Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 3: Setting up of Business, Industrial and Labour Laws (SBILL)

Mock Test 1 – Full Paper with Model Answers

ICSI Syllabus 2022 pattern: 100 marks · 3 hours (+15 minutes' reading) · Part I Setting up of Business (60 marks) Q1–Q4 · Part II Industrial and Labour Laws (40 marks) Q5–Q6 · all questions compulsory · internal choice in Q4/Q4A and Q6/Q6A · Original Skillshort questions, figures verified in Python · Laws as amended up to 31 May 2026

Time: 3 hours | Max marks: 100 | Answer ALL questions | 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 ICSI publication. Items marked VERIFY should be checked against the latest official material.

Question Paper

Answer ALL questions. Part II is to be answered under the Labour Codes in force from 21 November 2025, unless the question names another Act.

Part I – Setting up of Business (60 marks)

Q1 Case study. Meera and Arif, both living in Bengaluru, and Jason, a US citizen living in California, want to start "CrunchRoot", a business making and selling baked millet snacks. They expect to invest ₹1.8 crore in plant and machinery and reach a turnover of ₹9 crore in the second year. Jason will bring his share of capital from the US. They want limited liability but low compliance, and they may raise venture capital later.

(i) Advise whether they should form an LLP or a private limited company. **(3 marks)**

(ii) Can Jason be a partner and a designated partner of an LLP? **(3 marks)**

(iii) Can Jason invest in an LLP from abroad? Under which route? **(3 marks)**

(iv) In which MSME category will the unit fall, and how is it registered? **(3 marks)**

(v) What food-safety registration or licence does the unit need? **(3 marks)**

Q2 Answer the following (3 marks each):

(i) Velan Capital Pvt. Ltd. has financial assets equal to 55% of total assets and income from financial assets equal to 45% of gross income. Must it register with RBI as an NBFC?

(ii) An NBFC applicant has paid-up equity ₹8 crore, free reserves ₹3 crore, accumulated loss ₹0.5 crore, intangible assets ₹0.3 crore and investment in group companies ₹1.5 crore. Compute its Net Owned Fund. Does it meet a ₹10 crore requirement?

(iii) A German company with a profit record in each of the last three years but a net worth of USD 40,000 wants to open a liaison office in India. Is it eligible?

(iv) What is the maximum commission a foreman can take under the Chit Funds Act, 1982?

(v) How many persons are needed to register a society under the Societies Registration Act, 1860, and what documents are filed?

Q3 Answer the following (3 marks each):

(i) Distinguish a liaison office and a branch office of a foreign company.

(ii) Distinguish a One Person Company and a sole proprietorship.

(iii) Explain Udyam registration.

(iv) State three uses of a Special Purpose Vehicle.

(v) State the main features of a producer company.

Q4 Answer the following (3 marks each):

(i) State the conditions for recognition of an entity as a startup by DPIIT.

(ii) Explain the tax holiday under section 80-IAC of the Income-tax Act for startups.

(iii) Explain the procedure for conversion of a partnership firm into an LLP.

(iv) What is overseas direct investment, and what is the financial limit for an Indian entity?

(v) Explain registration under a Shops and Establishments Act.

OR Q4A Answer the following (3 marks each):

(i) State the functions of an Asset Reconstruction Company.

(ii) What activities can a payments bank undertake?

(iii) State the main features of a Nidhi company.

(iv) What is an NBFC–Micro Finance Institution?

(v) How is a multi-State co-operative society registered?

Part II – Industrial and Labour Laws (40 marks)

Q5 Case study. Shakti Castings Pvt. Ltd. runs a foundry in Pune using power. It directly employs 260 workers and engages another 60 workers through Rao Contractors for loading and cleaning. Mahesh, a moulder, earns ₹19,000 a month. Sunil, a fitter, leaves after 6 years and 8 months of continuous service; his last drawn monthly wages were ₹26,000.

(i) Is the unit a factory under the OSH Code, 2020? What are the obligations of the principal employer and the contractor regarding contract labour? **(5 marks)**

(ii) Are Mahesh and the unit covered by ESI and EPF? **(5 marks)**

(iii) Compute Sunil's gratuity. **(5 marks)**

(iv) Must the unit certify standing orders, and does it need government permission to lay off workers? **(5 marks)**

Q6 (a) Ritu earns ₹18,000 a month; the minimum wage for her category is ₹12,000 a month. Compute the minimum and maximum annual bonus payable to her. **(5 marks)**

(b) Lata, who has two surviving children, is expecting her third child. What maternity benefit is she entitled to? **(5 marks)**

(c) Explain the composition of the Internal Committee and the timelines of an inquiry under the POSH Act, 2013. **(5 marks)**

(d) What are the rules for strikes and lock-outs under the Industrial Relations Code, 2020? **(5 marks)**

OR Q6A (a) State the time limits for payment of wages under the Code on Wages, 2019. **(5 marks)**

(b) Explain the obligation of employers to engage apprentices. **(5 marks)**

(c) State the conditions for employing adolescents under the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986. **(5 marks)**

(d) Explain Articles 23 and 24 of the Constitution and their link to labour laws. **(5 marks)**

Model Answers

SOLUTION Q1 CrunchRoot

(i) An **LLP** gives limited liability with lower compliance – no Board meetings or AGM, no statutory audit until contribution exceeds ₹25 lakh or turnover exceeds ₹40 lakh, simple annual filings (Form 8 and Form 11), and flexible profit sharing by agreement. But LLPs **cannot issue shares**, so equity venture capital and ESOPs are difficult. As they **plan to raise VC**, a **private limited company** is better: shares can be issued to investors, it can get startup recognition and tax benefits, and conversion later costs time. **Advice:** private limited company (or an LLP now, with conversion before fund-raising).

(ii) Yes. Any individual or body corporate can be a **partner**. An LLP needs at least **two designated partners**, individuals, of whom **at least one is resident in India** (stayed in India for at least **120 days** in the financial year – s.7, as amended in 2021). Meera and Arif meet that condition, so Jason can be a DP too. He needs a **DPIN/DIN**, and his documents must be notarised and apostilled.

(iii) Yes. **FDI in LLPs** is allowed under the **automatic route** in sectors where 100% FDI is permitted under the automatic route **without FDI-linked performance conditions** (FEMA (Non-Debt Instruments) Rules, 2019). Food product manufacturing qualifies. Capital comes through banking channels; the LLP reports in **Form LLP-I** on the FIRMS portal within 30 days, and a valuation report is needed.

(iv) MSME classification (from 1 April 2025): **micro** – investment ≤ **₹2.5 crore** and turnover ≤ **₹10 crore**; small – ₹25 crore / ₹100 crore; medium – ₹125 crore / ₹500 crore. CrunchRoot (₹1.8 crore; ₹9 crore) is a **micro enterprise**. Registration is on the **Udyam portal** – free, paperless, on self-declaration with Aadhaar and PAN; investment and turnover data are taken from the ITR and GST records.

(v) Under the **FSS (Licensing and Registration of Food Businesses) Regulations, 2011**, a food business with turnover above **₹12 lakh** needs a licence: a **State licence** for turnover up to ₹20 crore (and specified capacities), a **Central licence** above that. At ₹9 crore, CrunchRoot needs a **State FSSAI licence** VERIFY; while turnover is below ₹12 lakh, basic **registration** is enough. Apply on the FoSCoS portal.

SOLUTION Q2

(i) A company is an NBFC (financial business is its principal business) only if **both** conditions are met: financial assets **more than 50%** of total assets **and** income from financial assets **more than 50%** of gross income (RBI "50-50 test"). Velan meets the first (55%) but **not** the second (45%) → **not required to register** as an NBFC; but it must not take public deposits and should review the test every year.

(ii) Owned fund = 8 + 3 − 0.5 − 0.3 = **₹10.2 crore**. Investments in group companies above **10% of owned fund** are deducted: 10% × 10.2 = ₹1.02 crore; excess = 1.5 − 1.02 = **₹0.48 crore**. **NOF = 10.2 − 0.48 = ₹9.72 crore** → **below ₹10 crore**; it must bring in at least ₹0.28 crore more (or reduce group exposure).

(iii) Under the FEMA (Establishment in India of a Branch Office or a Liaison Office or a Project Office or any other Place of Business) Regulations, 2016, a liaison office applicant needs a **profit-making record in the preceding 3 years** in the home country **and** a **net worth of at least USD 50,000**. With USD 40,000 it is **not eligible on its own**; it may apply with a **Letter of Comfort** from its parent or group company that meets the criteria. The application goes through an AD Category-I bank.

(iv) The foreman's commission cannot exceed **7%** of the chit amount (s.21(1)(b), raised from 5% by the Chit Funds (Amendment) Act, 2019). The 2019 amendment also introduced the terms "gross chit amount", "share of discount" and "net chit amount", and allows the draw to be held with at least two subscribers present in person or by video conference.

(v) Seven or more persons associated for a literary, scientific or charitable purpose may register by filing with the Registrar the **memorandum of association** (name, objects, names and addresses of the governing body) and the **rules and regulations**, certified by at least three members of the governing body, with the fee. A list of the governing body is filed every year (s.4). State amendments may add requirements.

SOLUTION Q3

(i) Liaison office and branch office

Basis	Liaison office	Branch office
Activities	Only **liaison** – representing the parent, promoting exports or imports, technical or financial collaboration; **no commercial activity**	Export/import, consultancy, research, IT services, representing the parent as buying or selling agent – **can earn income**
Eligibility	Profit record 3 years; net worth USD 50,000	Profit record 5 years; net worth USD 100,000
Expenses	Met only by inward remittances	From its own income; profits remitted after tax
Validity	Usually 3 years, renewable	No fixed period

(ii) OPC and sole proprietorship

Basis	OPC	Sole proprietorship
Legal status	Separate legal entity (company)	No separate entity
Liability	Limited	Unlimited
Succession	Nominee takes over on death	Business ends with the owner
Compliance	Companies Act – audit, annual filings	Minimal (tax, local licences)

(iii) Udyam registration (MSME Ministry notification of 26 June 2020) is the **online, free, self-declaration** registration of an MSME using **Aadhaar** (of the proprietor, managing partner or authorised signatory) and **PAN/GSTIN**. Investment and turnover are taken from government databases, and exports are excluded from turnover. A permanent **Udyam Registration Number** and e-certificate are issued; the enterprise updates its details each year. It entitles the unit to priority-sector lending, delayed-payment protection and government schemes.

(iv) SPVs are used: (1) to **ring-fence** the risk of a large project (infrastructure, PPP) from the parent; (2) for **securitisation** – the SPV buys receivables and issues securities; (3) to hold **joint venture** assets or a specific asset (real estate, IP) for easy transfer; (4) for **InvITs and REITs** and project financing where lenders want security over project cash flows.

(v) Producer company (Part I-A of Chapter XXI, Companies Act, 2013 – ss.378A–378ZU): formed by **10 or more individual producers**, or **2 or more producer institutions**, or a combination; objects relate to **production, harvesting, procurement, marketing and processing** of primary produce and related services; liability limited by shares; shares not tradeable to the public – held by **active members**; **one member, one vote** in individual-member companies; minimum 5 and maximum 15 directors; patronage bonus instead of dividend VERIFY.

SOLUTION Q4

(i) DPIIT recognition (G.S.R. 108(E), 4 February 2026): the entity is a **private company, a registered partnership firm or an LLP**; **up to 10 years** from incorporation (**20 years** for deep-tech startups); turnover in any financial year since incorporation **not above ₹200 crore** (₹300 crore for deep-tech) VERIFY; working towards **innovation**, development or improvement of products or processes, or a scalable business model with high potential for jobs or wealth; **not formed by splitting up or reconstruction** of an existing business. Apply on the Startup India portal.

(ii) A DPIIT-recognised startup that is a **company or LLP**, incorporated **on or after 1 April 2016 and before 1 April 2030**, with turnover up to ₹100 crore, and holding a certificate from the **Inter-Ministerial Board**, can claim **100% deduction of profits for any 3 consecutive years out of its first 10 years**. MAT (for companies) still applies VERIFY.

(iii) Under the **Second Schedule** of the LLP Act: (1) all partners of the firm become partners of the LLP and no one else; (2) **all partners consent**; (3) file **Form 17** (application and statement) with Form FiLLiP for incorporation; (4) the Registrar registers the LLP and issues a certificate; (5) all property, assets, liabilities and pending proceedings vest in the LLP; (6) the LLP informs the Registrar of Firms within 15 days in Form 14; for 12 months it states that it was converted from the named firm.

(iv) ODI is investment by an Indian entity in the **unlisted equity capital** of a foreign entity, or **10% or more** of the paid-up equity of a listed foreign entity, or with **control** (FEMA (Overseas Investment) Rules, 2022). Total financial commitment by an Indian entity is capped at **400% of its net worth** as per the last audited balance sheet (excluding certain items), under the automatic route; above that, RBI approval. Investment in a foreign entity engaged in real estate, gambling or INR-linked financial products is not allowed.

(v) Shops and Establishments Acts are **State laws**. Every shop or commercial establishment (offices, warehouses, hotels, restaurants, theatres) must **register within the prescribed time (often 30 days)** of starting business, through the State labour department's portal, giving name, address, employer, number of employees and nature of business. Registration certificate must be displayed; renewals as per the State law. The Acts regulate working hours, holidays, leave, opening and closing hours, and employment of women and young persons.

SOLUTION Q4A

(i) ARCs, registered with RBI under **s.3 of the SARFAESI Act, 2002** (NOF ₹300 crore VERIFY), **acquire NPAs** from banks and FIs, then: (1) **securitisation** – issue security receipts to QIBs; (2) **reconstruction** – change or take over management, sell or lease the business, reschedule debts, convert debt into shares, settle dues; (3) enforce security interest; (4) act as manager or receiver; (5) act as resolution applicant under the IBC (subject to RBI conditions).

(ii) Payments banks may: accept **demand deposits** (savings and current) up to **₹2 lakh per customer** VERIFY; issue **ATM/debit cards** (not credit cards); provide **payments and remittance** services, including mobile and internet banking; act as **business correspondents** of other banks; distribute mutual funds, insurance and pension products. They **cannot lend** and must invest at least 75% of demand deposits in government securities up to one year.

(iii) A Nidhi is a **public company** declared as Nidhi under **s.406**, formed to encourage **thrift and savings** among members, accepting deposits from and lending only to **members**. Features: minimum **200 members** and net owned funds of ₹20 lakh within the first year VERIFY; must obtain a **declaration from the Central Government (NDH-4)** before working as a Nidhi (2022 amendment); cannot issue preference shares, debentures, chit fund business, insurance or leasing; loans only against security (gold, property, deposits); "Nidhi Limited" must be the last words of the name.

(iv) An NBFC-MFI is a non-deposit-taking NBFC with at least **75% of its total assets in microfinance loans** (RBI Master Direction, 2022). A microfinance loan is a **collateral-free** loan to a household with annual income up to **₹3 lakh**. Repayment obligations of the household must not exceed **50% of monthly income**; no prepayment penalty; flexible repayment frequency; fair-practice and pricing disclosures.

(v) Under the **Multi-State Co-operative Societies Act, 2002** (amended 2023): at least **50 persons from each of two or more States** (or co-operative societies, as specified) apply to the **Central Registrar** with the bye-laws, a list of members and proof of capital. The Central Registrar decides within **4 months**; the society becomes a body corporate on registration. Since 2023, applications are electronic, elections are held by the Co-operative Election Authority and the board must include a woman and an SC/ST member.

SOLUTION Q5 (i) Factory and contract labour – OSH Code, 2020

- **Factory (s.2(1)(w))**: premises where **20 or more workers** work with the aid of **power** (40 without power). Shakti Castings (260 workers, power) → **factory**; it must get a **registration** of the establishment (s.3) and a **factory licence** where required, appoint a safety officer and follow the hazardous-process rules for a foundry.
- **Contract labour (Chapter XI)**: the Code applies to establishments and contractors engaging **50 or more contract workers** (raised from 20). With 60, it applies. The **principal employer** registers the establishment (single registration) and ensures welfare facilities (canteen, rest rooms, drinking water, first aid); if the contractor fails to pay wages, the principal employer pays and recovers. The **contractor** needs a **licence** (or work-specific licence) and pays wages before the due date in the presence of a representative. Contract labour may not be used in **core activities** except as permitted (s.57) – loading and cleaning are **non-core**, so allowed.

SOLUTION Q5 (ii) ESI and EPF – Code on Social Security, 2020

- **ESI** applies to establishments with **10 or more employees**; employees earning up to **₹21,000 per month** are covered. Mahesh (₹19,000) → **covered**. Contribution: employer **3.25%**, employee **0.75%** of wages.
- **EPF** applies to establishments with **20 or more employees**; Mahesh is covered (membership is compulsory up to the **₹15,000** wage ceiling and allowed above it with joint option VERIFY). Contribution: **12%** each from employer and employee; of the employer's share, **8.33%** (on up to ₹15,000) goes to the pension scheme.
- Contract workers are also counted; the principal employer ensures the contractor's compliance.

SOLUTION Q5 (iii) Gratuity – Code on Social Security, 2020, s.53

- Payable after **5 years** of continuous service (1 year for fixed-term employees). Sunil has 6 years 8 months → eligible.
- A part year of more than **6 months** counts as a full year → **7 years**.
- Gratuity = last drawn wages × 15 / 26 × completed years = 26,000 × 15 / 26 × 7 = **₹1,05,000**.
- Within the ceiling of **₹20 lakh**; payable within **30 days** of becoming due, else simple interest.

SOLUTION Q5 (iv) Standing orders and lay-off – IR Code, 2020

- **Standing orders** (Chapter IV) apply to industrial establishments with **300 or more workers** (raised from 100). Shakti Castings has 260 direct workers → **not required** to prepare standing orders (it may adopt the model standing orders voluntarily).
- **Prior government permission for lay-off, retrenchment and closure** (Chapter X) is needed only where **300 or more workers** were employed on average per working day in the last 12 months. At 260 → **no permission needed**; but the unit must pay **lay-off compensation (50% of basic wages and DA)**, give notice, and follow Chapter IX.
- States may set higher thresholds by notification.

SOLUTION Q6 (a) Bonus – Code on Wages, 2019

- Eligibility: employee earning up to the notified wage limit (₹21,000 per month VERIFY) who has worked at least **30 days** in the year → Ritu is eligible.
- **Calculation ceiling:** wages taken as **₹7,000 or the minimum wage, whichever is higher** = ₹12,000 a month = ₹1,44,000 a year.
- **Minimum bonus** = 8.33% × 1,44,000 = **₹11,995** (or ₹100, if higher).
- **Maximum bonus** = 20% × 1,44,000 = **₹28,800**.
- Bonus is paid within **8 months** of the close of the accounting year.

SOLUTION Q6 (b) Maternity benefit – Code on Social Security, 2020, Chapter VI

- Eligibility: worked at least **80 days** in the 12 months before the expected delivery.
- A woman with **two or more surviving children** gets **12 weeks** (not more than 6 weeks before delivery). Women with fewer than two children get 26 weeks.
- **Medical bonus** if no pre-natal and post-natal care is provided free (₹3,500 or as notified VERIFY).
- **Nursing breaks**: two a day until the child is 15 months old.
- **Creche** in establishments with **50 or more employees**, with four visits a day.
- No dismissal during maternity leave; **work from home** may be allowed by agreement after the leave.

SOLUTION Q6 (c) Internal Committee – POSH Act, 2013

Composition (s.4): every employer with **10 or more employees** constitutes an IC: (1) **Presiding Officer** – a senior woman employee; (2) at least **two members** from employees committed to the cause of women or with legal or social-work experience; (3) **one external member** from an NGO or a person familiar with sexual harassment issues; at least **half the members women**; term up to 3 years.

Timelines: complaint within **3 months** of the incident (extendable by 3 months); **conciliation** if the woman asks (no money settlement); inquiry completed within **90 days**; report to the employer within **10 days** of completion; employer acts within **60 days**; appeal within **90 days** of the recommendations. Penalty for not constituting the IC: up to **₹50,000** (s.26).

SOLUTION Q6 (d) Strikes and lock-outs – IR Code, 2020, s.62

- Apply to **all industrial establishments** (not only public utility services as before).
- No strike or lock-out **without 60 days' notice**, and not **within 14 days** of the notice, or before the date given in the notice.
- None **during conciliation proceedings** and 7 days after, or during tribunal or arbitration proceedings and 60 days after, or while a settlement or award is in force on the matters covered.
- **Mass casual leave** by 50% or more workers on a day is treated as a strike.
- Illegal strike: worker – imprisonment up to 1 month and/or fine ₹1,000–₹10,000; employer for illegal lock-out – fine ₹50,000–₹1 lakh VERIFY.

SOLUTION Q6A (a) Payment of wages – Code on Wages, s.17

- **Daily** wages – at the end of the shift.
- **Weekly** – on the last working day of the week, before the weekly holiday.
- **Fortnightly** – before the end of the second day after the fortnight.
- **Monthly** – before the expiry of the **seventh day** of the next month.
- On **removal, dismissal, retrenchment or resignation** – within **2 working days**.
- Payment by coin, currency, cheque or credit to the bank account / electronic mode; deductions only as authorised, not exceeding **50%** of wages.

SOLUTION Q6A (b) Engagement of apprentices – Apprentices Act and Apprenticeship Rules

- Establishments with **30 or more** workers (including contract workers) must engage apprentices in a **band of 2.5% to 15%** of their total strength each year (including graduate, technician and trade apprentices) VERIFY.
- Establishments with **4 to 29** workers may engage apprentices voluntarily.
- Contracts of apprenticeship are registered on the **apprenticeship portal** with the apprenticeship adviser.
- The employer pays the prescribed **stipend** and provides training facilities; there is no obligation to employ the apprentice after training unless the contract provides so (s.22).
- Failure: fine per short month of apprenticeship, as prescribed.

SOLUTION Q6A (c) Adolescents – ss.3A, 7

- An **adolescent** (14–18 years) cannot work in **hazardous occupations or processes** in the Schedule.
- Elsewhere: no work for more than **3 hours without an interval** of at least 1 hour; total spread over not more than **6 hours** including the interval; no work between **7 pm and 8 am**; **no overtime**; no work in two places on the same day; one **weekly holiday**; notice to the Inspector; register of adolescent workers.
- **Children** (below 14) are prohibited from all occupations except helping in a **family enterprise** after school hours (non-hazardous) and as **artists** in audio-visual entertainment.
- Penalty: imprisonment **6 months to 2 years** and/or fine **₹20,000 to ₹50,000**.

SOLUTION Q6A (d) Articles 23 and 24

Art. 23 prohibits **traffic in human beings, begar** (forced labour without payment) and other forms of **forced labour**; contravention is an offence. It applies against the State and private persons. Payment below the minimum wage is "forced labour" (*People's Union for Democratic Rights v. Union of India*, 1982 – Asiad workers). The State may impose compulsory service for public purposes without discrimination (Art. 23(2)). Laws: Bonded Labour System (Abolition) Act, 1976; Code on Wages (minimum wages).

Art. 24 prohibits employment of **children below 14** in factories, mines or other hazardous employment (*M.C. Mehta v. State of Tamil Nadu*, 1996 – child labour rehabilitation fund). Law: Child and Adolescent Labour (Prohibition and Regulation) Act, 1986; read with Art. 21A (right to education) and Art. 39(e)–(f).