Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

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

# Mock Test 2 – 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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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.** Dr. Sen and four other doctors want to run low-cost clinics in rural West Bengal under the name "Sanjeevani". They will charge small fees, accept donations from Indian donors and later from a foundation in the UK, and want donors to get tax deductions. They are choosing between a trust, a society and a section 8 company.

(i) Compare the three forms for their purpose. **(3 marks)**

(ii) Explain the procedure to obtain a licence for a section 8 company. **(3 marks)**

(iii) What approval is needed before accepting money from the UK foundation? **(3 marks)**

(iv) How can donors claim tax deductions, and what registration must the entity obtain? **(3 marks)**

(v) Can a section 8 company charge fees and earn a surplus? **(3 marks)**

**Q2** Answer the following (3 marks each):

(i) What activities can a branch office of a South Korean company carry on in India?

(ii) A company from China wants to open a liaison office in Mumbai. What approvals are needed?

(iii) Explain the procedure for closing a liaison office.

(iv) State the registration and principal-business requirements for a Housing Finance Company.

(v) What is the minimum capital requirement for a small finance bank, and who are its target customers?

**Q3** Answer the following (3 marks each):

(i) Distinguish a partnership firm and an LLP.

(ii) Distinguish a joint venture and a strategic alliance.

(iii) State the features of a Joint Hindu Family business.

(iv) Explain the Startup India Seed Fund Scheme.

(v) A micro unit supplied goods accepted on 10 February 2026. Its agreement with the buyer allows 60 days for payment. By when must the buyer pay, and what if he delays?

**Q4** Answer the following (3 marks each):

(i) State the annual filings of an LLP.

(ii) State the conditions for conversion of a private company into an LLP.

(iii) What is a DIN, and how is it obtained?

(iv) Explain the consents needed from the State Pollution Control Board.

(v) When must a business register under GST?

**OR Q4A** Answer the following (3 marks each):

(i) State any three restrictions on a Nidhi company.

(ii) What is an NBFC-Factor?

(iii) What is a Core Investment Company?

(iv) What activities are prohibited for payments banks?

(v) Why is a trade licence needed?

## Part II – Industrial and Labour Laws (40 marks)

**Q5 Case study.** Kiran Textiles Ltd. employs 520 workers in its Surat mill. Falling exports force it to retrench 40 workers. Four unions operate in the mill, with membership of 45%, 30%, 15% and 10% of the workers. Ajay, one of

the workers to be retrenched, has 9 years and 7 months of continuous service and average pay of ₹20,000 a month. The mill also has 30 fixed-term employees hired for 18 months.

(i) What must the company do before retrenching workers? **(5 marks)**

(ii) Compute the amounts payable to Ajay. **(5 marks)**

(iii) Which union, or unions, will negotiate with the management? **(5 marks)**

(iv) What are the rights of the fixed-term employees, including gratuity? **(5 marks)**

**Q6 (a)** What benefits are available to an insured person under the ESI scheme? **(5 marks)**

**(b)** When can a principal employer use contract labour in core activities? **(5 marks)**

**(c)** Neha worked 240 days in 2025 in a factory. What annual leave with wages is she entitled to in 2026? **(5 marks)**

**(d)** Explain the constitution and functions of the Local Committee under the POSH Act, 2013. **(5 marks)**

**OR Q6A (a)** Explain the social security provisions for gig and platform workers. **(5 marks)**

**(b)** Raju's monthly pay is: basic pay and DA ₹20,000; HRA, conveyance and other allowances ₹30,000. Compute his "wages" under the Code on Wages, 2019. **(5 marks)**

**(c)** Define "small establishment" and "very small establishment" and state the benefit of the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act. **(5 marks)**

**(d)** Explain the role of the "Inspector-cum-Facilitator" under the Labour Codes. **(5 marks)**

# Model Answers

**SOLUTION Q1 Sanjeevani**

**(i) Trust** – created by a trust deed, run by trustees; easy and cheap to form, but control is concentrated and trustees cannot easily be changed; State public-trust laws apply. **Society** – at least 7 members; democratic governing body; registered under the Societies Registration Act, 1860; good for membership-based work. **Section 8 company** – registered with the MCA; separate legal entity with limited liability, strong governance and credibility with foreign donors and CSR funders, but more compliance. For multi-clinic operations with institutional donors, a **section 8 company** is most suitable.

**(ii)** Reserve the name (SPICe+ Part A); file **SPICe+** with the **draft MOA (INC-13) and AOA**, a declaration by a professional (INC-14) and by each subscriber (INC-15), and estimated income and expenditure for 3 years. The **Registrar**, on behalf of the Central Government, issues the **licence (INC-16)** and the certificate of incorporation. The name uses words such as Foundation, Forum, Association, Federation, Chambers or Council; "Limited" or "Private Limited" need not be added.

**(iii)** Foreign contribution needs **registration under the Foreign Contribution (Regulation) Act, 2010** (FC-3A), which requires at least **3 years of existence** and spending of at least **₹15 lakh** on core activities in the last 3 years VERIFY; a new organisation may seek **prior permission** (FC-4) for a specific donation from a specific donor. Money must be received only in the **FCRA account at SBI, New Delhi Main Branch**; administrative expenses up to **20%**; no sub-granting to other entities.

**(iv)** The entity registers under **section 12A/12AB** (exemption of its income) and **section 80G** (deduction to donors) of the Income-tax Act through Form 10A (provisional, 3 years) and then Form 10AB (regular, 5 years). Donors get a deduction of **50%** of the donation (subject to qualifying limits) when the entity issues **Form 10BE**, and the entity files Form 10BD each year VERIFY.

**(v)** Yes. A s.8 company may **charge fees** and earn a **surplus**, provided its income is applied **only to promote its objects** and **no dividend** is paid to members (s.8(1)(b)–(c)). Commercial activity incidental to the charitable object is allowed. The income-tax exemption for business income depends on ss.2(15) and 11(4A) limits.

**SOLUTION Q2**

**(i)** Branch office activities (FEMA Regulations, 2016 – Schedule): **export and import** of goods; **professional or consultancy services**; **research** in the parent's field; promoting **technical or financial collaboration**; representing the parent as **buying or selling agent**; **IT and software development services**; technical support for the parent's products; foreign airline or shipping company operations. A BO **cannot manufacture** (except in an SEZ) and cannot do retail trading.

**(ii)** An applicant from a **land-border country (China)** – or from Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran, Hong Kong or Macau – needs **prior RBI approval** after consultation with the Government of India (Ministry of Home Affairs and others), applied through an AD Category-I bank. It must also meet the LO criteria (3-year profit record and net worth USD 50,000). After approval: get a **Unique Identification Number**, register with the Registrar of Companies in **FC-1** within 30 days, and with the police where required.

**(iii)** Apply to the **AD Category-I bank** with: a copy of the RBI / AD letter of approval; an **auditor's certificate** that no income was earned and how assets will be disposed of, and that all liabilities are met; a confirmation that **no legal proceedings** are pending; a **tax clearance** or no-objection; the final Annual Activity Certificate; and a certificate from the **Registrar of Companies** that the LO has complied with the Companies Act. The AD bank permits **remittance of the balance** abroad, and the LO informs the RoC.

**(iv)** An HFC must be a **company** with a **Certificate of Registration from the RBI** (regulation was moved from the NHB to the RBI in 2019; the NHB still supervises). **NOF of ₹20 crore**. **Principal business test**: at least **60% of net assets** in housing finance, of which at least **50% to individuals** VERIFY. Deposit-taking HFCs need an investment-grade rating and keep liquid assets under s.29B of the NHB Act.

**(v) Minimum paid-up voting equity of ₹200 crore** (₹100 crore for primary urban co-operative banks converting) under RBI's 2019 on-tap licensing guidelines VERIFY. Target: **unserved and underserved** – small business units, small and marginal farmers, micro and small industries and the unorganised sector. At least **75% of adjusted net bank credit** goes to priority sectors, and at least half of loans are up to ₹25 lakh.

SOLUTION **Q3**

### (i) Partnership firm and LLP

| Basis | Partnership firm | LLP |
|---|---|---|
| Law | Indian Partnership Act, 1932 | LLP Act, 2008 |
| Legal status | No separate entity | Body corporate, separate entity, perpetual succession |
| Liability | Unlimited, joint and several | Limited to agreed contribution (except fraud) |
| Partners | 2 to 50 | Minimum 2, no maximum |
| Registration | Optional | Compulsory |

### (ii) Joint venture and strategic alliance

| Basis | Joint venture | Strategic alliance |
|---|---|---|
| Entity | Often a **new entity** jointly owned | **No new entity** – contract only |
| Commitment | Equity and long term | Flexible, may be short term |
| Control | Shared through the board of the JV | Each party keeps independent control |
| Exit | Share transfer or winding up | Termination of the contract |

**(iii)** A JHF business is carried on by a **Hindu Undivided Family** under Hindu law. The **Karta** (senior member) manages it with unlimited liability; other **coparceners** have liability limited to their share in the family property. Membership arises **by birth**; daughters are coparceners since 2005. The business continues despite death of a member; the Karta has implied authority to contract for it; a HUF is a separate tax entity.

**(iv)** SISFS (2021, DPIIT) gives **seed funding** through selected **incubators** to DPIIT-recognised startups incorporated **not more than 2 years** earlier: up to **₹20 lakh grant** for proof of concept, prototype or trials, and up to **₹50 lakh** as convertible debentures or debt for market entry, commercialisation or scaling. Startups must not have received more than ₹10 lakh under other government schemes, and Indian promoters must hold at least 51%.

**(v)** Under **s.15 of the MSMED Act, 2006**, payment is due on the **agreed date**, but the agreed period **cannot exceed 45 days** from the day of acceptance. So the buyer must pay by **27 March 2026** (45 days after 10 February), not after 60 days. If he delays, he pays **compound interest with monthly rests at three times the RBI bank rate** (s.16). The unit may refer the dispute to the **MSE Facilitation Council** (s.18), which conciliates and then arbitrates, deciding within 90 days. The buyer's tax deduction for the dues is also deferred until payment (s.43B(h) of the Income-tax Act).

### SOLUTION Q4

**(i)** (1) **Form 11 – annual return** within **60 days** of the end of the financial year (by 30 May); (2) **Form 8 – statement of account and solvency** within **30 days** from the end of six months of the financial year (by 30 October); (3) the **income-tax return** (31 July or 31 October if audited); (4) Form 4 for changes in partners, Form 3 for changes to the LLP agreement; (5) Form LLP BEN-2 for significant beneficial owners VERIFY.

**(ii)** (Third Schedule, LLP Act) (1) **no security interest** of the company is subsisting or in force on the date of application; (2) all **shareholders** of the company become partners of the LLP and **no one else**; (3) consent of all shareholders; (4) annual returns and financial statements filed up to date; (5) application in **Form 18** with the incorporation documents. All assets and liabilities vest in the LLP and the company is dissolved.

**(iii)** A **Director Identification Number** (s.153, Companies Act) is a unique number allotted by the Central Government to an individual intending to be a director. It is obtained in **SPICe+** for up to three directors of a new company, or in **DIR-3** for an existing company, with proof of identity and address. One person can hold only **one DIN** (s.155). Details are updated through **DIR-3 KYC Web** once every three years (from 31 March 2026).

**(iv)** Under the **Water Act, 1974** and the **Air Act, 1981**, units in the red, orange or green category need: (1) **Consent to Establish (CTE)** before construction or installation; and (2) **Consent to Operate (CTO)** before starting production, renewed periodically. White-category units are exempt. Hazardous waste authorisation and environmental clearance may also be needed. Applications are made online to the State Pollution Control Board with project details and fees.

**(v)** A supplier must register when **aggregate turnover exceeds ₹40 lakh** (goods, in most States) or **₹20 lakh** (services); ₹20 lakh / ₹10 lakh in special-category States. Registration is **compulsory regardless of turnover** for inter-State taxable suppliers of goods, casual taxable persons, persons liable under reverse charge, e-commerce operators and sellers through them, and input service distributors. Apply within **30 days** of becoming liable.

### SOLUTION Q4A

**(i)** A Nidhi cannot: (1) carry on **chit fund, hire purchase, leasing, insurance** or securities business; (2) issue **preference shares, debentures** or other debt instruments; (3) open **current accounts** for members; (4) accept deposits from or lend to **non-members**; (5) acquire another company or pledge members' deposits as security; (6) advertise for deposits or pay brokerage.

**(ii)** An **NBFC-Factor** is a non-deposit-taking NBFC registered under the **Factoring Regulation Act, 2011** whose **financial assets in factoring** are at least **50% of total assets** and **income from factoring** at least **50% of gross income** (RBI Master Direction). It buys receivables at a discount and provides collection and credit protection. Since the 2021 amendment, other NBFCs may also do factoring.

**(iii)** A **Core Investment Company** is an NBFC whose business is acquiring shares and securities of **group companies**, holding at least **90% of net assets** in group investments, of which at least **60%** in equity shares of group companies. A CIC with assets of **₹100 crore or more** and public funds must register with the RBI (CIC-ND-SI); others are exempt.

**(iv)** Payments banks cannot: (1) **lend** or issue credit cards; (2) accept **time deposits** or NRI deposits; (3) hold demand deposits above **₹2 lakh** per customer; (4) set up subsidiaries for non-banking financial services; (5) deal in high-risk investments.

**(v)** A trade licence is issued by the **municipal corporation** or local body under its Act. It certifies that the trade or business is carried on in conformity with **safety, health and zoning** rules, prevents unauthorised businesses (e.g. food outlets, hazardous trades) and gives the local body revenue. Without one, the authority may seal premises and impose fines.

### SOLUTION Q5 (i) Retrenchment in a 520-worker mill – IR Code, 2020

- Chapter X applies to establishments with **300 or more workers**; 520 → **prior permission** of the appropriate government is required (s.79).
- Apply with the reasons, giving a copy to the workers; the government decides after inquiry and hearing – **deemed permission** if no order within **60 days**.
- Give **3 months' notice** or wages in lieu, and pay retrenchment compensation.
- Follow **last come, first go** within the category (s.71) and give preference for re-employment.
- Retrenchment without permission is **illegal** – workers remain entitled to all benefits as if not retrenched.

### SOLUTION Q5 (ii) Amounts payable to Ajay

- Completed years: 9 years 7 months → **10 years** (a part over 6 months counts).
- **Retrenchment compensation** = 15 days' average pay per completed year = 20,000 / 26 × 15 × 10 = **₹1,15,385**.
- **Worker Re-skilling Fund** (s.83): the employer contributes **15 days' last drawn wages** = 20,000 / 26 × 15 = **₹11,538**, credited to Ajay's account within 45 days.
- **Notice pay**: 3 months' wages if notice is not given.
- **Gratuity**: also payable as he has more than 5 years' service (15 / 26 × wages × 10 years).

### SOLUTION Q5 (iii) Negotiating union – IR Code, s.14

- A union with **51% or more** of the workers on the muster roll is recognised as the **sole negotiating union**. No union here has 51% (largest has 45%).
- Otherwise a **negotiating council** is formed of representatives of unions with **at least 20%** of workers: unions with **45%** and **30%** qualify; those with 15% and 10% do not.
- Representation in the council is in proportion to membership (one representative for every 20%, and so on).

### SOLUTION Q5 (iv) Fixed-term employees

- Fixed-term employment is recognised (IR Code, s.2(o)) – a written contract for a fixed period.
- They get the **same hours, wages, allowances and other benefits** as permanent workers doing the same or similar work.
- They are entitled to **all statutory benefits** in proportion to service (ESI, EPF, bonus, leave).
- **Gratuity** after **one year** of service (not 5) – Code on Social Security, s.53(1) proviso – pro rata.
- Non-renewal on expiry of the contract is **not retrenchment**, so no retrenchment compensation.

### SOLUTION Q6 (a) ESI benefits – Code on Social Security, Chapter IV

(1) **Medical benefit** – full medical care for the insured person and family from day one; (2) **sickness benefit** – about 70% of wages for up to 91 days a year; (3) **maternity benefit** – 26 weeks at full wage rate; (4) **disablement benefit** – temporary (90% of wages while disabled) and permanent; (5) **dependants' benefit** – 90% of wages shared by dependants on death from employment injury; (6) **funeral expenses** (₹15,000 VERIFY); (7) unemployment allowance under the Atal Bimit Vyakti Kalyan Yojana and the Rajiv Gandhi Shramik Kalyan Yojana.

### SOLUTION Q6 (b) Contract labour in core activities – OSH Code, s.57

Employment of contract labour in **core activities** is **prohibited**, except where: (1) the normal functioning of the establishment is such that the activity is ordinarily done through contractors; (2) the activity does not require full-time workers for most of the day or for long periods; or (3) there is a **sudden increase in work** that must be done in a specified time. Activities such as **sanitation, security, canteen, gardening, loading, transport and IT support** are non-core and may be contracted. The appropriate government may also prohibit contract labour in any establishment after consulting the advisory board.

### SOLUTION Q6 (c) Annual leave – OSH Code, s.32

- Eligibility: a worker who has worked **180 days or more** in a calendar year (reduced from 240 days).
- Leave: **one day for every 20 days of work** in the previous year: 240 / 20 = **12 days** of leave with wages in 2026.
- Unused leave can be carried forward up to **30 days**; leave can be encashed at the end of the year.

### SOLUTION Q6 (d) Local Committee – POSH Act, ss.5–8

- The **District Officer** (Collector or as notified) constitutes a **Local Committee** in every district to receive complaints: (1) from establishments with **fewer than 10 employees**; (2) where the **complaint is against the employer**; and (3) from **domestic workers** and the unorganised sector.
- Composition: a **chairperson** – an eminent woman in social work; one woman working in the block, taluka or municipality; two members (at least one woman) from an NGO committed to women's causes; one with legal knowledge; and the officer dealing with social welfare or women and child development as ex officio member.
- **Nodal officers** in each block forward complaints within 7 days. The LC inquires on the same lines as the IC.

### SOLUTION Q6A (a) Gig and platform workers – Code on Social Security

- **Gig worker**: works outside a traditional employer-employee relationship; **platform worker**: works through an online platform.
- The Central Government frames **schemes** for life and disability cover, accident insurance, health and maternity benefits, old-age protection and creche.
- **Aggregators** contribute **1–2% of annual turnover**, capped at **5% of the amount paid to gig and platform workers**, to the Social Security Fund.
- Workers register on the **e-Shram** portal with Aadhaar; a **National Social Security Board** advises on schemes for unorganised, gig and platform workers.

### SOLUTION Q6A (b) Wages – Code on Wages, s.2(y)

- Wages include basic pay, DA and retaining allowance, but **exclude** HRA, conveyance, bonus, overtime and certain other items.
- If the excluded items exceed **50% of total remuneration**, the excess is **added back** to wages.
- Total = 20,000 + 30,000 = ₹50,000; 50% = ₹25,000. Excluded items ₹30,000 exceed ₹25,000 by **₹5,000**.
- **Wages = 20,000 + 5,000 = ₹25,000.** This figure is used for gratuity, social security and other benefits.

### SOLUTION Q6A (c) Small and very small establishments

- **Small establishment**: employs **10 to 19 persons**. **Very small establishment**: employs **up to 9 persons**.
- Employers of these establishments may furnish a **single simplified return** (Form A for very small, Form B/C for small VERIFY) and maintain a **combined register** instead of separate returns and registers under the laws in the First Schedule.
- Records may be kept electronically. This reduces compliance cost for small employers.
- With the Labour Codes, registers and returns are largely **unified and electronic** under the Codes and their rules.

### SOLUTION Q6A (d) Inspector-cum-Facilitator

All four Codes replace the "Inspector" with an **Inspector-cum-Facilitator**, who: (1) **advises** employers and workers on compliance; (2) conducts **inspections** under a **web-based, randomised** scheme, with algorithm-based selection and online reports; (3) may examine persons, documents and premises, and seize records; (4) must give an **opportunity to comply** (improvement notice) before prosecution for first-time offences in many cases; (5) can **compound** offences punishable with fine only. The aim is to shift from "inspector raj" to facilitation and transparency.