in accordance with sub-section (2).
  4. Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include—
    - the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
    - review and monitor the auditor's independence and performance, and effectiveness of audit process;
    - examination of the financial statement and the auditors' report thereon;
    - approval or any subsequent modification of transactions of the company with related parties;
    - scrutiny of inter-corporate loans and investments;
    - valuation of undertakings or assets of the company, wherever it is necessary;
    - evaluation of internal financial controls and risk management systems;
    - monitoring the end use of funds raised through public offers and related matters.
  5. The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.



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6. The Audit Committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.
7. The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote.
8. The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefore.
9. Every listed company or such class or classes of companies, as may be prescribed, shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed.
10. The vigil mechanism under sub-section (9) shall provide for adequate safeguards against victimisation of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases.