



INTERMEDIATE EXAMINATION

MODEL ANSWERS

PAPER – 5

BUSINESS LAWS AND ETHICS

SET 1

TERM – DEC 2025

SYLLABUS 2022

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) When a Bill has been passed by both Houses of Parliament, what is the next step in the legislative process?
- It is sent to the Prime Minister for approval
 - It is presented to the Chief Justice of India
 - It is presented to the President for assent
 - It is enforced as law immediately
- (ii) The phrase “party-centric approach” in mediation means:
- The mediator leads the process with party consultation
 - The outcome is predetermined by the parties’ legal advisors
 - The control of the process lies with the disputing parties
 - All parties must be from the same legal jurisdiction
- (iii) What is a defining characteristic of supreme legislation?
- It cannot be controlled or checked by any authority other than the sovereign itself
 - It is subject to judicial review by subordinate courts
 - It can be repealed by executive orders
 - It must receive prior approval from the head of state
- (iv) If an Indian citizen has a legal dispute with a foreign sovereign, what is the typical outcome under Indian law?
- The Indian citizen can sue directly in civil court
 - The foreign sovereign must be deported
 - The Indian citizen cannot sue the foreign sovereign
 - The matter is automatically taken up by the UN
- (v) In bailment, the goods must be returned or otherwise disposed of according to whose directions?
- Bailee
 - Bailor
 - Creditor
 - Principal debtor



- (vi) In case of breach of warranty by the seller, the buyer can:
- Claim damages but cannot reject the goods
 - Reject the goods and refuse to pay
 - Cancel the contract
 - File for criminal proceedings
- (vii) Within how many days must the payee issue a notice to the drawer after the cheque is returned unpaid by the bank?
- 7 days
 - 30 days
 - 15 days
 - 45 days.
- (viii) Upon successful conversion into an LLP, the company or firm shall inform the concerned Registrar within:
- 7 days
 - 15 days
 - 30 days
 - 60 days
- (ix) A partner who neither contributes capital nor takes part in business but lends his name is called:
- Sleeping partner
 - Nominal partner
 - Partner in profits only
 - Sub-partner.
- (x) Which document is required to establish an LLP
- Articles of Association
 - LLP Agreement
 - Memorandum of Association
 - Certificate of Incorporation
- (xi) If an employer refuses to pay gratuity, the employee can file a complaint with the controlling authority within:
- 60 days
 - 30 days
 - 15 days
 - 90 days

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- (xii) No prospectus shall be valid if it is issued more than ____ days after the date on which a copy thereof is delivered to the Registrar.
- a. fifteen
 - b. thirty
 - c. sixty
 - d. ninety
- (xiii) The appointment of an independent director shall be approved by the
- a. Board meeting;
 - b. General meeting;
 - c. Registrar of Companies
 - d. Central Government.
- (xiv) An instrument of the proxy shall be deposited with the registered office of the company _____ before the conduct of the meeting.
- a. 7 hours
 - b. 21 hours
 - c. 48 hours
 - d. 60 hours
- (xv) Moral management requires ethical
- a. Customer
 - b. Market
 - c. Leadership
 - d. Producer

Answer:

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

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

2. (a) Explain the position of a minor under the Indian Contract Act, 1872. [7]
(b) Enumerate the duties of bailor and care to be taken by bailee in context of bailment. [7]

**Answer:**

- (a) The position of Minor's agreement and effect thereof is as under:
1. An agreement with a minor is void ab-initio.
 2. The law of estoppel does not apply against a minor. It means a minor can always plead his minority despite earlier misrepresenting to be a major. In other words, he cannot be held liable on an agreement on the ground that since earlier he had asserted that he had attained majority.
 3. Doctrine of Restitution does not apply against a minor. In India, the rules of restitution by minor are similar to those found in English laws. The scope of restitution of contract by minor was examined by the Privy Council in Mohiri Bibi case when it has held that the restitution of money under section 64 of the Indian Contract Act cannot be granted under section 65 because a minor's agreement is not voidable but absolutely void ab-initio. Similarly no relief can be granted under section 65 as this section is applicable where the agreement is discovered to be void or the contract becomes void.
 4. No Ratification on Attaining Majority - Ratification means approval or confirmation. A minor cannot confirm an agreement made by him during minority on attaining majority. If he wants to ratify the agreement, a fresh agreement and fresh consideration for the new agreement is required.
 5. Contract beneficial to Minor - A minor is entitled to enforce a contract which is of some benefit to him. Minority is a personal privilege and a minor can take advantage of it and bind other parties.
 6. Minor as an agent - A minor can be appointed an agent, but he is not personally liable for any of his acts.

- (b) Bailor's duty in context of Bailment: Section 150 lays down three duties, namely

1. It is the duty of the bailor to disclose to the bailee faults in the goods bailed, of which the bailor is aware, and which materially interfere with the use of them, or expose the bailee to extraordinary risks;
2. If the bailor does not make such disclosure and some loss or damage results, he is responsible for so much of it as arises to the bailee directly from such faults;
3. If the goods are bailed for hire, the bailor is responsible for damage arising to the bailee directly from such faults, whether he was or was not aware of the existence of such faults in the goods bailed.

Examples:

I. A lends a horse, which he knows vicious, to B. He does not disclose the fact that the horse is vicious. The horse runs away. B is thrown and injured. A is responsible to B for damages sustained.

II. A hires a carriage of B. the carriage is unsafe, though B is not aware of it, and A is injured. B is responsible to A for the injury.

Care to be taken by Bailee:

Section 151 provides that in all cases of bailment the bailee is bound to take as much care of the goods bailed to him as a man of ordinary prudence would, under similar circumstances, take of his own goods of the same bulk, quality and value as the goods bailed.

In 'Nagalinga Chettiyar V. Kayarohana Chettiyar' – AIR 1915 Mad. 80 it was held that where the standard of care prescribed by Section 151 is not observed the bailee cannot be exonerated from his liability simply because the bailee's goods were also lost along with the goods bailed.

In 'Sirmour Truck Operations Union V. National Insurance Co. Limited' AIR 2011 (NOC) 389(HP) it was held that the carrier cannot be exempted from its own negligence or negligence by his agent where goods carried at 'owner's risk' and cannot escape from the liability to make good loss.



3. (a) Discuss the right and liability of partners after dissolution as per Indian Partnership Act, 1932 . [7]
(b) Distinguish between a contract of sale and an agreement to sell. [7]

Answer:

- (a) Right of partners after dissolution :

Section 46 provides that on the dissolution of a firm, every partner or his representative is entitled as against all the other partners or their representatives, to have the property of the firm applied in payment of the debts and liabilities of the firm and to have the surplus distributed among the partners or their representatives according to their rights.

Liability of partners after dissolution:

Section 45 provides that the liability of the partners will continue for the acts done before the dissolution, even after the dissolution, until public notice is given of the dissolution. The following partner is not liable for the acts after the date on which he ceases to be a partner-

- a deceased partner;
- a partner who is adjudicated as an insolvent;
- a partner, who not having been known to the person, dealing with the firm, to be a person, retires from the firm

In 'Rajagopala Pillai v. Krishnaswai Chetti' – 8 Mad LJ 261 it was held that the legal representatives of a deceased partner cannot be validly bound by an acknowledgement made by the surviving partner after dissolution caused by death. Once the partnership is dissolved, even the theory of implied agency disappears. After the jural relationship of partners having been put an end, there can be no question of any partner, acting in any representative capacity, so as to bind the firm.

- (b)

Basis	Contract of sale	Agreement to sell
Transfer of property	The property of the goods passes from the buyer to the seller.	The transfer of property takes place at a future time or subject to certain conditions to be fulfilled.
Type of contract	It is an executed contract.	It is an executory contract.
Type of goods	Sales takes place only for existing and specific goods.	Future and contingent goods.
Risk of loss	If the goods are destroyed, the loss falls on the buyer despite the goods are in the possession of the seller.	If the goods are destroyed, the loss falls on the seller despite the goods are in the possession of the buyer.
Breach of contract	The seller can sue the buyer for price and for damages in case of breach by the buyer.	The seller can sue for damages only in case of breach by the buyer.
General and particular property	It gives buyer to enjoy the goods as against the world at large including the seller.	It gives a right to the buyer against the seller to sue for damages.



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Insolvency of the buyer	In the absence of lien over the goods the seller is to return the goods to the Official receiver or assignee. He is entitled to get the dividend declared by the Official receiver which will be at the reduced rate.	The seller is not bound to part with the goods until the price is paid to him.
Insolvency of the seller	The buyer, becoming the owner, is entitled to recover the same from the Official receiver or assignee.	The buyer cannot claim the goods but the dividend declared by the Official receiver or assignee.

4. (a) Explain how the time limits for payment of wages vary depending on the type of employment and termination conditions as per Section 17. [7]

- (b) Prepare the list of benefits that are entitled to the insured persons under the Employees' State Insurance Act, 1948. [7]

Answer:

- (a) Time limit for payment of wages
Section 17-

1. The employer shall pay or cause to be paid wages to the employees, engaged on:
 - a) daily basis, at the end of the shift;
 - b) weekly basis, on the last working day of the week, that is to say, before the weekly holiday;
 - c) fortnightly basis, before the end of the second day after the end of the fortnight;
 - d) monthly basis, before the expiry of the seventh day of the succeeding month.
2. Where an employee has been:
 - a) removed or dismissed from service; or
 - b) retrenched or has resigned from service, or became unemployed due to closure of the establishment, the wages payable to him shall be paid within two working days of his removal, dismissal, retrenchment or, as the case may be, his resignation.
3. Notwithstanding anything contained in sub-section (1) or sub-section (2), the appropriate Government may, provide any other time limit for payment of wages where it considers reasonable having regard to the circumstances under which the wages are to be paid.
4. Nothing contained in sub-section (1) or sub-section (2) shall affect any time limit for payment of wages provided in any other law for the time being in force.

- (b) Section 46 provides that the insured persons, their dependents shall be entitled to the following benefits-
- (i) Periodical payments to any insured person in case of his sickness;
 - (ii) Periodical payments to an insured woman in case of confinement or mis-carriage or sickness arising out of the pregnancy, confinement, premature birth of child or miscarriage;
 - (iii) Periodical payments to an insured person suffering from a disablement as a result of an employment injury sustained as an employee;
 - (iv) Periodical payments to such dependants of an insured person who dies as a result of an employment injury sustained as an employee;
 - (v) Medical treatment for and attendance on insured persons;



- (vi) Payment to the eldest surviving member of the family of an insured person, who has died, towards the expenditure on the funeral of the deceased insured person; if the injured person at the time of his death does not have a family, the funeral payment will be paid to the person who actually incurs the expenditure.

The amount of such payment shall not exceed such amount as may be prescribed by the Central Government. The claim for such payments shall be made within 3 months of the death of the insured person or within such extended period as the Corporation allow in this behalf.

5. (a) Describe the key contents of an annual return filed by a company [7]

(b) Prepare the list of different rights of a shareholder of a company under the Companies Act, 2013. [7]

Answer:

- (a) Section 92 of the Act requires a company to file Annual Return. This section provides that every company shall prepare a Annual Return in Form No. MGT-7. The Annual Return shall contain the following particulars as they stood at the end of the financial year-

- its registered office, its principal business activities, particulars of its holding, subsidiary and associate companies;
- its shares, debentures and other securities and shareholding pattern;
- its indebtedness;
- its members and debenture holders along with changes therein since the close of the previous financial year;
- its promoters, directors, key managerial personnel along with changes therein since the close of the previous financial year;
- meetings of members or a class thereof, Board and its various committees along with attendance details;
- remuneration paid to Directors and Key Managerial Personnel;
- penalty and punishment imposed on the company, its directors or officers and details of compounding of offences and appeals made against such penalty or punishment;
- matters relating to certification of companies, disclosures as may be prescribed;
- details in respect of shares held by or on behalf of the Foreign Institutional Investors; and
- such other matters as may be prescribed.
- The return shall be signed by a director and the Company Secretary. Where there is no company secretary, then it shall be signed by a Company Secretary in practice.

- (b) A person who is a shareholder of a company has many rights under the Companies Act, 2013. Some of them are:

- i. The right to vote at all meetings [Sec.47];
- ii. The right to requisition an extraordinary general meeting of the company [Sec.100];
- iii. The right to receive notice of a general meeting [Sec.101];
- iv. The right to appoint proxy and inspect proxy register [Sec.105] In the case of a body corporate which is a member, the right to appoint a representative to attend a general meeting on its behalf [Sec.113]; and
- v. The right to require the company to circulate resolution [Sec.111].

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- vi. To have certificate of share held ready for delivery to him within two months from the date of allotment [Sec.56]
- vii. To Transfer shares subject to the provisions of the Act and Article of Association [Sec.44].
- viii. To inspect the Register of members and Register of debenture-holders and get extracts therefrom [Sec.94].
- ix. To obtain, on request, minutes of proceedings at general meetings as also to inspect the minutes [Sec.119].
- x. To apply to the Tribunal to have any variation of shareholders rights set aside [Sec.48].
- xi. To participate in the removal of directors by passing an ordinary resolution [Sec.169]

6. (a) The members of MNO Ltd., a public company, are dissatisfied with the conduct of one of the directors, Mr. A. They decide to remove him before the expiry of his term. Mr. A was appointed by the Board and not by the shareholders. The company has 12 directors in total, including 2 appointed under Section 161 (Additional Directors). The Board is hesitant to remove Mr. A without Board approval. Can the shareholders proceed to remove Mr. A? What is the correct legal process, and what are Mr. A's rights under the Companies Act. [7]

(b) Describe the powers of the Board of Directors. [7]

Answer:

- (a)** As per Section 169 of the Companies Act, 2013, shareholders of a company have the right to remove a director before the expiry of his term by passing an ordinary resolution in a general meeting, provided a special notice of the intended resolution is given. This right is available irrespective of whether the director was appointed by the Board or by the shareholders, unless the director was appointed by the Tribunal under representation under Section 163. In the given case, Mr. A was appointed by the Board and is not covered under the exceptions mentioned above. Therefore, he can be removed by the shareholders following the procedure prescribed in Section 169. The special notice for removal must be given by such number of members as hold not less than 1% of total voting power or shares on which an aggregate sum of not less than ₹5,00,000 has been paid up. Once the notice is received, the company must send a copy to Mr. A, who is entitled to make a written representation and also has the right to be heard at the meeting where the resolution is considered. The Board's approval is not required for such removal, as the power to remove lies solely with the shareholders. Therefore, in this case, the shareholders can lawfully proceed to remove Mr. A, provided the procedure laid down under Section 169 is duly followed and Mr. A is given the opportunity to present his case.
- (b)** The Board of Directors of a company shall exercise the following powers on behalf of the company by means of resolutions passed at meetings of the Board, namely:
- a) to make calls on shareholders in respect of money unpaid on their shares;
 - b) to authorize buy-back of securities under Section 68;
 - c) to issue securities, including debenture, whether in or outside India;
 - d) to borrow monies;
 - e) to invest the funds of the company;
 - f) to grant loans or give guarantee or provide security in respect of loans;
 - g) to approve financial statement and the Board's report;
 - h) to diversify the business of the company;
 - i) to approve amalgamation, merger or reconstruction;
 - j) to take over a company or acquire a controlling or substantial stake in another company;
 - k) any other matter which may be prescribed;

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Provided that the Board may, by a resolution passed at a meeting, delegate to any committee of directors, the managing director, the manager or any principal officer of the company or in the case of a branch office of the company, the principal officer of the branch office, the powers specified in clauses (d) to (f) on such conditions as it may specify.

7. (a) Explain how the value chain concept supports managerial decision-making and what considerations management accountants must keep in mind while designing a management accounting system. [7]
- (b) Explain the four key attributes of Emotional Intelligence and why emotional intelligence is important in personal and professional life. [7]

Answer:

- a) Value chain is a visualization of complete business as a sequence of activities in which usefulness is added to the products or services produced and sold by an organization. Management accountants provide decision support for managers in each activity of value chain.

The design of management accounting system has to take into consideration the decision needs of the managers. Also it has to take into consideration the new themes and challenges that managers face currently.

- **Customer focus:** The challenge for managers is to invest sufficient resources to enhance customer satisfaction. But every action of the organization has to result in enhanced profitability or maintained profitability for the organization.
- **Key Success Factors:** These are nonfinancial factors which have an effect on the economic viability of the organization. Cost, quality, time and innovation are important key success factors. Management accounting systems need to have provisions for tracking the performance of the organization and its divisions as well as competitors on these success factors.
- **Continuous improvement:** Continuous improvement or kaizen is a popular theme. Innovation related to this area in costing is kaizen costing.
- **Value Chain and Supply Chain Analysis:** Value chain as a strategic framework for analysis of competitive advantage was promoted by Michael Porter. Management accountants have to become familiar with the framework and provide information to implement the framework by strategic planners.

b) Emotional intelligence is commonly defined by four attributes

- **Self-management** – You're able to control impulsive feelings and behaviors, manage your emotions in healthy ways, take initiative, follow through on commitments, and adapt to changing circumstances.
- **Self-awareness** – You recognize your own emotions and how they affect your thoughts and behavior. You know your strengths and weaknesses, and have self-confidence.
- **Social awareness** – You have empathy. You can understand the emotions, needs, and concerns of other people, pick up on emotional cues, feel comfortable socially, and recognize the power dynamics in a group or organization.
- **Relationship management** – You know how to develop and maintain good relationships, communicate clearly, inspire and influence others, work well in a team, and manage conflict.

8. (a) Mr. Arjun bails 120 bales of cotton marked with a particular mark to Mr. Raj for safekeeping. After receiving the cotton, Mr. Raj, without the consent of Mr. Arjun, mixes the 120 bales with other bales of his own, which bear a different mark. Two days later, Mr. Arjun urgently requests Mr. Raj to return at least 60 bales of cotton bearing the original mark. Mr. Raj refuses and informs Mr. Arjun that all the bales have



been mixed in the warehouse, and to return the cotton, he would need to deploy additional labourers for separation. He also insists that Mr. Arjun must bear the labour charges for separation. Mr. Arjun is not willing to pay any charges and insists that Mr. Raj should return at least 60 bales at his own cost.

Decide the case with reference to the Indian Contract Act, 1872. Is Mr. Raj entitled to demand labour charges? What are the rights of Mr. Arjun? [7]

(b) Define Key Managerial Personnel as per the Companies Act. [7]

Answer:

- (a) Section 156 of the Indian Contract Act, 1872 provides that if the bailee, without the consent of the bailor, mixes the goods of the bailor with his own goods and the goods can be separated or divided, the property in the goods remains with the respective parties. However, in such cases, the bailee is bound to bear the expenses of separation or division and any damage arising from the mixture.

In the present case, it is observed that Mr. Raj (bailee) mixed 120 bales of cotton belonging to Mr. Arjun (bailor) with his own bales, without Mr. Arjun's consent. Now, Mr. Arjun demands the return of at least 60 bales, but Mr. Raj demands labour charges for separation.

As per the law, Mr. Arjun is entitled to get all his 120 bales back, and Mr. Raj is solely responsible for the cost of separation and any incidental damages, since the mixing was done without consent.

Mr. Raj has no legal right to demand labour charges from Mr. Arjun. He must return 60 bales of cotton (or more, as required) at his own cost, and complete the separation process himself.

- (b) Section 2(51) of the Companies Act, 2013, key managerial personnel, in relation to a company has been defined as:
- the Chief Executive Officer or the managing director or the manager;
 - the company secretary;
 - the whole-time director;
 - the Chief Financial Officer
 - such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
 - such other officer as may be prescribed.