Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

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

Chapter-wise Practice Questions with Answers

Quick-check MCQs for all 23 lessons (a self-test only – the CS Executive paper is fully descriptive) and exam-style descriptive questions with model answers · Part II under the Labour Codes in force from 21 November 2025 · Laws as amended up to 31 May 2026

46 quick-check MCQs | 16 descriptive questions | Answers with thresholds and authorities

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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 ICSI publication. Items marked VERIFY should be checked against the latest official material.

How to use this set

EXAM TIP **Part I parts are mostly 3 marks – aim for 4–5 crisp points in 5 minutes. Part II parts are 5 marks – give the Code section, the threshold and the conclusion in 8–9 minutes. Do the MCQs first as a recall check.**

1. Selection of Business Organisation

1. Which form gives a separate legal entity with limited liability but no share capital?

(a) Partnership firm
(b) LLP
(c) Sole proprietorship
(d) HUF

2. The maximum number of partners in a partnership firm is:

(a) 20
(b) 50
(c) 100
(d) 200

QUESTION **State the factors that affect the choice of a form of business organisation. (3 marks)**

SOLUTION **Answer**

(1) **Liability** – limited or unlimited; (2) **capital needs** and ease of raising funds (equity investors need a company); (3) **control and management** desired by the owner; (4) **compliance** cost and formalities; (5) **taxation** of profits and distributions; (6) **continuity** and ease of transfer or exit; (7) nature and size of business and regulatory requirements (e.g. NBFC, insurance must be companies); (8) secrecy and flexibility.

2. Corporate Entities – Companies

3. A public company needs a minimum of:

(a) 2 members and 2 directors
(b) 7 members and 3 directors
(c) 7 members and 2 directors
(d) 3 members and 3 directors

4. A name suggesting connection with the Government (e.g. "National") needs:

(a) no approval
(b) prior approval of the Central Government
(c) SEBI approval
(d) shareholders' special resolution

QUESTION **What changes take place when a private company converts into a public company? (3 marks)**

SOLUTION **Answer**

(1) Articles altered by **special resolution** to remove the restrictions of s.2(68) – transfer, member limit, public invitation; (2) at least **7 members** and **3 directors**; (3) "Private" is dropped from the name; fresh certificate of incorporation; (4) the company must follow public-company rules – ss.149 (independent directors if thresholds met), 152 (retirement by rotation), 180, 186, 196–197 limits, Board committees; (5) it may now raise capital from the public through a prospectus. Filing: MGT-14 and INC-27.

3. Limited Liability Partnership

5. An LLP must have at least one designated partner resident in India, i.e. who stayed in India for at least:

(a) 60 days
(b) 120 days
(c) 182 days
(d) 240 days

6. Form 11 (annual return) of an LLP is due within:

(a) 30 days of FY end
(b) 60 days of FY end
(c) 6 months of FY end
(d) 30 days of AGM

QUESTION **A partner of an LLP misled a client with intent to defraud. What is the liability of the LLP and of the partner? (3 marks)**

SOLUTION **Answer**

s.27: the LLP is liable for the wrongful act or omission of a partner in the course of its business or with its authority. **s.28**: a partner is not personally liable for another partner's acts, only for his own. **s.30**: where an act is carried out with **intent to defraud** creditors or for a fraudulent purpose, the **liability of the LLP and of the partners who acted** is **unlimited** for the debts and liabilities; every person who was knowingly a party is punishable with **imprisonment up to 5 years** and **fine of ₹50,000 to ₹5 lakh**. The client can claim compensation from the LLP and the partner.

4. Startups and their Registration

7. A startup must be recognised by:

(a) RBI
(b) DPIIT
(c) SEBI
(d) MCA

8. Tax holiday under s.80-IAC is available for:

(a) any 3 consecutive years out of the first 10 years
(b) the first 5 years
(c) 7 years out of 10
(d) 10 consecutive years

QUESTION **Explain the life cycle of a startup. (3 marks)**

SOLUTION **Answer**

(1) **Ideation** – identifying a problem and a solution, validating the idea; (2) **validation / pre-seed** – prototype, proof of concept, early users, funding from founders, friends and incubators; (3) **early traction / seed** – product-market fit, first revenues, seed and angel funding (e.g. SISFS); (4) **scaling / growth** – venture capital rounds, expansion into new markets, hiring; (5) **maturity / exit** – IPO, merger or acquisition, or strategic sale. Funding needs and risks change at each stage.

5. Micro, Small and Medium Enterprises

9. From 1 April 2025, a micro enterprise has investment and turnover not exceeding:

(a) ₹1 crore and ₹5 crore
(b) ₹2.5 crore and ₹10 crore
(c) ₹10 crore and ₹50 crore
(d) ₹25 crore and ₹100 crore

10. The maximum credit period a buyer can agree with an MSE supplier is:

(a) 15 days
(b) 30 days
(c) 45 days
(d) 90 days

QUESTION **Explain the remedy of an MSE supplier for delayed payment. (3 marks)**

SOLUTION **Answer**

(1) **Interest (s.16)** – compound interest with monthly rests at **3 times the RBI bank rate** from the due date; (2) **reference (s.18)** to the **Micro and Small Enterprises Facilitation Council** (through the MSME Samadhaan portal), which conducts **conciliation**, then **arbitration** if conciliation fails, and decides within **90 days**; (3) **appeal (s.19)** against the award needs a deposit of **75%** of the amount; (4) the buyer must disclose dues in its accounts (s.22) and loses the tax deduction until payment (s.43B(h) Income-tax Act).

6. Conversion of Business Entities

11. Conversion of a company into an LLP is governed by:

(a) the Second Schedule of the LLP Act
(b) the Third Schedule of the LLP Act
(c) s.18 of the Companies Act
(d) s.14 of the Companies Act

12. On conversion of a firm into an LLP, the partners of the LLP must be:

(a) any persons
(b) all the partners of the firm and no one else
(c) at least two of the partners
(d) the designated partners only

7. Non-Corporate Entities

13. The Indian Trusts Act, 1882 applies to:

(a) public charitable trusts
(b) private trusts
(c) religious endowments
(d) all trusts

14. A multi-State co-operative society is registered by:

(a) the State Registrar
(b) the Central Registrar
(c) the RoC
(d) NABARD

QUESTION **Distinguish a public trust and a private trust. (3 marks)**

SOLUTION **Answer**

Basis	Public trust	Private trust
Beneficiaries	General public or a section of it (uncertain body)	Specific, ascertainable persons
Law	State public-trust Acts, general law, s.92 CPC	Indian Trusts Act, 1882
Registration	Generally compulsory under State Acts	Not compulsory (deed registered if immovable property)
Tax	Exemption under ss.11–12 if registered under s.12AB	Taxed as individual or at maximum marginal rate

8. Financial Services Organisations

15. An NBFC must satisfy the principal-business test, i.e. financial assets and financial income each more than:

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

16. A chit fund foreman's commission cannot exceed:

(a) 5% (b) 7%
(c) 10% (d) 12%

QUESTION How is Net Owned Fund computed for an NBFC? (3 marks)

SOLUTION Answer

Owned fund = paid-up equity capital + preference shares compulsorily convertible into equity + free reserves + securities premium + capital reserve (surplus on sale of assets) − accumulated losses − book value of intangible assets − deferred revenue expenditure. **NOF** = owned fund − investments in shares of subsidiaries, group companies and other NBFCs, and loans and advances to them, **to the extent they exceed 10% of owned fund** (s.45-IA, RBI Act). The minimum NOF under the scale-based framework is **₹10 crore** for most NBFCs (phased) VERIFY.

9. Business Collaborations

17. A contractual joint venture differs from an equity JV because:

(a) no new entity is created (b) both parties must be Indian
(c) it needs RBI approval (d) it is always for 20 years

18. A multidisciplinary partnership firm brings together:

(a) members of one profession only
(b) professionals of different disciplines
(c) only lawyers
(d) companies and LLPs

10. Foreign Company Offices and WOS

19. A branch office applicant must have a profit record in the home country in the preceding:

(a) 3 years (b) 5 years
(c) 7 years (d) 10 years

20. A foreign company that sets up a place of business in India must file with the RoC within 30 days:

(a) INC-32 (b) FC-1
(c) FC-3 (d) MGT-7

QUESTION Explain the role of a project office of a foreign company. (3 marks)

SOLUTION Answer

A project office is set up to **execute a specific project** in India under a contract with an Indian company. **General permission** applies if the contract is funded by inward remittance, a bilateral or multilateral agency, or an Indian company with a term loan from a public FI or bank, or the project is cleared by the authorities; otherwise approval is needed. It can **only carry on activities relating to the project**, open foreign currency accounts and remit surplus on completion. Applicants from land-border countries need RBI approval. Annual Activity Certificate and RoC filings (FC-1) apply.

11. Setting up Business Outside India

21. Under the Overseas Investment Rules, 2022, an Indian entity's financial commitment under the automatic route cannot exceed:

(a) 100% of net worth
(b) 200% of net worth
(c) 400% of net worth
(d) 1,000% of net worth

22. Overseas investment of less than 10% in a listed foreign company without control is:

(a) ODI
(b) Overseas Portfolio Investment
(c) FDI
(d) ECB

12. Industry-specific Laws

23. Manufacture of defence equipment requires a licence under:

(a) the Industries (Development and Regulation) Act, 1951 / Arms Act as applicable
(b) the Shops and Establishments Act
(c) the MSMED Act
(d) the Chit Funds Act

24. FSSAI registration (not licence) is for food businesses with turnover up to:

(a) ₹12 lakh
(b) ₹50 lakh
(c) ₹1 crore
(d) ₹20 crore

13. Registrations and Licences

25. GST registration for suppliers of goods in most States is required when aggregate turnover exceeds:

(a) ₹10 lakh
(b) ₹20 lakh
(c) ₹40 lakh
(d) ₹1 crore

26. Consent to Establish is issued by:

(a) the State Pollution Control Board
(b) the RoC
(c) the municipality
(d) the Labour Commissioner

QUESTION **Explain the procedure for obtaining NOC/consent from a Pollution Control Board. (3 marks)**

SOLUTION **Answer**

(1) Identify the **category** of the industry (red, orange, green, white); (2) apply online for **Consent to Establish** with project report, site plan, effluent and emission details, and fees; (3) SPCB inspects and grants CTE with conditions; (4) after installing pollution control equipment, apply for **Consent to Operate**; (5) CTO is granted for a period based on category and must be **renewed**; (6) comply with conditions, file returns and allow inspection.

14. Constitution and Labour Laws

27. "Begar" is prohibited by:

(a) Article 21
(b) Article 23
(c) Article 24
(d) Article 39

28. Employment of children below 14 in factories and mines is prohibited by:

(a) Article 23 (b) Article 24
(c) Article 21A (d) Article 45

15. Evaluation of Labour Legislation and the Labour Codes

29. The four Labour Codes came into force on:

(a) 1 April 2025 (b) 21 November 2025
(c) 1 January 2026 (d) 31 May 2026

30. Which Code subsumes the Factories Act and the Contract Labour Act?

(a) Code on Wages (b) IR Code
(c) Code on Social Security (d) OSH Code

QUESTION **State the need and objectives of the Labour Codes. (5 marks)**

SOLUTION **Answer**

Need: 29 central laws (and many State laws) with **overlapping definitions**, multiple registrations, returns and inspectors; outdated thresholds; low coverage of the unorganised, gig and platform workers; rigid rules discouraging formal employment. **Objectives:** (1) **simplify and consolidate** – four Codes with uniform definitions of wages, employee and worker; (2) **single registration, licence and return**; (3) **universal minimum wage** and floor wage; (4) **extend social security** to gig, platform and unorganised workers; (5) **ease of doing business** – web-based inspections, Inspector-cum-Facilitator, compounding; (6) **flexibility** – fixed-term employment, higher thresholds for standing orders and lay-off; (7) better safety, health and working conditions, including for women at night with consent.

16. OSH Code, 2020

31. A "factory" with the aid of power means premises with at least:

(a) 10 workers (b) 20 workers
(c) 40 workers (d) 50 workers

32. The contract labour provisions of the OSH Code apply where at least the following number of contract workers are engaged:

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

QUESTION **What are the duties of an occupier of a factory involving a hazardous process? (5 marks)**

SOLUTION **Answer**

(1) Disclose to workers, the Chief Inspector-cum-Facilitator and local authority all information on **dangers and health hazards** and measures to overcome them; (2) prepare a **safety policy** and an **on-site emergency plan**, and inform the public nearby; (3) keep accurate and up-to-date **health records** of workers exposed to hazardous substances and allow workers access; (4) appoint persons with **qualifications and experience** in handling hazardous substances; (5) arrange **medical examination** of workers before and periodically during employment; (6) keep exposure within **permissible limits** of chemical and toxic substances; (7) provide protective equipment and training; (8) a **site appraisal committee** may examine the location of new factories with hazardous processes. Failure attracts higher penalties.

17. Industrial Relations Code, 2020

33. Standing orders are required for industrial establishments with at least:

(a) 50 workers (b) 100 workers
(c) 300 workers (d) 500 workers

34. Notice of a strike must be given at least:

(a) 14 days in advance (b) 30 days in advance
(c) 42 days in advance (d) 60 days in advance

QUESTION State the matters to be provided in standing orders. (5 marks)

SOLUTION Answer

The First Schedule of the IR Code lists: (1) **classification of workers** – permanent, temporary, apprentice, probationer, badli, fixed-term; (2) manner of informing workers about **hours of work, holidays, paydays and wage rates**; (3) **shift working**; (4) **attendance and late coming**; (5) conditions and procedure for **leave and holidays**; (6) entry and search at gates; (7) closing and reopening of sections, temporary stoppages and the rights of employer and workers; (8) **termination of employment** and notice; (9) **suspension or dismissal for misconduct** and acts that are misconduct; (10) **grievance redressal**; (11) other matters prescribed. Establishments with 300 or more workers either adopt the **model standing orders** or certify their own.

18. Code on Wages, 2019

35. Monthly wages must be paid before the end of:

(a) the 3rd day of the next month (b) the 7th day of the next month
(c) the 10th day of the next month (d) the 15th day of the next month

36. The maximum bonus under the Code on Wages is:

(a) 8.33% (b) 12%
(c) 20% (d) 25%

QUESTION Explain "set on" and "set off" of allocable surplus. (5 marks)

SOLUTION Answer

Set on: where the allocable surplus of a year **exceeds** the amount needed to pay the **maximum bonus (20%)**, the excess (up to 20% of the total salary or wages of employees) is **carried forward** and used in the following years, up to the **fourth** accounting year, to pay bonus. **Set off:** where there is **no or insufficient** allocable surplus to pay the **minimum bonus (8.33%)**, the shortfall is carried forward and **set off** against surpluses of the next years, up to the **fourth** accounting year. Amounts set on or off are used in order of earliest year first. This smooths bonus payments across good and bad years.

19. Code on Social Security, 2020

37. ESI coverage applies to employees earning up to:

(a) ₹15,000 per month (b) ₹18,000 per month
(c) ₹21,000 per month (d) ₹25,000 per month

38. Gratuity for a fixed-term employee is payable after:

(a) 1 year of service
(b) 3 years of service
(c) 5 years of service
(d) 10 years of service

QUESTION **Explain the circumstances in which an employee can withdraw EPF before retirement. (5 marks)**

SOLUTION **Answer**

Under the EPF Scheme (continued under the Code on Social Security): (1) **unemployment** – 75% after one month and the balance after two months of unemployment; (2) **housing** – purchase or construction of a house, repayment of a housing loan (after specified years of membership); (3) **medical treatment** of self or family; (4) **marriage** of self, children or siblings, and **higher education** of children (up to 50% of the employee's share after 7 years); (5) **natural calamity**, lock-out or closure; (6) purchase of equipment by the physically handicapped; (7) **one year before retirement** (from age 54) up to 90%. Full withdrawal on retirement at 58 or permanent emigration. EPFO simplified these rules in 2025 VERIFY.

20. Child and Adolescent Labour Act, 1986

39. An adolescent is a person who has completed:

(a) 12 years but not 16
(b) 14 years but not 18
(c) 15 years but not 18
(d) 16 years but not 21

40. Adolescents may not work between:

(a) 6 pm and 6 am
(b) 7 pm and 8 am
(c) 8 pm and 6 am
(d) 10 pm and 6 am

21. Apprentices Act, 1961

41. The band for engaging apprentices in an establishment with 30 or more workers is:

(a) 1% to 5%
(b) 2.5% to 15%
(c) 5% to 20%
(d) 10% to 25%

42. Novation of a contract of apprenticeship is provided in:

(a) s.4
(b) s.5
(c) s.6
(d) s.22

QUESTION **Explain novation of a contract of apprenticeship under s.5. (5 marks)**

SOLUTION **Answer**

Where an employer is **unable to fulfil his obligations** under the contract of apprenticeship, he may, with the **agreement of the apprentice** (or his guardian) and the **other employer**, and with the **approval of the Apprenticeship Adviser**, transfer the contract to another employer. The contract is **novated**: the new employer takes over the rights and obligations, and the contract continues for the **unexpired period** of training. The apprentice's training is not wasted and the contract is registered afresh with the adviser.

22. Simplification of Returns and Registers

43. A "very small establishment" employs up to:

(a) 5 persons (b) 9 persons
(c) 19 persons (d) 49 persons

44. The Act allows employers to:

(a) skip all labour laws
(b) file simplified returns and keep simplified registers
(c) avoid paying wages
(d) avoid registration under GST

23. POSH Act, 2013

45. An Internal Committee is required in every workplace with at least:

(a) 5 employees (b) 10 employees
(c) 20 employees (d) 50 employees

46. The IC must complete the inquiry within:

(a) 30 days (b) 60 days
(c) 90 days (d) 120 days

QUESTION **What interim measures can the IC recommend during an inquiry? (5 marks)**

SOLUTION **Answer**

s.12: on a **written request of the aggrieved woman**, the IC may recommend that the employer: (1) **transfer** the woman or the respondent to another workplace; (2) grant the woman **leave up to 3 months** (in addition to her normal leave); (3) **restrain the respondent** from reporting on her work performance or writing her confidential report (assigned to another officer); (4) restrain the respondent from supervising her academic activity (educational institutions); (5) other relief prescribed. The employer must implement the recommendations and send a report to the IC. Interim measures protect the complainant from retaliation while the inquiry runs.

Answer key with explanations

Q	Ans	Explanation / working
1	(b)	An LLP is a body corporate; partners contribute capital, not shares.
2	(b)	Companies (Miscellaneous) Rules, 2014, Rule 10, under s.464.
3	(b)	s.3 and s.149(1).
4	(b)	s.4(3) and Rule 8 of the Incorporation Rules; such words are allowed only in specified cases.
5	(b)	s.7 Explanation, as amended in 2021.
6	(b)	By 30 May.
7	(b)	Department for Promotion of Industry and Internal Trade.
8	(a)	IMB certificate required.
9	(b)	Small ₹25 crore / ₹100 crore; medium ₹125 crore / ₹500 crore.
10	(c)	s.15 MSMED Act; 15 days where there is no agreement.
11	(b)	Second Schedule – firm to LLP; Fourth Schedule – unlisted company to LLP VERIFY.
12	(b)	Second Schedule, para 2.
13	(b)	Public trusts are governed by State laws and general law.
14	(b)	MSCS Act, 2002.
15	(c)	Both conditions together.
16	(b)	Chit Funds (Amendment) Act, 2019.

Q	Ans	Explanation / working
17	(a)	Rights and duties come from the contract only.
18	(b)	e.g. company secretaries, lawyers, engineers and other professionals, as their professional bodies permit.
19	(b)	And net worth of at least USD 100,000.
20	(b)	s.380 of the Companies Act, 2013.
21	(c)	As per the last audited balance sheet.
22	(b)	OPI.
23	(a)	Industrial licensing remains for defence and a few hazardous industries.
24	(a)	Petty food business operators.
25	(c)	₹20 lakh for services.
26	(a)	Under the Water Act and Air Act.
27	(b)	Traffic in human beings, begar and forced labour.
28	(b)	Art. 24; read with the Child and Adolescent Labour Act.
29	(b)	29 central labour laws are subsumed.
30	(d)	Occupational Safety, Health and Working Conditions Code, 2020.
31	(b)	40 without power.
32	(c)	Raised from 20 under the old Contract Labour Act.
33	(c)	Raised from 100 under the old Act; States may notify a higher number.
34	(d)	And no strike within 14 days of the notice.
35	(b)	
36	(c)	Minimum 8.33% or ₹100, whichever is higher.
37	(c)	₹25,000 for persons with disability.
38	(a)	Pro rata.
39	(b)	Child – below 14 years; adolescent – 14 to 18 years.
40	(b)	Also no overtime and a maximum spread of 6 hours.
41	(b)	Of total strength including contract workers VERIFY.
42	(b)	s.5 – transfer to another employer with the adviser's approval.
43	(b)	Small establishment – 10 to 19 persons.
44	(b)	Single return and combined register for small and very small establishments.
45	(b)	Otherwise the Local Committee.
46	(c)	Report within 10 days thereafter.