

**PAPER – 2: BUSINESS LAWS, ETHICS & COMMUNICATION**

**QUESTIONS**

**PART – A: BUSINESS LAWS**

**The Indian Contract Act, 1872**

1. State the nature of the contract in the following cases with reasons:
  - (a) A entered into an agreement with S to deliver him 500 bags of sugar to be manufactured in his factory in a month. The sugar could not be manufactured because of strike by the workers and as a consequence, A failed to supply the agreed number of sugar bags to S. Decide whether A can be exempted from liability under the provisions of the Indian Contract Act, 1872.
  - (b) M owes money to N under a contract. It is agreed between M, N and O that N shall henceforth accept O as his debtor instead of M. Referring to the provisions of the Indian Contract Act, 1872, state whether N can claim payment from O?
2. (a) Mr. Anand, is employed as a cashier on a monthly salary of ₹ 2,000 by ABC bank for a period of three years. X gave surety for Mr. Anand's good conduct. After nine months, the financial position of the bank deteriorates. Then Mr. Anand agrees to accept a lower salary of ₹ 1,500/- per month from Bank. Two months later, it was found that Mr. Anand has misappropriated cash since the time of his appointment. What is the liability of X?
  - (b) B owes C a debt guaranteed by A. C does not sue B for a year after the debt has become payable. In the meantime, B becomes insolvent. Is A discharged? Decide with reference to the provisions of the Indian Contract Act, 1872.

**The Negotiable Instruments Act, 1881**

3. Discuss with reasons, in the following given conditions, whether X can be called as a 'holder' under the Negotiable Instruments Act, 1881:
  - (i) X who obtains a cheque drawn by Y by way of gift.
  - (ii) X, the payee of the cheque, who is prohibited by a court order from receiving the amount of the cheque.
  - (iii) X, finds a cheque payable to bearer, on the road and retains it.
  - (iv) X, the agent of Y, is entrusted with an instrument without endorsement by Y, who is the payee.
  - (v) X, steals a blank cheque of A and forges A's signature.
4. A Bill is drawn and payable at particular address but does not contain drawee's name. Mr. Vinay who resides at the mentioned address accepts the bill. Is it a valid Bill?

**The Payment of Bonus Act, 1965**

5. An employee working in an establishment commits fraud during the accounting year 2009-2010, but continues to work during the subsequent accounting years 2010-2011 and 2011-2012, and has a clean record during the subsequent years. On the basis of the fraud committed in 2009-2010, the employee is dismissed from service at the end of the accounting year 2011-2012. In this case, does he lose the bonus for the accounting year of misconduct i.e. 2009-2010 or for all 3 accounting years ending with 2011-2012? Discuss in the light of the provisions of the Payment of Bonus Act, 1965.
6. A company employed 20 full-time and 5 part-time employees who were drawing salary of less than ₹ 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 authorities for relief.  
Decide, stating the provisions of the Payment of Bonus Act, 1965, whether the employees, who resigned, the remaining full-time employees and part-time employees will get relief.

**The Employees' Provident Funds and Miscellaneous Provisions Act, 1952**

7. State the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 regulating the quantum of contribution to be made by the employer and employee to the provident fund. Is it possible for an employee to increase the amount of his contribution to the provident fund more than the minimum contribution as statutorily prescribed?
8. A 60 years old district judge was appointed by the Central Government as Presiding Officer of the Employee's Provident Funds Appellate Tribunal for a period of 2 years. After one year, he resigns from his office and ceases to work with immediate effect without handing over the charge to his successor, who was not appointed by the Government till that date. Examine the validity of his action to cease work under the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

**The Payment of Gratuity Act, 1972**

9. Mr. K, an employee in a coal mine with five days working in a week. K was not in continuous service during the financial year 2012-2013. He worked only for 150 days and due to arising of an accident during working in a mine, he was on leave with full pay for 45 days. Referring to the provisions of the Payment of Gratuity Act, 1972 decide, whether K is entitled to gratuity payable under the Act?
10. Bokaro steel plant decided to forfeit the amount of gratuity of its employees A, B and C on account of disorderly conduct and other acts which caused loss to the property belonging to the company. A, B and C committed the following acts:

- (i) A refused to surrender the occupied land belonging to the company.
- (ii) B committed theft under law involving offence of moral turpitude.
- (iii) C after superannuation continued to occupy the quarter of the company for six months.

Against the decision of the company, A, B and C applied to the appropriate authorities for relief. The company contended that the right to gratuity is not a statutory right and the forfeiture of the 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.

#### **The Companies Act, 1956/ 2013**

- 11. Explain the power of the company to close the register of members or debenture holders or other security holders as per the Companies Act, 2013. State the manner in which the corresponding provision given under the Companies Act, 1956 differs from the law given under new Act.
- 12. An allottee of shares in a Company brought action against a Director in respect of false statements in prospectus. The director contended that the statements were prepared by the promoters and he has relied on them. Is the Director liable under the circumstances? Decide referring to the provisions of the Companies Act, 2013.
- 13. A Company was incorporated on 6<sup>th</sup> July, 2014. The certificate of incorporation of the company was issued by the Registrar on 15<sup>th</sup> July, 2014. The company on 10<sup>th</sup> July, 2014 entered into a contract, which created its contractual liability. The company denies from the said liability on the ground that company is not bound by the contract entered into prior to issuing of certificate of incorporation. Decide, under the provisions of the Companies Act, 1956, whether the company can be exempted from the said contractual liability.
- 14. Write a note on the powers of the Central Government in regard to conversion of debentures and loans into shares of the company under the following heads:
  - (i) When terms of issue of such debenture or terms of loan do not include term providing for an option of conversion;
  - (ii) Matters considered in determining the terms and conditions of such conversion.
  - (iii) Remedy available to the company if conversion or terms of conversion is not acceptable to it.
- 15. State the procedure for passing a resolution by Postal Ballot as per the Companies Act, 1956.

#### **PART – B: ETHICS**

- 16. Comment on the statement “Business is all green, only philosophy is grey”.

17. Explain "communications is another area in which ethical concern may arise".
18. What kind of pressure are faced by a finance and accounting professional working as an employee in an organization?
19. What are the common CSR policies ?
20. Explain the meaning of the terms 'ethics' and 'business ethics' and also state the requirements of 'business ethics'.

#### PART – C: COMMUNICATION

21. Explain clearly the process of Communication.
22. Explain the functions of interpersonal communication.
23. Explain the concept of "Negotiation". What are its techniques ?
24. Draft a letter informing the customer that his cheque has been dishonoured.
25. Draft the performa of affidavit for not having a Marriage certificate.

#### SUGGESTED ANSWERS/HINTS

1. (a) In this case Mr. A could not deliver the sugar bags as promised because of strike by the workers. This difficulty in performance cannot be considered as impossible of performance attracting Section 56 (Para 2) and hence A is liable to S for non-performance of contract.  
(b) Yes, a contract need not be performed when the parties to it agree to substitute a new contract for it or to rescind or alter it. (Section 62, Indian Contract Act, 1872). Here, in the given problem, novation has taken place as one of the parties has been replaced with a third party. Therefore, N can claim the money from O.
2. (a) If the creditor makes any variance (i.e. change in terms) without the consent of the surety, then surety is discharged as to the transactions subsequent to the change. In the instant case X is liable as a surety for the loss suffered by the bank due to misappropriation of cash by Anand during the first nine months but not for misappropriations committed after the reduction in salary. [Section 133, Indian Contract Act, 1872].  
(b) **Discharge of surety:** The problem is based on the provisions of section 137 of the Indian Contract Act, 1872 relating to discharge of surety. The section states that mere forbearance on the part of the creditor to sue the principal debtor and/or to enforce any other remedy against him would not, in the absence of any provision in the guarantee to the contrary, discharge the surety. In view of these provisions, A is not discharged from his liability as a surety.

3. **Person to be called as a holder:** As per section 8 of the Negotiable Instruments Act, 1881 'holder' of a Negotiable Instrument means any person entitled in his own name to the possession of it and to receive or recover the amount due thereon from the parties thereto.

On applying the above provision in the given cases-

- (i) Yes, X can be termed as a holder because he has a right to possession and to receive the amount due in his own name.
  - (ii) No, X is not a 'holder' because to be called as a 'holder' he must be entitled not only to the possession of the instrument but also to receive the amount mentioned therein.
  - (iii) No, X is not a holder of the Instrument though he is in possession of the cheque, so is not entitled to the possession of it in his own name.
  - (iv) No, X is not a holder. While the agent may receive payment of the amount mentioned in the cheque, yet he cannot be called the holder thereof because he has no right to sue on the instrument in his own name.
  - (v) No, X is not a holder because he is in wrongful possession of the instrument.
4. Yes, it is a valid Bill and Mr. Vinay is liable thereon. The drawee may be named or otherwise indicated in the Bill with reasonable certainty. In the present case, the description of the place of residence indicates the name of the drawee and Mr. Vinay, by his acceptance, acknowledges that he is the person to whom the bill is directed (*Gray vs. Milner 1819*).
5. According to Section 9 of the Payment of Bonus Act, 1965, one of the grounds for disqualification for any bonus is fraud. An employee who is dismissed from service on the ground of misconduct as mentioned in section 9, is disqualified for any bonus and not merely for the bonus of the accounting year in which he is dismissed. Based on this provision, in the given case, the employee lose the bonus for all 3 three accounting years [*Pandian Roadways Corporation Ltd Vs Presiding officer(1996)2 CLR 1175(Mad)*].
6. In accordance with the provisions of Section 2(13) of the Payment of Bonus Act, 1965 any person other than an apprentice employed on a salary or wage not exceeding ₹ 10,000 per month in any industry to do any skilled or unskilled, manual, supervisory, managerial, administrative, technical or clerical work for hire or reward whether the terms of employment be express or implied is eligible for bonus. Further, in accordance with the provisions of Section 8 of the Payment of Bonus Act, 1965 every employee of an establishment covered under the Act is entitled to bonus from his employer in an accounting year provided he has worked in that establishment for not less than thirty working days in the year on a salary less than ₹ 10,000 per month.

The problem as asked is based on the above provisions of the Act and the answer may be given as follows:

- (a) **As regards the employees who resigned** : The employees who have resigned are not entitled to bonus because they have given their services only for 28 days in an accounting year although they are drawing salary less than ₹ 10,000 per mensem.
- (b) **As regards full time remaining employees**: These employees are entitled to get the bonus as they fulfil both the requirements as stated under Sections 2 (13) and 8 of the Act. 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.
- (c) **As regards part time employees**: Even a part time employee is also entitled to bonus on the basis of total number of days worked by him in an accounting year. The Payment of Bonus Act, 1965 does not prohibit such employees as they fulfil all the requirements stated above [*Automobile Karmachari Sangh vs. Industrial Tribunal (1971)*].

7. **Contribution to Provident Fund under the EPF and Miscellaneous Provisions Act, 1952**: Section 6 of the EPF and MP Act, 1952 regulates contribution to Provident Fund Scheme established under the Act. The employer's contribution shall be 10% of the basic wages, dearness allowance and retaining allowance, if any. The employee's contribution shall be equal to the contribution payable by the employer in respect of him.

Dearness allowance includes cash value of any food concession allowed to the employees. Retaining allowance means the sum paid for retaining the service, when the factory is not working. The Central Government may by notification make the employee's contribution equal to 12% for certain establishments or class of establishments.

The above rule will prevail irrespective of whether the employer employs the person directly or through a contractor.

An employee can at his will voluntarily contribute, beyond 10%. But the employer shall not be under an obligation to pay any contribution over and above his contribution payable under section 6 of the said Act.

8. Section 7 F of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 provides that the Presiding Officer of a Employees' Provident Funds Appellate Tribunal may by notice in writing under his hand addressed to the Central Government, resign his office provided that the Presiding Officer shall, unless he is permitted by the Central Government to relinquish his office sooner, continue to hold office until the expiry of three months from the date of receipt of such notice or until a person duly appointed as his successor enters upon his office or until the expiry of his term of office, whichever is the earliest.

Hence, action of district judge is invalid as per above provisions. He should obtain permission from the Central Government to do so.

9. As per Section 2 A of the Payment of Gratuity Act, 1972 an employee shall be said to be in continuous service for a period if he has, for that period, been in uninterrupted service,

including service which may be interrupted on account of sickness, accident, leave, lay-off, strike or a lockout or cessation of work not due to any fault of an employee.

Where any employee (not being an employee employed in a seasonal establishment) is not in continuous service for any period of one year he shall be deemed to be in continuous service under the employer for the said period of one year, if the employee during the period of twelve calendar months preceding the date with reference to which calculation is to be made, has actually worked under the employer for not less than (i) one hundred and ninety days, in the case of any employee employed below the ground in a mine or in an establishment which works for less than six days in a week, and (ii) two hundred and forty days, in any other case.

For the purposes of calculating the number of days on which an employee has actually worked under an employer shall include the days on which the person was absent due to temporary disablement caused by accident arising out and in the course of his employment.

Thus, as per the above provisions, K is entitled for gratuity because he was in continuous service (150+45 days) more than 190 days in 2012-2013 and was working in a mine with 5 days in a week (less than six days in a week).

10. **Forfeiture of Gratuity:** In accordance with the provisions of Section 4(6) of the Payment of Gratuity Act, 1972, if the services of any employee have been terminated for any act, willful omission, or negligence causing any damage or loss to or destruction of, property belonging to the employer, the gratuity shall be forfeited to the extent of the damage or loss so caused; and if the services of such an employee have been terminated for any act which constitutes an offence involving moral turpitude, provided that such offence is committed by him in the course of his employment, the gratuity payable to the employee may be wholly or partially forfeited.

The problem asked in the question is based on the above provisions and the provisions of Section 4(1) of the Payment of Gratuity Act, 1972. Accordingly, gratuity shall be paid to the employee when he completes five years of continuous service on his superannuation, or on his retirement or resignation, or on his death or disablement due to accident or disease. The condition of the completion of five years' continuous service is not essential in case of the termination of the employment of any employee due to death or disablement. Looking to the provisions of Section 4(1), it is clear that withholding of gratuity is not permissible under any circumstances, except under those circumstances covered by Section 4(6). In *K. C. Mathew vs. Plantation Corporation of Kerala Ltd.* 2001 LLR (2) (Ker), it was held that withholding of gratuity is not permissible except under those circumstances enumerated in Section 4(6) and that the right to gratuity is a statutory right and none can be deprived of it except as provided by the law. Therefore, the contention of Bokaro steel plant is wrong, to that extent.

The correctness of the decision taken by Bokaro steel plant regarding forfeiture of the gratuity amount of its employees A, B and C may be tested in the light of Section 4(6) of the Payment of Gratuity Act, 1972 as referred above.

- (i) Accordingly, the refusal of an employee to surrender the occupied land belonging to the company is not sufficient ground to withhold gratuity under Section 4(6) of the Payment of Gratuity Act, 1972 [*Travancore Plywood Industries Ltd. vs. Regional Joint Labour Commissioner [1966] II LLJ 85 Ker*] Hence, A's gratuity cannot be withheld.
- (ii) The offence of theft committed by B, under law involves moral turpitude and his gratuity stands wholly forfeited in view of Section 4(6) of the Act [*relevant case is Bharat Gold Mines Ltd vs. Regional Labour Commissioner, 1987, 70 FJR 11 (Karnataka)*].
- (iii) If the employer has to be paid any amount regarding any type of charge by the employee and if he has not paid for the same during the course of his service, then the employer can adjust the amount from the gratuity of the employee. In the instant case, C after superannuation continued to occupy the quarter of the company for six months. Therefore the company is entitled to charge the rent from him and after adjusting other dues the remaining amount of gratuity may be paid [*relevant case is Wazir Chand vs. Union of India 2001, LLR172 (SC)*].

11. **Power to close register of members or debenture holders or other security holders-** Section 91 of the Companies Act, 2013 deals with the closing of the register of members. The provision lays down that -

- (i) **Closing of register of members, debenture holders or other security holder by giving previous notice-** A company may close the register of members or the register of debenture-holders or the register of other security holders for any period or periods not exceeding in the aggregate forty-five days in each year, but not exceeding thirty days at any one time, subject to giving of previous notice of at least seven days or such lesser period as may be specified by Securities and Exchange Board for listed companies or the companies which intend to get their securities listed, in such manner as may be prescribed.
- (ii) **If the register of members or of debenture-holders or of other security holders is closed without giving the notice or after giving shorter notice** than that so provided, or for a continuous or an aggregate period in excess of the limits specified above, the company and every officer of the company who is in default shall be liable to a penalty of 5,000/- for every day subject to a maximum of one lakh rupees during which the register is kept closed.

**Point of comparison with respect to the Companies Act, 1956-**

- This section of 2013 Act replaces section 154(Power to close register of members or debenture holders) of the 1956 Act.

- The new Act of 2013 introduces the closure of the Registers of other security holders in the provision.
  - Listed companies or the companies which intend to get their securities listed( i.e., the unlisted companies) close the register of members/ register of debenture-holders / the register of other security holders by giving a previous notice of at least 7 days/ such lesser period as may be specified by Securities and Exchange Board. This law pertaining to listed companies is lacking in the 1956 Act.
  - In case of default with respect to the closure of register of member / register of debenture-holders / the register of other security holders, there the company and every officer of the company who is in default shall be liable to a penalty of five thousand rupees for every day during which register is closed but not exceeding one lakh rupees. This limit of penalty is lacking in 1956 Act.
12. Yes, the Director shall be held liable. A director can escape liability for mis-statements in a prospectus only on the grounds specified under Section 34 and 35 of the Companies Act, 2013. Relying on statements prepared by promoters is not a ground included there under. Accordingly, no defence shall be available to the Director.

A Director shall not be liable if he puts up the following defences:

- (i) Such statement or omission in the prospectus was immaterial, or
  - (ii) Director had reasonable grounds to believe, and did up to the time of issue of the prospectus believe, that the statement was true or the inclusion or omission was necessary(Section 34, the Companies Act, 2013)
  - (iii) Where a person having consented to become a director of the company, withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or where the prospectus was issued without the knowledge or consent of a person, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.(Section 35, the Companies Act, 2013).
13. **Certificate of Incorporation and the binding effect:** Upon the registration of the documents as required under the Companies Act, 1956 for incorporation of a company, and on payment of the necessary fees, the Registrar of Companies issues a Certificate that the company is incorporated (Section 34, the Companies Act, 1956).

Section 35 of the Companies Act, 1956, provides that a certificate of incorporation issued by the Registrar is conclusive as to all administrative acts relating to the incorporation and as to the date of incorporation. The facts as given in the problem are similar to those in case of *Jubilee Cotton Mills v. Lewis (1924) A.C. 1958* where it was held that an allotment of shares made on the date after incorporation could not be declared void on the ground that it was made before the company was incorporated when the certificate of incorporation was issued at a later date.

Applying the above principles the contention of the company in this case cannot be tenable. It is immaterial that the certificate of incorporation was issued at a later date. Since the company came into existence on the date of incorporation stated on the certificate, it is quite legal for the company to enter into contracts. To conclude the contracts entered into by the company before the issue of certificate of incorporation shall be binding upon the company. The date of issue of certificate is immaterial.

14. (i) Under Section 81 of the Companies Act, 1956 where any debentures have been issued to or loans have been obtained from the Government by a company, whether such debentures have been issued or loans have obtained before or after the commencement of Companies Amendment Act, 1963 (w.e.f. 1.1.1964), the Central Government may, if in its opinion it is necessary in the public interest so to do, by order direct that such debentures or loans or any part thereof shall be converted into shares in the company on such terms and conditions as appear to that Government to be reasonable in the circumstances of the case, even if the terms of issue of such debentures or the terms of such loans do not include term providing for an option for such conversion.
- (ii) In determining the terms and conditions of such conversion, the Central Government shall have due regard to the following circumstances:
- (i) The financial position of the company;
  - (ii) The terms of issue of the debentures or the terms of the loans, as the case may be;
  - (iii) The rate of interest payable on the debentures or the loans;
  - (iv) The capital of the company, its loan liability, its reserves, its profits during the preceding five years; and
  - (v) The current market price of the shares in the company.
- A copy of every order proposed to be issued by the Central Government shall be laid in draft before each House of Parliament.
- (iii) **Remedies open to the company:** If the terms and conditions of such conversion are not acceptable to the company, the company may, within 30 days from the date of communication of such order or within such further time as may be granted by the Court, prefer an appeal to the court in regard to such terms and conditions and the decision of the Court on such appeal and, subject only to such decision, the order of the Central Government shall be final and conclusive.
15. A listed public company and in case of resolutions relating to such business as the Central Government may, by notification, declare to be conducted only by postal ballot, shall get any resolution passed by means of a postal ballot, instead of transacting the business in general meeting of the company. The term 'Postal Ballot' includes voting by electronic mode.

The procedure laid down in Section 192A is as under:

- (i) **Notice to shareholders:** Where a company decides to pass any resolution by resorting to postal ballot, it shall send a notice to all the shareholders, along with a draft resolution explaining the reasons therefore and requesting them to send their assent within a period of 30 days from the date of posting of the letter;
- (ii) **Notice shall be sent by registered post acknowledgement:** The notice shall be sent by registered post acknowledgement due or by any other method as may be prescribed by the Central Government in this behalf, and shall be annexed with the notice a postage pre-paid envelope for facilitating the communication of the assent or dissent of the shareholder to the resolution within the said period;
- (iii) **Appointment of scrutinizer:** The board of directors shall appoint one scrutinizer, who is not in employment of the company, may be a retired judge or any person of repute, who, in the opinion of the board can conduct the postal ballot voting process in a fair and transparent manner;
- (iv) **Submission of report by the scrutinizer:** The scrutinizer will be in position for 35 days (excluding holidays) from the date of issue of notice for annual general meeting. He is required to submit his final report on or before the said period.
- (v) **Resolution assented by majority:** If a resolution is assented to by a requisite majority of the shareholders by means of postal ballot, it shall be deemed to have been passed at a general meeting convened in that behalf.

For this purpose the scrutinizer willing to be appointed is available at the registered office of the company for ascertaining the requisite majority.

- (vi) **Fraudulent defence or destroy of postal ballot:** If a shareholder sends his assent or dissent in writing on a postal ballot and thereafter any person fraudulently defences or destroys the ballot paper or declaration of the identity of shareholder, such person shall be punishable with imprisonment for a term which may extend to six months or with fine or both;
  - (vii) **Maintenance of register by scrutinizer:** The scrutinizer shall maintain a register to record the consent received, including electronic media, mentioning the particulars of name, address, folio number, number of shares, nominal value of shares, whether the shares have voting, differential voting or non-rights and the scrutinizer shall also maintain record for postal ballot which are received in defaced or mutilated form. The postal ballot and all other papers relating to postal ballot will be under the safe custody of the scrutinizer till the Chairman considers, approves and signs the minutes of the meeting. Thereafter, the scrutinizer shall return the ballot papers and other related papers/register to the company so as to preserve such ballot papers and other related papers/registers safely till the resolution is given effect to.
16. The statement was given by the Karl Marx commenting on the business objectives said "*Business is all green, only philosophy is grey.*" By this line he meant that business is all

about profits and comfort for its rich owners and discomforts for all other sections of the society who are at the receiving end of the business. Despite such socialist ideology been relegated to the background due to fact that capitalism is being gradually accepted; business is still painted as essentially exploitative in nature. But one has to accept that much of the progress in the world would not have been possible without entrepreneurship and business which involves risk.

17. Communications is another area in which ethical concerns may arise. False and misleading advertising, as well as deceptive personal-selling tactics, anger consumers and can lead to the failure of a business. Truthfulness about product safety and quality are also important to consumers. The Food and Drug Regulatory Authorities need to ensure that customers are told the truth about product safety, quality, and effectiveness claims. Some manufacturers fail to provide enough information to consumers about differences or similarities between products. For *example*, a lawsuit filed by consumers against Johnson claimed that the company's Acuvue and 1-Day Acuvue contact lenses were actually the same product. Consumers were directed by the company to dispose of the 1-Day Acuvue lenses after one day's use. The suit claims that because the two products were identical, the lenses could have been worn up to two weeks. It is estimated that six million people who used contact lenses spent \$1.1 billion on unnecessary replacements because of the company's misleading advertising. Johnson & Johnson agreed to pay up to \$860 million to settle the complaints. Another important aspect of communications that may raise ethical concerns relates to product labelling. It is mandatory for cigarette manufacturers to indicate clearly on cigarette packing that smoking cigarettes is harmful to the smoker's health.
18. A finance and accounting professional may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from a supervisor, manager, director or another individual within the employing organization. A finance and accounting professional may face pressure to:
- Act contrary to law or regulation.
  - Act contrary to technical or professional standards.
  - Facilitate unethical or illegal earnings management strategies.
  - Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
    - The auditors of the employing organization; or
    - Regulators.
  - Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for *example*:

The financial statements; Tax compliance; Legal compliance; or Reports required by securities regulators.

19. **CSR Policies:** Corporate Social Responsibility (CSR) refers to operating a business in a manner that accounts for the social and environmental impact created by the business. CSR means a commitment to developing policies that integrate responsible practices into daily business operations, and to reporting on progress made toward implementing these practices.

**Common CSR policies include:**

- Adoption of internal controls reform in the wake of Enron and other accounting scandals;
  - Commitment to diversity in hiring employees and barring discrimination;
  - Management teams that view employees as assets rather than costs;
  - High performance workplaces that integrate the views of line employees into decision-making processes;
  - Adoption of operating policies that exceed compliance with social and environmental laws;
  - Advanced resource productivity, focused on the use of natural resources in a more productive, efficient and profitable fashion (such as recycled content and product recycling); and
  - Taking responsibility for conditions under which goods are produced directly or by contract employees domestically or abroad.
20. **Ethics:** The term 'Ethics' has a variety of meanings. One of the meanings is 'Ethics' are the principles of conduct governing an individual or a group. Another definition describes ethics as relating to what is good or bad and having to do with moral duty and obligation.
- Business Ethics:** In a broad sense, ethics in business refers to the application of day-to-day moral and ethical norms to business. Business ethics are the principles and standards that determine acceptable conduct in business organisation.
- Requirements:** Being ethical in business requires acting with an awareness of -
- (a) The need for complying with rules (e.g) (i) laws of the land, (ii) customs and expectation of the community (iii) principles of morality (iv) policies of the organization and (v) general concerns such as the needs of others and fairness.
  - (b) How the products, services and actions of a business enterprise, can affect its stakeholders (i.e. employees, customers, suppliers, shareholders and community society as a whole) either positively or negatively.

21. **Process of Communication:** Communication is a two-way process in which there is an exchange of ideas or thoughts linking the sender and receiver towards a mutually accepted direction or goal consisting of 7 elements which are as under:
1. **Sender:** The process of communication begins with a sender, the person who has an idea and desires to exchange it.
  2. **Encoding:** The sender puts his/her ideas or facts into words, symbols, pictures or gestures that the receiver can understand.
  3. **Message:** A message refers to what is being communicated. It may be verbal or non-verbal.
  4. **Channel:** Channel is the medium through which message is transmitted to the sender. Channel may be in oral or written forms.
  5. **Receiver:** It is any person who notices and attaches some meaning to a message.
  6. **Decoding:** The receiver translates the words and symbols used in the message into ideas and interpret it to attain its meaning.
  7. **Feedback:** Ultimately receiver reacts or responds to the communication sent by the sender. It could be based on clear interpretation of the symbols sent or misunderstanding or misinterpretation of the symbols sent.

22. **Functions of Interpersonal Communication:** Interpersonal communication is important because of the following functions it achieves:

**Gaining Information:** One reason, we engage in interpersonal communication, is to gain knowledge about another individual. We attempt to gain information about others so that we can interact with them more effectively.

**Building Understanding:** Interpersonal communication helps us to understand better what someone says in a given context. Words can mean very different things depending on how they are said or in what context. **Content Messages** refer to the surface level meaning of a message. **Relationship Messages** refer to how a message is said. The two are sent simultaneously, but each affects the meaning assigned to the communication and helps us understand each other better.

**Establishing Identity:** We also engage in interpersonal communication to establish an identity based on our relationships and the image we present to others.

**Interpersonal Needs:** We also engage in interpersonal communication to express interpersonal needs. William Schutz has identified three such needs: inclusion, control, and affection.

- Inclusion is the need to establish identity with others.
- Control is the need to exercise leadership and prove one's abilities.

- Affection is the need to develop relationships with people. Groups are an excellent way to make friends and establish relationships.

23. **Negotiation:** Negotiation occurs when two or more parties either individuals or groups discuss specific proposals in order to find a mutually acceptable agreement. Whether it is with an employer, family member or business associate, we all negotiate for things each day like higher salary, better service or solving a dispute with a co worker or family member. Negotiation is a common way of settling conflicts in business. When handled skillfully, negotiation can improve the position of one or even both but when poorly handled; it can leave a problem still unsolved and perhaps worse than before.

**Techniques for Negotiation:**

- (a) Spiraling agreements: Begin by reaching a minimums agreement even though it is not related to the objectives and build, hit by hit, on this first agreement.
- (b) Changing of position: Formulate the proposals in a different way, without changing the final result.
- (c) Gathering information: Ask for information from the other party to clarify their position
- (d) Making the cake bigger: Offer alternatives that may be agreeable to the other party, without changing the terms.
- (e) Commitments: Formalize agreements orally and in writing before ending the negotiation.

24.

-----Bank Ltd

-----Branch,  
New Delhi

To,

-----

Date.....

**Regarding:** Dishonour of cheque no.-----drawn on -----, dated-----

Dear Sir,

We inform you that your above cheque due to insufficient fund in your account was not clear and was received back by us. The cheque has been sent to you by registered post dated ----- at your residential address.

Sd/-

Manager of the Bank

**25. Affidavit**

I, .....S/o.....R/o.....do hereby solemnly affirm and declare an oath as under:

“That the marriage between.....(name of spouses with details) solemnized with the Hindu rituals on..... at----- (Name of place) .That due to inadvertence, I did not register my marriage with the concerned department and not having marriage certificate.

Date:.....

Signature

Place:.....

Deponent

## Applicability of Pronouncements/Legislative Amendments/Circulars etc. for November, 2014 – Intermediate (IPC) Examination

### Paper 1: Accounting

#### Accounting Standards

- AS 1 : Disclosure of Accounting Policies
- AS 2 : Valuation of Inventories
- AS 3 : Cash Flow Statements
- AS 6 : Depreciation Accounting
- AS 7 : Construction Contracts (Revised 2002)
- AS 9 : Revenue Recognition
- AS 10 : Accounting for Fixed Assets
- AS 13 : Accounting for Investments
- AS 14 : Accounting for Amalgamations

#### Non-Applicability of Ind ASs for November, 2014 Examination

The MCA has hosted on its website 35 Indian Accounting Standards (Ind AS) without announcing the applicability date. Students may note that these Ind ASs are not applicable for November, 2014 Examination.

### Paper 2: Business Laws, Ethics and Communication

#### The Companies Act, 2013

The 53 sections of the Companies Act, 2013 along with the clarifications notified by the Ministry of Corporate Affairs.

Supplementary study material in this regard has been hosted on the student portal, ICAI at the following link <http://220.227.161.86/32794ssp-p2blec-ipcc.pdf>

#### Non-Applicability of the following /Circulars/Notifications

S.No.	Subject Matter
1.	*New 184 sections of the Companies Act, 2013 notified on 27 <sup>th</sup> February, 2014 and 26 <sup>th</sup> March, 2014.
2.	*Rules notified under the Companies Act, 2013

## **Paper 4: Taxation**

### **Applicability of the Finance Act, Assessment Year etc. for November, 2014 examination**

The provisions of income-tax and indirect tax laws, as amended by the Finance Act, 2013, including circulars and notifications issued upto 30<sup>th</sup> April, 2014. The relevant assessment year for income-tax is A.Y. 2014-15.