

**Paper-6: LAWS, ETHICS AND GOVERNANCE**

Full Marks: 100

Time Allowed: 3 Hours

This paper contains 4 questions. All questions are compulsory, subject to instructions provided against each question. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

**Question 1: Answer all questions**

2 X 10 = 20

(i) "Fragrance" Soap Co. advertised that it would give a reward of ₹ 1,000 who developed skin disease after using, "Fragrance" soap of the company for a certain period according to the printed directions. Miss Nisha purchased the advertised "Fragrance" soap and developed skin disease in spite of using this soap according to the printed instructions. She claimed reward of ₹ 1,000. The company refused the reward on the ground that offer was not made to her and that in any case she had not communicated her acceptance of the offer. Decide whether Miss Nisha can claim the reward or not. Refer the relevant case law, if any.

(ii) A draws a bill on B. B accepts the bill without any consideration. The bill is transferred to C without consideration. C transferred it to D for value. Decide -

- A. Whether b can sue the prior parties of the bill, and
- B. Whether the prior parties other than D have any right of action intense?

Give your answer with reference to the Provisions of Negotiable Instruments Act, 1881.

(iii) Mr. Wadhwa is working as an accountant in a company on salary basis. The following payments were made to him by the company during the previous financial year -

- (a) Overtime allowance,
- (b) Dearness allowance
- (c) Commission on sales
- (d) Employer's contribution towards pension fund
- (e) Value of free food.

Examine as to which of the above payments form part of 'salary' of Mr. Wadhwa under the provisions of the Payment of Bonus Act, 1965.

(iv) While an employee may increase his contribution to Provident Fund, is an employer also liable to proportionately increase his contribution to the above under the Employees Provident Funds and Miscellaneous Provisions Act, 1952? Comment.

(v) National Steels Limited decided to forfeit the amount of gratuity of its employee Cezar on account of disorderly conduct and other acts which caused loss to the property belonging to the company. Cezar, committed the following act. He, after superannuation, continued to occupy the quarter of the company for six months.

Against the decision of the company, Cezar applied to the court for relief. The Company contented that the right to gratuity is not a statutory right and the forfeited amount of gratuity was within the law.

Examine the contention of the company and the decision taken by the company to forfeit the amount of gratuity in the light of the Payment of Gratuity Act, 1972.

(vi) With a view to boost sales Harmeet Automobiles sells a motorcar to Ms. Nikki on trial basis for a period of three days with a condition that if Ms. Nikki is not satisfied with the performance of

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the car she can return it back. However the car was destroyed in a fire accident at the place of Ms. Nikki, before the expiry of three days. Would Ms. Nikki be liable for the loss suffered?

(vii) Joint Holder of shares in a public company are not a single member. Comment.

(viii) A private company may, in its articles, incorporate additional disqualifications in respect of directorship of the company.

(ix) What is meant by, 'Iron Law of responsibility'

(x) State what is meant by the principal of confidentiality in business ethics of a finance and accounting professional.

### Question 2: Answer any 4 questions

[4 × 12 =48]

#### Question 2(a)

(i) Comment on the following:

- A. 'Goods seized by Customs Authority are a case of bailment under Indian Contract Act', offer your views.
- B. Mr. A, Mr. B & Mr. C are Sureties to Mr. D for the sum of ₹6000 lent to Mr. E failed to repay on due date. Mr. A. one of the sureties disagreed to pay. Advice whether 'A' is right.
- C. A deceit which does not deceive is not a fraud.

(ii) Raman instructed Soman, a transporter, to send a consignment of apples to Mumbai. After covering half a distance, Soman found that the apples will perish before reaching Mumbai. Hence, he sold the same at a half the market price. Raman sued against Soman. Will he succeed?

(iii) Bill of Exchange dated 1st February, 2014 payable two months after date - was presented to the maker for payment 10 days after maturity. What is the date of maturity?

[6+3+3 = 12]

#### Question 2(b)

Comment on the following:

(i) In case of personal injury, the employer is liable to pay compensation within 3 months from the date when it falls due. State legal provisions

(ii) Personal Manager told to Director that at least one canteen shall be provided in every factory. Do you agree?

(iii) Calculate the amount of gratuity of Mr. X who joined the company on 1.5.83 and retired on 30.11.2013 when his salary was ₹ 26,000 per month. During November, 2013 he received overtime and incentive ₹5,000.

(iv) When and under what circumstances a person can receive pension under Employees Provident Fund Scheme?

(v) Dr. B has been dismissed by the Manager of an Industrial Establishment. Workmen

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demanded his reinstatement. Comment legal position.

- (vi) 'A' saved life of 'B' who was drowning, Latter A' demanded remuneration from 'B' for saving of life was valid consideration, A' would succeed.

[6 × 2 = 12]

### Question 2(c)

(i) Zen, a known smuggler, was caught in transfer of funds by illegally exporting narcotic drugs from India to some countries in America. State the maximum punishment that can be awarded to him under prevention of Money Laundering Act.

(ii) How the surety is discharged from liability?

(iii) There are in total two parties to a Promissory Note. Comment.

[4+6+2 = 12]

### Question 2(d)

(i) Mr. Ambika an agent of a buyer obtained goods from Railways and loaded such goods on his truck on 02.10.14. In the meantime, the Railways received a Notice from the seller (i.e. consignor) for stopping goods in transit as the Buyer become insolvent. Referring to the provisions of the Sale of Goods Act, 1930 decide whether the Railways can stop goods in transit as instructed by the seller?

(ii) Mr. Paul sold to Mr. Ray certain quantity of foreign refined palm oil warranted equal to sample. The samples consisted of palm oil mixed with vegetable oil. The oil tendered corresponds with the sample but it was not such as is known in market as foreign refined palm oil. Mr. Ray wants to reject the oil on the ground that the oil supplied was not in accordance with the foreign refined palm oil. Advise Mr. Ray.

(iii) During 2001-2002, the employees were 50 and subsequently reduced to 10 during 2013-2014, Employer discontinued deduction as EPF not applicable due to reduction of Employees. Comment.

(iv) Manager of the factory fixed the working hours of women from 6:00 P.M. to 1:00 A.M. during the period from Monday to Friday of first week of May 2014. Whether it is permissible, cite with Rule position.

(v) What are the circumstances in which limited liability partnership may be would up by Tribunal?

[2+2+2+2+4 = 12]

### Question 2(e)

(i) Mr. Arun was an employee of High Developers Limited. He retired from the company after 30 years of continuous service. He applied to the company for payment of gratuity within the prescribed time. The company refused to pay the gratuity and contended that due to stringent financial conditions the company is unable to pay the gratuity. Mr. Arun applied to the appropriate authority for recovery of the amount of the gratuity. Examine the validity with reference to Payment of Gratuity Act, 1972

(ii) Kumari is an employee of Rahul software limited, which works 5 days a week. Kumari was not in continuous service during the financial year 2013-14. However, she worked only for 150 days because she was on maternity leave with full pay for 50 days. Referring to the provisions of

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Payment of Gratuity Act, 1972 decide whether kumari is entitled to gratuity payable under this Act. Would your answer be different had Rahul Software worked for 6 days a week.

(iii) X, a temporary employee drawing a salary of ₹3000 per month, in an establishment to which the Payment of Bonus Act, 1965 applies was prevented by the employers from working in the establishment for two months, during the financial year 2013-14, pending certain injury. Since there were no adverse findings X was re-instated in service. Later when the bonus was to be paid to the other employees, the employers refused to pay bonus to X, even though he had worked for the remaining ten months in the year. Referring to the provisions of Payment of Bonus Act, 1965 examine the validity of employers refusal to pay bonus.

[2+5+5 = 12]

**Question 3: Answer any 2 questions**

[2 × 8 = 16]

**Question 3(a)**

(i) State the meaning of 'Records' under the Right To Information Act, 2005.

(ii) Under Right to Information Act if life or liberty of any person is involved, the Public Information Officer expected to reply within one month. Correct the statement with relevant provisions if it is wrong.

(iii) Under the Articles of Association of Sunshine Ltd. Company directors had power to borrow up to ₹10,000 without the consent of the general meeting. The Directors themselves lent ₹ 35,000 to the company without such consent and took debentures of the Company. Decide under the provisions of the Companies Act, 1956 whether the company is liable? If so, what is the extent of liability of the company in this case?

[2+2+4 = 8]

**Question 3(b)**

(i) Ultimate Limited has only 7 shareholders having fully paid-up shares. On 30th April, 2013, all the shares of X (a shareholder of the company) are sold to Yasmin (another shareholder of the Company) in an auction by the order of the court. Zeeshan, (a shareholder of the company) was in USA for a business trip from January and thus he was not aware of the developments. The company continues to carry on its business thereafter. In December, 2013, the company borrowed a sum of ₹ 5 Lac from the Unique Bank. Later, the company was wound up and the Assets of the company were not sufficient for the payment of its Liabilities. The Bank filed a suit against Yasmin and Zeeshan for recovery of the said loan from them. Decide the Liabilities of Yasmin and Zeeshan under the provisions of Companies Act, 1956. Would your answer be the same, if the said loan was taken in the month of March, 2013?

(ii) The objects clause of the Memorandum of Association of the XYZ (Pvt.) Ltd., New Delhi, authorized to do trading in mangoes. The company, however, entered into partnership with Mr. A and traded in mangoes and incurred liabilities to Mr. A. The Company, subsequently, refused to admit the liability to 'A' on the ground of 'ultra vires' the Company'.

Advice whether stand of the company is legally valid and if so, gives reasons in support of your answer.

[5+3 = 8]

**Question 3(c)**

(i) Define free reserves as per section 2(43) of Companies Act, 2013.

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(ii) What are the steps to measure corporate governance?

[3+5 = 8]

**Question 4: Answer any 2 questions**

[2 × 8 = 16]

**Question 4(a)**

(i) What are the reasons for which unethical behaviour might arise in an organization?

(ii) Differentiate between Ethics and Morals.

[5+3 = 8]

**Question 4(b)**

(i) Discuss the benefits of Ethical business.

(ii) 'Small ethical lapses do not result into unethical behaviour'. Comment.

[6+2 = 8]

**Question 4(c)**

(i) What are the key factors that influence ethical decisions?

(ii) Does Ethical behavior has any importance in workplace? What are they, if any.

[4+4 = 8]