

MODEL TEST PAPER 7

FOUNDATION COURSE

PAPER – 2: BUSINESS LAWS

Question No. 1 is compulsory.

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

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) Rahul owns an electronics store. Pankaj visited the store to buy a water purifier priced at ₹ 54,000/-. He specifically requested Rahul for a purifier with a copper filter. As Pankaj wanted to buy the purifier on credit, with the intention of paying in 9 equal monthly instalments, Rahul demands a guarantor for the transaction. Sooraj (a friend of Pankaj) came forward and gave the guarantee for payment of water purifier. Rahul sold Pankaj, a water purifier of a specific brand. Pankaj made payment for 4 monthly instalments and after that became insolvent. Explain with reference to the Indian Contract Act, 1872, the liability of Sooraj as a guarantor to pay the balance price of water purifier to Rahul.

What will be your answer, if Rahul sold the water purifier misrepresenting it as having a copper filter, while it actually has a normal filter? Neither Pankaj nor Sooraj was aware of this fact and upon discovering the truth, Pankaj refused to pay the price. In response to Pankaj 's refusal, Rahul filed the suit against Sooraj, the guarantor. Explain with reference to the Indian Contract Act, 1872, whether Sooraj is liable to pay the balance price of water purifier to Rahul?

(7 Marks)

- (b) A company, DEF limited as on 31.03.2024 had a paid-up capital of ₹ 1 lakh (10,000 equity shares of ₹ 10 each). In June 2024, DEF limited issued additional 10,000 equity shares of ₹ 10 each which was fully subscribed. Out of 10,000 shares, 5,000 of these shares were issued to MNO private limited company. MNO is a holding company of JKL private limited by having control over the composition of its board of directors.

Now, JKL private limited claims the status of being a subsidiary of DEF limited as being a subsidiary of its subsidiary i.e. MNO private limited. Examine the validity of the claim of JKL private limited.

State the relationship if any, between DEF limited & MNO Private Limited as per the provisions of the Companies Act, 2013.

(7 Marks)

- (c) Referring to the provisions of the Indian Partnership Act, 1932, answer the following:
- (i) "If a partner is otherwise expelled; the expulsion is null and void." Discuss. **(4 Marks)**
 - (ii) "The partner who is expelled will cease to be liable to the third party for the act of the firm done after expulsion." Analyse. **(2 Marks)**
2. (a) (i) Ashish, a trader, delivered a camera to Mohan on 'sale or return' basis. Mohan delivers the camera to Raj on the terms of 'sale for cash only or return'. Afterward, Raj delivered it to Vikas on a 'sale or return' basis without paying cash to Mohan. The camera, which was in possession of Vikas, was lost by theft though he exercised due care for its safety. Referring to the provisions of the Sale of Goods Act, 1930, analyse the situation and advise whether Mohan, Raj or Vikas are, jointly or severally, liable to pay the price of the camera to Ashish. **(4 Marks)**
- (ii) Akash of Jaipur sold 100 smart TV set @ ₹ 50,000/- per set to Barun of Delhi. He delivered the TV sets to Chirag, a transport carrier for transmission to Barun. Barun further sold these 100 TV sets to Sarthak @ ₹ 60,000/- per set. On reaching the goods at the destination, Barun demanded the delivery but Chirag, wrongfully, refused to deliver the goods to Barun. That is why; he failed to deliver TV sets to Sarthak and suffered a huge loss on account of non-delivery. Akash came to know about this. He directed Chirag to stop the delivery to Barun and re-deliver the goods to him at Jaipur.
- Answer the following questions under the provisions of the Sale of Goods Act, 1930:
- (A) Whether Akash has the right to stop the goods in transit?
 - (B) Whether Barun can claim loss suffered due to non-delivery from Akash? **(3 Marks)**
- (b) Ram wants to incorporate a company in which he will be the only member. According to provisions of the Companies Act, 2013, what type of company can be incorporated? What are the salient features of this type of company? **(7 Marks)**
- (c) Referring to the provisions of the Limited Liability Partnership Act, 2008, answer the following:
- (i) Under what circumstances a Limited Liability Partnership is compulsorily required to change its name? Also, explain the compliance requirement following the change of name and the consequences, if any, in case of default therein. **(4 Marks)**
 - (ii) What do you mean by a Small Limited Liability Partnership? **(2 Marks)**

3. (a) Referring to the provisions of the Indian Partnership Act, 1932, answer the following:
- (i) Ram and Shyam are partners in a partnership firm named as RS & Co. (the firm). Gaurav, a renowned businessman, is their common friend. Ram introduced Gaurav to Sahil, a supplier to the firm, as his newly joined partner. Gaurav knowing that he is not a partner preferred to keep quiet on such an introduction. This information about Gaurav, being a partner of the firm, was shared by Sahil with another businessman Madhav. Next day, Sahil supplied the raw material on credit and Madhav lent ₹ 5 lakhs to the firm for a short period on the understanding that Gaurav is a partner of the firm. On due dates, the firm failed to discharge its liability towards both. Advise Gaurav, whether he is liable to Sahil and Madhav for the aforesaid liability of the firm. **(4 Marks)**
 - (ii) On admission as a new partner, Ashwin agreed to be liable for the existing debts (referred to as the old debts) of the firm by an agreement signed by all partners including Ashwin. Examine, whether Ashwin will be liable in a suit filed by the creditor against the firm and all existing partners for recovery of the old debt of the firm. **(3 Marks)**
- (b) (i) MN Limited borrowed a secured loan of ₹ 5 crore from Star Bank Limited (the bank) to meet its working capital requirement. However, the borrowing powers of the company, under its Memorandum of Association, were restricted to ₹ 1 crore. The bank released the loan amount in two instalments of ₹ 1 crore and ₹ 4 crore. On the due date for repayment of the loan, the company refused to accept the liability of ₹ 5 crore on the ground that the borrowing was ultra vires the company. The company's books of accounts show that the company has utilized the loan amount of ₹ 3 crore for repayment of its lawful debts. The utilization of the remaining ₹ 2 crore cannot be traced. Referring to the doctrine of ultra-vires under the Companies Act, 2013, examine the validity of the decision of the company denying the repayment of the loan and explore the remedy, if any, available to the bank for recovery of the loan. **(4 Marks)**
- (ii) After incorporation of Unique Private Limited (the company) on 15th May, 2024 the share certificates were issued to Arnav, Sohail and Suman being subscribers to the Memorandum of Association of the company without affixing the common seal thereon and under the signature of Arnav and Sohail, the directors of the company. The company has yet to appoint a company secretary. On objection raised by Suman, a director, about the validity of the share certificate signed by other two directors, Arnav and Sohail, clarified that since the company has opted not to have the common

seal for the company the share certificates (i.e. the document) signed by two directors are valid. Referring to the provisions of the Companies Act, 2013, examine the correctness of the objection raised by one of the directors and in response, the clarification offered by other directors.

Would your answer be different, if the company had a company secretary? **(3 Marks)**

- (c) Explain the term Wagering agreement in the light of the Indian Contract Act, 1872. Also, explain some transactions resembling wagering transaction but which are not void. **(6 Marks)**
4. (a) (i) 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)**
- (ii) 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.
- (A) Between X and Y
- (B) Between X and W **(3 Marks)**
- (b) A promissory note, payable at a certain period after sight, must be presented to the maker thereof for payment. Under which scenarios, presentment for payment is not necessary and the instrument is dishonoured at the due date for presentment according to the provisions of the Negotiable Instrument Act, 1881? **(7 Marks)**
- (c) What do you understand by Law? Also, elaborate the procedure for making a law. **(6 Marks)**
5. (a) (i) Karan agreed to sell his laptop to Vishal for a price to be fixed by Kiran a hardware engineer. However, before the delivery of the laptop, Karan changed his mind and did not share any particulars and configuration of the laptop with Kiran, which made her unable to do the valuation. Kiran refused to do valuation.
- Vishal needed laptop for his project, so he promised Karan that, if the laptop is delivered to him, he would pay a reasonable price for it. However, Karan decided not to sell his laptop to Vishal. Now, Vishal wants to know from you, being a legal expert, whether Karan is bound by his promise as he agreed earlier to deliver his laptop

to him at a reasonable price. If he does not agree to deliver what is the other remedy available to Vishal? Advise, referring to the provisions of the Sale of Goods Act, 1930. **(3 Marks)**

- (ii) Mrs. Meenu went to the local rice and wheat wholesale shop and asked for 100 kgs of Basmati rice. The Shopkeeper quoted the price of the same as ₹ 125 per kg to which she agreed. Mrs. Meenu insisted that she would like to see the sample of what would be provided to her by the shopkeeper before she agreed upon such a purchase.

The shopkeeper showed her a bowl of rice as a sample. The sample exactly corresponded to the entire lot.

Mrs. Meenu examined the sample casually without noticing the fact that even though the sample was that of Basmati Rice, but it contained a mix of long and short grains.

The cook on opening the bags complained that the dish if prepared with the rice would not taste the same as the quality of rice was not as per the requirement of the dish.

Now Mrs. Meenu wants to file a suit for fraud against the seller alleging him of selling a mix of good and cheap quality rice. Will she be successful?

Decide the fate of the case and options open to Mrs. Meenu for grievance redressal as per the provisions of Sale of Goods Act, 1930?

What would be your answer in case Mrs. Meenu specified her exact requirement as to the length of rice? **(4 Marks)**

- (b) "Indian Partnership Act, 1932 does not make the registration of firms compulsory nor does it impose any penalty for non-registration." In light of the given statement, discuss the consequences of non-registration of the partnership firms in India? **(7 Marks)**

- (c) (i) In case of breach of contract, the court may award compensation or damages. Explain the circumstances when court may award ordinary damages, special damages and liquidated damages under the provisions of the Indian Contract Act, 1872. **(3 Marks)**

- (ii) What are the conditions need to be fulfilled to make the following agreements valid without consideration as per the provisions of the Indian Contract Act, 1872?

(A) Agreement made based on natural love and affection

(B) Promise to pay time-barred debts **(3 Marks)**

6. (a) Mr. Y issued a cheque for ₹ 10,000 to Mr. Z which was dishonoured by the Bank because Y did not have enough funds in his account and has no authority to overdraw. Examine as per the provisions of the Negotiable Instruments Act, 1881 whether-
- (i) Mr. Y is liable for dishonour of cheque, if yes, what are the consequences for such an offence?
 - (ii) What would be your answer if Y issued a cheque as a donation to Mr. Z? **(7 Marks)**
- (b) Explain the term 'Quasi Contracts' and state their characteristics. **(6 Marks)**
- (c) Distinguish between 'Sale' and 'Hire Purchase' under the Sale of Goods Act, 1930. **(7 Marks)**