Skillshort

Self-Study Preparation Pack

CMA INTERMEDIATE

Paper 5: Business Laws and Ethics (BLE)

Mock Test 1 – Full Paper with Model Answers

ICMAI Syllabus 2022 pattern: 100 marks · 3 hours · Section A – 15 MCQs × 2 (compulsory) · Section B – any 5 of Q2–Q8 (14 marks each) · Original Skillshort questions · Law as amended to 31 May 2026

Time: 3 hours | Max marks: 100 | No negative marking | Model answers follow the paper

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Section A – Multiple Choice Questions (30 marks)

Q1. Choose the correct option (2 × 15 = 30).

1. The writ issued by a court to an authority to perform a public duty it has failed to perform is

(a) Habeas corpus
(b) Mandamus
(c) Certiorari
(d) Quo warranto

2. An award of a Lok Adalat is

(a) Appealable to the High Court
(b) Final and binding, with no appeal
(c) Advisory only
(d) Binding only if registered

3. A agrees to pay B ₹50,000 if B's ship returns safely to Mumbai. The ship sinks. The contract is

(a) Void from the beginning
(b) A contingent contract that becomes void
(c) A wagering agreement
(d) Voidable at B's option

4. A surety is discharged when the creditor, without the surety's consent, makes a variance in the terms of the contract. This is provided in

(a) Section 133
(b) Section 140
(c) Section 145
(d) Section 128

5. A finder of goods is, in law, treated as a

(a) Owner
(b) Bailee
(c) Agent
(d) Pledgee

6. In an auction sale, the sale is complete when

(a) The goods are delivered
(b) The auctioneer announces completion by the fall of the hammer
(c) The price is paid
(d) The reserve price is reached

7. A cheque bearing two parallel transverse lines with the words "A/c Payee" is

(a) Generally crossed only
(b) Specially crossed
(c) Restrictively crossed (account payee)
(d) Not crossed

8. Under the LLP Act, 2008, the minimum number of designated partners is

(a) One
(b) Two, at least one resident in India
(c) Three
(d) Two, both resident in India

9. Under the Factories Act, 1948, a creche must be provided where the number of women workers ordinarily employed exceeds

(a) 20
(b) 30
(c) 50
(d) 100

10. Gratuity of an employee who dies after 3 years of service is

(a) Not payable – 5 years' service needed
(b) Payable to his nominee or heirs
(c) Payable only if he was disabled
(d) Forfeited

11. Under the Companies Act, 2013, a director who absents himself from all Board meetings held during a period of 12 months

(a) Is liable to a fine only
(b) Vacates office only if he did not obtain leave
(c) Vacates office, with or without leave of absence
(d) Must be removed by members

12. The minimum gap between two consecutive Board meetings of a public company must not exceed

(a) 90 days (b) 120 days
(c) 180 days (d) 60 days

13. Which of the following is NOT a Key Managerial Personnel under s. 2(51)?

(a) Chief Financial Officer (b) Company Secretary
(c) Independent Director (d) Whole-time Director

14. Which of the seven Nolan principles requires holders of public office to act impartially and on merit?

(a) Selflessness (b) Objectivity
(c) Openness (d) Leadership

15. The component of emotional intelligence that means "understanding the feelings and viewpoints of others" is

(a) Self-awareness (b) Self-regulation
(c) Empathy (d) Motivation

Section A – Answer key with reasons

Q	Ans	Explanation / working
1	(b)	**Mandamus** ("we command") directs a public authority to do its duty; habeas corpus is for unlawful detention; certiorari quashes an order of a lower court; quo warranto questions the right to hold a public office.
2	(b)	Under the Legal Services Authorities Act, 1987, a Lok Adalat award is **final and binding**; no appeal lies against it.
3	(b)	It is a **contingent contract** (s. 31); when the event becomes impossible, the contract becomes **void** (s. 32).
4	(a)	**s. 133** – any variance in terms made without the surety's consent discharges him as to transactions after the variance.
5	(b)	s. 71 – a person who finds goods belonging to another and takes them into his custody has the **same responsibility as a bailee**.
6	(b)	s. 64(2) – the sale is complete on the **fall of the hammer** or other customary manner; until then a bid may be retracted.
7	(c)	"Account payee" is a **restrictive crossing** – the bank must credit the proceeds only to the payee's account.
8	(b)	s. 7 – at least **two designated partners** who are individuals, at least **one resident in India**.
9	(b)	s. 48 – more than **30 women workers**.
10	(b)	The 5-year condition does **not** apply on **death or disablement** (s. 4(1) proviso); gratuity is paid to the nominee or heirs.
11	(c)	s. 167(1)(b) – the office becomes vacant if he absents himself from all meetings for 12 months **with or without leave**.
12	(b)	s. 173(1) – not more than **120 days** between two consecutive meetings, and at least four meetings a year.
13	(c)	An **independent director** is a non-executive director, not a KMP.
14	(b)	**Objectivity** – decisions impartially, fairly and on merit, using the best evidence.
15	(c)	**Empathy** in Goleman's model.

Section B – Descriptive Questions (70 marks)

Answer any FIVE questions from Q2 to Q8. Each question carries 14 marks.

Q2 (a) (7 marks). "All contracts are agreements, but all agreements are not contracts." Explain with reference to the essentials of a valid contract under the Indian Contract Act, 1872.

(b) (7 marks). Distinguish between a contract of indemnity and a contract of guarantee.

Q3 (a) (7 marks). Explain the rights of an unpaid seller against the goods under the Sale of Goods Act, 1930.

(b) (7 marks). Explain the provisions of Section 138 of the Negotiable Instruments Act, 1881 relating to dishonour of cheques, including the procedure and penalty.

Q4 (a) (7 marks). Discuss the provisions of the Factories Act, 1948 regarding the working hours of adult workers.

(b) (7 marks). Mr. Kapoor, employed in a factory, resigned after 16 years and 8 months of service. His last drawn basic pay and DA was ₹39,000 per month. Is he entitled to gratuity? Compute the amount and state when it must be paid.

Q5 (a) (7 marks). State the disqualifications for appointment as a director under Section 164 of the Companies Act, 2013.

(b) (7 marks). Discuss the conditions for buy-back of shares under Section 68 of the Companies Act, 2013.

Q6 (a) (7 marks). Explain the powers of the Board that can be exercised only by means of resolutions passed at meetings of the Board.

(b) (7 marks). Explain the functions of the audit committee under Section 177 of the Companies Act, 2013.

Q7 (a) (7 marks). Explain the "Seven Principles of Public Life".

(b) (7 marks). What is emotional intelligence? Explain its components and its importance at the workplace.

Q8 (a) (7 marks). Ramesh delivered his laptop to Suresh for safe keeping while he went abroad for two months, on the condition that Suresh would not use it. Suresh used it for his office work, and one day the laptop was damaged by a sudden power surge although Suresh had used a good surge protector. Ramesh claims compensation. Suresh argues that the damage was accidental and he was not negligent. Decide.

(b) (7 marks). The members of Neptune Ltd. passed an ordinary resolution at an EGM to remove Mr. Dutt, a director, before the expiry of his term. No special notice was given and Mr. Dutt was not given a chance to be heard. At the same meeting Mr. Iyer was appointed in his place. Examine the validity of the removal and of Mr. Iyer's appointment.

Model Answers – Section B

SOLUTION Q2(a) Agreement and contract

s. 2(h): a contract is an **agreement enforceable by law**. Every contract begins as an agreement (s. 2(e) – a promise or set of promises forming consideration for each other), but an agreement becomes a contract only when it satisfies **s. 10**. So **all contracts are agreements, but not all agreements are contracts** – social and domestic agreements, and agreements without the essentials, are not enforceable.

Essentials (s. 10 and related sections): (1) **offer and acceptance** – a lawful offer and its absolute acceptance; (2) **intention to create legal relations** (Balfour v Balfour – domestic arrangements are not contracts); (3) **lawful consideration** (s. 2(d), 23, 25); (4) **capacity** of parties – major, sound mind, not disqualified (s. 11, 12); (5) **free consent** – not caused by coercion, undue influence, fraud, misrepresentation or mistake (s. 13–22); (6) **lawful object** (s. 23); (7) **not expressly declared void** (s. 24–30, 56); (8) **certainty** and **possibility of performance** (s. 29, 56); (9) **legal formalities**, where required (writing, registration).

SOLUTION Q2(b) Indemnity vs guarantee

Basis	Indemnity (s. 124)	Guarantee (s. 126)
Parties	Two – indemnifier and indemnity holder	Three – surety, principal debtor and creditor
Number of contracts	One	Three (creditor–debtor, creditor–surety, surety–debtor)
Liability	**Primary** and original	**Secondary** – arises only on default of the principal debtor
Object	To protect against **loss**	To give **security** for a debt or performance
Existing debt	No existing debt needed	An existing or future debt or duty is assumed
Right of action	Indemnifier cannot sue third parties in his own name unless rights are assigned	Surety, on payment, is **subrogated** to the creditor's rights (s. 140)
Request	Need not be at the request of the indemnity holder	Given at the request of the principal debtor

SOLUTION Q3(a) Rights of an unpaid seller against the goods

An **unpaid seller (s. 45)** is one to whom the whole price has not been paid or tendered, or who received a bill or cheque that was dishonoured. Rights against the goods:

1. **Lien (s. 47–49)** – to retain the goods in his possession until paid, where goods are sold without credit, the credit has expired, or the buyer becomes insolvent. The lien is lost on delivery to a carrier without reserving the right of disposal, when the buyer lawfully obtains possession, or by waiver.
2. **Stoppage in transit (s. 50–52)** – when the **buyer becomes insolvent**, the seller may resume possession while the goods are in the hands of a carrier; it ends when the buyer or his agent obtains delivery.
3. **Resale (s. 54)** – where goods are perishable, or the seller has given notice of his intention to resell and the buyer does not pay within a reasonable time, or the right is reserved in the contract. He may recover loss on resale from the buyer and keep any profit (if notice was given).
4. Where the property has **not passed**, a right of **withholding delivery** similar to lien and stoppage.

He also has rights against the buyer personally – suit for price (s. 55), damages for non-acceptance (s. 56), interest.

SOLUTION Q3(b) Dishonour of cheque – s. 138

Ingredients: (1) a cheque drawn on an account maintained by the drawer, (2) for discharge of a **legally enforceable debt or liability**, (3) presented within **3 months** of its date or its validity period, (4) returned unpaid for **insufficiency of funds** or because it exceeds the arrangement.

Procedure: the payee or holder in due course gives a **written notice** demanding payment within **30 days** of receiving information of dishonour; the drawer fails to pay within **15 days** of receiving the notice; a **complaint** is filed before a Metropolitan Magistrate or Judicial Magistrate First Class within **1 month** of the cause of action (delay may be condoned – s. 142).

Penalty: imprisonment up to **2 years**, or fine up to **twice the amount** of the cheque, or both. **s. 139** presumes the cheque was for a debt; **s. 143A** allows interim compensation up to **20%**; **s. 148** – appellate court may order deposit of at least 20% of the fine or compensation. The offence is compoundable (s. 147).

SOLUTION Q4(a) Working hours of adults – Factories Act

1. **Weekly hours (s. 51):** not more than **48 hours** in a week.
2. **Weekly holiday (s. 52):** first day of the week (or a substituted day); no worker to work more than 10 days without a holiday.
3. **Compensatory holidays (s. 53):** where a weekly holiday is lost, within the month or two months following.
4. **Daily hours (s. 54):** not more than **9 hours** a day.
5. **Intervals for rest (s. 55):** no period of work exceeds **5 hours** without a rest interval of at least **½ hour**.
6. **Spread-over (s. 56):** including rest intervals, not more than **10½ hours** a day.
7. **Night shifts (s. 57)**, prohibition of **overlapping shifts (s. 58)**; **extra wages for overtime (s. 59)** at **twice** the ordinary rate; no **double employment (s. 60)**; notice of periods of work displayed and register of adult workers kept (s. 61–62); restrictions on **women** – normally between 6 am and 7 pm (s. 66).

SOLUTION Q4(b) Gratuity – Mr. Kapoor

Provision: s. 4 – gratuity is payable on resignation after at least **5 years** of continuous service; 15 days' wages for every completed year or part exceeding **6 months**; monthly-rated: wages × 15 ÷ 26; ceiling ₹20 lakh.

Analysis: service 16 years 8 months → **17 years** (8 months > 6 months). Gratuity = 39,000 × 15 ÷ 26 × 17 = **₹3,82,500**.

Conclusion: he is entitled to **₹3,82,500**. The employer must determine and pay it within **30 days** from the date it becomes payable, failing which **simple interest** is payable (s. 7(3), 7(3A)).

SOLUTION Q5(a) Disqualifications – s. 164

s. 164(1): (1) unsound mind declared by a court; (2) undischarged insolvent; (3) application for adjudication as insolvent pending; (4) convicted and sentenced to imprisonment of at least 6 months and 5 years have not elapsed since expiry of sentence – if 7 years or more, disqualified permanently; (5) order of a court or Tribunal disqualifying him; (6) calls unpaid for 6 months; (7) convicted of an offence relating to related party transactions (s. 188) in the last 5 years; (8) no DIN; (9) holding directorships beyond the s. 165 limit.

s. 164(2): a director of a company that has not filed financial statements or annual returns for **3 continuous years**, or failed to repay deposits, redeem debentures, or pay interest/dividend for **one year**, is not eligible for re-appointment in that company or appointment in another company for **5 years**. **s. 164(3):** a private company may add disqualifications in its articles.

SOLUTION Q5(b) Buy-back – s. 68

1. **Authorised by articles**.
2. **Approval:** by **special resolution** (up to 25%); or by the **Board** if the buy-back is ≤ **10%** of paid-up equity capital + free reserves (no second Board-approved buy-back within 12 months).
3. **Limit:** ≤ **25%** of total paid-up capital + free reserves; for equity shares, ≤ 25% of the paid-up equity capital in a year.
4. **Debt–equity ratio** after buy-back not more than **2:1** (secured and unsecured debt to paid-up capital + free reserves).
5. Shares must be **fully paid-up**.
6. Sources: **free reserves, securities premium**, or proceeds of a **different** kind of shares; transfer the nominal value bought back from free reserves/premium to the **Capital Redemption Reserve** (s. 69).
7. **One year** gap from the previous buy-back offer; to be **completed within 12 months** of the resolution.
8. Declaration of solvency (SH-9) filed; bought-back shares **extinguished** within 7 days; no further issue of the same kind of shares within **6 months** (except bonus, conversion, ESOP etc.); register of buy-back kept; return in SH-11 within 30 days.
9. Prohibited where the company has defaulted in repaying deposits, debentures, preference shares, term loans or dividend (s. 70).

SOLUTION Q6(a) Powers exercisable only at Board meetings – s. 179(3)

(1) To make **calls** on shareholders for unpaid money; (2) to authorise **buy-back** under s. 68; (3) to **issue securities**, including debentures, in or outside India; (4) to **borrow monies**; (5) to **invest** the funds of the company; (6) to grant **loans** or give **guarantee or security** for loans; (7) to approve **financial statements** and the **Board's report**; (8) to **diversify** the business; (9) to approve **amalgamation, merger or reconstruction**; (10) to **take over** a company or acquire a controlling or substantial stake; and other prescribed matters (e.g., appointing internal auditors and the secretarial auditor) VERIFY. Powers in (4)–(6) may be delegated to a committee, MD, manager or principal officer within specified limits.

SOLUTION Q6(b) Audit committee – s. 177

Constitution: every listed public company and prescribed public companies; at least **3 directors**, with **independent directors in majority**; the majority including the chairperson must be able to read and understand financial statements.

Functions (terms of reference given by the Board): (1) recommend appointment, remuneration and terms of **auditors**; (2) review and monitor the auditor's **independence**, performance and effectiveness of audit; (3) **examine financial statements** and the auditor's report; (4) **approve or modify related party transactions**; (5) scrutinise **inter-corporate loans and investments**; (6) **valuation** of undertakings or assets where necessary; (7) evaluate **internal financial controls** and **risk management** systems; (8) monitor **end use of funds** raised through public offers.

Powers: call for comments of auditors on internal control; investigate any matter; obtain professional advice; access records. It operates the **vigil mechanism** (s. 177(9)–(10)) for directors and employees to report genuine concerns. Where the Board does not accept its recommendation, the reasons are disclosed in the Board's report.

SOLUTION Q7(a) Seven Principles of Public Life

Laid down by the **Nolan Committee** (UK, 1995): (1) **Selflessness** – act solely in the public interest; (2) **Integrity** – no obligations to outsiders that may influence work, no personal gain; (3) **Objectivity** – decide impartially and on merit; (4) **Accountability** – answer to the public and accept scrutiny; (5) **Openness** – act transparently, withhold information only for lawful reasons; (6) **Honesty** – be truthful; (7) **Leadership** – show these principles in one's own behaviour and challenge poor behaviour. They apply equally to professionals and business leaders.

SOLUTION Q7(b) Emotional intelligence

Meaning: the ability to recognise, understand and manage one's own emotions and to recognise and influence the emotions of others (Goleman).

Components: (1) self-awareness, (2) self-regulation, (3) motivation, (4) empathy, (5) social skills.

Importance at work: better **leadership** and team building; effective **communication** and conflict resolution; sound decisions under pressure; customer relationships; adaptability to change; lower stress and burnout; higher productivity and job satisfaction; ethical behaviour by resisting pressure. EI, unlike IQ, can be **developed** by training and feedback.

SOLUTION Q8(a) Unauthorised use by bailee

Provision: s. 154 – if a bailee makes any use of the goods **not according to the conditions** of the bailment, he is liable to compensate the bailor for **any damage** arising from that use. s. 153 – the bailment becomes voidable on an act inconsistent with its conditions. The duty of reasonable care under s. 151 is relevant only where the bailee uses the goods as authorised.

Analysis: the bailment was for **safe custody** with an express condition of no use. Suresh **used** the laptop in breach of that condition, and the damage arose during that use. His care (surge protector) does not help, because liability under s. 154 is **strict** for unauthorised use.

Conclusion: Suresh is **liable** to compensate Ramesh for the damage.

SOLUTION Q8(b) Removal of a director

Provision: s. 169 – a director (other than one appointed by the Tribunal u/s 242) may be removed by an **ordinary resolution** before the expiry of his term, after giving him a **reasonable opportunity of being heard**. **Special notice** (s. 115) of the resolution is required – given by members holding at least 1% of voting power or shares with paid-up value of ₹5 lakh VERIFY, at least **14 days** before the meeting. The director may make a written **representation**, which is circulated or read out. A vacancy may be filled at the same meeting (s. 169(5)) if special notice of the intended appointment was also given; the new director holds office only until the removed director's term would have ended.

Analysis: no special notice was given and Mr. Dutt was not heard – both are **mandatory** conditions.

Conclusion: the removal is **invalid**, and Mr. Iyer's appointment, which depends on a valid vacancy, is also **invalid**. The company must follow s. 115 and s. 169 afresh.