

Shree Guru Kripa's Institute of Management

LAW, ETHICS AND COMMUNICATION

Total No. of Questions – 7

LEC – K15 – IPM – 01

Total Marks – 100

Question No.1 is Compulsory. Answer any 5 from the remaining.
Wherever appropriate, suitable assumptions should be made by the candidates

1(a)

5 Marks

State whether the following agreements are Valid or Void –

1. Ram sells the Goodwill of his shop to Shyam for Rs.4,00,000 and promises not to carry on such business forever and anywhere in India.
2. Ramamurthy, who is a citizen of India, enters into an agreement with an alien friend.

(1)	Void	Sale of Goodwill [Explanation to Sec. 27]: (a) The Seller of Goodwill of a business may agree with the Buyer to refrain from carrying on a similar business, within specified local limits, so long as the buyer or any other person deriving title to Goodwill from him carries on a like business. (b) The limits and conditions have to be reasonable , having regard to the nature of the business. (c) In the given case the restrictions imposed are not reasonable and hence void.	2.5 Marks
(2)	Valid	Trading with enemy: (a) An Agreement made with an alien enemy at times of war is illegal. (b) The reason behind making such Agreements void is – (i) avoidance of commercial transactions with alien enemy, and (ii) protecting the interests of the nation lest the enemy has an immediate or future benefit out of such transaction. (c) In the given case the transaction is proposed with alien friend and hence valid.	2.5 Marks

(b) Answer the following:

5 Marks

- A. A cheque marked "Not–Negotiable" is not transferable.(True/False)
- B. Where there are co-sureties a release by the creditor of one of them does not discharge the others.(True/False)
- C. First AGM of the Company shall be held within
 - (1) 9 Months from the end of the Financial Year
 - (2) 6 Months from the end of the Financial Year
 - (3) 9 Months from the date of incorporation
 - (4) 18 Months from the date of incorporation
- D. A model form of Articles contained in Table "F" relates to a Company Limited by
 - (1) Shares (2) Guarantee (3) Shares and Guarantee (4) None of the above.
- E. The maximum ceiling on the Gratuity amount is Rs.5 Lakhs (True/False)

Solution:

Case	Answer	Marks
A	Incorrect. It is transferable, but the holder shall receive same title as that of the transferor.	1 Mark
B	Correct	1 Mark
C	(1) 9 Months from the end of the financial year	1 Mark

D	(1) Company limited by shares	1 Mark
E	False. Maximum amt = Rs.10 lakhs	1 Mark

(c)

5 Marks

STD Ltd convened its Board of Directors Meeting on 1st August 2014. During the course of the Meeting, the date for calling AGM was discussed, but no decision could be taken on it in the Board Meeting. However, the Secretary of the Company issued the notice for calling the AGM of the Shareholders without taking any authority from the Board of Directors. State who is the proper authority to issue the notice for calling the AGM and to whom such notice is to be given.

Provision	Analysis and Conclusion	Marks
1. AOA empowers Board to convene General Meetings. 2. Board has the power under common law, even if it is not expressly conferred on them by the AOA. 3. Notice given by Secretary without Board's sanction is invalid. However, the Directors can ratify it before the meeting.	Notice is invalid. However, the Directors can ratify it before the Meeting.	3 + 2 = 5 Marks

(d)

5 Marks

What are the requirements for effective Consensus Building?

Provision	Analysis and Conclusion	Marks
1. Problem-Solving Orientation 2. Active Listening 3. Purposive Arguments 4. Transparency 5. Mutual Gain	5 Points with brief explanation	1 mark each = 5 Marks

2.

8 Marks

(a)

ABC Textiles Ltd employed 20 full-time and 5 part-time employees who were drawing salary less than Rs.10,000 per month. After completing service of 28 days, in an accounting year, 10 full-time employees submitted their resignations and left the service of the Company. The Board of Directors of this Company decided not to give the bonus to the employees, who resigned, to the remaining full-time employees and to the part-time employees. Against the decision, all the employees applied to the court for relief. Decide whether the employees, who resigned, remaining Full-time employees and part-time employees will get relief.

Provision	Analysis and Conclusion	Marks
Hint: 1. 30 working days eligibility 2. Definition of employee = < 10000 pm 3. Conditions for applicability 4. Once the act is applicable it continues to be applicable even though reduction in number of workers	Although the employees in this case have been reduced to 10, once the Act is applicable, it continues to apply even if number of employees fall below 20. The eligibility of bonus is analysed as follows – <ul style="list-style-type: none"> 10 Full-Time Employees who have left the service are not eligible as they have worked only for 28 days in the accounting year (< than 30 days). Remaining full time employees are eligible for bonus as they would have working more than 30 working days in the accounting year. Part-time employees are also eligible for Bonus 	4 + 4 = 8 Marks

(b) Explain the threats faced by Accounts and Financing Professionals.

4 Marks

Provision	Analysis and Conclusion	Marks
1. Self-Interest Threats may occur as a result of the financial or other interests of a Finance and Accounting Professional or of an immediate or close family member. 2. Self-Review Threats may occur when a previous judgment needs to be re-evaluated by the Finance and Accounting Professional responsible for that judgment. 3. Advocacy Threats occur when a Finance and Accounting Professional promotes a position or opinion to the point that subsequent objectivity may be compromised. 4. Familiarity Threats occur when a Finance and Accounting Professional has close relationships in the work environment and such relationships impair his selfless attitude towards work. 5. Intimidation Threats occur when a Finance and Accounting Professional may be prohibited from acting objectively by threats, actual or perceived.	Any 4 points with small explanation	1 x 4 = 4 Marks

(c) State the common resistance from employees for an organization wide change.

4 Marks

Provision	Analysis and Conclusion	Marks
1. Uncertainty 2. Insecurity towards money, status etc. 3. Change not needed – status quo is working fine, 4. Proposed change does more harm than good, 5. Lack of respect for person responsible for the change, 6. Objectionable way of implementing the change, 7. Negative attitude towards the organization before the change, 8. No opportunity to have input into change, 9. Change perceived as implying personal criticism, 10. Change simply adds more work and confusion, 11. Change requires more effort than to keep status quo, 12. Bad timing of the change, 13. Desire to challenge authority, 14. Hearing about the change secondhand.	Any 8 Points	4 Marks

3.

8 Marks

(a)

Mr. X was an Employee of Mutual Developers Limited. He retired from the Company after completing 30 years of continuous service. He applied to the Company for the 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. X applied to the Appropriate Authority for the recovery of the amount of Gratuity. Examine the validity of the contention of the Company and also state the provisions of law to recover the gratuity under the Payment of Gratuity Act, 1972.

Provision	Analysis and Conclusion	Marks
<p>1. Loss not an excuse</p> <p>2. Recovery: If the gratuity payable under the Act is not paid by the Employer within the prescribed time, to the person entitled thereto, the Controlling Authority shall, on an application made by the aggrieved person, issue a certificate for the amount to the Collector to recover the same along with compound interest at such rate notified by the Central Government, from the date of expiry of the prescribed time, as arrears of land revenue, and pay the same to the person entitled thereto.</p> <p>Before issuing the certificate for such recovery, the Controlling Authority shall give the Employer a reasonable opportunity of showing cause against the issue of such certificate.</p> <p>Interest payable u/s 8 shall not exceed the amount of gratuity payable under the Act.</p>	Stringent financial conditions is not a valid ground for non-payment of gratuity. Based on Certificate issued by Controlling Authority, the gratuity payable shall be recovered as arrears of land revenue.	4 + 4 = 8 Marks

(b) State the advantage of Corporate Social Responsibility.

4 Marks

Provision	Analysis and Conclusion	Marks
<p>1. Improved Financial Performance</p> <p>2. Operating Cost Reduction</p> <p>3. Brand Image and Reputation</p> <p>4. Increased Sales & Customer Loyalty</p> <p>5. Productivity and Quality</p> <p>6. Ability to attract and retain employees</p> <p>7. Reduced Regulatory Supervision</p> <p>8. Access to Capital</p>	Any 4 Points with small explanation	4 Marks

(c) Mr.J desires to lease out her flat in Mumbai to Mr.A. Stating the legal requirements to be complied with, draft a Lease Deed. Take your own data regarding date, flat no., floor area etc.

4 Marks

Provision	Analysis and Conclusion	Marks
<p>Details of the Lessor</p> <p>Details of the lessee</p> <p>Property Description</p> <p>Conditions: Rent / Deposit etc</p> <p>Date of Execution</p> <p>Signature / Witness</p>	Evaluate on overall basis (Expected details listed)	4 Marks

4.

8 Marks

(a) Define the following terms under Companies Act, 2013
(i) Promoter; (ii) Financial Year; (iii) Free Reserves

Provision	Analysis and Conclusion	Marks
<p>Promoter: "Promoter" means a person – [Sec.2(69)]</p> <p>(a) who has been named as such in a Prospectus or is identified by the Company in the Annual Return referred u/s 92, or</p> <p>(b) who has control over the affairs of the Company, directly or indirectly whether as a Shareholder, director or otherwise, or</p> <p>(c) in accordance with whose advice, directions or instructions the Board of Directors of the Company is accustomed to act. [Note: This shall not apply to a person who is acting merely in a professional capacity.]</p>	Give only if definition is written. If explanation is written – do not award marks.	3 Marks

<p>Financial Year: 2(41) “financial year”, in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up: Provided that on an application made by a company or body corporate, which is a holding company or a subsidiary of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Tribunal may, if it is satisfied, allow any period as its financial year, whether or not that period is a year:</p> <p>Provided further that a company or body corporate, existing on the commencement of this Act, shall, within a period of two years from such commencement, align its financial year as per the provisions of this clause;</p>		2 Marks
<p>Free Reserves: “Free Reserves” means such Reserves which, as per the latest audited Balance Sheet of a Company, are available for distribution as dividend. [Sec.2(43)] Note: The following shall not be treated as Free Reserves – (a) any amount representing Unrealized Gains, Notional Gains or Re-valuation of Assets, whether shown as a Reserve or otherwise, or (b) any change in the Carrying Amount of an Asset or of a Liability recognized in Equity, including Surplus in Profit and Loss Account on measurement of the Asset or the Liability at Fair Value.</p>		3 Marks

(b) Explain in brief the measures to ensure ethics in the work place.

4 Marks

Provision	Analysis and Conclusion	Marks
<ol style="list-style-type: none"> 1. Integrated Ethics Management 2. Pro-active Role 3. Open Communication 4. Atmosphere of Trust 5. Code of Conduct & Ethics 6. Policies / Procedures 7. Group Decision-making 8. Cross-Functional Teams 9. Ombudsperson 10. Grievance Policy 	Any 4 Points with small explanation	4 Marks

(c) The Directors of Sunrise Computers Ltd desire to change the Company's name to Royal Computers Ltd. Explain the procedure to be followed in this regard.

4 Marks

Provision	Analysis and Conclusion	Marks
<p>Hint</p> <ol style="list-style-type: none"> 1. Name Availability – INC 1 2. BR in BM to convene General Meeting 3. Pass SR in GM 4. File MGT 14 within 30 days / Altered MOA & AOA 5. ROC to register and issue fresh certificate with 1 month 	<p>Steps briefly written (give full marks)</p> <p>Form Number can be relaxed</p>	4 Marks

5.

8 Marks

(a) (i) Who is a Holder- in- Due-Course?

(ii) Bharat executed a Promissory Note in favour of Bhushan for Rs. 5 Crores. The said amount was payable three days after sight. Bhushan, on maturity, presented the Promissory Note on 1st January to Bharat. Bharat made the payment on

4th January. Bhushan wants to recover interest for one day from Bharat. Advise Bharat, in the light of provisions of the NI Act, 1881, whether he is liable to pay the interest for one day.

Provision	Analysis and Conclusion	Marks
Holder in Due Course: A Holder in due course is a person – <ul style="list-style-type: none"> • who for consideration became the possessor of a P/N, B/E or Cheque, if payable to Bearer, or the Payee or Indorsee thereof, if payable to order, • before the amount mentioned in it becomes payable, and • without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title. 	3 conditions	4 Marks
A P/N or B/E made payable at a specified period after date or sight thereof must be presented for payment at maturity .	The P/N is payable on 4 th January, which is the 3 rd day after the Date of Presentment (i.e. 1 st January). So Bhushan can claim interest only if the payment is made on or after 5 th January. Hence, Mr. Bharat is not liable to pay interest.	4 Marks

(b) **Answer any two out of four.** You are required to state whether the statement is correct or incorrect with brief reasons: 4 Marks

Provision	Analysis and Conclusion	Marks
(i) Company management has responsibility only towards its shareholders.	False: The term Shareholder has a narrower meaning than the term Stakeholder. Stakeholders include Employees, Customers, Suppliers, Government, etc. Management should have responsibility towards stakeholders	1 + 1 = 2 Marks
(ii) Window-dressing of financial statements will not be useful in the Long Run.	True “Window Dressing” i.e. mis–presentation of accounts with a view to present a better picture of the state of financial affairs than its actual, may lead to unfair and incorrect reporting of the operating results and state of affairs of the Entity. Policies and strategies based on such Financial Statements may be ineffective and can affect the Firm in the long run.	1 + 1 = 2 Marks
(iii) Ethics and morals are synonymous.	False Any 2 differences.	1 + 1 = 2 Marks
(iv) Competition Act, 2002 protects the interest of consumers.	True Competition Act aims at avoiding adverse effects on the fair competition within the country, and thereby protects the interest of the consumers.	1 + 1 = 2 Marks

(c) What do you understand by ‘Group conflicts’? How shall these be managed effectively? Explain.

Provision	Analysis and Conclusion	Marks
Group Conflicts	Conflict is an “ express struggle ” between atleast two inter–dependent parties who perceive incompatible goals, scarce resources, and interference from the other party in achieving their goals.	1 Mark
Managing Conflicts	Successfully managed conflicts can be constructive and can strengthen relationships in an organisation. For this purpose, it is essential to plan communication to foster a supportive climate, marked by emphasis on –	Any 3 Points = 3 Marks

	(a) Presenting ideas or opinions. (b) Problem orientation – focusing attention on the tasks than individuals. (c) Spontaneity –communicating openly and honestly. (d) Empathy – understanding another person's thoughts and viewpoints. (e) Equality – asking for opinions and ideas. Willingness – to listen to the ideas of others.	
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6.

(a)

8 Marks

At a General Meeting of Members, ABC Company Ltd passed an Ordinary Resolution to buy-back 30% of its Equity Share Capital. The Company's AOA empower the Company for buy-back of Shares. The Company further decides that the payment for buy-back be made out of the proceeds of the Company's earlier issue of Equity Shares. Explain the provision of Companies Act, 2013 w.r.t the sources through which the buy-back of Companies own Shares be executed. Examine –

- Whether Company's proposal is in order.
- Would your answer be still the same in case the Company instead of 30% decided to buy-back only 20% of its Equity Share Capital?

Provision	Analysis and Conclusion	Marks
Brief Overview of Conditions for Buy Back a. Max BB b. SR in GM c. When BR? d. Time Limit e. Source f. Debt Equity Test g. Max Cash, etc	Company can Buy-Back to a maximum of 25% of Total Paid-Up Capital and Free Reserves of the Company in a financial year, by passing Special Resolution . Case A: Buy Back of 30% is invalid as it exceeds the specified limit. Case B: Buy Back of 20% is within the limit of 25%, but should be approved by a Special Resolution, not Ordinary Resolution.	4 + 2 + 2 = Marks

(b) Explain the steps involved in tackling Ethical Dilemmas.

4 Marks

Guideline	Aspects
Problem Definition	<ul style="list-style-type: none"> • Has the problem been clearly identified? • How would you define the problem if you stood on the other side of the fence? • How did the situation arise?
Decision Process	<ul style="list-style-type: none"> • What is your intention in making this decision? • How does this intention compare with the probable results? • Will your decision change or be valid over a long period of time as it seems now?
Viewpoints	<ul style="list-style-type: none"> • To whom are you loyal as a person and as a member of the organisation? • Whom could your decision or action injure? • Can you discuss the problem with the affected parties before you make your decision? • Could you disclose without any doubt your decision or action to your superiors in office, your family, society as a whole? • Under what conditions would you allow exceptions to your stand?
Effect	<ul style="list-style-type: none"> • What is the symbolic potential of your action if understood? If misunderstood?

(c) Explain the basic principles of Interpersonal Communication.

4 Marks

1. **Inescapable:** A person communicates not only through words, but also through tone of voice, gesture, posture, facial expression, etc. We constantly communicate to those around us and also receive communication from others. People judge a person by his behaviour, not only by intent.
2. **Irreversible:** A word once said cannot be taken back. The impact of words said cannot be taken back and will remain.
3. **Complicated:** Various factors involved in the process of communication, makes even simple requests complex. Words and Symbols do not have inherent meaning, and no two people use the same word exactly alike. This makes communication complex.
4. **Contextual:** Communication does not happen in isolation and it has to be understood according to the situation. Factors such as – (a) who the communicators are, (b) what they bring to the interaction, (c) their needs, desires, values, personality, etc. form the psychological context in communication.

7. Answer any 4 Question from the following

(4 x 4 = 16 Marks)

(a) State the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 .

Situation 1	Situation 2
Present Employer – Act applies Prospective, i.e. Next Employer – Act does not apply	Present Employer – Act does not apply Prospective, i.e. Next Employer – Act applies
Effect: The amount of accumulations in the credit of such Employee in the Fund / Provident Fund of the Establishment left by him, shall be transferred (if Employee so desires and rules of his new Employer permit such transfer), within prescribed time, to the credit of his account in the Provident Fund of Establishment in which he is re-employed.	

(b) State the purposes of utilization of Securities Premium. [Any Four Points Four Marks]

1. Towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares.
2. In writing off the preliminary expenses of the company.
3. In writing off the expenses of, or the commission paid or discount allowed on any issue of shares or debentures of the company.
4. In providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company
5. For the purchase of its own shares or other securities under section 68

(c) Write a note on Green Accounting System. [Any Four Points Four Marks]

1. **Basic Aspects:** Environmental Management is the priority area and a key determinant to Sustainable Development. Since Business and Industry are closely linked with environment and resource utilization, eco-friendly business practices should involve – (a) eco-friendly production processes, strategies and technologies, and (b) effective management of wastes.
2. **Overall Strategy:** Corporate Strategy should involve incorporating environmental issues in the process of developing a product, in new investments and in the organisational set-up. Business must make ethics as an integral part of their corporate goal, taking care that their practices, processes and products conserve energy and resources and have a minimum impact on eco-systems.
3. **Value Analysis:** Economic progress and environmental protection are not conflicting propositions. Companies can re-design products and adopt latest technologies available in order to achieve the goals of wastage reduction and resources depletion. Businesses can also evaluate their product utilities – how to retain product quality with minimum resource consumption, whether renewable resources can be used / substituted for non-renewable resources, etc.
4. **Eco-friendly Attitude:** Companies should adopt new ideas and strategies with regard to environment– business relationship. A change is needed at all levels starting from organisational structure, finance, manufacturing, marketing, operations, accounting and other related disciplines. Policies that show environmental concern – viz. Environment Impact Assessment (EIA) and Environmental Audits, should be adopted.

5. **Quality Standards:** Implementation of Environmental Standards like ISO 14001 can provide competitive advantage to Business Enterprises. With the public opinion moving towards accountable socio-economic structures, ethical and eco-friendly business practices would evolve into standard corporate norms.
6. **Waste Management:** Waste Management can be effectively achieved through – (a) minimum production of waste, (b) maximizing re-use of waste and re-cycling, and (c) promoting environmentally sound waste disposal practices. Business Firms which pollute the environment have to pay the costs of managing such wastes. Such Firms cannot enjoy subsidies given by the Government.
7. **Use of Natural Resources:**
Industries which consume natural resources, (e.g. minerals, timber, fibre, oil, coal, foodstuffs, etc.) have a special responsibility for –
- adopting practices that have built-in environmental consideration,
 - introducing processes that minimize the use of natural resources and energy, reduce waste, and prevent pollution,
 - making products that are “environment-friendly”, with minimum impact on people and eco-systems,
 - Green Accounting Systems, i.e. reflecting environmental costs in the prices paid for goods and services, so as to regulate market behaviour in a way that would reduce damage to environment, pollution and waste production.

(d) State nature of business and nature of resolutions for the following:-

Business in AGM	Nature of Business	Nature of Resolution
Declaration of Dividend		
Alteration of Articles		
Appointment of Auditors		
Increase of Authorized Share Capital		

Hint:

Business in AGM	Nature of Business	Nature of Resolution
Declaration of Dividend	Ordinary	Ordinary
Alteration of Articles	Special	Special
Appointment of Auditors	Ordinary	Ordinary
Increase of Authorized Share Capital	Special	Ordinary

(e) ABC Mobile India Ltd wanted to know, in what order the required amount of Rs.16 Crores, for issue of fully paid bonus shares can be funded by analyzing each of the following :-

Nature of Reserves	Amount (Rs.)
Securities Premium realized in Cash	Rs. 8 Crs
Dividend Equalization Reserves	Rs. 2 Crs
Profit and Loss A/c	Rs. 3 Crs
General Reserves	Rs. 3 Crs
Revaluation Reserves	Rs. 4 Crs
Capital Redemption Reserve	Rs. 9 Crs

Hint:

Nature of Reserves	Amount (Rs.)
1. Capital Redemption Reserve	Rs. 9 Crs
2. Securities Premium realized in Cash	Rs. 8 Crs
3. Dividend Equalization Reserves	Rs. 2 Crs
4. General Reserves	Rs. 3 Crs
5. Profit and Loss A/c	Rs. 3 Crs
6. Revaluation Reserves	Cannot be utilized