Skillshort

Self-Study Preparation Pack

CMA INTERMEDIATE

Paper 5: Business Laws and Ethics (BLE)

Mock Test 2 – 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

Contents

Section A – Multiple Choice Questions (30 marks) 2

Section B – Descriptive Questions (70 marks) 4

Model Answers – Section B 5

This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

3 Past papers: trends & links

4 Mock tests + solutions

5 Chapter practice questions

6 Last-week plan & strategy

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. Under the Constitution of India, a Money Bill can be introduced only in

(a) The Rajya Sabha
(b) The Lok Sabha
(c) A joint sitting
(d) Either House

2. The maxim "nemo dat quod non habet" means

(a) Let the buyer beware
(b) No one can give a better title than he himself has
(c) Ignorance of law is no excuse
(d) As much as is earned

3. An agreement in restraint of trade is void under

(a) Section 26
(b) Section 27
(c) Section 28
(d) Section 30

4. A minor's agreement is

(a) Voidable at the minor's option
(b) Void ab initio
(c) Valid if beneficial
(d) Valid if ratified on majority

5. Where goods are delivered to a buyer "on approval", the property passes to the buyer when he

(a) Receives the goods
(b) Signifies approval or retains the goods beyond the fixed time without rejection
(c) Pays the price
(d) Uses the goods once

6. An instrument that is drawn in India on a person resident in India is

(a) A foreign instrument
(b) An inland instrument
(c) An ambiguous instrument
(d) An inchoate instrument

7. A partnership formed for a particular venture comes to an end on completion of the venture. Such dissolution is under

(a) Section 40
(b) Section 42
(c) Section 44
(d) Section 43

8. Under the LLP Act, if an act is carried out with intent to defraud creditors, the liability of the LLP and the partners concerned is

(a) Limited to contribution
(b) Unlimited
(c) Limited to twice the contribution
(d) Nil

9. Under the ESI Act, 1948, the employer's rate of contribution is

(a) 0.75% of wages
(b) 3.25% of wages
(c) 4.75% of wages
(d) 12% of wages

10. Under the Code on Wages, 2019, total deductions from an employee's wages in a wage period cannot exceed

(a) 25%
(b) 40%
(c) 50%
(d) 75%

11. A small company under the Companies Act, 2013 (as amended up to 31 May 2026) is a private company with paid-up capital and turnover not exceeding

(a) ₹4 crore and ₹40 crore
(b) ₹10 crore and ₹100 crore
(c) ₹50 crore and ₹250 crore
(d) ₹2 crore and ₹20 crore

12. Bonus shares under Section 63 cannot be issued out of

(a) Free reserves
(b) Securities premium
(c) Capital redemption reserve
(d) Revaluation reserve

13. An additional director appointed by the Board holds office

(a) For 5 years
(b) Up to the date of the next annual general meeting
(c) Until removed by the Board
(d) For 3 months

14. The quorum for a Board meeting is

(a) One-third of total strength or 2 directors, whichever is higher
(b) Half of total strength
(c) 3 directors
(d) Two-thirds of total strength

15. Which of the following is a fundamental principle of the Code of Ethics for professional accountants?

(a) Profitability
(b) Confidentiality
(c) Market share
(d) Seniority

Section A – Answer key with reasons

Q	Ans	Explanation / working
1	(b)	Art. 109–110 – a Money Bill is introduced only in the **Lok Sabha**, on the President's recommendation.
2	(b)	It is the rule in s. 27 of the Sale of Goods Act.
3	(b)	**s. 27**, except the sale of goodwill with reasonable local limits.
4	(b)	**Mohori Bibee v Dharmodas Ghose** – an agreement with a minor is **void ab initio** and cannot be ratified.
5	(b)	s. 24 – on approval or acceptance, or retaining the goods beyond the time fixed (or a reasonable time) without giving notice of rejection.
6	(b)	s. 11 – an **inland instrument**.
7	(b)	**s. 42** – dissolution on the happening of certain contingencies, including completion of the venture.
8	(b)	**s. 30** – liability becomes **unlimited** for all debts and liabilities of the LLP.
9	(b)	Employer **3.25%**, employee 0.75% VERIFY.
10	(c)	Total deductions are limited to **50%** of wages.
11	(b)	Limits raised to **₹10 crore** and **₹100 crore** with effect from 1 December 2025.
12	(d)	s. 63(1) proviso – no bonus shares by **capitalising revaluation reserves**.
13	(b)	s. 161(1) – up to the next AGM or the last date on which it should have been held.
14	(a)	s. 174(1).
15	(b)	The five principles: integrity, objectivity, professional competence and due care, **confidentiality**, professional behaviour.

Section B – Descriptive Questions (70 marks)

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

Q2 (a) (7 marks). What is free consent? Explain coercion and undue influence and their effect on a contract.

(b) (7 marks). Explain the quasi-contracts recognised by the Indian Contract Act, 1872.

Q3 (a) (7 marks). Explain the circumstances in which a firm may be dissolved by the court under Section 44 of the Indian Partnership Act, 1932.

(b) (7 marks). Explain the different types of crossing of cheques.

Q4 (a) (7 marks). Explain the provisions of the Code on Wages, 2019 regarding the time limit for payment of wages and deductions from wages.

(b) (7 marks). Explain the benefits available to insured persons under the Employees' State Insurance Act, 1948.

Q5 (a) (7 marks). What is a private placement? Explain the conditions under Section 42 of the Companies Act, 2013.

(b) (7 marks). State the matters to be included in the Board's report under Section 134 of the Companies Act, 2013.

Q6 (a) (7 marks). Explain the duties of directors under Section 166 of the Companies Act, 2013.

(b) (7 marks). Which companies must appoint whole-time Key Managerial Personnel? Explain the provisions of Section 203.

Q7 (a) (7 marks). Distinguish between ethics and law.

(b) (7 marks). What is an ethical dilemma? Explain the steps a professional accountant should follow to resolve it.

Q8 (a) (7 marks). Mohan sold a painting to Sohan, a minor, for ₹80,000, and received a cheque signed by Sohan. The cheque was dishonoured. Mohan wants to sue Sohan for the price and also file a complaint under Section 138. Advise Mohan.

(b) (7 marks). Vega Ltd., a listed company, had its only woman director resign on 10 March 2026. The Board held its next meeting on 25 April 2026 but did not appoint a woman director. It appointed Ms. Rao as a woman director at the Board meeting held on 5 June 2026. Examine whether the company complied with the law.

Model Answers – Section B

SOLUTION Q2(a) Free consent; coercion and undue influence

Free consent (s. 13–14): two persons consent when they agree upon the same thing in the same sense; consent is **free** when not caused by coercion (s. 15), undue influence (s. 16), fraud (s. 17), misrepresentation (s. 18) or mistake (s. 20–22).

Coercion (s. 15): committing or threatening to commit an act forbidden by the **Indian Penal Code** (now Bharatiya Nyaya Sanhita), or unlawfully detaining or threatening to detain property, to the prejudice of any person, with the intention of causing a person to enter into an agreement. It may be by any person, against any person.

Undue influence (s. 16): where the relations between parties are such that one is in a position to **dominate the will** of the other and uses that position to obtain an **unfair advantage** – e.g., real or apparent authority (employer–employee), **fiduciary relation** (guardian–ward, doctor–patient, solicitor–client), or a person whose mental capacity is affected by age, illness or distress. Where the transaction appears unconscionable, the **burden of proof** is on the dominant party.

Effect: an agreement caused by coercion (s. 19) or undue influence (s. 19A) is **voidable** at the option of the party whose consent was so caused. Under s. 19A the court may set it aside absolutely or on terms. Money paid under coercion must be repaid (s. 72).

SOLUTION Q2(b) Quasi-contracts (s. 68–72)

Quasi-contracts are obligations imposed by law to prevent **unjust enrichment**, although there is no contract:

1. **s. 68 – necessaries supplied** to a person incapable of contracting (minor, lunatic) – the supplier is reimbursed from that person's **property**.
2. **s. 69 – payment by an interested person** of money another is bound by law to pay – he is entitled to be reimbursed.
3. **s. 70 – non-gratuitous act** – where a person lawfully does something or delivers something for another, not intending to do so gratuitously, and the other enjoys the benefit, the latter must compensate or restore it.
4. **s. 71 – finder of goods** – has the responsibility of a **bailee**.
5. **s. 72 – money paid or goods delivered by mistake or under coercion** – must be repaid or returned.

SOLUTION Q3(a) Dissolution by the court – s. 44

At the suit of a partner, the court may dissolve a firm on any of these grounds: (a) a partner has become of **unsound mind**; (b) a partner has become **permanently incapable** of performing his duties; (c) a partner is guilty of **conduct likely to affect prejudicially** the carrying on of the business; (d) a partner **wilfully or persistently commits breach** of agreements relating to management; (e) a partner has **transferred his whole interest** to a third party or allowed it to be sold for arrears; (f) the business **cannot be carried on save at a loss**; (g) any other ground on which the court considers it **just and equitable** to dissolve. Grounds (a) can be raised by any partner (including the next friend of the insane partner); grounds (b)–(d) by a partner other than the one at fault.

SOLUTION Q3(b) Crossing of cheques (s. 123–131)

1. **General crossing (s. 123):** two parallel transverse lines, with or without "& Co." or "not negotiable" – payment only through a **banker**.
2. **Special crossing (s. 124):** the **name of a banker** is added – payment only to that banker (or its agent for collection).
3. **Not negotiable crossing (s. 130):** the cheque remains transferable, but the transferee gets **no better title** than the transferor had.
4. **Account payee crossing** (restrictive, banking practice; recognised by RBI and s. 131 protection): the collecting banker must credit the proceeds **only to the payee's account**.
5. **Double crossing (s. 127):** a cheque specially crossed to two bankers is not paid unless the second banker is an agent for collection.

Who may cross (s. 125): the drawer; the holder (general to special, add "not negotiable"); the banker to whom it is specially crossed (to another banker as agent). The paying banker who pays contrary to the crossing is liable to the true owner (s. 129).

SOLUTION Q4(a) Payment of wages and deductions – Code on Wages

Time limit (s. 17): daily – at the end of the shift; weekly – on the last working day of the week; fortnightly – before the end of the **2nd day** after the fortnight; monthly – before the expiry of the **7th day** of the next month. On removal, dismissal, retrenchment or resignation – within **2 working days**. Wages are paid in current coin or currency notes, by cheque, or by crediting the bank account / electronic mode.

Deductions (s. 18): only authorised deductions – fines (s. 19), absence from duty, damage to or loss of goods entrusted, house accommodation and amenities provided by the employer, recovery of advances and loans, income tax, deductions under a court order, PF and ESI contributions, co-operative society and insurance payments, union subscriptions, and recovery of overpayments. Total deductions in a wage period must not exceed **50%** of wages.

SOLUTION Q4(b) ESI benefits (s. 46)

1. **Sickness benefit** – periodical cash payment during certified sickness.
2. **Maternity benefit** – periodical payment for confinement, miscarriage or sickness arising out of pregnancy.
3. **Disablement benefit** – for temporary or permanent disablement from **employment injury**.
4. **Dependants' benefit** – periodical payments to dependants of an insured person who dies from employment injury.
5. **Medical benefit** – medical treatment and attendance for insured persons and, where extended, their families.
6. **Funeral expenses** – to the dependant or person who performs the funeral.

Also unemployment allowance under the Rajiv Gandhi Shramik Kalyan Yojana / Atal Bimit Vyakti Kalyan Yojana VERIFY. Benefits are not assignable or attachable, and the insured person cannot receive two similar benefits for the same period (s. 65).

SOLUTION Q5(a) Private placement – s. 42

Meaning: any offer or invitation to subscribe or issue of securities to a **select group of persons** (other than by public offer) through a **private placement offer-cum-application letter (PAS-4)**.

Conditions: (1) offer to not more than **200 persons in a financial year** (excluding QIBs and employees under ESOP), each class of security counted separately; (2) approved by **special resolution** for each offer (for NCDs, once a year); (3) offer only to identified persons whose names are recorded (PAS-5); (4) money received only through **banking channels**, not cash; (5) **allotment within 60 days** of receipt of money, otherwise refund within 15 days, with interest at 12% p.a. thereafter; (6) money kept in a separate bank account; (7) no fresh offer until earlier allotments are completed or withdrawn; (8) no public advertisement or use of media; (9) return of allotment filed with the ROC (PAS-3) within 15 days; (10) minimum investment per person of ₹20,000 of face value VERIFY. Contravention: penalty up to the amount involved or ₹2 crore, whichever is lower, and refund within 30 days.

SOLUTION Q5(b) Board's report – s. 134(3)

The report includes: (a) web address of the **annual return**; (b) number of **Board meetings**; (c) **directors' responsibility statement**; (d) details of **frauds reported by auditors** (other than those reported to the Government); (e) statement of declaration by **independent directors**; (f) policy on directors' appointment and remuneration (where applicable); (g) explanations on every **qualification** by the statutory and secretarial auditors; (h) particulars of **loans, guarantees and investments** (s. 186); (i) **related party contracts** (AOC-2); (j) state of company affairs; (k) amount carried to **reserves**; (l) **dividend** recommended; (m) material changes after the balance sheet date; (n) **conservation of energy, technology absorption, foreign exchange** earnings and outgo; (o) **risk management** policy; (p) **CSR** policy and initiatives; (q) annual **evaluation** of the Board for listed and specified companies; (r) other prescribed matters (e.g., sexual-harassment complaints, maintenance of cost records). It is signed by the chairperson authorised by the Board, or by two directors (one being the MD).

SOLUTION Q6(a) Duties of directors – s. 166

1. Act in accordance with the **articles** of the company.
2. Act in **good faith** to promote the objects of the company for the benefit of its **members as a whole**, and in the best interests of the company, its employees, shareholders, the community and the **environment**.
3. Exercise duties with **due and reasonable care, skill and diligence** and exercise **independent judgement**.
4. Not be involved in a situation with a direct or indirect **conflict of interest** with the company.
5. Not achieve or attempt any **undue gain or advantage** for himself, relatives, partners or associates; if found guilty, pay an amount equal to the gain to the company.
6. Not **assign** his office; any assignment is void.

Contravention: fine of **₹1 lakh to ₹5 lakh**. Directors also act as **trustees** of the company's assets and as agents of the company.

SOLUTION Q6(b) Whole-time KMP – s. 203

Who: every **listed company** and every other **public company with paid-up share capital of ₹10 crore or more** (Rule 8).

KMP to be appointed: (i) MD or CEO or manager, and in their absence a whole-time director; (ii) **company secretary**; (iii) **CFO**. Appointed by a **Board resolution** containing terms and remuneration.

Other provisions: the same individual cannot be both chairperson and MD/CEO unless the articles provide or the company does not carry on multiple businesses VERIFY; a whole-time KMP shall not hold office in more than one company at a time except in a subsidiary (he may be a director of another company with the Board's permission); a **vacancy** in the office of whole-time KMP must be filled by the Board within **6 months**; a company with paid-up capital of ₹5 crore or more must have a whole-time company secretary VERIFY. Penalty: company ₹5 lakh; every defaulting director and KMP ₹50,000 plus ₹1,000 per day of continuing default (max ₹5 lakh).

SOLUTION Q7(a) Ethics vs law

Basis	Ethics	Law
Meaning	Moral principles of right and wrong	Rules made and enforced by the State
Source	Conscience, culture, religion, society	Legislature, courts, executive
Form	Mostly unwritten	Written and codified
Enforcement	Self-imposed; social approval or disapproval	Courts; penalties, fines, imprisonment
Standard	Higher – what ought to be done	Minimum acceptable behaviour
Scope	Covers private and public conduct	Covers only conduct that the law regulates
Change	Evolves gradually with values	By amendment or judicial decision

Relationship: law is largely codified ethics; ethics fills gaps in law. An act may be legal but unethical (exploiting loopholes) – a professional must follow both.

SOLUTION Q7(b) Ethical dilemma

Meaning: a situation in which a choice must be made between two or more courses of action, each of which conflicts with some ethical principle or interest (e.g., confidentiality to the employer vs duty to report fraud).

Steps: (1) establish the **facts** and identify affected **stakeholders**; (2) identify the **ethical issues** and fundamental principles at stake; (3) check the relevant **law, professional code** and organisational policies; (4) identify **internal procedures** (escalation to superiors, audit committee, whistle-blower mechanism); (5) develop **alternative courses** and evaluate their consequences; (6) **consult** – colleagues, the professional body, legal advisers; (7) choose the course consistent with the principles and **act**; (8) **document** the issue and the decision; (9) if the conflict cannot be resolved, **withdraw** from the engagement or resign.

SOLUTION Q8(a) Minor's agreement and cheque

Provision: s. 11 – a minor is not competent to contract; his agreement is **void ab initio** (Mohori Bibee v Dharmodas Ghose). s. 26 of the NI Act – a minor may draw, endorse, deliver and negotiate an instrument so as to bind all parties **except himself**. s. 138 requires the cheque to be for a **legally enforceable debt or liability**. Under s. 68, only for **necessaries** supplied to a minor can the supplier recover the price from the minor's **property**.

Analysis: a painting is not a necessary. The sale agreement is void, so no legally enforceable debt exists, and Sohan is not liable on the cheque.

Conclusion: Mohan **cannot** sue Sohan for the price and **cannot** file a complaint under s. 138. He may only seek restoration of the painting if it is still with Sohan, on equitable grounds.

SOLUTION Q8(b) Woman director vacancy

Provision: s. 149(1) proviso and Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 – every listed company must have at least one woman director. An intermittent vacancy must be filled **at the earliest but not later than the immediate next Board meeting or 3 months from the date of vacancy, whichever is later**.

Analysis: vacancy on 10 March 2026. Next Board meeting – 25 April 2026; 3 months from vacancy – **10 June 2026**. The **later** of the two is **10 June 2026**. Ms. Rao was appointed on 5 June 2026.

Conclusion: the appointment is within time – the company has **complied**. (Had the appointment been made after 10 June 2026, the company and its officers in default would be liable to penalty.)