

# Model Question Paper

## Business Environment & Law (SMB105)

- Answer all 90 questions.
- Marks are indicated against each question.

**Total Marks : 100**

1. The study of factors such as family structures and their changes, role and status of women in society, and educational levels and gender inequality in educational levels which affect a business organization is a part of
  - (a) Demographic environment
  - (b) Social environment
  - (c) Cultural environment
  - (d) Ethical environment
  - (e) Internal environment.

**( 1 mark)**
2. Which among the following is studied with reference to the size, growth rate, age composition, gender composition, life expectancy, etc., of the population?
  - (a) Demographic environment
  - (b) Political environment
  - (c) Economic environment
  - (d) Trade environment
  - (e) Legal environment.

**( 1 mark)**
3. The traditional family life cycle facilitates the classification of family units into distinct segments on the basis of various stages in the family. Which stage of this family life cycle is associated with the task of disconnecting or reconnecting with one's family on a different level while simultaneously establishing oneself as a person?
  - (a) Bachelorhood
  - (b) Honeymooners
  - (c) Parenthood
  - (d) Post parenthood
  - (e) Dissolution.

**( 1 mark)**
4. Which of the following is not an element of culture?
  - (a) Language
  - (b) Age
  - (c) Aesthetics
  - (d) Education
  - (e) Religion.

**( 1 mark)**
5. Which of the following statements is not true with respect to Hall's Map of Culture?
  - (a) Hall's Map of Culture is a two-dimensional matrix containing different human activities
  - (b) The different human activities are called primary message systems
  - (c) Ten activities fall under primary message system of Hall's Map of Culture
  - (d) It works very well in the context of international business
  - (e) A person interested in the cultural analysis of a particular region has to study all the activities, in order to grasp adequate understanding of the culture.

**( 1 mark)**
6. Which of the following factors given below is/are not a part of the economic environment?
  - I. Monetary, industrial and fiscal policies
  - II. Factors related to the management of public affairs and their impact on an organization's business
  - III. Capitalist, socialistic or mixed economy
  - IV. Infrastructural factors such as financial institutions, banks, communication facilities, modes of transport and energy sources.
  - (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (II) and (III) above
  - (e) (II), (III) and (IV) above.

**( 1 mark)**

7. Who among the following sell goods on behalf of the principal?
- (a) Commission agents
  - (b) Auctioneers
  - (c) Brokers
  - (d) Shipping agents
  - (e) Warehouse Keepers. **(1 mark)**
8. Which of the following environments includes macro level factors such as national income, per capita income and balance of payments that affect an organization's business?
- (a) Trade environment
  - (b) Economic environment
  - (c) Financial environment
  - (d) Political environment
  - (e) Technological environment. **(1 mark)**
9. Micromax Ltd., a software company, is trying to make its presence felt in the highly competitive market. It creates and installs copies of software on personal computers without proper permission from the producer or the vendor of the software. This is a violation of
- (a) Trademarks
  - (b) Patents
  - (c) Copyrights
  - (d) Intellectual Property Rights
  - (e) Trade Secret. **(1 mark)**
10. Which of the following is not correct regarding requirements of a good tax structure?
- (a) Revenue yield should be adequate
  - (b) It is only the impact point at which the tax is imposed that matters and not the final resting place, for constructing a good tax structure
  - (c) The distribution of tax burden should be equitable
  - (d) The tax structure should facilitate the use of fiscal policy for stabilization and growth objectives
  - (e) The tax system should be understandable to the taxpayer. **(1 mark)**
11. Which of the following is an example of direct tax?
- (a) Inheritance tax
  - (b) Excise duty
  - (c) Customs duty
  - (d) Sales tax
  - (e) Corporation tax. **(1 mark)**
12. Tariffs are imposed by the government
- I. To discourage the use of certain products as their use is perceived to harm the society
  - II. To raise revenue and to promote economic and social goals
  - III. To encourage the outflow of foreign exchange reserves in case of imports
  - IV. To shelter a domestic industry from the onslaught of foreign companies.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) Both (II) and (III) above
  - (d) (I), (II) and (III) above
  - (e) (I), (II) and (IV) above. **(1 mark)**
13. Power can be classified into different categories on certain bases. Which of the following types draws its base for power in organization structure?
- (a) Legitimate power
  - (b) Expert power
  - (c) Coercive power
  - (d) Referent power
  - (e) Reward power. **(1 mark)**

14. Social class refers to the classification of members of a society into levels of distinct classes, so that a member of each class has approximately equal position in society with other members of the same class. Which of the following is not true regarding social class?
- Social classes are multidimensional
  - Social classes are hierarchical
  - Social classes are restrictive
  - Social classes are heterogeneous
  - Social classes are dynamic.
- ( 1 mark)**
15. Identify the proper sequence of needs in Maslow's hierarchy of needs from lowest to highest.
- Physiological – Social – Security – Esteem – Self actualization
  - Physiological – Security – Esteem – Social - Self actualization
  - Physiological – Security – Social – Esteem - Self actualization
  - Physiological – Social – Esteem – Security - Self actualization
  - Physiological – Esteem – Social – Security - Self actualization.
- ( 1 mark)**
16. Which of the following usually captures the ideas and expressions that are inherent in a culture and includes aspects like art, drama, color, music and architecture?
- Language
  - Religion
  - Education
  - Aesthetics
  - Lifestyle.
- ( 1 mark)**
17. Which of the following is/are true with respect to primacy of host country approach?
- It assumes that what is good at home would also work the same way in foreign markets.
  - It considers the market composition and base decisions on the cultural traits of the host country.
  - It assumes that the home country's cultural traits are inappropriate for successful operation in markets outside the home country.
- Only (I) above
  - Only (II) above
  - Only (III) above
  - Both (I) and (II) above
  - Both (II) and (III) above.
- ( 1 mark)**
18. Identify the statements that hold true regarding cross-cultural analysis.
- It is used by managers to understand the different market segments within and across national boundaries.
  - It helps in determining whether the marketing program can be used in more than one foreign market or must be modified to suit local conditions.
  - It binds an entity to its cultural assumptions, thus affecting the thinking process of the entity.
  - It gives rise to the tendency to assume that people from other cultures are similar to people belonging to one's own culture.
- Both (I) and (II) above
  - Both (I) and (III) above
  - (I), (II) and (III) above
  - (I), (II) and (IV) above
  - (II), (III) and (IV) above.
- ( 1 mark)**
19. Political risk refers to any government action that diminishes the value of a firm's operations within the political boundaries or influence of that government. In this context, which of the following is not an element of political risk?
- Confiscation
  - Contract repudiation
  - Promotion of currency convertibility
  - Unfair regulatory environment
  - War risk.
- ( 1 mark)**

20. Which of the following statements is not true regarding Expropriation?
- In Expropriation, the compensation provided is always adequate
  - Usually a company whose property is being expropriated, agrees to sell its operations not because it has a choice, but because of some coercion
  - The sale is made to the government or the nominee of the government, by order
  - Expropriation patterns might vary according to the industry, geographic region, type of ownership, technology, degree of vertical integration, asset size and politico-economic situation
  - Confiscation is a special case of Expropriation. (1 mark)
21. A developed economy is one, which has reached a very high stage of development. In this context, which of the following is/are a notable feature of a developed economy?
- High population growth rate
  - High per capita income
  - High standard of living
  - Large scale production.
- Only(I) above
  - Only (II) above
  - Both (I) and (II)
  - Both (II) and (III)
  - Both (I) and (IV). (1 mark)
22. Several factors cause disequilibrium in a country's balance of payments. Which of the following factors could cause a temporary disequilibrium?
- Technological changes in the methods of production
  - Changes in consumer tastes within the country or abroad
  - Change in the country's national income
  - Impact of the weather on agricultural production
  - Inflation. (1 mark)
23. Which of the following statements is not true with respect to Current Account of Balance of Payments?
- It is a record of the value of trade in goods and services and of transfers between a country and the rest of the world
  - Service transactions include travel and transportation, income and payments on foreign investments
  - Transfer payments relate to gifts, foreign aid, pensions, private remittance and charitable donations received from foreign individuals
  - It can also be said that it consists of international dealings in visible trade (goods) and invisible trade (services)
  - A deficit on this account means that more goods and services have been exported than have been imported. (1 mark)
24. Which of the following is **not** an advantage of mutual funds?
- Diversified investment improves the risk-return profile of the portfolio
  - Mutual funds generally offer a number of schemes to suit the requirements of the investors
  - Investors can choose the securities they want to invest in, or the securities they want to sell
  - Mutual funds are generally managed by knowledgeable, experienced professionals whose time is solely devoted to tracking and updating the portfolio
  - It is easier to liquidate holdings in a mutual fund as compared to direct investment in securities. (1 mark)
25. A mutual fund whose objective is to generate capital gains rather than current income for the investors is referred to as
- Growth fund
  - Pension funds
  - Off-shore funds
  - Income fund
  - Index fund. (1 mark)

26. According to section 45 – I (bb) of the RBI Act, which of the following is referred to as money received by way of deposit or loan or in any other form, excluding certain specified items?
- (a) Venture capitals
  - (b) Mutual Funds
  - (c) Public Deposits
  - (d) Options
  - (e) Shares. **(1 mark)**
27. Venture capital funds are eminently suitable as a source of risk finance. The reason for making this statement is based on certain characteristics of Venture capital funds. Identify the most appropriate characteristic.
- (a) It is equity or quasi-equity investment
  - (b) It is a long term investment
  - (c) It is an active form of investment
  - (d) It is Equity or quasi-equity investment and a long term investment
  - (e) It is Equity or quasi-equity investment, long term investment and an active form of investment. **(1 mark)**
28. Which economic indicator focuses on differences in the economic wellbeing of different groups in the population?
- (a) National income
  - (b) Gross domestic product
  - (c) Income distribution
  - (d) Index numbers
  - (e) Gross national product **(1 mark)**
29. ‘Del credere’ agents fall under which of the following categories of mercantile agents?
- (a) Brokers
  - (b) Commission Agents
  - (c) Auctioneers
  - (d) Shipping Agents
  - (e) Warehouse keepers. **(1 mark)**
30. Which of the following is not true regarding licensing as a strategy for entering into foreign markets?
- (a) In licensing, a firm, called the licensor, sells the right to use its intellectual property - technology, patents, copyrights, work methods, brand names, or trademarks- to another firm, called the licensee, in return for a fee
  - (b) The use of licensing is affected by host country policies
  - (c) Opportunity costs are absent in Licensing
  - (d) Through licensing, a firm can gain from locational advantages of foreign production without incurring any ownership, managerial or investment obligations
  - (e) The long-term strategic implications of licensing a firm's technology are of great concern to any firm. **(1 mark)**
31. Which of the following is defined as the process of breaking down governmental and artificial barriers in international trade and investment?
- (a) Globalization
  - (b) Privatization
  - (c) Liberalization
  - (d) Standardization
  - (e) Nationalization **(1 mark)**
32. The French government prohibited the imports of beef from Russia. Consequently, there was a decline in the sales of beef in the French market. The privilege of giving rights for import of such products is termed as
- (a) Import license
  - (b) Import tariffs
  - (c) Import restrictions
  - (d) Import duties
  - (e) Import substitution. **(1 mark)**

33. The risk of government taking over the ownership of property after paying some amount as compensation, which is called expropriation is a major factor that is taken into consideration by investors. This type of risk can be called
- (a) Economic risk
  - (b) Financial risk
  - (c) Market risk
  - (d) Political risk
  - (e) Ideological risk.
- ( 1 mark)**
34. International franchising is one of the fastest growing forms of international business activity today. It is a special form of
- (a) Trade
  - (b) Branding
  - (c) Licensing
  - (d) Agency
  - (e) Arrangement
- ( 1 mark)**
35. Which of the following has/have a lien on the goods for the charge payable to them?
- I. Brokers
  - II. Commission agents
  - III. Auctioneers
  - IV. Warehouse keepers.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Only (III) above
  - (d) Both (I) and (II) above
  - (e) Both (III) and (IV) above.
- ( 1 mark)**
36. Mutual insurance pools may be owned by a group of insurers. Such pools are expected to accept only those risks, which would meet certain standards. These standards are related to
- (a) Technology
  - (b) Underwriting
  - (c) ISO – 9002
  - (d) Pollution control
  - (e) Break-even levels
- ( 1 mark)**
37. A solution to environmental pollution lies in creating mutual insurance pools, assigned risk pools, and environmental trust funds. Which of the following is true with regard to assigned risk pools?
- (a) Assigned risk pools are owned by a group of insurers who are experts in a particular technological area
  - (b) Assigned risk pools are created by the government
  - (c) Assigned risk pools are financed through end-use taxes or broad-based taxes
  - (d) Assigned risk pools pay for the clean-up of hazardous sites on a no-fault basis
  - (e) Assigned risk pools create a surplus for the government.
- ( 1 mark)**
38. The compensation paid under a licensing agreement is termed as
- (a) Patent
  - (b) Fees
  - (c) Royalty
  - (d) Commission
  - (e) Tax.
- ( 1 mark)**
39. Which of the following is not an asset in the balance sheet of a bank?
- (a) Bill Financing
  - (b) Overdrafts
  - (c) Deposits
  - (d) Cash
  - (e) Investments
- ( 1 mark)**

40. Which of the following is a kind of 'Financial Intermediation' that facilitates the borrowing of relatively short-term funds from savers and providing long-term loans to borrowers who require a long-term commitment to funds?
- Denomination Intermediation
  - Default-Risk Intermediation
  - Liquidity Intermediation
  - Information Intermediation
  - Maturity Intermediation.
- ( 1 mark)**
41. Which of the following is referred to as non-tariff barriers in international trade?
- Restrictive trading laws
  - Anti dumping laws
  - Legal incentives
  - Income tax holidays
  - Quantitative restrictions
- ( 1 mark)**
42. The purpose of all government interventions is to maximize society's welfare. Which of the following statements is not true with regard to government regulation?
- If resources are allocated among various users in a society in such a way that no one can be made better off without making someone else worse off, then a such a society is called a 'pareto efficient' economy
  - If resources can be reallocated in such a way that it makes at least one person better off without making anyone else worse off, then there is scope for 'pareto improvement'
  - Society may not necessarily prefer a 'pareto efficient' allocation of its resources
  - Markets are not completely efficient
  - Markets are generally characterized by perfect competition.
- ( 1 mark)**
43. Ideas that are translated into tangible products, writings and so on, and that are protected by the state for a limited period of time from "Unauthorized commercial exploitation" are referred to as
- Jurisdiction of laws
  - Foreign investment regulations
  - Intellectual property rights
  - Restrictive trading laws
  - Host country laws
- ( 1 mark)**
44. Tariff is a tax that a government levies on exports and imports. A term 'reverse tariff' is known as
- Export duty
  - Import duty
  - Export Incentive
  - Subsidy
  - Import incentive
- ( 1 mark)**
45. Which of the following statements hold(s) true regarding bribing, an unethical behavior that distorts the market system?
- A bribe makes a choice more attractive to a decision maker by enhancing the personal gain associated with it.
  - Bribery enhances the freedom of choice by changing the conditions under which a decision is made.
  - It leads to allocation of more resources to a less desirable alternative.
- Only (I) above
  - Only (II) above
  - Only (III) above
  - Both (I) and (II) above
  - Both (I) and (III) above.
- ( 1 mark)**
46. Which of the following refers to the state in which certain diplomatic organizations and people operating in a foreign country are exempted from the jurisdiction of the laws in that country?
- Expropriation
  - Confiscation
  - Nationalization
  - Extraterritoriality
  - Domestication.
- ( 1 mark)**

47. Mr. Joshi is 59 years old and is about to retire next year. He stays along with his wife. His children are married and well-settled. Mr. and Mrs. Joshi are in which stage of the traditional family life cycle?
- (a) Bachelorhood
  - (b) Honeymooners
  - (c) Parenthood
  - (d) Postparenthood
  - (e) Dissolution
- ( 1 mark)**
48. Hero India Ltd. is an Indian based company that intends to extend its marketing and other activities outside India. Its strategy is to make its presence felt and provide value addition to all its customers. Hero India Ltd. proposes to become
- (a) Domestic company
  - (b) International company
  - (c) Multinational company
  - (d) Global company
  - (e) Multi-domestic company.
- ( 1 mark)**
49. Merchant middlemen form an important link in business. Which of the following functions both as an importer and exporter?
- (a) The wholesaler
  - (b) Multiple shops
  - (c) Large scale retailer
  - (d) Cooperative store.
  - (e) Chain store
- ( 1 mark)**
50. When the host government takes over a foreign business but does not compensate the owners for the loss, such takeover is regarded as an act of
- (a) Expropriation
  - (b) Confiscation
  - (c) Nationalization
  - (d) Socialization
  - (e) Domestication.
- ( 1 mark)**
51. Which of the following is an essential element of a valid contract under the Indian Contract Act, 1872?
- (a) Uncertainty of performance
  - (b) Inadequate monetary consideration
  - (c) Express declaration as void
  - (d) Lawful object
  - (e) Conditional acceptance.
- ( 1 mark)**
52. A situation wherein the offeree changes the terms of the offer made by the offeror is known as
- (a) General offer
  - (b) Specific offer
  - (c) Positive offer
  - (d) Negative offer
  - (e) Counter offer.
- ( 1 mark)**
53. If in a contract, the promisor receives consideration simultaneously with his promise, the consideration in such a case is known as
- (a) Past consideration
  - (b) Present consideration
  - (c) Executory consideration
  - (d) Future consideration
  - (e) Void consideration.
- ( 1 mark)**
54. Who among the following persons is qualified to enter into a valid contract under the Indian Contract Act, 1872?
- (a) A person who has not attained the age of majority
  - (b) A person of sound mind
  - (c) A person who is considered as an alien enemy
  - (d) A person who is adjudged insolvent
  - (e) A convict.
- ( 1 mark)**

55. Under the Contract Act, the use of a relationship of trust and confidence by one party to exploit the other party to derive some contractual advantage is said to amount to
- Coercion
  - Undue influence
  - Fraud
  - Misrepresentation
  - Mistake.
- ( 1 mark)
56. Which of the following is considered as a void agreement under the Indian Contract Act, 1872?
- Agreement induced by coercion
  - Agreement induced by fraud
  - Agreement induced by undue influence
  - Agreement induced by misrepresentation
  - Agreement induced by bilateral mistake.
- ( 1 mark)
57. When a contract is breached by one party, the other party can approach the Court for cancellation of the contract by filing a suit for
- Injunction
  - Specific performance
  - Damages
  - Rescission
  - Quantum meruit.
- ( 1 mark)
58. Which of the following statements is **true** in respect of a contract of guarantee under the Indian Contract Act, 1872?
- Death of the principal debtor discharges the surety's liability
  - The liability of the surety is coextensive with that of the principal debtor
  - A guarantee may be given even for a time barred debt
  - The surety cannot limit his liability to a part of the entire debt
  - Death of the surety discharges the surety from all transactions in respect of the guarantee given.
- ( 1 mark)
59. Under normal circumstances, which of the following statements is **true** regarding contract of agency under the Indian Contract Act, 1872?
- An agent can delegate his authority to a sub-agent
  - Presence of consideration is a prerequisite for the creation of an agency
  - In case of insolvency of the principal, the agent should protect his own interest
  - An agent can use confidential information entrusted to him by his principal for his own benefit
  - An agent should not set up an adverse title to the goods which he receives from the principal as an agent.
- ( 1 mark)
60. Under the Indian Contract Act, 1872, a person who is employed to negotiate and make contracts for the purchase and sale of goods without control or possession of goods is known as
- Factor
  - Broker
  - Auctioneer
  - Commission agent
  - Del credere agent.
- ( 1 mark)
61. The bank in the exporter country which authenticates and forwards the Letter of Credit to the beneficiary or the exporter without any other commitment is the
- Issuing Bank
  - Advising Bank
  - Negotiating Bank
  - Confirming Bank
  - Reimbursing Bank.
- ( 1 mark)
62. Under the Indian Stamps Act, 1899, documents like demand promissory notes, cash receipts, acknowledgement of debt should be stamped with
- Revenue stamps
  - Special adhesive stamps
  - Embossed stamps
  - Engraved stamps
  - Non-judicial stamp paper.
- ( 1 mark)

63. Which of the following is a salient feature of a public limited company registered under the Companies Act, 1956?
- Unlimited liability
  - Separate legal entity
  - Cannot sue and be sued
  - Common property
  - Non-transferability of interest. (1 mark)
64. Which of the following statements is **true** in respect of a private limited company incorporated under the Companies Act, 1956?
- It may issue debentures to any number of persons
  - It needs to have a minimum of three directors
  - Shares are freely transferable without any restriction
  - It must file a statutory report within the prescribed time
  - In case of expansion of capital, the shares of a private company must be first offered to the existing shareholders. (1 mark)
65. Which of the following matters is specifically provided for in the Memorandum of Association of a company?
- Borrowing powers
  - Adoption of preliminary contracts
  - Alteration of share capital
  - Winding up
  - Situation of Registered office. (1 mark)
66. 'A purported activity beyond the powers of the company will be ineffective even if ratified by all the members of the company'. This rule is based on the
- Doctrine of restitution
  - Doctrine of ultra vires
  - Doctrine of relation back
  - Doctrine of constructive notice
  - Doctrine of indoor management. (1 mark)
67. Under the Companies Act, 1956, damages for misstatements in the prospectus **cannot** be claimed from
- A promoter of the company
  - An expert who had authorized the issue of the prospectus
  - A person who was appointed as a director of the company after the issue of prospectus
  - A person who has authorized himself to be named as a director in the prospectus issued by the company
  - A person who has authorized himself to be named as a director in the prospectus issued by the company, agreeing to become a director of the company after an interval of time. (1 mark)
68. The shares that are issued to the existing members of the company, free of charge by transferring sums capitalized from the profit and loss account or reserve account to the Share Capital are known as
- Redeemable Preference Shares
  - Shares at a discount
  - Bonus shares
  - Ordinary shares
  - Cumulative Preference Shares. (1 mark)
69. A transfer of shares is complete as between the transferor and the transferee when
- The transfer deed is executed by the transferee
  - The transfer deed is executed by the transferor
  - The transfer deed is received by the company
  - The transfer is registered in the Company's register
  - The transfer deed is executed and share certificates are handed over to the transferee. (1 mark)
70. Under the Companies Act, 1956, the qualification shares required to be held by a director of a company in accordance with the articles of the company must be acquired
- One month before the date of his appointment
  - One month after the date of his appointment
  - Within two months from the date of his appointment
  - Six months after the date of his appointment
  - Before the conclusion of the Annual General Meeting required to be held after his appointment. (1 mark)

71. Which of the following meetings is conducted only once in the lifetime of a public limited company?
- Annual General Meeting
  - Class meetings of shareholders
  - Extra-ordinary General meeting
  - Meeting of creditors
  - Statutory meeting.
- ( 1 mark)**
72. During the month of March 2010, Mr. Ganeshan gets salary of April, 2010 and May 2010 in advance. How many months' salary is chargeable to tax in the assessment year 2010-11?
- 10 months
  - 12 months
  - 14 months
  - 15 months
  - 16 months.
- ( 1 mark)**
73. Which of the following amounts is allowed as a deduction in the computation of income from let out house property?
- Municipal taxes paid by the tenant
  - Insurance charges for the house paid by the owner
  - Ground rent for the house paid by the owner
  - Depreciation on the house
  - Interest on loan taken by the owner for carrying out repairs.
- ( 1 mark)**
74. Which of the following is **not** allowed as a deduction in the computation of income under the head 'Business or Profession'?
- Expenditure on scientific research
  - Expenditure on acquisition of patent rights and copyrights
  - Expenditure on knowhow
  - Amortization of telecom licence fees
  - Contribution to non-statutory funds.
- ( 1 mark)**
75. Under the Income Tax Act, 1961, 'Capital asset' under the head of 'Capital gains' **does not** include
- Consumable stores held for the purposes of business
  - Jewellery and immovable property which is not a personal effect
  - Agricultural land outside India
  - Agricultural land in an urban area situated in India
  - Right of tenancy under Tenancy Act.
- ( 1 mark)**
76. The aggregate amount of deduction under section 80C, 80CCC and 80CCD of the Income Tax Act, 1961, in respect of the assessment year 2010-11, cannot exceed
- Rs. 80,000
  - Rs.1,15,000
  - Rs.1,20,000
  - Rs.1,00,000
  - Rs.1,50,000.
- ( 1 mark)**
77. As per the provisions of the Central Excise Act, 1944, CENVAT scheme generally grants
- Credit of the duty paid on inputs
  - Credit of the duty paid on exports
  - Credit of the duty paid on output
  - Credit of the duty paid on imports
  - Credit of the duty paid on the inputs and the manufactured goods.
- ( 1 mark)**
78. The duty that is imposed when excisable articles are imported, in order to counterbalance the excise duty, which is leviable on similar goods if manufactured within the India is known as
- Countervailing Duty
  - Protective Duty
  - Anti-dumping Duty
  - Safeguard Duty
  - NCCD of Customs.
- ( 1 mark)**

79. For the financial year 2009-10, a small service provider shall be exempt from service tax, provided the aggregate value of taxable services is less than
- Rs. 8 lakh
  - Rs.10 lakh
  - Rs.12 lakh
  - Rs.15 lakh
  - Rs.20 lakh.
- ( 1 mark)
80. Which of the following purchases is **not** eligible for Input Tax Credit (ITC) for the levy of Value Added Tax (VAT)?
- Resale by the registered dealer within the State
  - Use as inputs in the manufacturing of goods in the State
  - Use as capital goods in the manufacture of taxable goods
  - Goods damaged in transit
  - Sale of goods subject to levy of tax at zero rate under Section 18.
- ( 1 mark)
81. Anil and Sanjay were business associates. Anil invited Sanjay for dinner at his house on his son's birthday, which was a working day. Sanjay cancelled some of his important business meetings and reached Anil's house on the appointed date and time. However, to his surprise, Sanjay found that Anil's house was locked and the party was cancelled. Which of the following statements is **true** in respect of the above circumstances?
- There is a valid contract as there was a promise to attend the party upon invitation
  - There is a valid contract as there was a business relationship between Anil and Sanjay
  - As Sanjay had suffered a loss on account of the agreement, he can claim compensation from Anil
  - There is a valid contract as there is a promise
  - There is no valid contract as it is a casual agreement between friends.
- ( 2 marks)
82. Shweta , a minor fraudulently represented to Narayan, a moneylender that she was a major and executed a promissory note for Rs.25,000 and she promised to repay within a period of 2 years. After the expiry of 2 years when Narayan demanded his money from Shweta, she refused to pay and pleaded her minority as a defence. Which of the following statements is **true** in respect of the above circumstances under the Indian Contract Act, 1872?
- Shweta has to repay the loan as she cannot plead minority subsequently after entering into the contract
  - Shweta has to repay the loan as there was a misrepresentation on her part
  - Shweta need not repay as the money can be recovered only out of the property mortgaged by her
  - Shweta need not repay any amount to Narayan as a contract with a minor is void ab initio
  - Shweta can raise the plea of minority only after repaying the loan and then claim damages from Narayan.
- ( 2 marks)
83. Sana Automobiles sold a lorry to Dharam Singh on hire purchase basis. The payment of the installments was guaranteed by Rudrapratap. When Dharam Singh failed to make payment on three consecutive occasions, Sana Automobiles terminated the hire purchase agreement and seized the lorry. Sana Automobiles also filed a suit against Rudrapratap on his guarantee for the payment of the installments due. Which of the following statements is **true** in respect of the liability of Rudrapratap as the surety under the Indian Contract Act, 1872?
- Rudrapratap being the surety is liable for the payment of the installments due
  - Rudrapratap can be held liable only after Sana Automobiles has extinguished all its remedies under the Act
  - Rudrapratap cannot be held liable as a surety as the lorry was sold on hire purchase basis for which guarantee cannot be given
  - Rudrapratap cannot be held liable as a surety as the hire purchase agreement was terminated and the lorry was seized by Sana Automobiles
  - Rudrapratap can be held liable only for half the amount as the hire purchase agreement was terminated and the lorry was seized by Sana Automobiles.
- ( 2 marks)

84. Santosh engaged Dilip, an auctioneer, to sell his house situated at Gurgaon on the payment of a commission of Rs.30,000 as his remuneration. Accordingly, Dilip arranged for the auction and the house was sold to Uday. Santosh paid Rs.30,000 to Dilip as agreed. Dileep also recovered a commission of Rs.10,000 from Uday. On coming to know about this fact, Santosh demanded the entire commission of Rs.40,000 from Dilip. Which of the following statements is **true** in respect of the liability of Dilip under the Indian Contract Act, 1872?
- Dilip is liable to return the entire amount of Rs.40,000 to Santosh as he must not make any secret profit from the agency
  - Dilip has to return only Rs.30,000 to Santosh because it is the remuneration received from him for getting his house sold
  - Dilip has to return only Rs.10,000 to Uday as Dilip is entitled to his remuneration of Rs.30,000
  - Dilip is not required to return anything to Santosh or Uday as he arranged the sale of the house, for which he is entitled to his remuneration
  - Dilip has to return only Rs.10,000 to Santosh as he arranged the sale of the house, for which he is entitled to his remuneration of Rs.30,000. **( 2 marks)**
85. Rohit Awasthi and Rahul Awasthi, two brothers agreed to sell a land to Manish Bhalla and even took an advance for it. Subsequently the brothers cancelled the agreement as they were expecting better offers from other prospective buyers. Manish Bhalla filed a suit against the two brothers for specific performance of the contract. The High Court restrained the brothers from selling the land to any other party pending disposal of the case by the Court. The two brothers floated a private company of which they were the only shareholders and directors. Rohit Awasthi was appointed as Chairman and Rahul Awasthi was appointed as Managing Director of the company. The land was transferred to the company. The company sold the land to Abhinav Chaturvedi and the two brothers took the plea that the sale had been made by the company, a distinct person. Which of the following statements is **true** in respect of lifting of corporate veil under the Companies Act, 1956?
- The corporate veil need not be lifted as a company can hold and transfer property in its own name
  - The corporate veil need not be lifted as a company has an independent legal existence, distinct from its members
  - The corporate veil needs to be lifted as the company was formed only to avoid the personal legal obligations of the owners
  - The corporate veil need not be lifted as the corporate veil can be pierced only upon an application by the shareholders of the company
  - The corporate veil need not be lifted as a company can enforce any contract that is beneficial to it, even though the sale was ultra vires its directors. **( 2 marks)**
86. Gautam, one of the directors of Western Thermal Power Ltd., did not attend the meetings of the company held between January 1, 2010 and March 31, 2010. In which of the following circumstances, the office of Gautam as a director shall become automatically vacant?
- Gautam does not attend all the meetings of the board held during the three months, despite obtaining leave of absence
  - Gautam does not attend more than three consecutive meetings held during the three months, despite obtaining leave of absence
  - Gautam does not attend more than three consecutive meetings held during the three months, without obtaining leave of absence
  - Gautam does not attend all the meetings of the board held during two consecutive three months periods, without obtaining leave of absence
  - Gautam attends all the meetings of the board held during the three months, despite obtaining leave of absence. **( 2 marks)**

87. Sudeep, a shareholder of Vashishta Vansapati Ltd., appointed his friend Mahesh as his proxy by depositing the proxy form with the company, before the meeting. Mahesh proposes to participate in a discussion in the meeting. Which of the following statements is **true** in respect of the rights of a proxy under the Companies Act, 1956?
- (a) Mahesh being the proxy shall be allowed to participate in a discussion in the meeting and vote by show of hands  
 (b) Mahesh being the proxy shall be allowed only to participate in a discussion in the meeting but he cannot vote by show of hands  
 (c) Mahesh being the proxy shall be allowed only to vote by show of hands but he cannot participate in a discussion in the meeting  
 (d) Mahesh shall be allowed to participate in a discussion in the meeting and vote by show of hands, if the Board of Directors of the company permit him  
 (e) Mahesh being the proxy can only vote on poll but he cannot participate in a discussion in the meeting and vote by show of hands. (2 marks)
88. Mrs. Swathi, aged 30 years, has earned a total taxable income of Rs.4,50,000. Her income tax liability for the assessment year 2010-11 is
- (a) Rs.42,230  
 (b) Rs.41,000  
 (c) Rs.43,260  
 (d) Rs.45,320  
 (e) Rs.37,080. (2 marks)
89. Mr. Subrahmanyam, aged 53 years, has furnished the following details in respect of a house property let-out by him:

Particulars	Rs.
Gross Annual Value	1,92,000
Municipal Taxes paid	12,000
Repairs	30,000
Interest on loan for construction (borrowed in 2003)	96,000

The amount chargeable to tax under the head 'Income from House Property' for the assessment year 2010-11 is

- (a) Rs.60,000  
 (b) Rs.66,000  
 (c) Rs.72,000  
 (d) Rs.84,000  
 (e) Rs.48,000. (2 marks)
90. Periyar Alloys Ltd., a steel manufacturing company, submitted the following particulars as on March 31, 2010:

Assets	Rs.
Land (within 5 km of Chennai)	75,00,000
Land in urban area (construction is not permitted as per municipal rules)	20,00,000
Motor cars not held as stock in trade	32,00,000
Loan for acquiring land (within 5 km of Chennai)	15,00,000
Loan for acquiring land in urban area (construction is not permitted as per municipal rules)	10,00,000
Loan for purchase of motor cars	12,00,000

The net wealth of Periyar Alloys Ltd., for the purpose of wealth tax for the assessment year 2010-11 is

- (a) Rs. 40,00,000  
 (b) Rs. 60,00,000  
 (c) Rs. 80,00,000  
 (d) Rs.1,00,00,000  
 (e) Rs.1,07,00,000. (2 marks)

**END OF QUESTION PAPER**

## Suggested Answers

### Business Environment & Law (SMB105)

ANSWER	REASON
1. B	Social environment constitutes the study of factors such as family structures and changes in them, role and status of women in society, and educational levels and gender inequality in educational levels which effect a business organization.
2. A	Demographic environment is studied with reference to the size, growth rate, age composition, gender composition, life expectancy, etc., of the population.
3. A	Bachelorhood is associated with the task of disconnecting or reconnecting with one's family on a different level while simultaneously establishing oneself as a person. Options (a), (c), (d), (e) are not correct. The traditional family life cycle has been divided into five different segments on the basis of various stages in the family like honeymooners, parenthood, post parenthood and dissolution on the basis of various stages in the family.
4. B	Age is not an element of culture.
5. E	According to Hall, a person interested in the cultural analysis of a particular region need not necessarily study all the ten activities, but can study one of them and grasp adequate understanding of the culture. Hence, from above discussion, we can infer that option (e) is false with respect to Hall's Map of Culture. All other options are true with respect to Hall's Map of Culture
6. B	All the given options are part of economic environment except, the second option i.e., factors related to the management of public affairs and their impact on an organization's business. It is a part of political environment.
7. A	Commission agents are agents who sell goods on behalf of the principal.
8. B	The economic environment includes macro level factors such as national income, per capita income and balance of payments that affect an organization's business.
9. C	When someone creates or installs copies of software on personal computers without proper permission from the producer or the vendor of the software, it is a violation of copyrights, i.e to say copyrights protect original literary, dramatic, musical, artistic and certain other intellectual works.(a) A trademark is a word, symbol, or device that identifies the source of goods and may serve as an index of quality.(b) Patent is the grant of an exclusive right to exploit an invention.(d) Intellectual property rights broadly include patents, trademarks, copyrights and trade secrets.(e) A trade secret is another means of protecting intellectual property. It differs fundamentally from patents, copyrights, and trademarks in that protection is sought without registration, so it is not legally protected. However, it can be protected in the courts.
10. B	It is not only the impact point at which the tax is imposed, but also its final resting place which matters, for constructing a good tax structure. This deals with the problem of tax incidence. Hence, from above discussion, we can infer that option (b) is <b>not correct</b> regarding requirements of a good tax structure. Options (a), (c), (d) and (e) are correct as they are indeed the requirements of a good tax structure.
11. A	Direct tax is paid by the person on whom it is legally imposed. It cannot be passed on to someone else. Inheritance tax is an example of direct tax. Hence, from above discussion, we can infer that option (a) is correct. Options (b), (c), (d) and (e) are not correct as all of them are examples of indirect tax.
12. E	Tariffs are imposed by the government to discourage the outflow of foreign exchange reserves in case of imports.
13. A	Legitimate power is determined by the organization structure. Therefore, changes in structure will affect the power and significance of different functions and managers. Therefore, option (a) is the correct answer.
14. D	Social classes are homogeneous and not heterogeneous.

15. C The proper sequence of needs in Maslow's hierarchy of needs from lowest to highest:
- Physiological
  - Security
  - Social
  - Esteem
  - Self actualization
16. D Aesthetics usually captures the ideas and expressions that are inherent in a culture and includes aspects like art, drama, color, music and architecture.
17. E Primacy of host country approach considers the market composition and base decisions on the cultural traits of the host country. This approach is based on the assumption that the home country's cultural traits are inappropriate for successful operation in markets outside the home country.
18. A Statements (I) and (II) hold true for cross-cultural analysis. Statements (III) and (IV) refer to self-reference criteria and parochialism respectively.
19. C Elements of political risk:
- Confiscation
  - Contract repudiation
  - Restriction on currency convertibility
  - Unfair regulatory environment
  - War risk.
20. A According to Eiteman and Storehill, Expropriation is defined as the official seizure of foreign property by a host country whose intention is to use the seized property in the public interest. In Expropriation, there will be some compensation, though not necessarily adequate. Hence, from above discussion, we can infer that option (a) is not true regarding Expropriation. All other options are true regarding Expropriation.
21. D High per capita income and high standard of living are notable features of a developed economy.
22. D Factors such as random variations in trade, the effects of the weather on agricultural production, seasonal fluctuations etc. cause a temporary disequilibrium in a country's balance of payments while a chronic or fundamental disequilibrium is caused by technological changes in the methods of production, changes in consumer tastes within a country or abroad, change in the country's national income, inflation etc.
23. E Current Account of Balance of Payments consists of international dealings in goods (visible trade) and services (invisible trade). A deficit on the Current Account means that more goods and services have been imported than have been exported. Hence, from above discussion, we can infer that option (e) is false with respect to Current Account of Balance of Payments. All other options are true regarding Current Account of Balance of Payments.
24. C Mutual funds mobilize funds from various categories of investors and channel them into productive investments. The disadvantage is that investors cannot choose the securities they want to invest in, or the securities they want to sell. Hence, from above discussion, we can infer that option (c) is not an advantage of mutual funds. All other options are advantages of mutual funds.
25. A A mutual fund whose objective is to generate capital gains rather than current income for the investors is referred to as Growth fund.
26. C According to the section 45-1(bb) 1 of the RBI Act Public Deposits are referred as 'money received by the way of deposits or loan or in any other form excluding certain specified items'.

27. E There are three primary characteristics of Venture Capital funds which make them eminently suitable as a source of risk finance. The three primary characteristics being: Equity or quasi-equity investment, long-term investment and an active form of investment.
28. C Income distribution focuses on differences in economic well being of different groups in the population. Income distribution implies the proportion of total household money income as received by households in low, middle, and high-income groups. A large disparity in income distribution suggests a society that is divided into "have" and "have-not" which raises both economic and social concern.
29. B Commission Agents are agents who sell goods on behalf of the principal. Commission agents take possession of the goods and arrange for their proper storage. They are paid a commission at a certain percentage on the sale effected by them. They some times agree to sell the goods on credit and assume the risk of collecting the amount. A special commission called 'delcredere' is paid to them in such cases for assuming the risk of bad debts. Such agents are called 'delcredere' agents.
30. C In Licensing, a firm, called the licensor, sells the right to use its intellectual property - technology, patents, copyrights, work methods, brand names, or trademarks- to another firm, called the licensee, in return for a fee.
- Licensing is accompanied by opportunity costs. The market opportunities for both parties are restricted as a result of licensing agreements.
- Hence, from above discussion, we can infer that option (c) is not true regarding Licensing as a strategy for entering into foreign markets.
- All other options are true regarding Licensing as a strategy for entering into foreign markets.
31. C Liberalization is the process of breaking down governmental and artificial barriers in International trade and investment. It is the process of permitting more Firms access to the market, with the intent of enhancing competition.
32. C The French government prohibited the imports of Beef-related products from Russia; as a result there was a decline in the sales of meat varieties in the French market. The privilege of giving rights to import such products is termed as import restrictions and this step is initiated to regulate the foreign exchange difficulties and to divert the foreign exchange reserves could be released for the import of capital goods and other essential items. (a) Import licensing is enforced to control the unnecessary purchase of goods from other countries. (b) Import tariff is a tax levied on goods as they enter a country. (d) A tariff is a tax that a government levies on exports and imports, and tax associated with imports is called import duty. (e) By Import substitution we mean that a country should promote and protect those local industries that compete directly with imports in order to minimize balance of payment deficits.
33. D "Expropriation", which is a political risk is a similar to Confiscation but differs with regard to compensation. In expropriation, there will be some compensation, though not necessarily adequate. Thus other alternatives are incorrect.
34. C Franchising is a special form of licensing. Franchising allows the licensor more control over the licensee and provides for support from the licensor to the licensee.
35. E Auctioneers and warehouse keepers have a lien on the goods for the charge payable to them.
36. B Mutual Insurance pools can be formed to insure select classes of exposure or a particular industry group to overcome the barriers to insurability. These insurers are presumed to be experts in underwriting.
37. B **Mutual insurance pools** are owned by a group of insurers who are experts in a particular technological area. These pools expect only those risks which meet the acceptable underwriting standards. All the insurers have vested interests in the financial operations of the pool.
- Assigned risk pools** are created by the government and they control costs through the reduced level of litigation and the ability of government to limit the awards for bodily injury claims. A major limitation of these pools in the past has been the severe underpricing of insurance. This has resulted in a large deficit, which was ultimately paid by taxpayers.
- Environmental trust funds** are financed through end-use taxes or broad-based taxes and they pay for the clean-up of hazardous sites on a no-fault basis when no single international polluter can be identified.
38. C The compensation paid under a licensing agreement termed as royalty.

39. C Deposits' are not considered as the assets in the balance sheet of a bank. They fall under liability category of the balance sheet. Deposits serve as a means of payment and as a medium of saving and are very important variable in the national economy.
40. E 'Maturity Intermediation' refers to the borrowing of relatively short-term funds from savers (who often cannot commit their funds over long periods) and making long –term loans to borrowers who require a long term commitment to funds.
41. A Restrictive trading laws are usually referred as non-tariff barriers in International trade. Many governments adopt such measures so as to restrict imports or artificially stimulate exports. The different type of non-tariff barriers are: Customs and entry procedures, standards, specific limitation, import charges and other measures such on voluntary export restraint, orderly marketing agreement etc.
42. E (a) The purpose of all government interventions is to maximize society's welfare. If resources are allocated among various users in a society in such a way that no one can be made better off without making someone else worse off, then a such a society is called a 'pareto efficient' economy.  
 (b) If resources can be reallocated in such a way that it makes at least one person better off without making anyone else worse off, then there is scope for 'pareto improvement'.  
 (c) Society may not necessarily prefer a 'pareto efficient' allocation of its resources.  
 (d) Markets are not completely efficient.  
 (e) Markets are generally characterized by imperfect competition.
43. C Intellectual Property Rights broadly include patents, trademarks, copyrights and trade secrets. Unauthorized commercial exploitation of ideas that are translated into tangible products, writings and so on are protected by the State under Intellectual Property Rights.
44. D Subsidy constitutes 'reverse tariff'. Many countries provide a subsidy for local manufacturers to export abroad. A subsidy may also be provided to local products to make them competitive against imports. While Export and Import incentives are not necessarily in monetary form, Export and Import duties deliver only 'reverse' objectives of subsidy.
45. E Statements (I) and (III) are true regarding bribery, whereas statement (II) is false. A bribe reduces the freedom of choice by changing the condition under which a decision is made.
46. D Extraterritoriality refers to the state in which certain diplomatic organizations and people operating in a foreign country are exempted from the jurisdiction of the laws in that country. For instance, ambassadors, diplomatic agents, military bases, offices of the United Nations, etc. are some entities that are under the state of extraterritoriality.
47. E Mr. and Mrs. Joshi are going through dissolution, a stage in the traditional family life cycle in which the couples are either in the final years of employment or in retirement.
48. C Hello India Ltd., is a Multinational company which is an incorporated firm that has extensive involvement in international business, engages in foreign direct investment, and owns or controls value-adding activities in more than one country. (a) Domestic company is a company, which has business interests in the host country. (b) A firm operates in a foreign market, yet the focus is on domestic customer needs; such a firm is referred to as International company. (d) A Global company is one, in which competition within the industry crosses national borders. (e) A Multi-domestic company is one in which the competition within the industry is essentially segmented from country to country.
49. A The wholesaler represents the first link in the chain of intermediaries between the producer and the consumer. In some cases, the wholesaler also functions as an importer and exporter.
50. B When the host government takes over a foreign business but does not compensate the owners for their loss, the takeover is regarded as an act of confiscation.(a) Expropriation is the official seizure of foreign property by a host country whose intention is to use the seized property in the public interest.(c) Nationalization refers to a transfer of the entire industry within that country from private to public ownership, with no discrimination as to foreign or local ownership.(d) Socialization refers to a transfer of all the industries within the country.(e) Domestication is a process by which controls and restrictions placed on the foreign firms gradually reduce the control of the owners.

51. D According to Section 10 of the Indian Contract Act, 1872, “All agreements are contracts if they are made by the free consent of parties competent to contract for a lawful consideration and with a lawful object and are not hereby expressly declared to be void”. The validity of a contract under the Indian Contract Act, 1872 is not affected by lawful object. Hence, option ‘D’ is correct answer.
52. E A counter offer is a situation wherein the offeree attempts to change the terms of the offer initially made by the offeror. A counter offer implies rejection of the original offer. Hence, option ‘E’ is correct answer.
53. B Consideration may be of three kinds, viz. past consideration, executed or present consideration and executory or future consideration.  
Present consideration is an act or forbearance made or suffered or done in return for a positive promise. In this case the promisor receives consideration simultaneously with his promise. For example, in a sale by cash, consideration is present or executed. Present consideration is also known as executed consideration. Hence, option ‘B’ is correct answer.
54. B Section 11 of the Indian Contract Act, 1872 explains that “Every person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of unsound mind, and is not disqualified from contracting by any law to which he is subject.” Therefore, a person who has not attained the age of majority, a person who is considered as an alien enemy, a person who is adjudged insolvent and a convict are disqualified to enter into a contract. A person with a sound mind can enter into valid contracts. Hence, option ‘B’ is correct answer.
55. B Under the Contract Act, the use of a fiduciary relationship of trust and confidence by one party to exploit the other party to derive some contractual advantage is said to amount to undue influence. Hence, option ‘B’ is the correct answer.
56. E An agreement is voidable at the option of the party whose consent has been obtained by coercion, undue influence, fraud or misrepresentation. If the agreement is induced by bilateral mistake, the agreement is void. Hence, option ‘E’ is correct answer.
57. D When a contract is breached by one party, the other party may sue to treat the contract as rescinded and refuse further performance. The aggrieved party may need to approach the Court to grant him cancellation of the contract. Hence, option ‘D’ is correct answer.
58. B
- Unless specifically provided in the contract, the surety continues to be liable upon the death of the principal debtor.
  - The liability of the surety is coextensive with that of the principal debtor.
  - If there is no existing liability, there cannot be a guarantee. Therefore, if the debt to be guaranteed is already time barred, guarantee given will not be valid and the surety will be discharged from his liability.
  - The surety may limit his liability to a part of the entire debt.
  - The death of the surety terminates his guarantee as to future transactions in the absence of a contract to the contrary. His estate is, however bound to all transactions entered into before the death of the surety.
- Hence, option ‘B’ is correct answer.
59. E Duties of an agent include the following:
- An agent can not delegate his authority to a sub-agent.
  - No consideration is necessary to create an agency.
  - An agent should protect and preserve the interests of the principal in case of his death or insolvency.
  - An agent must not use confidential information entrusted to him by his principal for his own benefit or against the principal.
  - An agent should not set up an adverse title to the goods which he receives from the principal as an agent,
- Hence, ‘E’ is correct answer.

60. B
- A commission agent is one who buys or sells goods for his principal on terms as he thinks fit and receives commission for such work done.
  - A factor is a mercantile agent to whom goods are entrusted for sale with wide discretionary powers. He may sell such goods on his own name and may the pledge the goods on such terms as he thinks fit.
  - A mercantile agent who is employed to negotiate and make contracts for the purchase and sale of goods without control or possession of goods is known as broker.
  - A mercantile agent entrusted with the possession of the goods for sale to the highest bidder in competition and authorized only to deliver the goods on receipt of the price is known as an auctioneer.
  - A mercantile agent who for additional consideration from his principal, undertakes to perform the financial obligations of such third person in case such third person fails to fulfill the same, is known as del credere agent.

Hence, option 'B' is correct answer.

61. B
- The bank in the exporter country which forwards the Letter of Credit to the beneficiary or the exporter is called as the advising bank.
- The bank which opens a Letter of Credit on the request of the applicant or buyer is referred to as an Issuing/Operating/Importer's bank
- The bank in the beneficiary or exporter country which makes payment on the bills drawn by the seller and accepts the documents is called as a Negotiating Bank.
- Where the advising bank in addition to advising credit to the beneficiary confirms such credit, such an advising bank shall be deemed as a Confirming Bank.
- The bank appointed by the issuing bank to reimburse the Negotiating, Paying or Confirming Bank is known as Reimbursing Bank.

Hence, option 'B' is correct answer.

62. A
- Under the Indian Stamps Act, 1899,
- Revenue stamps: Documents like demand promissory notes, cash receipts, acknowledgement of debt should be stamped with adhesive revenue stamps of appropriate value before execution.
- Special adhesive stamps: printed agreements/Xerox copies of printed blank documents should be affixed with special adhesive stamps. These stamps are cancelled by appropriate authority before execution of documents.
- Embossed/Engraved Stamps: Stamps can also be embossed or engraved by the stamps authorities on banks' standard forms.
- Non-judicial stamp paper: Non-judicial stamp paper carries the stamp duty embossed on the paper itself and as such stamped paper of requisite value may be purchased from local stamp vendors.

Hence, option 'A' is correct answer. [Page 85 and Q23 – 0109]

63. B
- Characteristic features of a limited company registered under the Companies Act, 1956:
- Independent corporate entity
  - Limited liability
  - Separate property
  - Perpetual succession
  - Transferability of interest
  - Can sue and be sued.

Hence, option 'B' is correct answer.

64. A The following points may be noted in respect of a private limited company:  
Free transferability of shares is restricted.  
A private company may issue debentures to any number of persons.  
In case of expansion of capital, the shares of a private company need not be first offered to the existing shareholders.  
A private company need not have more than two directors.  
A private company need not file a statutory report.  
Hence, option 'A' is correct answer.
65. E The Articles of Association generally contain the following matters:
- Borrowing powers
  - Adoption of preliminary contracts
  - Accounts and audit
  - Winding up.
- Situation of Registered office is contained in the Registered Office clause of the Memorandum of Association of a company. Hence, option 'E' is correct answer.
66. B A purported activity beyond the powers of the company will be ineffective even if ratified by all the members of the company. This rule is commonly known as 'doctrine of ultra vires'. Hence, option 'B' is correct answer.
67. C The following persons will be held liable under Section 62 in case a subscriber has sustained loss because of an untrue statement in the prospectus:  
Every person who is a director of the company at the time of issue of prospectus.  
Every person who has authorized himself to be named and is named in the prospectus as a director, or as one having agreed to become a director, either immediately or after an interval of time.  
Every promoter of the company.  
Every person (including an expert) who has authorized the issue of the prospectus.  
A person who was appointed as a director of the company after the issue of prospectus cannot be held liable for misstatements in the prospectus. Hence, option 'C' is correct answer.
68. C A company is allowed to capitalize profits by issuing fully paid up shares to the members thereby transferring the sums capitalized from the profit and loss account or reserve account to the Share Capital. Such shares are known as bonus shares and are issued to the existing members of the company free of charge. Bonus shares are also called as 'capitalization shares'. Hence, option 'C' is correct answer.
69. E A transfer is complete between the transferor and the transferee when the transfer deed is executed and share certificates are handed over to the transferee. However, as between the company and the transferee, it is complete, only when the transfer is registered in the Company's register. Hence, option 'E' is correct answer.
70. C A director will have to take up qualification shares only if required by the Articles of Association. According to Section 270, if the articles require a director to take up qualification shares, then such a person to be eligible to act as a director must acquire such qualification shares within two months of his appointment as director. On the expiry of two months, he automatically vacates his office if he has failed to acquire these shares. Hence, option 'C' is correct answer.
71. E Section 165 of the Companies Act, 1956 lays down that every company limited by shares and every company limited by guarantee and having a share capital, shall, within a period of not less than one month nor more than six months from the date at which the company is entitled to commence business hold a general meeting of the members of the company, which shall be called 'statutory meeting'. This is the first meeting of the shareholders of a public company and there would be only one such meeting in the lifetime of the company. Hence, option 'E' is correct answer.
72. C Salary is taxable on due or receipt basis whichever is earlier – Basis of charge in respect of salary income is fixed by section 15. Salary is chargeable to tax either on due basis or on receipt basis, whichever matures earlier. Hence, option 'C' is correct answer.

73. E Interest on loan taken by the owner for carrying out repairs is allowed as a deduction in the computation of income from let out house property. Hence, option 'E' is correct answer.
74. E Contribution to non-statutory funds is not allowed as a deduction in the computation of income under the head 'Business or Profession'. Expenditure on scientific research, expenditure on acquisition of patent rights and copyrights, expenditure on knowhow and amortization of telecom licence fees are allowed as deductions. Hence, option 'E' is correct answer.
75. A The term 'Capital Asset' does not include the following:
- Any stock-in-trade, consumable stores or raw materials held for the purpose of business or profession;
  - Personal effects of the assessee, that is movable property including wearing apparel, furniture and jewellery held for personal use or for the use of any member of his family dependent upon him;
  - Agricultural land in India provided it is not situated in any area within the jurisdiction of a municipality or a cantonment board, having a population of 10,000 or more or in any notified area;
  - 6.5 percent Gold Bonds, 1977 or 7 percent Gold Bonds, 1980 or National Defence Gold Bonds, 1980 issued by the Central Government; and
  - Special Bearer Bonds 1991.
  - Gold Deposit Bonds issued under Gold Deposit Scheme, 1999.
- The goodwill of a business is capital asset and any excess realized over its book value would be a capital gain chargeable to tax, right to subscribe to shares, partner's share in a firm, leasehold in mines and license to manufacture an item, dealership rights, right of tenancy under Tenancy Act, a right to obtain conveyance of an immovable property, a business undertaking, and route permits are included as Capital Assets.
- Hence option 'A' is the correct answer.
76. D The aggregate amount of deduction under section 80C, 80CCC and 80CCD of the Income Tax Act, 1961 in respect of the assessment year 2010-11 cannot exceed Rs.1,00,000.
77. A The CENVAT scheme is principally based on the system of granting credit of duty paid on inputs and input services. Hence, option 'A' is correct answer.
78. A Additional Customs Duty is often called 'Countervailing Duty (CVD). This duty is imposed when excisable articles are imported, in order to counterbalance the excise duty, which is leviable on similar goods if manufactured within the State (India). Hence, option 'A' is correct answer.
79. B Small units whose turnover is less than Rs.10 lakhs are exempt from service tax with effect from 1-4-2008. The exemption limit was Rs.4 lakhs upto 31-3-2007 and Rs.8 lakhs upto 31-3-2008. Hence, option 'B' is correct answer.
80. D Goods damaged in transit are not eligible for Input Tax Credit. Resale by the registered dealer within the State, Use as inputs in the manufacturing of goods in the State, Use as capital goods in the manufacture of taxable goods and Sale of goods subject to levy of tax at zero rate under Section 18 are purchases eligible for Input Tax Credit. Hence, option 'D' is correct answer.
81. E A contract is the result of a promise to do a certain thing in exchange for a promise from another person. Non-business, religious or charitable agreements need not be contracts. Casual agreements between friends and family or household agreements are not held as contracts.
- Therefore, in the given instance, there is no valid contract as it is a casual agreement between friends. Hence, option 'E' is correct answer.
82. D Section 10 of the Indian Contract Act, 1872, lays down that the contracting parties should be competent to contract. Section 11 states that every person is competent to contract who is of the age of majority according to the law to which he is subject and who is of sound mind and is not disqualified from contracting by any law to which he is subject. In the landmark case of Mohiri Bibi vs. Dharmodas Ghose, the Privy Council ruled that the minor's contract was void ab initio.
- Therefore in the given instance, Shweta can raise the plea of minority and she need not repay any amount to Narayan as a contract with a minor is void ab initio. Hence, option 'D' is correct answer.

- 83.** D Any act of the creditor which by implication releases the principal debtor from liability, will discharge the surety from his liability.
- The facts of the given instance are similar to the decided case of Hewison vs Rickets, wherein goods were given on hire purchase basis. The payment of the installments was guaranteed by a third person. When the debtor failed to make payment, the creditor determined the agreement, seized the goods and sued the surety on his guarantee. It was held that as the creditor had determined the agreement, the surety cannot be held liable.
- Therefore, in the given case, Rudrapratap cannot be held liable as a surety as the hire purchase agreement was terminated and the lorry was seized by Sana Automobiles. Hence, option 'D' is correct answer.
- 84.** A The agent's relationship with the principal is fiduciary in nature. That means he shall perform his agency work in absolute good faith and thereby shall not make any secret profit out of his agency business. Secret profit means any advantage obtained by the agent over and above his agreed remuneration in the course of his agency business.
- An agent must not make any secret profit from the agency. He must disclose any extra profit he may make.
- Therefore, in the instant case, Dilip is liable to return the entire amount of Rs.40,000 to Santosh as he must not make any secret profit from the agency. Hence, option 'A' is correct answer.
- 85.** C The facts of the given instance are similar to the decided case Jyoti Limited vs. Kanwaljit Kaur Bhasin, wherein a firm of two partners agreed to sell two floors in a building to certain parties but cancelled the agreement. Litigation followed and the High Court restrained the firm from selling the property to any other party. In the meantime, a private company was floated by these two partners who being the only two shareholders became the Chairman and Managing Director respectively and the property was transferred to the company. The company sold off the two floors and the partners of the firm took the plea that the sale had been made by the company and therefore the firm had not disobeyed the court's order. The court lifted the corporate veil and proceeded against the two partners on the assumption that no company had existed.
- Therefore, in the given instance, the transfer of the land by the company is in not in order as the company was formed only to avoid the personal legal obligations of the owners. Hence, option 'C' is correct answer.
- 86.** C Section 283 (g) states that the office of a director will be vacated if the director absents himself from three consecutive meetings of the Board or from all meetings of the Board for a period of three consecutive months, whichever is longer, without obtaining the leave of absence of the Board.
- Therefore, in the given instance, the office of a director shall become automatically vacant for the reason of failure to attend Board meetings when Gautam does not attend more than three consecutive meetings held during a quarter, without obtaining leave of absence. Hence, option 'C' is correct answer.
- 87.** E A member of a company entitled to attend and vote at a meeting may vote either in person or by proxy. A proxy has no right to participate in the discussions in the meeting. A proxy can vote only on a poll.
- Therefore, in the given instance, Mahesh being the proxy can only vote on poll but he cannot participate in a discussion in the meeting and vote by show of hands. Hence, option 'E' is correct answer.

88. A Computation of tax liability of Mrs. Swati for the assessment year 2010-11

Particulars	Rs.
Up to Rs.1,90,000	Nil
10% on income up to Rs.3,00,000 (Rs.3,00,000 – Rs. 1,90,000)	11,000
20% on Rs.1,50,000 (Rs.4,50,000 – Rs.3,00,000)	30,000
	41,000
Add: Surcharge	Nil
	41,000
Add: Education Cess (2% of Rs.41,000)	820
Add: SCHE Cess (1% of Rs.41,000)	410
<b>Total tax liability</b>	<b>42,230</b>

89. E Computation of tax liability of Income from house property of Mr. Subrahmanyam for the assessment year 2010-11

Particulars	Rs.	Rs.
Gross Annual Value		1,92,000
Less: Municipal Taxes paid		12,000
Net Annual Value		1,80,000
Less: Deductions:		
Standard Deduction (20% of Rs.1,80,000)	36,000	
Interest of borrowed capital	96,000	1,32,000
<b>Income from House Property</b>		<b>48,000</b>

90. C Calculation of net wealth of Periyar Alloys Ltd., as on March 31, 2010

Assets	Rs.	Rs.
Land (within 5 km of Chennai)	75,00,000	
Land in urban area (Since construction is not permitted)	Nil	
Motor cars	32,00,000	1,07,00,000
Less:		
Loan taken for acquisition of land (within 5 km of Chennai)	15,00,000	
Loan taken for acquisition of land in urban area	Nil	
Loan taken for purchase of Cars	12,00,000	27,00,000
<b>Net wealth</b>		<b>80,00,000</b>