

## **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) Which one of the following is not a quasi contract?
- (a) Claim for necessities supplied to person incapable of contracting, or on his account;
  - (b) Reimbursement of persons paying money by another, in payment of which he is interested;
  - (c) Uncertainty and futurity of the event to which it is related;
  - (d) Responsibility of finder of goods.
- (ii) Which one of the following is not the discharge by operation of law?
- (a) By merger;
  - (b) By insolvency;
  - (c) By breach of contract;
  - (d) By the unauthorized alteration of items of a written document.
- (iii) Which one of the following is the subject matter of the contract?
- (a) Existing or future goods;
  - (b) Goods perishing before making contract;
  - (c) Goods perishing before sale but after agreement to sell;
  - (d) Any of the above.
- (iv) One of the following is not a negotiable instrument. Identify the same.
- (a) Share certificate;
  - (b) Bill of Exchange;
  - (c) Cheque;
  - (d) Promissory note.
- (v) Which one of the following is a Bill of Exchange?
- (a) A banker's draft;
  - (b) A demand draft;
  - (c) An order issued by a District Board Engineer on Government Treasury for payment to or order of a certain person;
  - (d) All the above.
- (vi) Who can take active part in the management of the firm?
- (a) Sleeping partner;
  - (b) Secret partner;
  - (c) Working partner;

- (d) Nominal partner.
- (vii) A new partner can be introduced as a partner into a firm-
- (a) At the discretion of active partner;
  - (b) At the decision of partners authorized in this behalf;
  - (c) With the consent of all existing partners;
  - (d) None of the above.
- (viii) The minimum number of designated partners in an LLP shall-
- (a) 1
  - (b) 2
  - (c) 7
  - (d) 15
- (ix) Shelter rooms with suitable lunch rooms are to be provided, if more than \_\_\_\_\_ workers are employed.
- (a) 100
  - (b) 150
  - (c) 500
  - (d) 1000
- (x) Gratuity is payable to an employee \_\_\_\_\_.
- (a) On his superannuation;
  - (b) Retirement;
  - (c) Retrenchment;
  - (d) In all the above cases.
- (xi) Contribution of the employer to employees' pension scheme is-
- (a) 8.33%
  - (b) 10%
  - (c) 12%
  - (d) None of the above.
- (xii) Who, among the following, is not the Principal Employer?
- (a) Occupier of the factory;
  - (b) Owner of the factory;
  - (c) Legal representative of the owner;
  - (d) Legal representative of the contractor.
- (xiii) The time limit for making bonus payment is-
- (a) Within a period of one month from the close of the accounting year;
  - (b) Within a period of three months from the close of the accounting year;
  - (c) Within a period of six months from the close of the accounting year;
  - (d) Within a period of eight months from the close of the accounting year.
- (xiv) Review of minimum wages is to be done at such interval not exceeding-
- (a) 3 years

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- (b) 5 years
  - (c) 7 years
  - (d) 10 years
- (xv) The wages of employed persons in an establishment where less than 1000 persons are employed, shall be paid before-
- (a) 7th day
  - (b) 10th day
  - (c) 15th day
  - (d) Second working day
- (xvi) If a company does not have a common seal, the share certificate shall be signed by-
- (a) Two directors
  - (b) One director and Company Secretary
  - (c) Either (a) or (b)
  - (d) None of the above
- (xvii) In case of unlisted company the duplicate share certificate shall be issued within a period of-
- (a) 45 days
  - (b) 3 months
  - (c) 6 months
  - (d) None of the above
- (xviii) The Bonus shares may be issued out of the-
- (a) Free reserves
  - (b) Securities premium account
  - (c) Capital redemption reserve account
  - (d) Any of the above
- (xix) Out of seven principles of public life, the principle of objectivity means
- (a) holders of public office should take decisions solely in terms of the public interest.
  - (b) in carrying out public business including making public appointments, holders of public office should make choices on merit.
  - (c) holders of public office are accountable for their decision and actions to the public.
  - (d) holders of public office should be as open as possible about all the decisions and actions that they take.
- (xx) Business ethics are gaining importance because of
- (a) smooth functioning
  - (b) good image
  - (c) the growth of consumer movement
  - (d) increasing profit

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**Answer:**

- (i) (c) Uncertainty and futurity of the event to which it is related
- (ii) (c) By breach of contract
- (iii) (d) Any of the above
- (iv) (a) Share certificate
- (v) (d) All the above
- (vi) (c) Working partner
- (vii) (c) With the consent of all existing partners;
- (viii) (b) 2
- (ix) (b) 150
- (x) (d) In all the above cases
- (xi) (a) 8.33%
- (xii) (d) Legal representative of the contractor.
- (xiii) (d) Within a period of eight months from the close of the accounting year.
- (xiv) (b) 5 years
- (xv) (a) 7th day
- (xvi) (c) Either (a) or (b)
- (xvii) (b) 3 months
- (xviii) (d) Any of the above
- (xix) (b) in carrying out public business including making public appointments, holders of public office should make choices on merit.
- (xx) (c) the growth of consumer movement

**(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 <sup>st</sup> 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 <sup>st</sup> 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 Impairing 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:

	<b>Negotiation</b>	<b>Assignment</b>
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 1<sup>st</sup> 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:

1 x 15 = 15

3 (a) (i) Explain the procedure for removal of Directors from a company.

8

**Answer:**

Section 169 deals with the procedure of removal of directors. A company may remove a director by passing ordinary resolution. A company cannot remove a director appointed by the Tribunal. The following is the procedure to remove a director and to appoint another director in the place of removed director:

- A special notice of any resolution, shall be sent for a meeting in which the director is to be removed to the company;
- On receipt of notice of a resolution to remove a director, the company shall send a copy of it to the director concerned;
- The director, whether he is a member or not, is entitled to be heard on the resolution at the meeting;
- The director concerned may make his representation in writing to the company;
- The director may request the company to send his representation to the members of the company;
- The Company, if the time permits it to do so-
  - ❖ in any notice of the resolution given to members of the company, state the fact of the representation having been made; and
  - ❖ send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after receipt of the representation of the company.

If a copy of the representation is not sent due to insufficient time or for the company's default, the director may require that the representation shall be read out at the meeting.

The copy of the representation need not be sent out and read out at the meeting if, on the application either of the company or of any other person who claims to be aggrieved, the Tribunal is satisfied that the rights conferred by this section are being abused to secure needless publicity for defamatory matter. The Tribunal may order at company's costs on the application to be paid in whole or in part by the director notwithstanding that he is not a party to it.

A vacancy created by the removal of the director may be filled by the appointment of another director in his place at the meeting at which he is removed. For this purpose special notice of the intended appointment has been given. The new director so appointed shall hold office till the date up to which his predecessor would have held office if he had not been removed. If the vacancy is not filled it may be filled as casual vacancy in accordance with the provisions of the Act.

The removed director shall not be reappointed as director by the Board of Directors. He shall not be eligible any compensation or damage payable for his removal as director, as per the terms of contract or terms of his appointment as director or of any other appointment terminating with that as director or as derogating from any power to remove a director under other provisions of the Act.

**3 (a) (ii) Explain about the allotment of Director Identification Number.**

**7**

**Answer:**

### **Director Identification Number**

Every individual, who is to be appointed as director of a company shall make an application electronically in Form No. DIR-3 to the Central Government for allotment of DIN along with the prescribed fees. The applicant can download the said form from the website of Ministry of Corporate Affairs ('MCA' for short) duly filled in all respects along with photograph and signed digitally. The form shall be verified by a Chartered Accountant in practice or a Company Secretary in practice or a Cost Accountant in practice.

On application, the system shall generate an application number. The Central Government shall process the application and decide the approval or rejection and communicate the same to the applicant along with the DIN allotted in case of approval by way of a letter by post or electronically or in any other mode within 30 days from the receipt of such application.

If any defect is found in the application the Central Government shall give intimation of such defect or incompleteness to the applicant by placing it on its web site and by email to the applicant to rectify such defects within 15 days from the date of intimation. If the same has not been rectified the Government shall reject the application directing to file a fresh application. In case of rejection or invalidation of application the fee so paid with the application shall neither be refunded nor adjusted with any other application.

The DIN allotted to a director before the commencement of this Act shall be deemed to be the DIN allotted under the present Act. The DIN allotted shall be valid up to the life time of the Director. The said number shall not be allotted to any other person. Similarly a person shall be allotted only one DIN.

The director, on allotment of DIN, is to intimate the company in Form No. DIR - 3C within 15 days from the intimation, given to him. Every company shall, within 15 days of the receipt of intimation, furnish the same with the Registrar. If a company fails to furnish DIN the company shall be punishable with fine which shall not be less than ₹ 25,000/- but which may extend to ₹ 1 lakh. Every officer of the company who is default shall be punishable with fine which shall not be less than ₹ 25,000/- but which may extend to ₹ 1 lakh.

Section 159 provides that if any individual or director of a company, contravenes any of the provisions of Section 152 (dealing with the appointment of directors), Section 155 (dealing with prohibition to obtain more than one DIN) and Section 156 (Director to intimate DIN),

such individual or director shall be punishable with imprisonment for a term which may extend to six months or with fine which may extend to ₹ 50,000/-. If the contravention is continuing one further fine will be imposed which may extend to ₹ 500/- for every day after the first during which the contravention continues.

**3 (b) (i) Why is internal audit necessary to Management? Discuss.**

**7**

**Answer:**

**Necessity of Internal audit to Management**

Internal Audit has become an important management tool for the following reasons :-

- (i) It ensures compliance of Companies (Auditors Report) Order.
- (ii) Internal Auditing is a specialized service to look into the standards of efficiency of business operation.
- (iii) Internal auditing can evaluate various problems independently in terms of overall management control and suggest improvement.
- (iv) Internal audit's independent appraisal and review can ensure the reliability and promptness of the management reporting on the basis of which the top management can take firm decisions.
- (v) Internal Audit system makes sure the internal control system including accounting control system in an organization is effective.
- (vi) Internal Audit ensures the adequacy, reliability and accuracy of financial and operational data by conducting appraisal and review from an independent angle.
- (vii) Internal Audit is an integral part of "Management by System".
- (viii) Internal Audit can break through the power ego and personality factors and possible conflicts of interest within the organization.
- (ix) It ensures compliance of accounting procedures and accounting policies.
- (x) Internal auditor can be of valuable assistance to management in acquiring new business, in promoting new products and in launching new projects for expansion or diversification of business.

**3 (b) (ii) Write down the procedure to be followed by a PIO for providing information to an applicant under Right to Information Act, 2005.**

**8**

**Answer:**

**Procedure for Obtaining Information** Public Information Officer shall deal with requests from persons seeking information. If the information requested for is held by another public

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authority, the PIO shall transfer, within 5 days, the request to that other public authority and inform the applicant immediately.

PIO, on receipt of a request, shall as expeditiously as possible, and in any case within 30 days of the receipt of the request, provide the information on payment of such fee as may be prescribed. Where the information requested for concerns the life or liberty of a person, the same shall be provided within forty-eight hours of the receipt of the request.

If the PIO fails to give decision on the request within the period specified, he shall be deemed to have refused the request. Where a request has been rejected, the PIO shall communicate the following to the requester:

- (i) the reasons for such rejection;
- (ii) the period within which an appeal against such rejection may be preferred; and
- (iii) the particulars of the Appellate Authority.

### **Section D**

**4. Answer any one question:**

**1 x 15 = 15**

**4 (a) (i) Explain the differences between Ethical Code and Contract.**

**7**

**Answer:**

**Difference between Ethical Code and Contract:**

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 to 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.

**4 (a)(ii) What are the circumstances leading to actual happening of threats for an Accounting Professionals working as employee. 8**

**Answer:**

**Types of threats for an Accounting Professionals working as employee**

**(a) Self interest threat:**

- (i) Financial interests, loans and guarantees in the company where the professional is working.
- (ii) Incentive, compensation, arrangements.
- (iii) Inappropriate personal use of corporate assets.
- (iv) Concern over employment security.
- (v) Commercial pressure from outside the employing organization.

**(b) Self Review Threat:**

When business decisions or data is subjected to review and justification is required to be given by the professional who takes the decisions or prepare the data.

**(c) Advocacy Threat:**

Influencing organisation finance and accounting reports through misleading statement.

**(d) Familiarity Threat:**

- (i) In a position to influence reporting of business decisions to benefit close family member.
- (ii) Long association with business contacts influencing business decisions.
- (iii) Acceptance of gift or preferential treatment.

**(e) Intimidation Threat:**

- (i) Fear of loss of job over disagreement about an accounting principle in financial reporting.
- (ii) Attempt by dominant personality to influence

**4 (b) (i) Explain the threats that may affect the business environment and influence finance and accounting professionals. 8**

**Answer:**

The following types of threats may affect the business environment and influence finance and accounting professionals.

**(i) Self-Interest Threats:** Occur as a result of the financial or other interest of Finance and Accounting professional or personal interest of key personnel.

- (ii) **Self-Review Threats:** When a previous judgment of the Finance and accounting Professional is to be re-evaluated.
- (iii) **Advocacy Threats:** When a professional promotes a position or opinion to such extent that some objectivity may have to be compromised.
- (iv) **Familiarity Threats:** When a professional has close relationships with the work environment which may impair his selfless attitude towards work.
- (v) **Intimidation Threats:** when a professional may be prohibited from acting objectively by actual or perceived threat.

**4 (b) (ii) Explain the concept of Value free ethics.**

**7**

**Answer:**

**Concept of value free ethics:**

Nowadays, we are familiar with 'sugar-free' soft drinks, 'caffeine-free' coffee, and 'alcohol-free' beer. The concept of 'value-free' business ethics appears to be quite appealing to businessmen. It is as though it may be pursued devoid of all rules within a social vacuum. The concept of value-free ethics found application in economics in a rather ironical fashion. Ludwig von Mises known as the father of the Austrian School of Economics, proposed the pure theory of economics, stating that economic concepts are a priori, that is, they are not dependent on experience, but are purely virtual concepts. The concept of choice, for instance, is a pure concept. It is immaterial whether one chooses water or wine, but the concept in itself is free of such particular elements. Hence, choice is value-free (*wertfrei*). Applied to ethics, it would mean that we should be able to study the principles of this discipline, such as goodness, truth, justice, honour, etc. in their pure form.

It is obvious that such value-free ethics, when understood in the right sense, leads us to study meta-ethics or the fundamental principles of ethics as a pure science. However, if we are to apply an ethical standard to such a study, it would be called a pure study of values, not value-free ethics.