

**MODEL TEST PAPER 2**  
**FOUNDATION COURSE**  
**PAPER 2: BUSINESS LAWS (100 Marks)**

*Question No. 1 is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

1. (i) Mr. Y aged 21 years, lost his mental balance after the death of his parents in an accident. He was left with his grandmother aged 85 years, incapable of walking and dependent upon him. Mr. M, their neighbour, out of pity, started supplying food and other necessities to both of them. Mr. Y and his grandmother used to live in the house built by his parents. Mr. M also provided grandmother with some financial assistance for her emergency medical treatment. After supplying necessities to Mr. Y for four years, Mr. M approached the former asking him to payback ₹ 15 Lakhs inclusive of ₹ 7 Lakhs incurred for the medical treatment of the lady (grandmother). Mr. Y pleaded that he has got his parents' jewellery to sell to a maximum value of ₹ 4 Lakhs, which may be adjusted against the dues. Mr. M refused and threatened Mr. Y with a legal suit to be brought against for recovering the money.

Now, you are to decide upon based on the provisions of the Indian Contract Act, 1872:

- (a) Will Mr. M succeed in filing the suit to recover money?
- (b) What is the maximum amount of money that can be recovered by Mr. M?
- (c) Shall the provisions of the above Act also apply to the medical treatment given to the grandmother? **(7 Marks)**
- (ii) Jagannath Oils Limited is a public company and having 220 members. Of which 25 members were employed in the company during the period 1<sup>st</sup> April 2006 to 28<sup>th</sup> June 2016. They were allotted shares in Jagannath Oils Limited first time on 1<sup>st</sup> July 2007 which were sold by them on 1<sup>st</sup> August 2016. After some time, on 1<sup>st</sup> December 2016, each of those 25 members acquired shares in Jagannath Oils Limited which they are holding till date. Now the company wants to convert itself into a private company. State with reasons:
- (a) Whether Jagannath Oils Limited is required to reduce the number of members.
- (b) Would your answer be different, if above 25 members were the employee in Jagannath Oils Limited for the period from 1<sup>st</sup> April 2006 to 28<sup>th</sup> June 2017? **(7 Marks)**
- (iii) (a) What do you mean by 'Partnership for a fixed period' as per the Indian Partnership Act, 1932? **(2 Marks)**

(b) Can a minor become a partner in a partnership firm? Justify your answer and also explain the rights of a minor in a partnership firm.

**(4 Marks)**

2. (i) Sonal went to a Jewellery shop and asked the salesgirl to show her diamond bangles with Ruby stones. The Jeweller told her that we have a lot of designs of diamond bangles but with red stones. If she chooses for herself any special design of diamond bangle with red stones, they will replace red stones with Ruby stones. But for the Ruby stones they will charge some extra cost. Sonal selected a beautiful set of designer bangles and paid for them. She also paid the extra cost of Ruby stones. The Jeweller requested her to come back a week later for delivery of those bangles. When she came after a week to take delivery of bangles, she noticed that due to Ruby stones, the design of bangles has been completely disturbed. Now, she wants to terminate the contract and thus, asked the manager to give her money back, but he refused for the same. Answer the following questions as per the Sale of Goods Act, 1930.

(a) State with reasons whether Sonal can recover the amount from the Jeweller.

(b) What would be your answer, if Jeweller says that he can change the design as to his original form, but he will charge extra cost for the same?

**(7 Marks)**

(ii) An employee, Mr. Karan, signed a contract with his employer, company ABC Limited, that he will not solicit the customers after leaving the employment from the company.

But after Mr. Karan left ABC Limited, he started up his own company PQR Limited and he started soliciting the customers of ABC Limited for his own business purposes.

ABC Limited filed a case against Mr. Karan for breach of employment contract and for soliciting their customers for own business. Mr. Karan contended that there is a corporate veil between him, and his company and he should not be personally held liable for this.

In this context, the company ABC Limited seek your advice as to the meaning of corporate veil and when the veil can be lifted to make the owners liable for the acts done by a company.

**(7 Marks)**

(iii) "A LLP (Limited Liability Partnership) is a type of partnership which provides the benefits of limited liability but allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement."

In line with the above statement clearly elaborate the difference between LLP and Limited Liability Company (LLC).

**(6 Marks)**

3. (i) State whether the following are partnerships under the Indian Partnership Act, 1932:

- (a) X, a contractor, appointed Y one of his servants to manage his business of loading and unloading railway wagons. Y was to receive 50% of the profits of the business and also to bear the losses, if any.
- (b) Two firms each having 12 partners combine by an agreement into one firm.
- (c) A and B, co-owners, agree to conduct the business in common for profit.
- (d) Some individuals form an association to which each individual contributes ₹ 500 annually. The objective of the association is to produce clothes and distribute the clothes free to the war widows.
- (e) A and B, co-owners share between themselves the rent derived from a piece of land.
- (f) A and B buy commodity X and agree to sell the commodity, sharing the profits equally.
- (g) 10 major persons form an association to which each member contributes ₹ 10,000. The purpose is to produce medicines for free distribution to poor patients. **(7 Marks)**
- (ii) BC Private Limited and its subsidiary KL Private Limited are holding 90,000 and 70,000 shares respectively in PQ Private Limited. The paid-up share capital of PQ Private Limited is ₹ 30 Lakhs (3 Lakhs equity shares of ₹ 10 each fully paid). Analyse with reference to provisions of the Companies Act, 2013 whether PQ Private Limited is a subsidiary of BC Private Limited. What would be your answer if KL Private Limited holds 1,60,000 shares in PQ Private Limited and no shares are held by BC Private Limited in PQ Private Limited? **(7 Marks)**
- (iii) As per the general rule, "Stranger to a contract cannot file a suit in case of breach of contract". Comment and explain the exceptions to this rule as per the provisions of the Indian Contract Act, 1872. **(6 Marks)**
4. (i) (a) Mr. R extended a loan to Mr. D with X, Y, and Z as sureties. Each surety executed a bond with varying penalty amounts, X with a penalty of ₹ 10,000, Y with ₹ 20,000 and Z with ₹ 40,000, in the event of Mr. D's failure to repay the borrowed money to Mr. R. Examine the liabilities of the sureties in accordance with the Indian Contract Act, 1872, when Mr. D defaults to the tune of ₹ 42,000. Additionally, assess the situation, if there is no contractual arrangement among the sureties. **(4 Marks)**
- (b) X agrees to pay Y ₹ 1,00,000, if Y kills Z. To pay Y, X borrows ₹ 1,00,000 from W, who is also aware of the purpose of the loan. Y kills Z but X refuses to pay. X also to repay the loan to W. Explain the validity of the contract.
- (i) Between X and Y
- (ii) Between X and W **(3 Marks)**
- (ii) What is a Bill of Exchange? Also, explain its essential characteristics under the Negotiable Instruments Act, 1881. **(7 Marks)**

- (iii) What do you understand by Law? Also, elaborate the procedure for making a law. **(6 Marks)**
5. (i) (a) An auction sale of certain goods was held on 7<sup>th</sup> March 2023 by the fall of hammer in favour of the highest bidder X. The payment of auction price was made on 8<sup>th</sup> March 2023 followed by the delivery of goods on 10<sup>th</sup> March 2023. Based upon the provisions of the Sale of Goods Act, 1930, decide when the auction sale is complete. **(2 Marks)**
- (b) Certain goods were sold by sample by J to K, who in turn sold the same goods by sample to L and L by sample sold the same goods to M. M found that the goods were not according to the sample and rejected the goods and gave a notice to L. L sued K and K sued J. Can M reject the goods? Also advise K and L as per the provisions of the Sale of Goods Act, 1930. **(5 Marks)**
- (ii) Can a partner be expelled? If so, how? Which factors should be kept in mind prior to expelling a partner from the firm by the other partners according to the provision of the Indian Partnership Act, 1932? **(7 Marks)**
- (iii) (a) Both a sub-agent and a substituted agent are appointed by the agent. But, however, there are some points of distinction between the two. Explain any three points under the Indian Contract Act, 1872. **(3 Marks)**
- (b) Differentiate between Novation and Alteration as per the Indian Contract Act, 1872. **(3 Marks)**
6. (i) Utkarsh purchased some goods from Saksham for ₹ 50,000 on 14<sup>th</sup> August, 2023. Saksham drawn a bill of exchange on Utkarsh and sent to him for acceptance on the same day at 3:00 p.m. Utkarsh requested Saksham to allow him some time for acceptance. Saksham allowed him 48 hours for acceptance. Utkarsh could not accept till 16<sup>th</sup> August, 2023 (3:00 p.m.). Saksham treated the bill as dishonoured for non-acceptance. Referring to the provisions of the Negotiable Instruments Act, 1881, whether bill of exchange was dishonoured due to non-acceptance? **(7 Marks)**
- (ii) Explain the following statements in the light of provisions of the Indian Contract Act, 1872:
- (a) "Agreements made out of love and affection are valid agreements."  
(b) "Promise to pay a time barred debt cannot be enforced." **(6 Marks)**

**OR**

- (ii) State the essential elements of a contract of bailment. **(6 Marks)**
- (iii) What are the implied conditions in a contract of 'Sale by sample' under the Sale of Goods Act, 1930? Also state the implied warranties operative under the Act. **(7 Marks)**