

**For CA FOUNDATION**

**PAPER 2**

**BUSINESS LAWS**

**COMPILER**

**(PAST YEAR QUESTION PAPERS & RTPs)**

**Edition - 2**

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# INDEX

<b>Chapter No.</b>	<b>Name</b>	<b>Page No.</b>
<b>1.</b>	<b>Past Years Question Papers with Solutions</b>	
•	JUNE - 2024	1 - 6
•	DECEMBER - 2023	7 - 20
•	JUNE - 2023	21 - 32
•	NOVEMBER - 2022	33 - 46
•	MAY - 2022	47 - 61
•	DECEMBER - 2021	62 - 75
•	JULY - 2021	76 - 87
•	JANUARY - 2021	88 - 101
•	NOVEMBER - 2020	102 - 115
•	NOVEMBER - 2019	116 - 128
•	MAY - 2019	129 - 144
•	NOVEMBER - 2018	145 - 160
•	MAY - 2018	161 - 173
<b>2.</b>	<b>Past Years RTPs with Solutions</b>	
•	JUNE - 2024	174 - 192
•	JUNE - 2023	193 - 207
•	DECEMBER - 2023	208 - 223
•	MAY - 2022	224 - 238
•	NOVEMBER - 2020	239 - 249
•	MAY - 2020	250 - 270
•	NOV - 2019	271 - 286

# FOUNDATION LAW

## PAST YEAR QUESTION PAPERS WITH SOLUTIONS

### JUNE 2024

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

What will be your answer, if R sold the water purifier misrepresenting it as having a copper filter, while it actually has a normal filter? Neither P nor S was aware of this fact and upon discovering the truth. P refused to pay the price. In response to P's refusal, R filed the suit against S, the guarantor. Explain with reference to the Indian Contract Act 1872, whether S is liable to pay the balance price of water purifier to R? **(07)**

(b) A company, ABC limited as on 31.03.2023 had a paid-up capital of 1 lakh (10,000 equity shares of ₹ 10 each). In June 2023, ABC limited had 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 XYZ private limited company. XYZ is a holding company of PQR private limited by having control over the composition of its board of directors.

Now, PQR private limited claims the status of being a subsidiary of ABC limited as being a subsidiary of its subsidiary i.e. XYZ private limited. Examine the validity of the claim of PQR private limited.

State the relationship if any, between ABC limited & XYZ private limited as per the provisions of The Companies Act, 2013. **(07)**

(c) The Indian Partnership Act does not make the registration of firms compulsory, yet the consequences or disabilities of non-registration have a persuasive pressure

for their registration. Still, there are some cases where non-registration of firm does not affect certain rights. Explain with reference to the provisions of the Indian Partnership Act, 1932. (06)

Q.2. (a) Sony, a friend of Priya wanted to buy her two-wheeler. Priya agreed to sell her two-wheeler to Sony and it was decided that price of her two-wheeler will be fixed by Priya's father, who is an auto dealer. Priya immediately handed over the keys to Sony. However, Priya's father refused to fix the price as he did not want Priya to sell her vehicle. Priya expressed her inability to sell the two-wheeler to Sony and asked for return, but Sony refused to return the same. Explain.

(i) Can Priya take-back the vehicle from Sony?

(ii) Will your answer be different, if Priya had not handed over the vehicle to Sony? (07)

(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? (07)

(c) A LLP is a new form of legal business entity with limited liability. It's an alternative corporate business vehicle that only gives the benefits of limited liability at low compliance cost but allows its partners the flexibility of organizing their internal structure as a traditional partnership. Keeping in view of above, define the following characteristics of LLP.

(i) Body Corporate

(ii) Mutual Agency

(iii) Foreign LLPs

(iv) Artificial legal person (06)

Q.3. (a) (i) P, Q and R formed a partnership agreement to operate motor buses along specific routes for a duration of 12 years. After operating the business for four years, it was observed that the business incurred losses each year. Despite this, P is determined to continue the business for the remaining period. Examine with reference to the Indian Partnership Act, 1932. Can P insist to continue the business? If so, what options are available to Q and R who are reluctant to continue operating the business? (04)

(ii) A and B operate a textile merchant business in partnership. Mr. A finances the business and is a sleeping partner. In the regular course of business, B acquires certain fabric goods belonging to C. However, B is aware that these goods are stolen property. Despite this knowledge, B proceeds to purchase and sell some of these stolen goods. Moreover, B records proceeds from these sales in the firm's books. Now, A wants to avoid the liability towards C on the grounds of misconduct by B. In the light of the provisions of the Indian Partnership Act, 1932 discuss the liability of A and B towards C. (03)

(b) (i) XYZ is a company incorporated under The Companies Act, 2013.

The paid up share capital of the company is held by others as on 31.03.2024 is as under:

(1) Government of Indian	20%
(2) Life Insurance Corporation of India (Public Institution)	8%
(3) Government of Tamil Nadu	10%
(4) Government of Rajasthan	10%
(5) ABC Limited (owned by Government Company)	15%

As per above shareholding, state whether XYZ limited be called a government company under the provisions of The Companies Act, 2013. (04)

(ii) M and N holding 70% and 30% of the shares in the company. Both died in an accident. Answer with reference to the provisions of the Companies Act, 2013, what will be the legal effect on the company as both the members have died? (03)

(c) Explain in brief with reference to the provisions of The Indian Contract Act, 1872, what are the rights enjoyed by Surety against the Creditor, the Principal Debtor and Co-Sureties? (06)

Q.4. (a) (i) Mr. J entered into an agreement with Mr. S to purchase his house for ` 20 lakh, within three months. He also paid ` 50,000/- as token money. In the meanwhile, in an anti-encroachment drive of the local administration, Mr. S's house was demolished. When Mr. J was informed about the incident he asked for the refund of token money.

Referring to the relevant provisions of the Indian Contract Act, 1872 state whether Mr. J is entitled to the refund of the amount paid. (04)



The sale was completed in favour of Mr. Neel by RN & Associates by fall of hammer.

Mr. Dev's Bid was rejected on ground that Right to bid was reserved and company of Mr. Dev was not invited to bid.

For another bid of Italian Furniture was made by two parties as follows:

Sale was completed in favour of Mr. Dheer instead of Mr. Madhu.

Mr. Dev and Mr. Madhu argued that auction sale was not lawful. Give your opinion with reference to provisions of the sale of Goods Act, 1930 whether Auction Sale will be considered lawful or not? **(07)**

(b) "Dissolution of partnership doesn't mean dissolution of firm". Do you agree with this statement? State any three situations where court can dissolve the partnership firm. **(07)**

(c) "Where a party to a contract refuses altogether to perform, or is disabled from performing his part of it, the other party has a right to rescind it". Discuss this statement and the effects of such refusal under the provisions of The Indian Contract Act, 1872. **(06)**

Q.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?

(b) Explain the term Wagering agreement in the light of the Indian Contract Act, 1872. Also, explain some transactions resembling with wagering transaction but which are not void. **(06)**

**OR**

What is the meaning of contingent contract? Write briefly its essentials. Also, explain any three rules relating to enforcement of a contingent contract. **(06)**

(c) J, a wholesaler of premium Basmati rice delivered on approval 100 bags of rice of 10 kg each to a local retailer, on sale or returnable basis within a month of

*delivery. The next day the retailer sold 5 bags of rice to a regular customer K. A week later K informed the retailer that the quality of rice was not as per the price.*

*The retailer now wants to return all the rice bags to J, including the 4 bags not used by K. Can the retailer do so?*

*Also briefly describe the provisions underlying in this context of the Sale of Goods Act, 1930.*

**(07)**



## DECEMBER 2023

1. (a) T owes G, the following debts as per the table given below:

<i>Amount of the Debt</i>	<i>Position of Debt</i>
<i>(in `)</i>	
<i>5,000</i>	<i>Time barred on 01<sup>st</sup> July, 2023 as per the provisions of the Limitation Act, 1963</i>
<i>3,000</i>	<i>Time barred on 01<sup>st</sup> July, 2023 as per the provisions of the Limitation Act, 1963</i>
<i>12,500</i>	<i>Due on 1<sup>st</sup> April, 2022</i>
<i>10,000</i>	<i>Due on 15<sup>th</sup> July, 2023</i>
<i>7,500</i>	<i>Due on 25<sup>th</sup> November, 2023</i>

*G makes payment on 1<sup>st</sup> April, 2023, mentioned as below without any notice regarding how to appropriate the amount/payment.*

*(i) A cheque of ` 12,500*

*(ii) A cheque of ` 4,000.*

*In such a situation how the appropriation of the payment is done against the debts as per the provisions of the Indian Contract Act, 1872 by assuming that T also has not appropriated the amount received towards any particular debt. (04)*

*Ans. As per the provisions of Section 59 of the Indian Contract Act, 1872, where a debtor, owing several distinct debts to one person, makes a payment to him, either with express intimation, or under circumstances implying that the payment is to be applied to the discharge of some particular debt, the payment, if accepted, must be applied accordingly.*

*As per the provisions of Section 61 of the Indian Contract Act, 1872, where neither party makes any appropriation, the payment shall be applied in discharge of the debts in order of time, whether they are or are not barred by the law in force for the time being as to the limitation of suits. If the debts are of equal standing, the payment shall be applied in discharge of each proportionably.*

*In the present case, G made two payments by way of two cheques. Also, neither G nor T said anything as to the appropriation of the amount towards any particular debt.*

*Since one of the issued cheques was exactly the amount of the debt due i.e. of ` 12,500, by applying the provisions of Section 59 we can say that this is a circumstance indicating for appropriation against that particular debt.*

*Cheque of ` 4,000 can be appropriated in terms of the provisions of Section 61 since neither of the parties, have made any appropriation. The amount will be appropriated in discharging of the debts in order of time against any lawful debt whether they are or are not barred by the law in force for the time being as to the limitation of suits.*

*Hence cheque of ` 12,500 will be appropriated against the debt of ` 12,500 which is due on 1st April, 2022.*

*As per the scenario given in the question, since two debts are persisting in order of time which were treated as time barred on 1st July 2023, the amount of ` 4,000 will be appropriated proportionately, i.e. in proportion of 5,000:3,000. Therefore as per the provisions of the Indian Contract Act, 1872, ` 2,500 will be appropriated for the first debt and ` 1,500 will be appropriated towards the second debt.*

- (b) The State Government of X, a state in the country is holding 48 lakh shares of Y Limited. The paid-up capital of Y Limited is `9.5 crore (95 lakh shares of ` 10 each). Y Limited directly holds 2,50,600 shares of Z Private Limited which is having share capital of ` 5 crore in the form of 5 lakh shares of ` 100 each. Z Private Limited claimed the status of a subsidiary company of Y Limited as well as a Government company Advise as a legal advisor, whether Z Private Limited is a subsidiary company of Y Limited as well as a Government company under the provisions of the Companies Act, 2013? (04)**

**Ans.** According to Section 2(45) of the Companies Act, 2013, Government Company means any company in which not less than 51% of the paid-up share capital is held by-

- (i) the Central Government, or*
- (ii) by any State Government or Governments, or*
- (iii) partly by the Central Government and partly by one or more State Governments, and the section includes a company which is a subsidiary company of such a Government company.*

*As per Section 2(87) of the Companies Act, 2013, “subsidiary company” in relation to any other company (that is to say the holding company), means a company in which the holding company—*

- (i) controls the composition of the Board of Directors; or*
- (ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.*

*In the instant case, the State Government of X, a state in the country is holding 48 Lakh shares in Y Limited which is below 51% of the paid up share capital of Y Limited i.e. 48.45 Lakh shares (51% of 95 Lakh shares). Hence Y Limited is not a Government Company.*

*Further, Y Limited directly holds 2,50,600 shares in Z Private Limited, which is more than one-half of the total shares of Z Limited i.e. 2,50,000 shares (50% of 5 Lakh shares). Thus, the Company controls more than one-half of the total voting power of Z Limited. Hence Z Private Limited is a subsidiary of Y Limited.*

*Therefore, we can conclude that Z Private Limited is a subsidiary of Y Limited but not a Government Company since Y Limited is not a Government Company.*

- (c) Discuss the various types of implied warranties as per the Sale of Goods Act, 1930. (04)**

*Ans. Various types of implied warranties are covered under Sections 14 and 16 of the Sale of Goods Act, 1930 which are as follows:*

- 1. Warranty as to undisturbed possession [Section 14(b)]:** *An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.*

2. **Warranty as to non-existence of encumbrances [Section 14(c)]:** An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.
3. **Warranty as to quality or fitness by usage of trade [Section 16(3)]:** An implied warranty as to quality or fitness for a particular purpose may be annexed or attached by the usage of trade.
4. **Disclosure of dangerous nature of goods:** Where the goods are dangerous in nature and the buyer is ignorant of the danger, the seller must warn the buyer of the probable danger. If there is a breach of warranty, the seller may be liable in damages.

2. Explain the terms “Trafficking relating to public offices and titles” and “Stifling prosecution” as per the Indian Contract Act, 1872. (07)

**Ans.** **Trafficking relating to Public Offices and titles:** An agreement to trafficking in public office is opposed to public policy, as it interferes with the appointment of a person best qualified for the service of the public. Public policy requires that there should be no money consideration for the appointment to an office in which the public is interested. The following are the examples of agreements that are void since they are tantamount to sale of public offices.

(1) An agreement to pay money to a public servant in order to induce him to retire from his office so that another person may secure the appointment is void.

(2) An agreement to procure a public recognition like Padma Vibhushan for reward is void.

**Stifling Prosecution:** An agreement to stifle prosecution i.e. “an agreement to present proceedings already instituted from running their normal course using force” tends to be a perversion or an abuse of justice, therefore, such an agreement is void. The principle is that one should not make a trade of felony. The compromise of any public offence is generally illegal.

For example, when a party agrees to pay some consideration to the other party in exchange for the later promising to forgo criminal charges against the former is an agreement to stifle prosecution and therefore is void.

*Under the Code of Criminal Procedure, there is however, a statutory list of compoundable offences and an agreement to drop proceeding relating to such offences with or without the permission of the Court, as the case may be, in consideration the accused promising to do something for the complainant, is not opposed to public policy.*

- 3. (a) Discuss the rule regarding a partner's implied authority to bind the firm for his acts. Also, explain the situations when the partner has no implied authority to bind the firm. (06)**

*Ans. (a) As per the provisions of Sections 19(1) read with the provisions of Section 22 of the Indian Partnership Act, 1932, which deal with the implied authority of a partner, provide that the act of a partner which is done to carry on, in the usual way, business of the kind carried on by the firm, binds the firm, provided that the act is done in the firm name, or any manner expressing or implying an intention to bind the firm. Such an authority of a partner to bind the firm is called his implied authority.*

*As per the provisions of Section 20 of the Indian Partnership Act, 1932, the partners in a firm may, by contract between the partners, extend or restrict the implied authority of any partner. Notwithstanding any such restriction, any act done by a partner on behalf of the firm which falls within his implied authority binds the firm, unless the person with whom he is dealing knows of the restriction or does not know or believe that partner to be a partner.*

*As per the provisions of Section 21 of the Indian Partnership Act, 1932, a partner has authority, in an emergency, to do all such acts for the purpose of protecting the firm from loss as would be done by a person of ordinary prudence, in his own case, acting under similar circumstances, and such acts bind the firm.*

*As per the provisions of sub-section (2) of Section 19 the Indian Partnership Act, 1932, in the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to-*

- (a) Submit a dispute relating to the business of the firm to arbitration;*
- (b) open a banking account on behalf of the firm in his own name;*

- (c) *compromise or relinquish any claim or portion of a claim by the firm;*
- (d) *withdraw a suit or proceedings filed on behalf of the firm;*
- (e) *admit any liability in a suit or proceedings against the firm;*
- (f) *acquire immovable property on behalf of the firm;*
- (g) *transfer immovable property belonging to the firm; and*
- (h) *enter into partnership on behalf of the firm.*

**(b) (i) A mobile phone was displayed in a shop with a price tag of ` 10,000 attached to the mobile display box. As the price displayed was very less as compared to M.R.P. of the mobile phone, Y, a customer rushed to the cash counter and asked the shopkeeper to receive the payment and pack up the mobile phone. The shopkeeper refused to hand over the mobile phone to Y in consideration of the price indicated in the price tag attached to the mobile phone. Y seeks your advice whether he can sue the shopkeeper for the above cause under the Indian Contract Act, 1872. (03)**

**Ans.** *An invitation to offer is different from offer. Quotations, menu cards, price tags, advertisements in newspaper for sale are not offer. These are merely invitations to public to make an offer. An invitation to offer is an act precedent to making an offer.*

*Acceptance of an invitation to an offer does not result in the contract and only an offer emerges in the process of negotiation.*

*In the instant case, Y reaches to shop and selects a Mobile Phone with a price tag of ` 10,000 but the shopkeeper refused to hand over the mobile phone to Y in consideration of the price indicated in the price tag attached to the mobile phone.*

*On the basis of above provisions and facts, the price tag with the Mobile Phone was not offer. It is merely an invitation to offer. Hence, it is Y who is making the offer and not the shopkeeper. Shopkeeper has the right to reject Y's offer. Therefore, Y cannot sue the shopkeeper for the above cause.*

**(ii) On 1<sup>st</sup> March 2023, T Readymade Dress Garments, Shimla enters into a contract with J Readymade Garments, Jaipur for the supply of different sizes of shirts 'S' (Small), 'M' (Medium), and 'L' (Large). As per the terms of the contract, 300 pieces of each category i.e. 'S' @ ` 900; 'M'**

@ ` 1,000 and 'L' @ 1,100 per piece have to be supplied on or before 31<sup>st</sup> May, 2023.

However, on 1<sup>st</sup> May, 2023, T readymade Dress Garments, Shimla informed J Readymade Garments, Jaipur that the firm is not willing to supply the shirts at the above rate due to the rise of prices in the raw material cost. In the meantime, prices for similar shirts have gone up in the market to the tune of ` 1,000; ` 1,100; and ` 1,200 for 'S', 'M' and 'L' sizes respectively. Examine the rights of J Readymade Garments, Jaipur in this regard as per the provisions of the Indian Contract Act, of 1872. (03)

*Ans.* As per the provisions of Section 39 of the Indian Contract Act, 1872, when a party to a contract has refused to perform, or disabled himself from performing, his promise in its entirety, the promisee may put an end to the contract, unless he has signified, by words or conduct, his acquiescence in its continuance.

J Readymade Garments in the given situation has two options, out of which he has to select any one:

- (i) Either to treat the contract as rescinded and sue T Readymade Dress Garments for damages from breach of contract immediately without waiting until the due date of performance or
- (ii) He may elect not to rescind but to treat the contract as still operative and wait for the time of performance and then hold the other party responsible for the consequences of non-performance.

**Important Note:** The answer can also be given as per Section 73 of the Indian Contract Act, 1872 which lays down that when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract, compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract to be likely to result from the breach of it.

*In the instant case, J Readymade Garments, Jaipur would be entitled to get the damages i.e. difference between the contract price and the market price on the day of default from T Readymade Dress Garments, Shimla. In other words, the amount of damages would be ` 90,000 [300 piece @ ` 100 (Small), 300 piece @ ` 100 (Medium) and 300 piece @ ` 100 (Large)].*

- 4. (a) Can an unpaid seller who has possession of goods exercise the Right of lien? If yes, mention such circumstances. When does he lose his right of lien as per the provisions of the Sale of Goods Act, of 1930? (06)**

**Ans. Seller's lien (Section 47 of the Sale of Goods Act, 1930):** According to sub-section (1), the unpaid seller of goods who is in possession of them is entitled to retain possession of them until payment or tender of the price in the following cases, namely:-

- (a) where the goods have been sold without any stipulation as to credit;
- (b) where the goods have been sold on credit, but the term of credit has expired;
- (c) where the buyer becomes insolvent.

According to sub-section (2), the seller may exercise his right of lien notwithstanding that he is in possession of the goods as agent or bailee for the buyer.

As per the provisions of Section 48, where an unpaid seller has made part delivery of the goods, he may exercise his right of lien on the remainder, unless such part delivery has been made under such circumstances as to show an agreement to waive the lien.

**Termination of lien (Section 49):** According to sub-section (1), the unpaid seller of goods loses his lien thereon-

- (a) when he delivers the goods to a carrier or other bailee for the purpose of transmission to the buyer without reserving the right of disposal of the goods;
- (b) when the buyer or his agent lawfully obtains possession of the goods;
- (c) by waiver thereof.

The unpaid seller of goods, having a lien thereon, does not lose his lien by reason only that he has obtained a decree for the price of the goods. [Sub-section (2)]



(b) State giving reasons whether the following are partnerships as per the provisions under the Indian Partnership Act, 1932: (06)

(i) X, Y and Z agree to divide the profits equally, but the loss, if any, is to be borne by X alone. Is it a case of partnership?

(ii) X, a publisher, agrees to publish a book at his own expense written by Y and to pay Y, half of the net profit. Does this create a relationship of partnership between X and Y? Is Y liable to a paper-dealer for paper supplied to X to print Y's book?

(iii) A and B purchase a tea shop and incur additional expenses for purchasing utensils etc. each contributing half of the total expense. The shop is leased out on daily rent which is divided between both. Does this arrangement constitute a partnership between A and B?

Ans. (i) As per Section 4 of the Indian Partnership Act, 1932, "Partnership" is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Yes, it is a case of partnership.

**Reason:** The sharing of profits is an essential feature of partnership. There can be no partnership where only one of the partners is entitled to the whole of the profits of the business. Partners must agree to share the profits in any manner they choose. But an agreement to share losses is not an essential requirement. It is open to one or more partners to agree to share all the losses.

(ii) No, it is not a case of partnership

**Reason:** Sharing of profit, which is a prima facie evidence, exists but mutual agency among X and Y, which is an essential element, does not exist here. Since there is no partnership, the third party i.e. paper dealer cannot make Y liable for the paper supplied by him to X.

(iii) No, it is not a case of partnership

**Reason:** Persons who share amongst themselves the rent derived from a piece of land are not partners, rather they are co-owners. Because, neither there is existence of business, nor mutual agency is there.

5. (a) (i) *X, a furniture dealer, delivered furniture to Y under an agreement of sale, whereby Y had to pay the price of the furniture in three instalments. As per the terms of the agreement, the furniture will become the property of Y on payment of the last instalment. Before Y had paid the last instalment, he sold the furniture to Z, who purchased it in good faith. X brought a suit against Z for the recovery of the furniture on the ground that Z had no title to it. Decide the case on the basis of the provisions as per the Sale of Goods Act, 1930. (04)*

*Ans. As per section 30(2) of the Sale of Goods Act, 1930, where a buyer with the consent of the seller obtains possession of the goods before the property in them has passed to him, he may sell, pledge or otherwise dispose of the goods to a third person, and if such person obtains delivery of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods, he would get a good title to them.*

*In the instant case, furniture was delivered to Y under an agreement that price was to be paid in three instalments; the furniture to become property of Y on payment of third instalment. Y sold the furniture to Z before the third instalment was paid. Here, Z acquired a good title to the furniture, since he purchased the furniture in good faith.*

*Hence, X will not succeed in his suit for the recovery of the furniture as Z acquired a good title of the furniture.*

(ii) *Against B's tender, R agrees to sell and deliver 1,000 kg tomatoes @ 100 per kg which shall be delivered on 15<sup>th</sup> July, 2023. Due to the rise of the prices of tomatoes in the market, R delivered only 700 kg of tomatoes on 15<sup>th</sup> July, 2023 and agrees to deliver the balance quantity in the next month. B accepted 700 kg of tomatoes sent by R. Later, R failed to deliver the balance quantity and so B refused to pay the price of 700 kg of tomatoes to R as he had failed to fulfill the tender conditions stipulated in the contract of sale.*

*Can B refuse to pay R as per the provisions of the Sale of Goods Act, 1930? (02)*

**Ans.** According to Section 37(1) of the Sale of Goods Act, 1930, where the seller delivers to the buyer a quantity of goods less than he contracted to sell, the buyer may reject them, but if he accepts the goods so delivered, he shall pay for them at the contract rate.

In the instant case, R delivered 700 kg of tomatoes on 15th July, 2023 and agrees to deliver 300 kg in the next month. Later R failed to deliver the balance quantity and B (buyer) refused to pay the price of 700 kg of tomatoes.

Considering the above provisions, we can conclude that B cannot refuse to pay for 700 kg of tomatoes to R.

**Important Note:** The answer can also be given as per Section 34 of the Sale of Goods Act, 1930, which provides that a delivery of part of goods, in progress of the delivery of the whole has the same effect, for the purpose of passing the property in such goods, as a delivery of the whole.

In the instant case, R delivered 700 kg of tomatoes on 15 th July, 2023 and agrees to deliver 300 kg in the next month. Later R failed to deliver the balance quantity and B (buyer) refused to pay the price of 700 kg of tomatoes.

Considering the above provisions, we can conclude that B cannot refuse to pay for 700 kg of tomatoes to R.

**(b) Explain the kinds of share capital as per the Companies Act, 2013. Also, explain when the capital shall be deemed to be preference capital. (06)**

**Ans. Kinds of share capital:** Section 43 of the Companies Act, 2013 provides the kinds of share capital. According to the said provision, the share capital of a company limited by shares shall be of two kinds, namely:—

1. **“Equity share capital”**, with reference to any company limited by shares, means all share capital which is not preference share capital;  
Equity share capital— can be
  - (i) with voting rights; or
  - (ii) with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed;
2. **“Preference share capital”**, with reference to any company limited by shares, means that part of the issued share capital of the company which carries or would carry a preferential right with respect to—

- (a) *payment of dividend, either as a fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income-tax; and*
- (b) *repayment, in the case of a winding up or repayment of capital, of the amount of the share capital paid-up or deemed to have been paid-up, whether or not, there is a preferential right to the payment of any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company;*

**Capital shall be deemed to be preference capital, despite that it is entitled to either or both of the following rights, namely:—**

- (a) *that in respect of dividends, in addition to the preferential rights to the amounts specified as above, it has a right to participate, whether fully or to a limited extent, with capital not entitled to the preferential right aforesaid;*
- (b) *that in respect of capital, in addition to the preferential right to the repayment, on a winding up, of the amounts specified above, it has a right to participate, whether fully or to a limited extent, with capital not entitled to that preferential right in any surplus which may remain after the entire capital has been repaid.*

**6. (a) “Mere silence does not amount to fraud”. Explain the statement as per the provisions contained in the Indian Contract Act, 1872. (05)**

**Ans. Mere silence not amounting to fraud:** *Mere silence as to facts likely to affect the willingness of a person to enter into a contract is no fraud; but where it is the duty of a person to speak, or his silence is equivalent to speech, silence amounts to fraud.*

*It is a rule of law that mere silence does not amount to fraud. A contracting party is not duty bound to disclose the whole truth to the other party or to give him the whole information in his possession affecting the subject matter of the contract.*

The rule is contained in explanation to Section 17 of the Indian Contract Act which clearly states the position that mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud.

Exceptions to this rule:

(i) Where the circumstances of the case are such that, regard being had to them, it is the duty of the person keeping silence to speak. Duty to speak arises when one contracting party reposes trust and confidence in the other or where one party has to depend upon the good sense of the other (e.g. Insurance Contract).

(ii) Where the silence is, in itself, equivalent to speech.

(b) State the rules that should be observed by the partners in settling the accounts of the firm after dissolution under the Indian Partnership Act, 1932? (04)

Ans. Mode of Settlement of partnership accounts (Section 48 of the Indian Partnership Act, 1932): In settling the accounts of a firm after dissolution, the following rules shall, subject to agreement by the partners, be observed:-

(i) Losses, including deficiencies of capital, shall be paid first out of profits, next out of capital, and, lastly, if necessary, by the partners individually in the proportions in which they were entitled to share profits;

(ii) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital, must be applied in the following manner and order:

(a) in paying the debts of the firm to third parties;

(b) in paying to each partner rateably what is due to him from capital;

(c) in paying to each partner rateably what is due to him on account of capital; and

(d) the residue, if any, shall be divided among the partners in the proportions in which they were entitled to share profits.

(c) *MTK Private Limited is a company registered under the Companies Act, 2013 on 5<sup>th</sup> January, 2021. The company has not started its business till now. On 7<sup>th</sup> April, 2023, a notice has been received from ROC for non-filing of FORM No- INC-20A. Identify under which category MTK Private Limited company is classified. Explain the definition of the category of the company in detail. (03)*

*Ans. “Inactive Company” means a company which has not been carrying on any business or operation, or has not made any **significant accounting transaction** during the last two financial years, or has not filed financial statements and annual returns during the last two financial years. [Explanation (i) to Section 455 of the Companies Act, 2013]*

*“Significant accounting transaction” means any transaction other than—*

- (a) payment of fees by a company to the Registrar;*
- (b) payments made by it to fulfil the requirements of this Act or any other law;*
- (c) allotment of shares to fulfil the requirements of this Act; and*
- (d) payments for maintenance of its office and records.*

*[Explanation (ii) to Section 455 of the Companies Act, 2013]*

*In the instant case, MTK Private Limited was registered on 5<sup>th</sup> January, 2021 and has not started its business till now. On 7<sup>th</sup> April, 2023, a notice has been received from ROC for non-filing of Form No. INC-20A. Since the Company has not started its business and a period of more than two years have already elapsed, it will be treated as an inactive company.*

## JUNE 2023

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1. (a) Radha invited her ten close friends to celebrate her 25<sup>th</sup> birthday party on 1<sup>st</sup> January, 2023 at 7.30 P.M. at a well-known “Hi-Fi Restaurant” at Tonk Road Jaipur. All invited friends accepted the invitation and promised to attend the said party. On request of the hotel manager, Radha deposited ₹5,000/- as non-refundable security for the said party. On the scheduled date and time, three among ten invited friends did not turn up for the birthday party and did not convey and prior communication to her. Radha, enraged with the behaviour of the three friends, wanted to sue them for loss incurred in the said party. Advise as per the provisions of the Indian Contract Act, 1872.

Would your answer differ if the said party had been a “Contributory 2023 New Year celebration Party” organized by Radha? (04)

**Ans.** As per one of the requirements of Section 10 of the Indian Contract Act, 1872, there must be an intention on the part of the parties to create legal relationship between them. Social or domestic agreements are not enforceable in court of law and hence they do not result into contracts.

In the instant case, Radha cannot sue her three friends for the loss incurred in the said party as the agreement between her and her ten friends was a social agreement, and the parties did not intend to create any legal relationship.

If the said party organised by Radha had been a “Contributory 2023 New year celebration party”, then Radha could have sued her three friends for the loss incurred in the said party as the agreement between her and her friends would have legal backing; on the basis of which Radha deposited the advance amount and the parties here intended to create legal relationship.

- (b) ABC Limited has allotted equity, shares with voting rights to XYZ Limited worth ₹15 crores and convertible preference shares worth ₹10 crores during the financial year 2022-23. After that the total share capital of the company is ₹100 crores. Comment on whether XYZ Limited would be called an Associate Company as per the provisions of the Companies Act, 2013? Also define an Associate Company.

**Ans. Associate company [Section 2(6) of the Companies Act, 2013] in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.**

*The expression “significant influence” means control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement.*

*The term “joint venture” means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.*

*Since XYZ Limited is holding only 15% significant influence (₹ 15 crore equity shares with voting rights) in ABC Limited, which is less than twenty per cent, XYZ Limited is not an Associate company of ABC Limited.*

**Important Note:**

*It can be assumed that the convertible preference shareholders are having voting rights and due to this, XYZ Limited is holding overall 25% paid up share capital in ABC Limited (with voting rights). Hence, XYZ limited is having significant control over ABC Limited and therefore XYZ is an Associate company of ABC Limited.*

**(c) Mr. A contracted to sell his swift car to Mr. B. Both missed to discuss the price of the said swift car. Later, Mr. A refused to sell his swift car to Mr. B on the ground that the agreement was void being uncertain about the price. Does Mr. B have any right against Mr. A under the Sale of Goods Act, 1930?**

**Ans.** *As per the provisions of Section 2(10) of the Sale of Goods Act, 1930, price is the consideration for sale of goods and therefore is a requirement to make a contract of sale. Section 2(10) is to be read with Section 9 of the Sale of Goods Act, 1930.*

*According to Section 9 of the Sale of Goods Act, 1930, the price in a contract of sale may be fixed by the contract or may be left to be fixed in manner thereby*



*agreed or may be determined by the course of dealing between the parties.*

*Even though both the parties missed to discuss the price of the car while making the contract, it will be a valid contract, rather than being uncertain and void; the buyer shall pay a reasonable price in this situation.*

*In the given case, Mr. A and Mr. B have entered into a contract for sale of a motor car, but they did not fix the price of the same. Mr. A refused to sell the car to Mr. B on this ground. Mr. B can legally demand the car from Mr. A and Mr. A can recover a reasonable price of the car from Mr. B.*

2. ***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. (07)***

**Ans.** *Under the Indian Contract Act, 1872, the consideration for an agreement may proceed from a third party; but the third party cannot sue on contract. Only a person who is party to a contract can sue on it.*

*The aforesaid rule, that stranger to a contract cannot sue is known as a “doctrine of privity of contract”, is however, subject to certain exceptions. In other words, even a stranger to a contract may enforce a claim in the following cases:*

- (1) In the case of trust, a beneficiary can enforce his right under the trust, though he was not a party to the contract between the settler and the trustee.*
- (2) In the case of a family settlement, if the terms of the settlement are reduced into writing, the members of family who originally had not been parties to the settlement, may enforce the agreement.*
- (3) In the case of certain marriage contracts/arrangements, a provision may be made for the benefit of a person, who may file a suit though he is not a party to the agreement.*
- (4) In the case of assignment of a contract, when the benefit under a contract has been assigned, the assignee can enforce the contract but such assignment should not involve any personal skill.*

- (5) **Acknowledgement or estoppel** – Where the promisor by his conduct acknowledges himself as an agent of the third party, it would result into a binding obligation towards third party.
- (6) **In the case of covenant running with the land**, the person who purchases land with notice that the owner of land is bound by certain duties affecting land, the covenant affecting the land may be enforced by the successor of the seller.
- (7) **Contracts entered into through an agent**: The principal can enforce the contracts entered by his agent where the agent has acted within the scope of his authority and in the name of the principal.

3. (a) Explain about the registration procedure of a partnership firm as prescribed under the Indian Partnership Act, 1932. (06)

**Ans. (a) Application for Registration (Section 58 of the Indian Partnership Act, 1932):**

The registration of a firm may be effected at any time by sending by post or delivering to the Registrar of the area in which any place of business of the firm is situated or proposed to be situated, a statement in the prescribed form and accompanied by the prescribed fee, stating-

- (a) The firm's name
- (b) The place or principal place of business of the firm,
- (c) The names of any other places where the firm carries on business,
- (d) the date when each partner joined the firm,
- (e) the names in full and permanent addresses of the partners, and
- (f) the duration of the firm

The statement shall be signed by all the partners, or by their agents specially authorised in this behalf.

(1) Each person signing the statement shall also verify it in the manner prescribed.

(2) A firm name shall not contain any of the following words, namely:-

'Crown', 'Emperor', 'Empress', 'Empire', 'Imperial', 'King', 'Queen', 'Royal', or words expressing or implying the sanction, approval or patronage of Government

*except when the State Government signifies its consent to the use of such words as part of the firm - name by order in writing.*

**Registration (Section 59):** *When the Registrar is satisfied that the provisions of section 58 (above mentioned provisions) have been duly complied with, he shall record an entry of the statement in a register called the Register of Firms and shall file the statement.*

*The Firm when registered shall use the brackets and word (Registered) immediately after its name.*

- (b) (i) Mr. A, the employer induced his employee Mr. B to sell his one room flat to him at less than the market value to secure promotion. Mr. B sold the flat to Mr. A. Later on, Mr. B changed his mind and decided to sue Mr. A. Examine the validity of the contract as per the provisions of the Indian Contract Act, 1872. (02)**

**Ans.** *According to section 16 of the Indian Contract Act, 1872, a contract is said to be induced by 'undue influence' where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and he uses that position to obtain an unfair advantage over the other.*

*When consent to an agreement is caused by undue influence, the contract is voidable at the option of the party, whose consent was so caused.*

*Hence, the contract between Mr. A and Mr. B is voidable at the option of Mr. B as it was induced by undue influence by Mr. A and therefore Mr. B can sue Mr. A.*

- (ii) Mr. S promises Mr. M to paint a family picture for `20,000 and assures to complete his assignment by 15 March, 2023. Unfortunately, Mr. S died in a road accident on 1<sup>st</sup> March, 2023 and his assignment remains undone. Can Mr. M bind the legal representative of Mr. S for the promise made by Mr. S? Suppose Mr. S had promised to deliver some photographs to Mr. M on 15 March, 2023 against a payment of `10,000 but he dies before that**

*day. Will his representative be bound to deliver the photographs in this situation?*

*Decide as per the provisions of the Indian Contract Act, 1872. (04)*

*Ans. The parties to a contract must either perform, or offer to perform, their respective promises, unless such performance is dispensed with or excused under the provisions of this Act, or of any other law.*

*Promises bind the representatives of the promisors in case of the death of such promisors before performance, unless a contrary intention appears from the contract. (Section 37 of the Indian Contract Act, 1872).*

*As per the provisions of Section 40 of the Indian Contract Act, 1872, if it appears from the nature of the case that it was the intention of the parties to any contract that any promise contained in it should be performed by the promisor himself, such promise must be performed by the promisor. In other cases, the promisor or his representative may employ a competent person to perform it.*

*In terms of the provisions of Section 40 stated above, in case where Mr. S has to paint a family picture for Mr. M, Mr. M cannot ask the legal representative of Mr. S to complete the painting work on Mr. S's death, since painting involves the use of personal skill.*

*In terms of the provisions of Section 37 stated above, in case where Mr. S had promised to deliver some photographs to Mr. M, the legal representatives of Mr. S shall be bound to deliver the photographs in this situation.*

**4. (a) Describe in brief the rights of the buyer against the seller in case of breach of contract of Sale. (06)**

*Ans. If the seller commits a breach of contract, the buyer gets the following rights against the seller:*

- 1. Damages for non-delivery [Section 57 of the Sale of Goods Act, 1930]:** *Where the seller wrongfully neglects or refuses to deliver the goods to the buyer, the buyer may sue the seller for damages for non-delivery.*

2. **Suit for specific performance (Section 58):** *Where the seller commits breach of the contract of sale, the buyer can appeal to the court for specific performance. The court can order for specific performance only when the goods are ascertained or specific and where damages would not be an adequate remedy.*
  3. **Suit for breach of warranty (Section 59):** *Where there is breach of warranty on the part of the seller, or where the buyer elects to or is forced to treat breach of condition as breach of warranty, the buyer is not by reason only of such breach of warranty entitled to reject the goods on the basis of such breach of warranty; but the buyer may –*
    - (i) *set up against the seller the breach of warranty in diminution or extinction of the price; or*
    - (ii) *sue the seller for damages for breach of warranty.*
  4. **Repudiation of contract before due date (Section 60):** *Where either party to a contract of sale repudiates the contract before the date of delivery, the other may either treat the contract as:*
    - *subsisting and wait till the date of delivery, or*
    - *he may treat the contract as rescinded and sue for damages for the breach.*
  5. **Suit for interest:**
    - (1) *The buyer is entitled to recover interest or special damages, or to recover the money paid where the consideration for the payment of it has failed.*
    - (2) *In the absence of a contract to the contrary, the court may award interest at such rate as it thinks fit on the amount of the price to the buyer in a suit by him for the refund of the price in a case of a breach of the contract on the part of the seller from the date on which the payment was made.*
- (b) *P, Q and R are partners in a partnership firm. R retires from the firm without giving public notice. P approached S, an electronic appliances trader, for purchase of 25 fans for his firm. P introduced E, an employee of the firm, as his partner*

*to S. S believing E and R as partners supplied 25 fans to the firm on credit. S did not receive the payment for the fans even after the expiry of the credit period. Advise S, from whom he can recover the payment as per the provisions of the Indian Partnership Act, 1932. (06)*

*Ans. According to sub-section (3) of Section 32 of the Indian Partnership Act, 1932, a retiring partner along with the continuing partners continue to be liable to any third party for acts of the firm after his retirement until public notice of his retirement has been given either by himself or by any other partner. But the retired partner will not be liable to any third party if the latter deals with the firm without knowing that the former was a partner.*

*As per the provisions of Section 28, where a man holds himself out as a partner or allows others to do it, when in fact he is not a partner, he is liable like a partner in the firm to anyone who on the faith of such representation has given credit to the firm.*

*In the instant case, since Mr. R has not given the public notice of his retirement from the partnership firm and Mr. S believes that Mr. R is a partner, Mr. R will be liable to Mr. S under the provisions of Section 32.*

*Also Mr. E, who has been introduced as a partner of the firm to which Mr. E has not presumably denied, will also be liable for the payment of 25 fans supplied to the firm on credit along with other partners in terms of the provisions of Section 28 as stated above.*

*Over and above R and E, P and Q being the partners of the firm along with the firm will also be held liable to S.*

*Therefore, S can recover the payment from the Firm, P, Q, R and E.*

- 5. (a) (i) An auction sale of the certain goods was held on 7 March, 2023 by the fall of hammer in favour of the highest bidder X. The payment of auction price was made on 8 March, 2023 followed by the delivery of goods on 10 March, 2023. Based upon on the provisions of the Sale of Goods Act, 1930, decide when the auction sale is complete. (02)**

**Ans.** According to Section 64 of the Sale of Goods Act, 1930, the sale is complete when the auctioneer announces its completion by the fall of hammer or in any other customary manner.

In the given question, the auction sale is complete on 7<sup>th</sup> March, 2023.

(ii) **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. (04)**

**Ans.** As per the provisions of Sub-Section (2) of Section 17 of the Sale of Goods Act, 1930, in a contract of sale by sample, there is an implied condition that:

(a) the bulk shall correspond with the sample in quality;

(b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample.

In this case, M received the goods by sample from L but since the goods were not according to the sample, **M can reject the goods and can sue L.**

With regard to K and L, L can recover damages from K and K can recover damages from J. But, for both K and L, it will not be treated as a breach of implied condition as to sample as they have accepted and sold the goods according to Section 13(2) of the Sale of Goods Act, 1930.

(b) **Explain the concept of 'Corporate Veil'. Briefly state the circumstances when the corporate veil can be lifted as per the provisions of the Companies Act, 2013.(06)**

**Ans.** **Corporate Veil:** Corporate Veil refers to a legal concept whereby the company is identified separately from the members of the company. Due to this, members of a company are shielded from liability connected to the company's actions.

**Lifting of Corporate Veil:** The following are the cases where company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct and separate from its shareholders or members:

- (1) **To determine the character of the company i.e. to find out whether co-enemy or friend:** *It is true that, unlike a natural person, a company does not have mind or conscience; therefore, it cannot be a friend or foe. It may, however, be characterised as an enemy company, if its affairs are under the control of people of an enemy country. For this purpose, the Court may examine the character of the persons who are really at the helm of affairs of the company.*
- (2) **To protect revenue/tax:** *In certain matters concerning the law of taxes, duties and stamps particularly where question of the controlling interest is in issue. Where corporate entity is used to evade or circumvent tax, the Court can disregard the corporate identity.*
- (3) **To avoid a legal obligation:** *Where it was found that the sole purpose for the formation of the company was to use it as a device to reduce the amount to be paid by way of bonus to workmen, the Supreme Court upheld the piercing of the veil to look at the real transaction.*
- (4) **Formation of subsidiaries to act as agents:** *A company may sometimes be regarded as an agent or trustee of its members, or of another company, and may therefore be deemed to have lost its individuality in favour of its principal. Here the principal will be held liable for the acts of that company.*
- (5) **Company formed for fraud/improper conduct or to defeat law:** *Where the device of incorporation is adopted for some illegal or improper purpose, e.g., to defeat or circumvent law, to defraud creditors or to avoid legal obligations.*

6. (a) **Distinguish between Void Contract and Voidable Contract according to the Indian Contract Act, 1872.** (05)

Ans. *The differences between void contract and voidable contract are as follows:*

S. No.	Basis	Void Contract	Voidable Contract
1	<b>Meaning</b>	<i>A Contract which ceases to be enforceable by law becomes void when it ceases to be enforceable.</i>	<i>An agreement which is enforceable by law at the option of one or more of the parties thereto, but not at the option of the other or others, is a voidable contract.</i>



<b>2</b>	<b>Enforceability</b>	<i>A void contract cannot be enforced at all.</i>	<i>It is enforceable only at the option of aggrieved party and not at the option of the other party.</i>
<b>3</b>	<b>Cause</b>	<i>A contract becomes void due to change in law or change in circumstances beyond the contemplation of parties.</i>	<i>A contract becomes a voidable contract if the consent of a party was not free.</i>
<b>4</b>	<b>Performance of contract</b>	<i>A void contract cannot be performed.</i>	<i>If the aggrieved party does not, within reasonable time, exercise his right to avoid the contract, any party can sue the other for claiming the performance of the contract.</i>
<b>5</b>	<b>Rights</b>	<i>A void contract does not grant any legal remedy to any party.</i>	<i>The party whose consent was not free has the right to rescind the contract within a reasonable time. If so rescinded it becomes a void contract. If it is not rescinded it becomes a valid contract.</i>

**(b) What are the rights of partners with respect to conduct of the business of a firm as prescribed under the Indian Partnership Act, 1932? (04)**

**Ans. Conduct of the Business (Section 12 of the Indian Partnership Act, 1932): Subject to contract between the partners-**

- (a) every partner has a right to take part in the conduct of the business;
- (b) every partner is bound to attend diligently to his duties in the conduct of the business;
- (c) any difference arising as to ordinary matters connected with the business may be decided by majority of the partners, and every partner shall have the right to express his opinion before the matter is decided, but no change may be made in the nature of the business without the consent of all partners; and

(d) every partner has a right to have access to and to inspect and copy any of the books of the firm.

(e) in the event of the death of a partner, his heirs or legal representatives or their duly authorised agents shall have a right of access to and to inspect and copy any of the books of the firm.

(c) **ABC Private Limited is a registered company under the Companies Act, 2013 with paid up capital of `35 lakhs and turnover of `2.5 crores. Whether the ABC Private Limited can avail the status of a Small Company in accordance with the provisions of the Companies Act, 2013? Also discuss the meaning of a Small Company. (03)**

**Ans. Small Company:** Small Company as defined under Section 2(85) of the Companies Act, 2013 means a company, other than a public company—

(i) paid-up share capital of which does not exceed ` 4 crore or such higher amount as may be prescribed which shall not be more than ` 10 crore; and

(ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed ` 40 Crore or such higher amount as may be prescribed which shall not be more than ` 100 crore:

**Exceptions:** This clause shall not apply to:

(a) a holding company or a subsidiary company;

(b) a company registered under section 8; or

(c) a company or body corporate governed by any special Act.

In the instant case, since the paid-up capital of ABC Private Limited is ` 35 Lakhs and turnover is ` 2.5 crore, it can avail the status of a small company as both the requirements with regard to paid-up share capital as well as turnover are fulfilled by the Company.

## NOVEMBER 2022

1. (a) X agrees to pay Y ` 1,00,000/-, if Y kills Z. To pay Y, X borrow ` 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 refuses to repay the loan to W. Explain the validity of the contract.
- (i) Between X and Y
- (ii) Between X and W (04)

**Ans. Illegal Agreement:** It is an agreement which the law forbids to be made. As an essential condition, the lawful consideration and object is must to make the agreement valid. (Section 10). As per Section 23 of the Indian Contract Act, 1872, an agreement is illegal and void, if the consideration and object is unlawful / contrary to law i.e. if forbidden by law. Such an agreement is void and is not enforceable by law. Even the connected agreements or collateral transactions to illegal agreements are also void.

In the present case,

- (i) X agrees to give ` 1,00,000 to Y if Y kills Z. Thus, the agreement between X and Y is void agreement being illegal in nature.
- (ii) X borrows ` 1,00,000 from W and W is also aware of the purpose of the loan. Thus, the agreement between X and W is void as the connected agreements of an illegal agreements are also void.
- (b) Mr. R, a manufacturer of toys approached MNO Private Limited for supply of raw material worth ` 1,50,000/-. Mr. R was offered a credit period of one month. Mr. R went to the company prior to the due date and met Mr. C, an employee at the billing counter, who convinced the former that the payment can be made to him as the billing-cashier is on leave. (04)
- Mr. R paid the money and was issued a signed and sealed receipt by Mr. C. After the lapse of due date, Mr. R received a recovery notice from the company for the payment of ` 1,50,000/-.
- Mr. R informed the company that he has already paid the above amount and being an outsider had genuine reasons to trust Mr. C who claimed to be an employee and had issued him a receipt.

*The Company filed a suit against Mr. R for non-payment of dues. Discuss the fate of the suit and the liability of Mr. R towards company as on current date in consonance with the provision of The Companies Act 2013? Would your answer be different if a receipt under the company seal was not issued by Mr. C after receiving payment?*

**Ans. (i) Fate of the suit and the liability of Mr. R towards the company:**

*Doctrine of the Indoor Management*

*According to the Doctrine of the Indoor Management, the outsiders are not deemed to have notice of the internal affairs of the company. They are entitled to assume that the acts of the directors or other officers of the company are validly performed, if they are within the scope of their apparent authority. So long as an act is valid under the articles, if done in a particular manner, an outsider dealing with the company is entitled to assume that it has been done in the manner required. This is the indoor management rule, that the company's indoor affairs are the company's problem. This rule has been laid down in the landmark case-the Royal British Bank vs. Turquand. (Known as "Turquand Rule")*

*In the instant case, Mr. R is not liable to pay the amount of ` 1,50,000 to MNO Private Limited as he had genuine reasons to trust Mr. C, an employee of the company who had issued him a signed and sealed receipt.*

**(ii) Liability of Mr. R in case no receipt is issued by Mr. C:**

*Exceptions to doctrine of indoor management: Suspicion of irregularity is an exception to the doctrine of indoor management. The doctrine of indoor management, in no way, rewards those who behave negligently. It is the duty of the outsider to make necessary enquiry, if the transaction is not in the ordinary course of business.*

*If a receipt under the company seal was not issued by Mr. C after receiving payment, Mr. R is liable to pay the said amount as this will be deemed to be a negligence on the part of Mr. R and it is his duty to make the necessary enquiry to check that whether Mr. C is eligible to take the payment or not.*

(c) **Discuss the various types of implied warranties as per the Sale of Goods Act, 1930.** (04)

*Ans. The examination of Section 14 and 16 of the Sale of Goods Act, 1930 discloses the following implied warranties:*

1. **Warranty as to undisturbed possession [Section 14(b)]:** *An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.*
2. **Warranty as to non-existence of encumbrances [Section 14(c)]:** *An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.*
3. **Warranty as to quality or fitness by usage of trade [Section 16(3)]:** *An implied warranty as to quality or fitness for a particular purpose may be annexed or attached by the usage of trade.*

*Regarding implied condition or warranty as to the quality or fitness for any particular purpose of goods supplied, the rule is 'let the buyer beware' i.e., the seller is under no duty to reveal unflattering truths about the goods sold, but this rule has certain exceptions.*

4. **Disclosure of dangerous nature of goods:** *Where the goods are dangerous in nature and the buyer is ignorant of the danger, the seller must warn the buyer of the probable danger. If there is a breach of warranty, the seller may be liable in damages.*

2. (a) **Explain the following statements in the light of provisions of Indian Contract Act, 1872:** (07)

- (i) **"Agreements made out of love and affection are valid agreements".**
- (ii) **"Promise to pay a time barred debt cannot be enforced."**

*Ans. (a) (i) Agreements made out of love and affection are valid agreements: A written and registered agreement based on natural love and affection between the*

parties standing in near relation (e.g., husband and wife) to each other is enforceable even without consideration. The various conditions to be fulfilled as per Section 25(1) of the Indian Contract Act, 1872:

- (A) It must be made out of natural love and affection between the parties.
- (B) Parties must stand in near relationship to each other.
- (C) It must be in writing.
- (D) It must also be registered under the law.

Hence, the agreements made out of love and affection, without consideration, shall be valid, if the above conditions are fulfilled.

(ii) **Promise to pay a time barred debt cannot be enforced:** According to Section 25(3) of the Indian Contract Act, 1872, where a promise in writing signed by the person making it or by his authorised agent, is made to pay a debt barred by limitation is valid without consideration.

Hence, this statement is not correct.

**Note:** The above statement can be correct also on the basis of the “Discharge of Contract by Lapse of time” as per Limitation Act, 1963, and accordingly it can be mentioned that contract should be performed within a specified period as prescribed by the Limitation Act, 1963 and if no action is taken by the promisee within the specified period of limitation, he is deprived of remedy at law.

(b) **“A LLP (Limited Liability Partnership) is a type of partnership in which participants’ liability is fixed to the amount of money they invest whereas a LLC (Limited Liability Private/Public Company) is a tightly held business entity that incorporates the qualities of a corporation and a partnership”.**

**In line of above statement clearly elaborate the difference between LLP and LLC.(05)**

**Ans. Distinction between Limited Liability Partnership (LLP) and Limited Liability Company (LLC)**

S. No.	Basis	LLP	Limited Liability Company (LLC)
1.	Regulating Act	The LLP Act, 2008.	The Companies Act, 2013.

2.	<b>Members/ Partners</b>	<i>The persons who contribute to LLP are known as partners of the LLP.</i>	<i>The persons who invest the money in the shares are known as members of the company.</i>
3.	<b>Internal governance structure</b>	<i>The internal governance structure of a LLP is governed by agreement between the partners.</i>	<i>The internal governance structure of a company is regulated by statute (i.e., Companies Act, 2013) read with its Memorandum of Association and Articles of Association.</i>
4.	<b>Name</b>	<i>Name of the LLP to contain the word “Limited Liability partnership” or “LLP” as suffix.</i>	<i>Name of the public company to contain the word “limited” and Pvt. Co. to contain the word “Private limited” as suffix.</i>
5.	<b>No. of members/ partners</b>	<i>Minimum – 2 partners Maximum – No such limit on the partners in the Act. The partners of the LLP can be individuals/or body corporate through the nominees.</i>	<b>Private company:</b> <i>Minimum – 2 members Maximum 200 members</i> <b>Public company:</b> <i>Minimum – 7 members Maximum – No such limit on the members. Members can be organizations, trusts, another business form or individuals.</i>
6.	<b>Liability of members/ partners</b>	<i>Liability of a partners is limited to the extent of agreed contribution.</i>	<i>Liability of a member is limited to the amount unpaid on the shares held by them.</i>
7.	<b>Management</b>	<i>The business of the LLP managed by the partners including the designated partners authorized in the agreement.</i>	<i>The affairs of the company are managed by board of directors elected by the shareholders.</i>
8.	<b>Minimum number of directors/ designated partners</b>	<i>2 designated partners.</i>	<i>Pvt. Co. – 2 directors Public co. – 3 directors</i>

3. (a) *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 Indian Partnership Act, 1932?* (06)

**Ans.** *Expulsion of partner and factors to be kept in mind:*

*As per Section 33 of the Indian Partnership Act, 1932, a partner may not be expelled from a firm except*

- (i) the power of expulsion must have existed in a contract between the partners;*
- (ii) the power has been exercised by a majority of the partners; and*
- (iii) it has been exercised in good faith.*

*If all these conditions are not present, the expulsion is not deemed to be in bona fide interest of the business of the firm and shall be null and void.*

*The test of good faith as required under Section 33(1) includes three things:*

- (i) The expulsion must be in the interest of the partnership*
- (ii) The partner to be expelled is served with a notice*
- (iii) He is given an opportunity of being heard.*
- (iv) Yes, a partner may be expelled by other partners strictly in compliance with the provisions of section 33.*

- (b) *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 necessaries to both of them. Mr. Y and his grandmother used to live in the house built by his parents. Mr. M also provided grandmother some financial assistance for her emergency medical treatment. After supplying necessaries 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 parent's jewellery to sell to a maximum value of `4 Lakhs, which may be adjusted against the dues. Mr. M refused and threatened Mr. Y of 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:*



- (i) Will Mr. M succeed in filing the suit to recover money? Elaborate the related provisions?**
- (ii) What is the maximum amount of money that can be recovered by Mr. M?**
- (iii) Shall the provisions of the above act also apply to the medical treatment given to the grandmother? (06)**

**Ans. (i)** *Claim for necessaries supplied to persons incapable of contracting (Section 68 of the Indian Contract Act, 1872):*

*If a person, incapable of entering into a contract, or anyone whom he is legally bound to support, is supplied by another person with necessaries suited to his condition in life, the person who has furnished such supplies is entitled to be reimbursed from the property of such incapable person.*

*In the instant case, Mr. M supplied the food and other necessaries to Mr. Y (who lost his mental balance) and Mr. Y's grandmother (incapable of walking and dependent upon Mr. Y), hence, Mr. M will succeed in filing the suit to recover money.*

- (ii)** *Supplier is entitled to be reimbursed from the property of such incapable person. Hence, the maximum amount of money that can be recovered by Mr. M is ` 15 Lakhs and this amount can be recovered from Mr. Y's parent's jewellery amounting to ` 4 Lakhs and rest from the house of Y's Parents. (Assumption: Y has inherited the house property on the death of his parents)*
- (iii)** *Necessaries will include the emergency medical treatment. Hence, the above provisions will also apply to the medical treatment given to the grandmother as Y is legally bound to support his grandmother.*

**4. (a) What are the rights of unpaid seller in context to re-sale the goods under Sale of Goods Act, 1930? (06)**

**Ans. Right of re-sale [Section 54 of the Sale of Goods Act, 1930]:**

*The unpaid seller can exercise the right to re-sell the goods under the following conditions:*

**(i) Where the goods are of a perishable nature:** In such a case, the buyer need not be informed of the intention of resale.

**(ii) Where he gives notice to the buyer of his intention to re-sell the goods:** If after the receipt of such notice the buyer fails within a reasonable time to pay or tender the price, the seller may resell the goods.

It may be noted that in such cases, on the resale of the goods, the seller is also entitled to:

(a) Recover the difference between the contract price and resale price, from the original buyer, as damages.

(b) Retain the profit if the resale price is higher than the contract price.

It may also be noted that the seller can recover damages and retain the profits only when the goods are resold after giving the notice of resale to the buyer. Thus, if the goods are resold by the seller without giving any notice to the buyer, the seller cannot recover the loss suffered on resale. Moreover, if there is any profit on resale, he must return it to the original buyer, i.e. he cannot keep such surplus with him [Section 54(2)].

**(iii) Where an unpaid seller who has exercised his right of lien or stoppage in transit resells the goods:** The subsequent buyer acquires the good title thereof as against the original buyer, despite the fact that the notice of re-sale has not been given by the seller to the original buyer.

**(iv) A re-sale by the seller where a right of re-sale is expressly reserved in a contract of sale:** Sometimes, it is expressly agreed between the seller and the buyer that in case the buyer makes default in payment of the price, the seller will resell the goods to some other person. In such cases, the seller is said to have reserved his right of resale, and he may resell the goods on buyer's default.

It may be noted that in such cases, the seller is not required to give notice of resale. He is entitled to recover damages from the original buyer even if no notice of resale is given.

**(v) Where the property in goods has not passed to the buyer:** The unpaid seller has in addition to his remedies a right of withholding delivery of the goods. This right is similar to lien and is called "quasi-lien".

- (b) **“Indian Partnership Act does not make the registration of firm’s 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. Also, explain the rights unaffected due to non-registration of firms. (06)**

**Ans.** *It is true to say that Indian Partnership Act, 1932 does not make the registration of firms compulsory nor does it impose any penalty for non-registration.*

*Following are the consequences of Non-registration of Partnership Firms in India:*

*The Indian Partnership Act, 1932 does not make the registration of firms compulsory nor does it impose any penalty for non-registration. However, under Section 69 of the Indian Partnership Act, 1932, non-registration of partnership gives rise to a number of disabilities. These disabilities briefly are as follows:*

- (i) No suit in a civil court by firm or other co-partners against third party:** *The firm or any other person on its behalf cannot bring an action against the third party for breach of contract entered into by the firm, unless the firm is registered and the persons suing are or have been shown in the register of firms as partners in the firm.*
- (ii) No relief to partners for set-off of claim:** *If an action is brought against the firm by a third party, then neither the firm nor the partner can claim any set-off, if the suit be valued for more than ` 100 or pursue other proceedings to enforce the rights arising from any contract.*
- (iii) Aggrieved partner cannot bring legal action against other partner or the firm:** *A partner of an unregistered firm (or any other person on his behalf) is precluded from bringing legal action against the firm or any person alleged to be or to have been a partner in the firm. But, such a person may sue for dissolution of the firm or for accounts and realization of his share in the firm’s property where the firm is dissolved.*
- (iv) Third party can sue the firm:** *In case of an unregistered firm, an action can be brought against the firm by a third party.*

**Following are the Rights unaffected due to non-registration of firms:** *Non-registration of a firm does not, however effect the following rights:*

1. *The right of third parties to sue the firm or any partner.*
  2. *The right of partners to sue for the dissolution of the firm or for the settlement of the accounts of a dissolved firm, or for realization of the property of a dissolved firm.*
  3. *The power of an Official Assignees, Receiver of Court to release the property of the insolvent partner and to bring an action.*
  4. *The right to sue or claim a set-off if the value of suit does not exceed ₹ 100 in value.*
  5. *The right to suit and proceeding instituted by legal representatives or heirs of the deceased partner of a firm for accounts of the firm or to realise the property of the firm.*
5. (a) *Mr. K visited M/S Makrana Marbles for the purchase of marble and tiles for his newly built house. He asked the owner of the above shop Mr. J to visit his house prior to supply so that he can clearly ascertain the correct mix and measurements of marble and tiles. Mr. J agreed and visited the house on the next day. He inspected the rooms in the first floor and the car parking space. Mr. K insisted him to visit the second floor as well because the construction pattern was different, Mr. J ignored the above suggestion.*

*Mr. J. supplied 146 blocks of marble as per the size for the rooms and 16 boxes of tiles with a word of caution that the tiles can bear only a reasonable weight. Marble and Tiles were successfully laid except on second floor due to different sizes of the marble. The tiles fitted in the parking space also got damaged due to the weight of the vehicle came for unloading cement bags. Mr. K asked Mr. J for the replacement of marble and tiles to which Mr. J refused, taking the plea that the marble were as per the measurement and it was unsafe to fit tiles at the parking area as it cannot take heavy load. Discuss in the light of provisions of Sales of Goods Act 1930:*

- (i) *Can Mr. J refuse to replace the marble with reference to the doctrine of Caveat Emptor? Enlist the duties of both Mr. K and Mr. J.*

**(ii) Whether the replacement of damaged tiles be imposed on M/S Makrana Marbles? Explain. (06)**

**Ans. (i)** Yes, Mr. J can refuse to replace the marble as he has supplied the marble as per the requirement of the buyer i.e. Mr. K.

**Duty of Mr. K (the buyer)** is that he has to examine the marbles and tiles carefully and should follow the caution given by Mr. J i.e. the seller that tiles can bear only a reasonable weight before laying them in the parking space of his house.

**Duty of Mr. J (the seller)** is that the goods supplied (i.e. tiles and marbles) shall be reasonably fit for the purpose for which the buyer wants them.

According to the doctrine of *Caveat Emptor*, it is the duty of the buyer to satisfy himself before buying the goods that the goods will serve the purpose for which they are being bought.

In this case Mr. K has accepted the marbles without examination. Hence, there is no implied condition as regards to defects in marbles. Mr. J can refuse to replace the marble as he has supplied the marble as per the requirement of the buyer i.e., Mr. K.

**(ii)** According to the doctrine of *Caveat Emptor*, it is the duty of the buyer to satisfy himself before buying the goods that the goods will serve the purpose for which they are being bought.

Here, Mr. J supplied the boxes of tiles with a word of caution that the tiles can bear only a reasonable weight. Even though the tiles were laid in the car parking space of Mr. K and got damaged later because of vehicle used for unloading of cement bags were beyond the reasonable weight. Hence, the seller i.e., M/s Makrana Marbles is not liable as the buyer Mr. K as before laying down the tiles, has to satisfy himself that the tiles will serve the specific purpose i.e., can be used for car parking space only.

Therefore, the replacement of the damaged tiles cannot be imposed on M/s Makrana Marbles.

**(b) (i) Mr. Anil formed a One Person Company (OPC) on 16 April, 2018 for manufacturing electric cars. The turnover of the OPC for the financial year ended 31<sup>st</sup> March, 2019 was about 2.25 crores. His friend Sunil wanted to invest in his One Person Company (OPC), so they decided to convert it voluntarily into a private limited company. Can Anil do so, as per the provisions of The Companies Act, 2013? (04)**

**Ans.** Section 2(62) of the Companies Act, 2013 defines one person company as a company which has only one person as a member. However, a private company shall have minimum 2 members without any restriction on the share capital or turnover. If OPC is converted into private company Mr. Anil and Mr. Sunil both can be the members of the company and investment from Mr. Sunil can be accepted.

A One Person Company can voluntarily convert itself into a private company by following the compliances given under the Companies Act, 2013.

In the instant case, OPC formed by Mr. Anil can be voluntarily converted into a private company by following the compliances given under the Companies Act, 2013. Here, the information given relating to turnover for the financial year ended 31<sup>st</sup> March, 2019 is immaterial.

**(ii) Explain listed company and unlisted company as per the provisions of The Companies Act, 2013. (02)**

**Ans. Listed company:** As per the definition given in the section 2(52) of the Companies Act, 2013, it is a company which has any of its securities listed on any recognised stock exchange.

Provided that such class of companies, which have listed or intend to list such class of securities, as may be prescribed in consultation with the Securities and Exchange Board, shall not be considered as listed companies.

Whereas the word securities as per the section 2(81) of the Companies Act, 2013 has been assigned the same meaning as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956.

**Unlisted company** means company other than listed company.

6. (a) Differentiate between Novation and Alteration as per The Indian Contract Act, 1872. (05)

**Ans. Novation and Alteration:** The law pertaining to novation and alteration is contained in Sections 62 to 67 of the Indian Contract Act, 1872. In both these cases, the original contract need not be performed. Still there is a difference between these two.

1. **Meaning:** Novation means substitution of an existing contract with a new one. But in case of alteration the terms of the contract may be altered by mutual agreement by the contracting parties.
2. **Change in terms and conditions and parties:** Novation may be made by changing in the terms of the contract or there may be a change in the contracting parties. But in case of alteration the terms of the contract may be altered by mutual agreement by the contracting parties but the parties to the contract will remain the same.
3. **Substitution of new contract:** In case of novation, there is altogether a substitution of new contract in place of the old contract. But in case of alteration, it is not essential to substitute a new contract in place of the old contract. In alteration, there may be a change in some of the terms and conditions of the original agreement.

(b) What is the difference between partnership and co-ownership as per The Indian Partnership Act, 1932? (04)

**Ans. Partnership Vs. Co-Ownership or joint ownership** i.e. the relation which subsists between persons who own property jointly or in common.

Basis of difference	Partnership	Co-ownership
2. Implied agency	A partner is the agent of	

<b>3. Nature of interest</b>	<i>There is community of interest which means that profits and losses must have to be shared.</i>	<i>Co-ownership does not necessarily involve sharing of profits and losses.</i>
<b>4. Transfer of interest</b>	<i>A share in the partnership is transferred only by the consent of other partners.</i>	<i>A co-owner may transfer his interest or rights in the property without the consent of other co-owners.</i>

**(c) Mike LLC incorporated in Singapore having an office in Pune, India. Analyse whether Mike LLC would be called as a foreign company as per the provisions of The Companies Act, 2013? Also explain the meaning of foreign company. (03)**

*Ans. Mike LLC is incorporated in Singapore and having a place of business in Pune, India. Since, Mike LLC is incorporated outside India and having a Place of business in India, hence it is a foreign Company.*

**Foreign Company [Section 2(42) of the Companies Act, 2013]:** *It means any company or body corporate incorporated outside India which—*

- (i) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and*
- (ii) conducts any business activity in India in any other manner.*



## MAY 2022

1. (a) Sheena was a classical dancer. She entered into an agreement with Shital Vidya Mandir for 60 dance performances. As per the contract, she was supposed to perform every weekend and she will be paid 10,000/- per performance. However, after a month, she was absent without informing, due to her personal reasons. Answer the following questions as per the Indian Contract Act, 1872.

- (i) Whether the management of Shital Vidya Mandir has right to terminate the contract?
- (ii) If the management of Shital Vidya Mandir informed Sheena about its continuance, can the management still rescind the contract after a month on this ground subsequently?
- (iii) Can the Shital Vidya Mandir claim damages that it has suffered because of this breach in any of the above cases? (04)

*Ans.* Section 39 provides that when a party to a contract has refused to perform or disabled himself from performing his promise in its entirety the promisee may put an end to the contract unless he had signified, by words or conduct his acquiescence in its continuance. Further, in term of Section 40, the promisee shall be required to perform personally, if there is such an apparent intention of the parties.

Also, as per Section 75 of the Act, a person who rightfully rescinds a contract is entitled to compensation for any damage which he has sustained through non-fulfilment of the contract.

Therefore, in the instant case,

- (i) Since, Sheena could not perform as per the terms of contract, Shital Vidya Mandir can terminate the contract.
- (ii) In the second situation, the management of Shital Vidya Mandir informed Sheena about the continuance of the contract. Hence, the management cannot now rescind the contract after a month on this ground subsequently.
- (iii) As per Section 75, Shital Vidya Mandir can claim damages that it has suffered because of this breach in part (i).

- (b) *The Articles of Association of Aarna Limited empowers its managing agents to borrow loans on behalf of the company. Ms. Anika, the director of the company, borrowed ` 18 Lakhs in name of the company from Quick Finance Limited, a non-banking finance company. Later on, Aarna Limited refused to repay the money borrowed on the pretext that no resolution authorizing such loan have been actually passed by the company and therefore the company is not liable to pay such loan. Decide whether the contention of Aarna Limited is correct in accordance with the provisions of the Companies Act, 2013? (04)*

*Ans. Doctrine of Indoor Management*

*According to this doctrine, persons dealing with the company need not inquire whether internal proceedings relating to the contract are followed correctly, once they are satisfied that the transaction is in accordance with the memorandum and articles of association.*

*Stakeholders need not enquire whether the necessary meeting was convened and held properly or whether necessary resolution was passed properly. They are entitled to take it for granted that the company had gone through all these proceedings in a regular manner.*

*The doctrine helps to protect the external members from the company and states that the people are entitled to presume that internal proceedings are as per documents submitted with the Registrar of Companies.*

*Thus,*

- 1. What happens internal to a company is not a matter of public knowledge. An outsider can only presume the intentions of a company, but do not know the information he/she is not privy to.*
- 2. If not for the doctrine, the company could escape creditors by denying the authority of officials to act on its behalf.*

*In the given question, Quick Finance Limited being external to the company, need not enquire whether the necessary resolution was passed properly. Even if Aarna Limited claims that no resolution authorizing the loan was passed, Aarna Limited is bound to repay the loan to Quick Finance Limited.*

(c) **What are the consequences of destruction of specified goods, before making of contract and after the agreement to sell under the Sale of Goods Act, 1930. (04)**

**Ans. (i) Goods perishing before making of Contract (Section 7 of the Sale of Goods**

**Act, 1930):** In accordance with the provisions of the Sale of Goods Act, 1930 as contained in Section 7, a contract for the sale of specific goods is void, if at the time when the contract was made; the goods without the knowledge of the seller, perished or become so damaged as no longer to answer to their description in the contract, then the contract is void ab initio.

**(ii) Goods perishing before sale but after agreement to sell (Section 8 of the Sale of Goods Act, 1930):** Where there is an agreement to sell specific goods, and subsequently the goods without any fault on the part of the seller or buyer perish or become so damaged as no longer to answer to their description in the agreement before the risk passes to the buyer, the agreement is thereby avoided or becomes void.

2. (a) **“The general rule is that an agreement made without consideration is void”. State the exceptions of this general rule as per the Indian Contract Act, 1872. (07)**

**Ans. An agreement made without consideration is void (Section 25 of the Indian Contract Act, 1872):** In every valid contract, consideration is very important. A contract may only be enforceable when consideration is there. However, the Indian Contract Act contains certain exceptions to this rule. In the following cases, the agreement though made without consideration, will be valid and enforceable.

**Exceptions:**

1. **Natural Love and Affection:** Conditions to be fulfilled under section 25(1)

(i) It must be made out of natural love and affection between the parties.

(ii) Parties must stand in near relationship to each other.

(iii) It must be in writing.

(iv) It must also be registered under the law.

*A written and registered agreement based on natural love and affection between the parties standing in near relation (e.g., husband and wife) to each other is enforceable even without consideration.*

2. **Compensation for past voluntary services:** *A promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor, is enforceable under Section 25(2). In order that a promise to pay for the past voluntary services be binding, the following essential factors must exist:*
  - (i) *The services should have been rendered voluntarily.*
  - (ii) *The services must have been rendered for the promisor.*
  - (iii) *The promisor must be in existence at the time when services were rendered.*
  - (iv) *The promisor must have intended to compensate the promisee.*
3. **Promise to pay time barred debt:** *Where a promise in writing signed by the person making it or by his authorised agent, is made to pay a debt barred by limitation it is valid without consideration [Section 25(3)].*
4. **Agency:** *According to Section 185 of the Indian Contract Act, 1872, no consideration is necessary to create an agency.*
5. **Completed gift:** *In case of completed gifts, the rule no consideration no contract does not apply. Explanation (1) to Section 25 states “nothing in this section shall affect the validity as between the donor and donee, of any gift actually made.” Thus, gifts do not require any consideration.*
6. **Bailment:** *No consideration is required to affect the contract of bailment. Section 148 of the Indian Contract Act, 1872, defines bailment as the delivery of goods from one person to another for some purpose. This delivery is made upon a contract that post accomplishment of the purpose, the goods will either be returned or disposed of, according to the directions of the person delivering them. No consideration is required to affect a contract of bailment.*
7. **Charity:** *If a promisee undertakes the liability on the promise of the person to contribute to charity, there the contract shall be valid. (Kadarnath v. Gorie Mohammad)*

**(b) Explain the incorporation by registration of a Limited Liability Partnership and its essential elements under the LLP Act, 2008. (05)**

**Ans.** Incorporation by registration (Section 12 of LLP Act, 2008):

- (1) When the requirements imposed by clauses (b) and (c) of sub-section (1) of section 11 have been complied with, the Registrar shall retain the incorporation document and, unless the requirement imposed by clause (a) of ~~that~~ sub-section has not been complied with, he shall, within a period of 14 days—
  - (a) register the incorporation document; and
  - (b) give a certificate that the LLP is incorporated by the name specified therein.
- (2) The Registrar may accept ~~t~~ the statement delivered under clause (c) of sub-section (1) of section 11 as sufficient evidence that the requirement imposed by clause (a) of that sub-section has been complied with.
- (3) The certificate issued under clause (b) of sub-section (1) shall be signed by the Registrar and authenticated by his official seal.
- (4) The certificate shall be conclusive evidence that the LLP is incorporated by the name specified therein.

**Essential elements to incorporate Limited Liability Partnership (LLP)**

Under the LLP Act, 2008, the following elements are very essential to form a LLP in India:

- (i) To complete and submit incorporation document in the form prescribed with the Registrar electronically;
- (ii) To have at least ~~t~~ two partners for incorporation of LLP [Individual or body corporate];
- (iii) To have registered office in India to which all communications will be made and received;
- (iv) To appoint ~~t~~ minimum two individuals as designated partners who will be responsible for number of duties including doing of all acts, ~~tt~~ matters and things as are required to be done by the LLP. At least ~~t~~ one of them should be resident in India.

(v) A person or nominee of body corporate intending to be appointed as designated partner of LLP should hold a Designated Partner Identification Number (DPIN) allotted by Ministry of Corporate Affairs.

(vi) To execute a partnership agreement between the partners, inter se or between the LLP and its partners. In the absence of any agreement the provisions as set out in First Schedule of LLP Act, 2008 will be applied.

(vii) LLP Name.

3. (a) (i) What do you mean by 'Partnership for a fixed period' as per the Indian Partnership Act, 1932? (02)

**Ans. Partnership for a fixed period (Indian Partnership Act, 1932):** Where a provision is made by a contract for the duration of the partnership, the partnership is called 'partnership for a fixed period'. It is a partnership created for a particular period of time. Such a partnership comes to an end on the expiry of the fixed period.

(ii) 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. (04)

**Ans. Minor as a partner:** A minor is not competent to contract. Hence, a person who is a minor according to the law to which he is subject may not be a partner in a firm, but with the consent of all the partners for the time being, he may be admitted to the benefits of partnership.

**Rights of a minor in a partnership firm:**

(i) A minor partner has a right to his agreed share of the profits and of the firm.

(ii) He can have access to, inspect and copy the accounts of the firm.

(iii) He can sue the partners for accounts or for payment of his share but only when severing his connection with the firm, and not otherwise.

(iv) On attaining majority, he may within 6 months elect to become a partner or not to become a partner. If he elects to become a partner, then he is entitled to the share to which he was entitled as a minor. If he does not, then his share is not liable for any acts of the firm after the date of the public notice served to that effect.

**(b) Srishti, a minor, falsely representing her age, enters into an agreement with an authorised Laptop dealer Mr. Gupta, owner of SP Laptops, for purchase of Laptop on credit amounting ₹ 60,000/- for purchasing a laptop on 1<sup>st</sup> August 2021. She promised to pay back the outstanding amount with interest @ 16% p.a. by 31<sup>st</sup> July, 2022. She told him that in case she won't be able to pay the outstanding amount, her father Mr. Ram will pay back on her behalf. After One year when Srishti was asked to pay the outstanding amount with interest she refused to pay the amount and told the owner that she is minor and now he can't recover a single penny from her.**

**She will be adult on 1<sup>st</sup> January 2024, only after that agreement can be ratified. Explain by which of the following way Mr. Gupta will succeed in recovering the outstanding amount with reference to the Indian Contract Act, 1872.**

- (i) By filing a case against Srishti, a minor for recovery of outstanding amount with interest?**
- (ii) By filing a case against Mr. Ram, father of Srishti for recovery of outstanding amount?**
- (iii) By filing a case against Srishti, a minor for recovery of outstanding amount after she attains maturity? (06)**

**Ans. A contract made with or by a minor is void ab-initio: Pursuant to Section 11, a minor is not competent to contract and any agreement with or by a minor is void from the very beginning.**

- (i) By following the above provision, Mr. Gupta will not succeed in recovering the outstanding amount by filing a case against Srishti, a minor.**
- (ii) Minor cannot bind parent or guardian: In the absence of authority, express or implied, a minor is not capable of binding his parent or guardian, even for necessities. The parents will be held liable only when the child is acting as an agent for parents.**

**In the instant case, Mr. Gupta will not succeed in recovering the outstanding amount by filing a case against Mr. Ram, father of Srishti.**

*(iii) No ratification after attaining majority: A minor cannot ratify the agreement on attaining majority as the original agreement is void ab initio and a void agreement can never be ratified.*

*Hence, in this case also, Mr. Gupta will not succeed in recovering the outstanding amount by filing a case against Srishti, after she attains majority.*

**4. (a) 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? (06)**

**Ans.(i) Sale by sample [Section 17 of the Sale of Goods Act, 1930]:** *In a contract of sale by sample, there is an implied condition that*

*(a) the bulk shall correspond with the sample in quality;*

*(b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample*

*(c) the goods shall be free from any defect rendering them un-merchantable, which would not be apparent on reasonable examination of the sample. This condition is applicable only with regard to defects, which could not be discovered by an ordinary examination of the goods. If the defects are latent, then the buyer can avoid the contract. This simply means that the goods shall be free from any latent defect i.e. a hidden defect.*

**(ii) The following are the implied warranties operative under the Act:**

**1. Warranty as to undisturbed possession [Section 14(b)]:** *An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.*

**2. Warranty as to non-existence of encumbrances [Section 14(c)]:** *An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.*

**3. Warranty as to quality or fitness by usage of trade [Section 16(3)]:** *An implied warranty as to quality or fitness for a particular purpose may be annexed or attached by the usage of trade.*



Regarding implied condition or warranty as to the quality or fitness for any particular purpose of goods supplied, the rule is 'let the buyer beware' i.e., the seller is under no duty to reveal unflattering truths about the goods sold, but this rule has certain exceptions.

4. **Disclosure of dangerous nature of goods:** Where the goods are dangerous in nature and the buyer is ignorant of the danger, the seller must warn the buyer of the probable danger. If there is a breach of warranty, the seller may be liable in damages.

(b) **M/S ABC Associates is a partnership firm since 1990. Mr. A, Mr. B and Mr. C were partners in the firm since beginning. Mr. A, Being a very senior partner of aged 78 years transfers his share in the firm to his son Mr. Prateek, a Chartered Accountant. Mr. B and Mr. C were not interested that Mr. Prateek join them as partner in M/S ABC Associates. After some time, Mr. Prateek felt that the books of accounts were displaying only a small amount as profit despite a huge turnover. He wanted to inspect the book of accounts of the firm arguing that it is his entitlement as a transferee. However, the other partners believed that he cannot challenge the books of accounts. Can Mr. Prateek, be introduced as a partner if his father wants to get a retirement? As an advisor, help them resolve the issues applying the necessary provisions from the Indian Partnership Act, 1932. (06)**

**Ans. (i) Introduction of a Partner (Section 31 of the Indian Partnership Act, 1932):** Subject to contract between the partners and to the provisions of Section 30, no person shall be introduced as a partner into a firm without the consent of all the existing partners.

In the instant case, Mr. Prateek can be introduced as a partner with the consent of Mr. B and Mr. C, the existing partners.

**(ii) Rights of Transferee of a Partner's interest (Section 29):** A transfer by a partner of his interest in the firm, either absolute or by mortgage, or by the creation by him of a charge on such interest, does not entitle the transferee,

during the continuance of the firm, to interfere in the conduct of business, or to require accounts, or to inspect the books of the firm, but entitles the transferee only to receive the share of profits of the transferring partner, and the transferee shall accept the account of profits agreed to by the partners.

Hence, here Mr. Prateek, the transferee in M/S ABC Associates cannot inspect the books of the firm and contention of the other partners is right that Mr. Prateek cannot challenge the books of accounts.

5. (a) Sonal went to a Jewellery shop and asked the sales girl 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 denied for the same. Answer the following questions as per the sale of Goods Act, 1930.

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

(ii) What would be your answer if Jeweller says that he can change the design, but he will charge extra cost for the same? (06)

Ans. (a) As per Section 4(3) of the Sale of Goods Act, 1930, where under a contract of sale, the property in the goods is transferred from the seller to the buyer, the contract is called a sale, but where the transfer of the property in the goods is to take place at a future time or subject to some condition thereafter to be fulfilled, the contract is called an agreement to sell and as per Section 4(4), an agreement to sell becomes a sale when the time elapses or the conditions are fulfilled subject to which the property in the goods is to be transferred.

(i) On the basis of above provisions and facts given in the question, it can be said that there is an agreement to sell between Sonal and Jeweller and not a sale. Even though the payment was made by Sonal, the property in goods can be transferred only after the fulfilment of conditions fixed between the buyer and the seller. As due to Ruby Stones, the original design is disturbed, bangles are not in original position. Hence, Sonal has right to avoid the agreement to sell and can recover the price paid.

(ii) If Jeweller offers to bring the bangles in original position by repairing, he cannot charge extra cost from Sonal. Even though he has to bear some expenses for repair; he cannot charge it from Sonal.

(b) Explain the 'doctrine of ultra vires under the Companies Act, 2013. What are the consequences of 'ultra vires' acts of the company? (06)

Ans. Doctrine of ultra vires:

The meaning of the term *ultra vires* is simply "beyond (their) powers". The legal phrase "*ultra vires*" is applicable only to acts done in excess of the legal powers of the doers. This presupposes that the powers in their nature are limited. To an ordinary citizen, the law permits whatever does the law not expressly forbid. It is a fundamental rule of Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent permitted by the Act, thus far and no further [Ashbury Railway Company Ltd. vs. Riche]. In consequence, any act done or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company. On this account, a company can be restrained from employing its fund for purposes other than those sanctioned by the memorandum. Likewise, it can be restrained from carrying on a trade different from the one it is authorised to carry on.

Consequences of 'ultra vires' acts of the company:

The impact of the doctrine of *ultra vires* is that a company can neither be sued on an *ultra vires* transaction, nor can it sue on it. Since the memorandum is a "public document", it is open to public inspection. Therefore, when one deals

*with a company one is deemed to know about the powers of the company. If in spite of this one enters into a transaction which is ultra vires the company, he/she cannot enforce it against the company.*

*An act which is ultra vires the company being void, cannot be ratified by the shareholders of the company.*

*However, some ultra vires act can be regularised by ratifying them subsequently. For instance, if the act is ultra vires the power of the directors, the shareholders can ratify it; if it is ultra vires the articles of the company, the company can alter the articles; if the act is within the power of the company but is done irregularly, shareholders can validate such acts.*

6. (a) **“Liquidated damage is a genuine pre-estimate of compensation of damages for certain anticipated breach of contract whereas Penalty on the other hand is an extravagant amount stipulated and is clearly unconscionable and has no comparison to the loss suffered by the parties”.** Explain the statement by differentiating between liquidated damages and penalty with reference to provisions of the Indian Contract Act, 1872. (05)

**Ans.** *Liquidated damages is a genuine pre-estimate of compensation of damage for certain anticipated breach of contract. This estimate is agreed to between parties to avoid at a later date detailed calculation and the necessity to convince outside parties.*

*Penalty on the other hand is an extravagant amount stipulated and is clearly unconscionable and has no comparison to the loss suffered by the parties.*

*Distinction between liquidated damages and penalty*

*Penalty and liquidated damages have one thing in common that both are payable on the occurrence of a breach of contract. It is very difficult to draw a clear line of distinction between the two but certain principles as laid down below may be helpful.*

1. *If the sum payable is so large as to be far in excess of the probable damage on breach, it is certainly a penalty.*
2. *Where a sum is expressed to be payable on a certain date and a further sum in the event of default being made, the latter sum is a penalty because mere delay in payment is unlikely to cause damage.*

3. *The expression used by the parties is not final. The court must find out whether the sum fixed in the contract is in truth a penalty or liquidated damages. If the sum fixed is extravagant or exorbitant, the court will regard it as a penalty even if, it is termed as liquidated damages in the contract.*
4. *The essence of a penalty is payment of money stipulated as a terrorem of the offending party. The essence of liquidated damages is a genuine pre-estimate of the damage.*
5. *English law makes a distinction between liquidated damages and penalty, but no such distinction is followed in India. The courts in India must ascertain the actual loss and award the same which amount must not, however exceed the sum so fixed in the contract. The courts have not to bother about the distinction but to award reasonable compensation not exceeding the sum so fixed.*

**(b) Explain the grounds on which court may dissolve a partnership firm in case of any partner files a suit for the same. (04)**

**Ans.** *According to Section 44 of the Indian Partnership Act, 1932, Court may, at the suit of the partner, dissolve a firm on any of the following grounds:*

- (a) Insanity/unsound mind:** *Where a partner (not a sleeping partner) has become of unsound mind, the court may dissolve the firm on a suit of the other partners or by the next friend of the insane partner. Temporary sickness is no ground for dissolution of firm.*
- (b) Permanent incapacity:** *When a partner, other than the partner suing, has become in any way permanently incapable of performing his duties as partner, then the court may dissolve the firm. Such permanent incapacity may result from physical disability or illness etc.*
- (c) Misconduct:** *Where a partner, other than the partner suing, is guilty of conduct which is likely to affect prejudicially the carrying on of business, the court may order for dissolution of the firm, by giving regard to the nature of business.*

(d) **Persistent breach of agreement:** Following comes into category of breach of contract:

- Embezzlement,
- Keeping erroneous accounts
- Holding more cash than allowed
- Refusal to show accounts despite repeated request etc.

(e) **Transfer of interest:** Where a partner other than the partner suing, has transferred the whole of his interest in the firm to a third party or has allowed his share to be charged or sold by the court, in the recovery of arrears of land revenue due by the partner, the court may dissolve the firm at the instance of any other partner.

(f) **Continuous/Perpetual losses:** Where the business of the firm cannot be carried on except at a loss in future also, the court may order for its dissolution.

(g) **Just and equitable grounds:** Where the court considers any other ground to be just and equitable for the dissolution of the firm, it may dissolve a firm. The following are the cases for the just and equitable grounds-

- (i) Deadlock in the management.
- (ii) Where the partners are not in talking terms between them.
- (iii) Loss of substratum.
- (iv) Gambling by a partner on a stock exchange.

(c) **Mr. R is an Indian citizen, and his stay in India during the immediately preceding financial year is for 130 days. He appoints Mr. S, a foreign citizen, as his nominee, who has stayed in India for 125 days during the immediately preceding financial year. Is Mr. R eligible to be incorporated as a One-Person Company (OPC)? If yes, can he give the name of Mr. S in the memorandum of Association as his nominee? Justify your answers with relevant provisions of the Companies Act, 2013.**

(03)

**Ans.** *As per the provisions of the Companies Act, 2013, only a natural person who is an Indian citizen and resident in India (person who stayed in India for a period of not less than 120 days during immediately preceding financial year) –*

- *Shall be eligible to incorporate an OPC*
- *Shall be a nominee for the sole member.*

*In the given case, Mr. R is an Indian citizen and his stay in India during the immediately preceding financial year is 130 days which is above the requirement of 120 days. Hence, Mr. R is eligible to incorporate an OPC.*

*Also, even though Mr. S's name is mentioned in the Memorandum of Association as nominee and his stay in India during the immediately preceding financial year is more than 120 days, he is a foreign citizen and not an Indian citizen. Hence, S's name cannot be given as nominee in the memorandum.*

## DECEMBER 2021

1. (a) A, B, C and D are the four partners in a firm. They jointly promised to pay ₹ 6,00,000 to F. B and C have become insolvent. B was unable to pay any amount and C could pay only ₹ 50,000. A is compelled to pay the whole amount to F. Decide the extent to which A can recover the amount from D with reference to the provisions of the Indian Contract Act, 1872. (04)

**Ans. (a) Joint promisors (Section 42 of the Indian Contract Act, 1872)**

When two or more persons have made a joint promise, then unless a contrary intention appears by the contract, all such persons must jointly fulfil the promise.

Any one of joint promisors may be compelled to perform (Section 43)

As per Section 43 of the Indian Contract Act, 1872, when two or more persons make a joint promise, the promisee may, in the absence of express agreement to the contrary, compel any one or more of such joint promisors to perform the whole of the promise.

If any one of two or more joint promisors makes default in such contribution, the remaining joint promisors must bear the loss arising from such default in equal shares.

In the instant case, A, B, C and D have jointly promised to pay ₹ 6,00,000 to F. B and C become insolvent. B was unable to pay any amount and C could pay only ₹ 50,000. A is compelled to pay the whole amount to F.

Hence, A is entitled to receive ₹ 50,000 from C and ₹ 2,75,000 from D, as worked out below:

From C ₹ 50,000 = (C's Liability ₹ 1,50,000 Less: Amount he could not pay ₹ 1,00,000).

From D ₹ 2,75,000 = (D's Liability ₹ 1,50,000 + 1/2 of liability of B (Loss) (1,50,000\*1/2) i.e. ₹ 75,000 + 1/2 of C's liability (Loss) (1,00,000\*1/2) i.e., ₹ 50,000) In other words, equal proportion i.e., ₹ 5,50,000 (i.e. ₹ 6,00,000 – ₹ 50,000) / 2.



Thus, total amount A can receive from C and D comes to ` 3,25,000  
(50,000 + 2,75,000)

- (b) **AK Private Limited has borrowed ` 36 crores from BK Finance Limited. However, as per memorandum of AK Private Limited the maximum borrowing power of the company is ` 30 crores. Examine, whether AK Private Limited is liable to pay this debt? State the remedy, if any available to BK Finance Limited. (04)**

**Ans.** This case is governed by the 'Doctrine of Ultra Vires'. According to this doctrine, any act done or a contract made by the company which travels beyond the powers of the company conferred upon it by its Memorandum of Association is wholly void and inoperative in law and is therefore not binding on the company. This is because, the Memorandum of Association of the company is, in fact, its charter; it defines its constitution and the scope of the powers of the company. Hence, a company cannot depart from the provisions contained in the memorandum however imperative may be the necessity for the departure. Hence, any agreement ultra vires the company shall be null and void.

**(i) Whether AK Private Limited is liable to pay the debt?**

As per the facts given, AK Private Limited borrowed ` 36 crores from BK Finance Limited which is beyond its borrowing power of ` 30 crores.

Hence, contract for borrowing of 36 crores, being ultra vires the memorandum of association and thereby ultra vires the company, is void. AK Private Limited is not, therefore, liable to pay the debt.

**(ii) Remedy available to BK Finance Limited:**

In light of the legal position explained above, BK Finance Limited cannot enforce the said transaction and thus has no remedy against the company for recovery of the money lent. BK Finance limited may take action against the directors of AK Private Limited as it is the personal liability of its directors to restore the borrowed funds. Besides, BK Finance Limited may take recourse to the remedy by means of 'Injunction', if feasible.

(c) **“A breach of condition can be treated as a breach of warranty”. Explain this statement as per relevant provisions of the Sale of Goods Act, 1930. (04)**

**Ans.** Section 13 of the Sale of Goods Act, 1930 specifies cases where a breach of condition be treated as a breach of warranty. As a result of which the buyer loses his right to rescind the contract and can claim damages only.

In the following cases, a contract is not avoided even on account of a breach of a condition:

(i) Where the buyer altogether waives the performance of the condition. A party may for his own benefit, waive a stipulation. It should be a voluntary waiver by buyer.

(ii) Where the buyer elects to treat the breach of the conditions, as one of a warranty. That is to say, he may claim only damages instead of repudiating the contract. Here, the buyer has not waived the condition but decided to treat it as a warranty.

(iii) Where the contract is non-severable and the buyer has accepted either the whole goods or any part thereof. Acceptance means acceptance as envisaged in Section 72 of the Indian Contract Act, 1872.

(iv) Where the fulfilment of any condition or warranty is excused by law by reason of impossibility or otherwise.

2. (a) **Explain any five circumstances under which contracts need not be performed with the consent of both the parties. (07)**

**Ans.** (a) Under following circumstances, the contracts need not be performed with the consent of both the parties:

(i) **Novation:** Where the parties to a contract substitute a new contract for the old, it is called novation. A contract in existence may be substituted by a new contract either between the same parties or between different parties the consideration mutually being the discharge of old contract. Novation can take place only by mutual agreement between the parties. On novation, the old contract is discharged and consequently it need not be performed. (Section 62 of the Indian Contract Act, 1872)

- (ii) Rescission: A contract is also discharged by rescission. When the parties to a contract agree to rescind it, the contract need not be performed. (Section 62)*
- (iii) Alteration: Where the parties to a contract agree to alter it, the original contract is rescinded, with the result that it need not be performed. In other words, a contract is also discharged by alteration. (Section 62)*
- (iv) Remission: Every promisee may dispense with or remit, wholly or in part, the performance of the promise made to him, or may extend the time for such performance or may accept instead of it any satisfaction which he thinks fit. In other words, a contract is discharged by remission. (Section 63)*
- (v) Rescinds voidable contract: When a person at whose option a contract is voidable rescinds it, the other party thereto need not perform any promise therein contained in which he is the promisor.*
- (vi) Neglect of promisee: If any promisee neglects or refuses to afford the promisor reasonable facilities for the performance of his promise, the promisor is excused by such neglect or refusal as to any non-performance caused thereby. (Section 67)*

**(b) State the rules regarding registered office of a Limited Liability Partnership (LLP) and change therein as per provisions of the Limited Liability Partnership Act, 2008. (05)**

**Ans. Registered office of LLP and Change therein (Section 13 of the Limited Liability Partnership Act, 2008)**

- (i) Every LLP shall have a registered office to which all communications and notices may be addressed and where they shall be received.*
- (ii) A document may be served on a LLP or a partner or designated partner thereof by sending it by post under a certificate of posting or by registered post or by any other manner, as may be prescribed, at the registered office and any other address specifically declared by the LLP for the purpose in such form and manner as may be prescribed.*
- (iii) A LLP may change the place of its registered office and file the notice of such change with the Registrar in such form and manner and subject to*

such conditions as may be prescribed and any such change shall take effect only upon such filing.

(iv) If the LLP contravenes any provisions of this section, the LLP and its every partner shall be liable to a penalty of ` 500 for each day during which the default continues, subject to a maximum of ` 50,000 for the LLP and its every partner.

3. (a) Define partnership and name the essential elements for the existence of a partnership as per the Indian partnership Act, 1932. Explain any two such elements in detail. (06)

Ans. (a) (i) **Definition of Partnership:** 'Partnership' is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. (Section 4 of the Indian Partnership Act, 1932) The definition of the partnership contains the following five elements which must co-exist before a partnership can come into existence:

1. Association of two or more persons
2. Agreement
3. Business
4. Agreement to share Profits
5. Business carried on by all or any of them acting for all

**(ii) ELEMENTS OF PARTNERSHIP**

The definition of the partnership contains the following five elements which must co-exist before a partnership can come into existence:

1. **Association of two or more persons:** Partnership is an association of 2 or more persons. Again, only persons recognized by law can enter into an agreement of partnership. Therefore, a firm, since it is not a person recognized in the eyes of law cannot be a partner. Again, a minor cannot be a partner in a firm, but with the consent of all the partners, may be admitted to the benefits of partnership. The Partnership Act is silent about the maximum number of partners but Section 464 of the Companies Act, 2013 read with the relevant Rules has now put a limit of 50 partners in any association / partnership firm.

2. **Agreement:** *It may be observed that partnership must be the result of an agreement between two or more persons. There must be an agreement entered into by all the persons concerned. This element relates to voluntary contractual nature of partnership. Thus, the nature of the partnership is voluntary and contractual. An agreement from which relationship of Partnership arises may be express. It may also be implied from the act done by partners and from a consistent course of conduct being followed, showing mutual understanding between them. It may be oral or in writing.*
3. **Business:** *In this context, we will consider two propositions. First, there must exist a business. For the purpose, the term 'business' includes every trade, occupation and profession. The existence of business is essential. Secondly, the motive of the business is the "acquisition of gains" which leads to the formation of partnership. Therefore, there can be no partnership where there is no intention to carry on the business and to share the profit thereof.*
4. **Agreement to share profits:** *The sharing of profits is an essential feature of partnership. There can be no partnership where only one of the partners is entitled to the whole of the profits of the business. Partners must agree to share the profits in any manner they choose. But an agreement to share losses is not an essential element. It is open to one or more partners to agree to share all the losses. However, in the event of losses, unless agreed otherwise, these must be borne in the profit-sharing ratio.*
5. **Business carried on by all or any of them acting for all:** *The business must be carried on by all the partners or by anyone or more of the partners acting for all. This is the cardinal principle of the partnership Law. In other words, there should be a binding contract of mutual agency between the partners. An act of one partner in the course of the business of the firm is in fact an act of all partners. Each partner carrying on the business is the principal as well as the agent for all the other partners. He is an agent in so far as he can bind the other partners by his acts and he is a principal to the extent that he is bound by the act of other partners. It may be noted that the true test of partnership is mutual agency rather than sharing of profits. If the element of mutual agency is absent, then there will be no partnership.*

**(b) Examine the validity of the following contracts as per the Indian Contract Act, 1872 giving reasons. (06)**

**(i) X aged 16 years borrowed a loan of ₹ 50,000 for his personal purposes. Few months later he had become major and could not pay back the amount borrowed on due date. The lender wants to file a suit against X.**

**Ans.** According to Section 11 of the Indian Contract Act, 1872, every person is competent to contract who is of the age of majority according to the law to which he is subject and therefore, a minor is not competent to contract and any agreement with or by a minor is void from the very beginning. A minor cannot ratify it on attaining the majority as the original agreement is void ab initio.

According to Section 68 of the Act, a claim for necessities supplied to a minor is enforceable by law.

Necessaries mean those things that are essentially needed by a minor. They cannot include luxuries or costly or unnecessary articles.

In the present case, X, the borrower, was minor at the time of taking the loan, therefore, the agreement was void ab initio. Attaining majority thereafter will not validate the contract nor X can ratify it. The loan was for personal purposes and not for necessities supplied to him. Hence, the lender cannot file a suit against X for recovery of the loan as it is not enforceable by law.

**(ii) J contracts to take in cargo for K at a foreign port. J's government afterwards declares war against the country in which the port is situated and therefore the contract could not be fulfilled. K wants to file a suit against J.**

**Ans.** As per Section 56 of the Indian Contract Act, 1872 the subsequent or supervening impossibility renders the contract void. Supervening impossibility may take place owing to various circumstances as contemplated under that section, one of which is the declaration of war subsequent to the contract made. In the instant case the contract when made between J and K was valid but afterwards J's government declares war against the country in which the port is situated as a result of which the contract becomes void. Hence, K cannot file a suit against J for performance of the contract.

4. (a) Distinguish between 'Sale' and 'Hire Purchase' under the Sale of Goods Act, 1930. (06)

Ans. The main points of distinction between the 'Sale' and 'Hire-Purchase' are as follows:

Sr. No.	Basis of difference	Sale	Hire-Purchase
1	Time of passing	Property in the goods is	Property in goods passes to
2	Position of the		The position of the hirer is
3	Termination of		
4	Burden of Risk of	The seller takes the risk	
5	Transfer of <i>title</i>	The buyer can pass a	
6	Resale		

(b) State whether the following are partnerships: (06)

(i) A and B jointly own a car which they used personally on Sundays and holidays and let it on hire as taxi on other days and equally divide the earnings.

(ii) Two firms each having 12 partners combine by an agreement into one firm.

- (iii) A and B, co-owners, agree to conduct the business in common for profit.*
- (iv) 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.*
- (v) A and B, co-owners share between themselves the rent derived from a piece of land.*
- (vi) A and B buy commodity X and agree to sell the commodity which sharing the profits equally.*

*Ans. (i) No, this is not a case of partnership because the sharing of profits or of gross returns accruing from property holding joint or common interest in the property would not by itself make such persons partners.*

*Alternatively, this part can also be answered as below:*

*Yes, this is a case of partnership, as the car is used personally only on Sundays and holidays and used for most of the days as a Taxi. Hence, it is inferred that the main purpose of owning the car is to let it for business purpose. Also, there is an agreement for equally dividing the earnings.*

- (ii) Yes, this is a case of partnership because there is an agreement between two firms to combine into one firm.*
- (iii) Yes, this is a case of partnership because A & B, co-owners, have agreed to conduct a business in common for profit.*
- (iv) No, this is not a case of partnership as no charitable association can be floated in partnership.*
- (v) No, this is not a case of partnership as they are co-owners and not the partners. Further, there exist no business.*
- (vi) Yes, this is a case of partnership as there exist the element of doing business and sharing of profits equally.*

*5. (a) (i) TK ordered timber of 1 inch thickness for being made into drums. The seller agreed to supply the required timber of 1 inch. However, the timber supplied by the seller varies in thickness from 1 inch to 1.4 inches. The timber is*



*commercially fit for the purpose for which it was ordered. TK rejects the timber. Explain with relevant provisions of the Sales of Goods Act, 1930 whether TK can reject the timber. (03)*

*Ans. Condition as to quality or fitness [Section 16(1) of the Sale of Goods Act, 1930]:*

*The condition as to the reasonable fitness of goods for a particular purpose may be implied if the buyer had made known to the seller the purpose of his purchase and relied upon the skill and judgment of the seller to select the best goods and the seller has ordinarily been dealing in those goods.*

*There is implied condition on the part of the seller that the goods supplied shall be reasonably fit for the purpose for which the buyer wants them, provided the following conditions are fulfilled:*

- (a) The buyer should have made known to the seller the particular purpose for which goods are required.*
- (b) The buyer should rely on the skill and judgement of the seller.*
- (c) The goods must be of a description dealt in by the seller, whether he be a manufacturer or not.*

*In the instant case, as the timber supplied by the seller is commercially fit for the purposes for which it was ordered, it means the implied condition on the part of the seller is fulfilled.*

*Hence, TK cannot reject the timber.*

*Alternatively, the above answer can also be provided as under:*

*According to Section 15 of the Sale of Goods Act, 1930 where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description. The buyer is not bound to accept and pay for the goods which are not in accordance with the description of goods.*

*Thus, it has to be determined whether the buyer has undertaken to purchase the goods by their description, i.e., whether the description was essential for identifying the goods where the buyer had agreed to purchase. If that is required and the goods tendered do not correspond with the description, it would be breach of condition entitling the buyer to reject the goods.*

*In the instant case, as the timber supplied by seller varies in thickness from 1 inch to 1.4 inches, it does not correspond with the description ordered by TK i.e. of 1 inch, TK may reject the timber.*

**(ii) AB sold 500 bags of wheat to CD. Each bag contains 50 Kilograms of wheat. AB sent 450 bags by road transport and CD himself took remaining 50 bags. Before C receives delivery of 450 bags sent by road transport, he becomes bankrupt. AB being still unpaid, stops the bags in transit. The official receiver, on CD's insolvency claims the bags. Decide the case with reference to the provisions of the Sale of Goods Act, 1930. (03)**

**Ans. Right of stoppage in transit (Section 50 of the Sale of Goods Act, 1930):**

*Subject to the provisions of this Act, when the buyer of goods becomes insolvent, the unpaid seller who has parted with the possession of the goods has the right of stopping them in transit, that is to say, he may resume possession of the goods as long as they are in the course of transit and may retain them until paid or tendered price of the goods.*

*When the unpaid seller has parted with the goods to a carrier and the buyer has become insolvent, he can exercise this right of asking the carrier to return the goods back, or not to deliver the goods to the buyer.*

*In the instant case, CD, the buyer becomes insolvent, and 450 bags are in transit. AB, the seller, can stop the goods in transit by giving a notice of it to CD. The official receiver, on CD's insolvency cannot claim the bags.*

**(b) What do you mean by the term Capital? Describe its classification in the domain of Company Law. (06)**

**Ans. (i) Meaning of capital:** *The term capital has variety of meanings. But in relation to a company limited by shares, the term 'capital' means 'share capital'. Share capital means capital of the company expressed in terms of rupees divided into shares of fixed amount.*

**(ii) Classification of capital:** *In the domain of Company Law, the term capital can be classified as follows:*

(a) *Nominal or authorised or registered capital:*

*This expression means such capital as is authorised by memorandum of a company to be the maximum amount of share capital of the company.*

(b) *Issued capital: It means such capital as the company issues from time to time for subscription.*

(c) *Subscribed capital: As such part of the capital which is for the time being subscribed by the members of a company.*

(d) *Called up capital: As such part of the capital which has been called for payment. It is the total amount called up on the shares issued.*

(e) *Paid-up capital: It is the total amount paid or credited as paid up on shares issued. It is equal to called up capital less calls in arrears.*

**6. (a) What is meant by 'Quasi-contract'? State any three salient features of a quasi-contract as per the Indian Contract Act, 1872. (05)**

**Ans. Meaning of 'Quasi Contract':** Under certain special circumstances obligation resembling those created by a contract is imposed by law although the parties have never entered into a contract. Such obligations imposed by law are referred to as 'Quasi Contracts'. Such a contract resembles with a contract so far as result or effect is concerned but it has little or no affinity with a contract in respect of mode of creation. These contracts are based on the doctrine that a person shall not be allowed to enrich himself unjustly at the expense of another.

*The salient features of Quasi-contract:*

- 1. It does not arise from any agreement of the parties concerned but it is imposed by law.*
- 2. The right under it is always a right to money and generally though not always to a liquidated sum of money.*
- 3. It is a right which is available not against all the world, but against a particular person or persons only, so that in this respect it resembles a contractual right.*

**(b) "Sharing in the profits is not conclusive evidence in the creation of partnership".**

**Comment.**

**(04)**

**Ans.** *“Sharing in the profits is not conclusive evidence in the creation of partnership”*  
Sharing of profit is an essential element to constitute a partnership. But it is only a prima facie evidence and not conclusive evidence, in that regard. The sharing of profits or of gross returns accruing from property by persons holding joint or common interest in the property would not by itself make such persons partners. Although the right to participate in profits is a strong test of partnership, and there may be cases where, upon a simple participation in profits, there is a partnership, yet whether the relation does or does not exist must depend upon the whole contract between the parties.

Where there is an express agreement between partners to share the profit of a business and the business is being carried on by all or any of them acting for all, there will be no difficulty in the light of provisions of Section 4, in determining the existence or otherwise of partnership.

But the task becomes difficult when either there is no specific agreement or the agreement is such as does not specifically speak of partnership. In such a case for testing the existence or otherwise of partnership relation, Section 6 has to be referred.

According to Section 6, regard must be had to the real relation between the parties as shown by all relevant facts taken together. The rule is easily stated and is clear but its application is difficult. Cumulative effect of all relevant facts such as written or verbal agreement, real intention and conduct of the parties, other surrounding circumstances etc., are to be considered while deciding the relationship between the parties and ascertaining the existence of partnership.

Hence, the statement is true / correct that mere sharing in the profits is not conclusive evidence.

- (c) **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 is holding ` 1,60,000 shares in PQ Private Limited and no shares are held by BC Private Limited in PQ Private Limited? (03)*

*Ans. Section 2(87) defines “subsidiary company” in relation to any other company (that is to say the holding company), means a company in which the holding company—*

*(i) controls the composition of the Board of Directors; or*

*(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:*

*For the purposes of this section —*

*(i) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;*

*(ii) “layer” in relation to a holding company means its subsidiary or subsidiaries. In the instant case, BC Private Limited together with its subsidiary KL Private Limited is holding 1,60,000 shares (90,000+70,000 respectively) which is more than one half in nominal value of the Equity Share Capital of PQ Private Limited. Hence, PQ Private Limited is subsidiary of BC Private Limited.*

*(ii) In the second case, the answer will remain the same. KL Private Limited is a holding 1,60,000 shares i.e., more than one half in nominal value of the Equity Share Capital of PQ Private Limited (i.e., holding more than one half of voting power). Hence, KL Private Limited is holding company of PQ Private Company and BC Private Limited is a holding company of KL Private Limited.*

*Hence, by virtue of Chain relationship, BC Private Limited becomes the holding company of PQ Private Limited.*

## JULY 2021

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1. (a) State with reason(s) whether the following agreements are valid or void: (04)
- (i) A clause in a contract provided that no action should be brought upon in case of breach.
  - (ii) Where two courts have jurisdiction to try a suit, an agreement between the parties that the suit should be filed in one of those courts alone and not in the other.
  - (iii) X offers to sell his Maruti car to Y. Y believes that X has only Wagon R Car but agrees to buy it.
  - (iv) X, a physician and surgeon, employs Y as an assistant on a salary of ` 75,000 per month for a term of two years and Y agrees not to practice as a surgeon and physician during these two years.

Ans. (a) (i) An agreement which restricts the parties from enforcing their legal rights absolutely is void to that extent.

In this case, the agreement is void. Since there is a clause in the agreement which restricts a party from bringing legal action even in case of breach of contract (i.e. absolute restriction of legal rights).

(ii) When two courts have jurisdiction to try a suit, an agreement between the parties that the suit should be filed in one of those courts alone is valid.

In this case, the agreement is valid. Since parties are free to choose single court when they are having multiple courts to try a suit.

(iii) Consent is one of the essential elements of a valid contract. If there is no consent, there is no contract. Two or more persons are said to consent when they agree upon the same thing in the same sense.

**ALTERNATIVE ANSWER:** To create a valid contract, the terms of the agreement must be certain or capable of being made certain. If the terms are uncertain, then the agreement would be void.

In this case, the agreement is void. Since there is uncertainty regarding brand of the car.

*(iv) An agreement of service by which an employee binds himself, during the term of his agreement, not to compete with his employer is valid.*

*In this case, the agreement is valid. Since Y was restrained from competing with X during the period of employment.*

**(b) Y incorporated a “One Person Company (OPC)” making his sister Z as nominee. Z is leaving India permanently due to her marriage abroad. Due to this fact, she is withdrawing her consent of nomination in the said OPC. Taking into considerations the provisions of The Companies Act, 2013 answer the questions given below: (04)**

**(i) Is it mandatory for Z to withdraw her nomination in the said OPC, if she is leaving India permanently?**

**(ii) Can Z continue her nomination in the said OPC, if she maintained the status of Resident of India after her marriage?**

**Ans.** Only a natural person who is an Indian citizen whether resident in India or otherwise and has stayed in India for a period of not less than 120 days during the immediately preceding financial year.

- shall be eligible to incorporate a OPC;
- shall be a nominee for the sole member of a OPC

**(c) “Risk Prima Facie passes with property.” Elaborate in the context of The Sales of Goods Act, 1930. (04)**

**Ans.** Risk Prime Facie Passes With Property (Section 26):

*i) Risk means the liability to bear the loss, if goods are lost or damaged.*

*ii) In general, risk follows ownership.*

*In other words, if goods are lost or damaged, then the burden of loss shall be borne by the owner of the goods.*

*iii) It is immaterial whether the payment of price and the delivery of goods have been made or not.*

*iv) However, this rule is subject to following exceptions.*

- *In case of lost or damage of goods due to delay in delivery, then the person who is responsible for such delay to bear the loss.*

- When a party (either seller or buyer) holds the goods as bailee, then he has to bear the risk in case of loss or damage of goods.
- When risk is separated either by an agreement or by a trade custom to that effect, then the person holding the risk has to bear the loss in case of loss or damage of goods.

In all the above cases, it is immaterial, whether the property in goods is passed to the buyer or not.

2. (a) Explain the term contingent Contract with reference to The Indian Contract Act, 1872 with the help of an example. Also discuss the rules relating to enforcement of a contingent contract. (07)

Ans. (a) Contingent Contract: Contingent contract is a contract

- to do or not to do something.
- if some event collateral to such contract,
- does or does not happen.

Illustration: A advances ₹ 10,000 to B based on the promise made by S (surety) to repay the amount if B fails to repay it within a month.

- i) Here there is a contract to do something. (i.e. to pay ₹ 10,000)
- ii) The performance of this contract depends on non-happening of an event. (i.e. If B fails to repay ₹ 10,000, then A will pay that amount)
- iii) This event is collateral to main contract.
- iv) Thus, it is a contingent contract.

Other examples: Contracts of Insurance, Indemnity etc.

#### **RULES RELATING TO ENFORCEMENT OF A CONTINGENT CONTRACT:**

i) Enforcement of contracts contingent on 'happening; of an event (Sec. 32):

- If the event happens, then the contract becomes valid.
- If the event does not happen or becomes impossible, then the contract becomes void.

ii) Enforcement of contracts contingent on 'not-happening' of an event (Sec. 33):

- If the event happens, then the contract becomes void.



- *If the event does not happen or becomes impossible, then the contract becomes valid.*

**iii) A Contract Contingent upon future conduct of a living person (Sec. 34):**

- *If the future conduct of that person fulfils the condition, then the contract becomes enforceable.*
- *If the future conduct of that person renders the happening of such event impossible, then contract becomes void.*

**iv) Contingent on happening of specified event within the fixed time (Sec. 35):**

- *If the event happens within fixed time, then the contract becomes enforceable.*
- *If the event does not happen or becomes impossible within fixed time, then the contract becomes void.*

**v) Contingent on specified event non-happening within fixed time (Sec.35):**

- *If the event happens within fixed time, then the contract becomes void.*
- *If the event does not happen or becomes impossible within that fixed time, then the contract becomes valid.*

**vi) Contingent on an impossible event (Sec. 36):**

- *If the performance of a contract depends upon the happening of an impossible within that fixed time, then the contract becomes valid.*
- *It is irrelevant whether the impossibility of the event is known or unknown to the parties, at the time of entering into such agreement.*

**(b) Limited Liability Partnership (LLP) gives the benefits of limited liability of a company on one hand and the flexibility of a partnership on the other. Discuss.(05)**

**Ans. LIMITED LIABILITY PARTNERSHIP [SEC. 2(N)]:**

- 'Limited Liability Partnership' means a partnership formed and registered under this Act.*
- It is a hybrid form of business organization structure which combines the advantages of*
  - Partnership firm structure and*
  - Company structure.*
- It is an alternative corporate business vehicle which provides its partners,*

- the benefits of limited liability at low compliance cost and
  - the flexibility of organizing their internal structure as a traditional partnership.
- iv) LLP is a separate legal entity and it will be liable for the full extent of its assets. But the liability of the partners will be limited up to their agreed contribution.
- v) Due to flexibility in its structure and operation, LLP is a suitable vehicle for
- Small enterprises and
  - Investment by venture capital.

3. (a) Define Implied Authority. In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to do certain acts. State the acts which are beyond the implied authority of a partner under the provisions of The Indian Partnership Act, 1932? (06)

Ans. a) **IMPLIED AUTHORITY OF A PARTNER (SEC. 19 & 22):**

- i) Authority conferred on a partner by provisions of Sec. 19 of this Act is known as implied Authority.
- ii) When a partner acts within his implied authority, then remaining partners will be bound by such acts.
- iii) In order to bind remaining partners, all the below stated conditions must be satisfied:
- a) The act relates to normal business of the firm.
  - b) The act is done in the usual way of carrying on the business of the firm;  
[Sec. 19(1)]
  - c) The act is done in the firm's name or in any other manner expressing or implying the intention to bind the firm. [Sec. 22]

**IN THE ABSENCE OF ANY USAGE OR CUSTOM OF TRADE TO THE CONTRARY, FOLLOWING ACTS ARE OUTSIDE THE SCOPE OF IMPLIED AUTHORITY:**

- i) Submit a dispute relating to the business of the firm to arbitration.
- ii) Open a bank account on behalf of the firm in his own name.
- iii) Compromise or relinquish any claim or portion of a claim by the firm.

- iv) *Withdraw a suit or proceedings filed on behalf of the firm.*
- v) *Admit any liability in a suit or proceedings against the firm.*
- vi) *Acquire immovable property on behalf of the firm.*
- vii) *Transfer immovable property belonging to the firm.*
- viii) *Enter into partnership on behalf of the firm.*

(b) *X, Y and Z jointly borrowed ` 90,000 from L. Decide each of the following in the light of The Indian Contract Act, 1872: (06)*

- (i) *Whether L can compel only Y to pay the entire loan of ` 90,000?*
- (ii) *Whether L can compel only the legal representatives of Y to pay the loan of ` 90,000, if X, Y and Z died?*
- (iii) *Whether Y and Z are released from their liability to L and X is released from his liability to Y and Z for contribution, if L releases X from his liability and sues Y and Z for payment?*

*Ans. i) If a promise is made by two or more persons (called joint promisors), then promisee may compel anyone or more of the joint promisors to perform the whole contract. Since the liability under the joint contract is both joint & several. In this case, L can compel only Y to pay the entire loan of ` 90,000.*

*ii) If a promise is made by two or more persons (called joint promisors) and all of them are expired, then their positions will be replaced by their legal representatives and all the heirs are jointly and severally liable to promisee. In this case, L can compel only Y's legal representatives to pay the entire loan of ` 90,000.*

*iii) If the Promisee discharges/releases one among several joint promisors, it does not discharge other joint promisors. In addition, the joint promisor so discharged is still liable to other joint promisors. In this case, X will not be released from his liability towards Y and Z even though he is released by L to make contribution.*

**4. (a) Discuss the rights of an unpaid seller against the buyer under The Sales of Goods Act, 1930. (06)**

**Ans. (a) RIGHTS OF UNPAID SELLER AGAINST BUYER:**

**(i) Suit for price (Sec. 55):**

(a) *If the buyer wrongfully neglects or refuses to pay the agreed price, then the seller may sue buyer for the recovery of price.*

(b) *This may happen in any of the following cases:*

- *When the property in goods has passed to the buyer and buyer failed to pay the price.*
- *When price is payable on a certain day irrespective of delivery of goods and buyer failed to pay the price.*

*In this case, seller may sue buyer for the recovery of price, even though the property in goods has not passed and the goods have not been appropriated to the contract.*

**(ii) Suit for damages for non-acceptance (Sec.56):** *When the buyer wrongfully neglects or refuses to accept and pay for the goods, then the seller may sue him for damages for non-acceptance.*

**(iii) Repudiation of contract before due date (Sec.60):** *Where the buyer wrongfully neglects or refuses to accept and pay for the goods, then the seller may sue him for damages for non-acceptance.*

**(iv) Suit for interest (Sec. 61):**

- *When the buyer wrongfully neglects or refuses to accept and pay for the goods, then the seller may sue him for interest on the amount of price.*
- *However, this right can be exercised by the seller, only when he files a suit for the recovery of price. (i.e., when buyer filed a suit for damages, then he cannot claim interest on price)*
- *The interest will be calculated*
  - *on price payable*
  - *at the rate mentioned in the agreement*
  - *from the date of the tender of the goods or from the date on which price is payable.*

➤ In the absence of agreement between the parties, the rate of interest will be decided by the court.

(b) Mr. M is one of the four partners in M/s XY Enterprises. He owes a sum of 6 crore to his friend Mr. Z which he is unable to pay on due time. So he wants to sell his share in the firm to Mr. Z for settling the amount.

In the light of the provisions of The Indian Partnership Act, 1932, discuss each of the following: (06)

(i) Can Mr. M validly transfer his interest in the firm by way of sale?

(ii) What would be the rights of the transferee (Mr. Z) in case Mr. M wants to retire from the firm after a period of 6 months from the date of transfer?

Ans. (i) As per Sec.29 of the Indian Partnership Act.

➤ A share in a partnership is transferable like any other property.

➤ But as the partnership relationship is based on mutual confidence.

➤ The assignee of a partner's interest by sale, mortgage or otherwise cannot enjoy the same rights and privileges as the original partner.

(ii) The rights of transferee on the retirement of the transferring partner are as follows:

➤ Transferee is entitled to receive the share of the assets of the firm to which the transferring partner was entitled.

➤ To ascertain his share, he is entitled to access and inspect the accounts of the firm.

CONCLUSION: In this case,

i) Mr. M can validly transfer his interest in the firm by way of sale.

ii) Mr. Z is entitled to aforesaid rights after the retirement of Mr. M from the firm.

5. (a) Mr. Das, a general store owner went to purchase 200 kg. of Basmati Rice of specific length from a whole seller. He saw the samples of rice and agreed to buy the one for which the price was quoted as 150 per kg. While examining the

*sample Mr. Das failed to notice that the rice contained a mix of long and short grain of rice.*

*The whole seller supplied the required quantity exactly the same as shown in the sample. However, when Mr. Das sold the rice to one of his regular customers she complained that the rice contained two different qualities of rice and returned the rice.*

*With reference to the provisions of The Sales of Goods Act, 1930, discuss the options open to Mr. Das for grievance redressal. What would be your answer in case Mr. Das specified his exact requirement as to length of rice? (06)*

**Ans. (a) PROVISION:** According to the provisions of Sale of Goods Act, 1930,

*i) In a contract of sale of goods by sample, there is an implied condition that:*

- Seller must provide a reasonable opportunity to the buyer for inspecting the bulk,*
- The bulk must correspond with sample in terms of quality.*
- The goods must be free from latent defects which renders them unmerchantable.”*

*If any of the above condition is not satisfied, then the buyer entitled to reject the goods.*

*ii) If goods are bought under description, then the goods must correspond with the description. Otherwise, buyer can reject the goods.*

**CONCLUSION:**

*i) In this case, Mrs. Das does not have any option for grievance redressal as per the provisions of the Sale of Goods Act, 1930.*

*ii) In this case, Mrs. Das specified her exact requirement as to length of the rice. Therefore, she can reject the rice as they are not in accordance with the description made by her.*

**(b) Explain the classification of the companies on the basis of control as per The Companies Act, 2013. (06)**

**Ans. CLASSIFICATION OF COMPANIES ON THE BASIS OF CONTROL:**

**i) HOLDING AND SUBSIDIARY COMPANY:**

- **Holding Company [Sec. 2(46)]:** A company is a holding Company in relation to one or more other companies, means a company of which such companies are subsidiary companies.
- **Subsidiary Company or Subsidiary [Sec. 2(87)]:** In relation to any other company (i.e. to say the holding company), means a company in which the holding company.
  - controls the composition of the Board of Directors, or
  - exercises or controls more than one-half of the total voting power either
    - at its own or
    - together with one or more of its subsidiary companies.

**ii) ASSOCIATE COMPANIES:** Associate company in relation to another company, means a company (other than subsidiary) in which other company has significant influence and includes a joint venture company.

**6. (a) Explain what is meant by ‘Supervening Impossibility’ as per The Indian Contract Act, 1872 with the help of an example. What is the effect of such impossibility? (05)**

**Ans. (a) SUBSEQUENT/SUPERVENING /POST-CONTRACTUAL IMPOSSIBILITY:**

*i) Subsequent or post-contractual impossibility is one which arises after the formation of a contract.*

*ii) A contract becomes void on account of subsequent impossibility and stands discharged.*

*iii) Both parties must restore the benefits that are received under the contract.*

**Illustration:** A sold to B a cargo of cotton seed to be shipped by a particular ship. B paid ` 1 lakh as purchase consideration. Before the time for shipping is arrived, the ship was damaged by stranding so as to tender the loading of the cargo impossible according to the contract.

*i) Here there is a contract between A and B.*

*ii) The performance of this contract becomes impossible after its creation.*

*iii) Therefore, the impossibility happened here can be referred as Supervening impossibility.*

iv) Due to supervening impossibility, the aforesaid contract become void and parties (A & B) will be discharged from that contract.

v) A has to refund ₹ 1 lakh which was taken from B under this contract.

(b) Subject to agreement by partners, state the rules that should be observed by the partners in settling the accounts of the firm after dissolution under the provisions of The Indian Partnership Act, 1932. (04)

Ans. Subject to contract between the partners, after dissolution of the firm, its accounts must be settled as follows:

(i) **Payment of losses:** Losses including deficiencies of capital, are to be paid first out of profits, then out of capital, and lastly, by the partners individually in the proportions in which they were entitled to share profits.

(ii) **Application of assets:** The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital, must be applied in the following manner and order:

- ◆ Payment of debts of the firm to third parties.
- ◆ Payment of each partner's advances to the firm other than capital.
- ◆ Payment of each partner's capital.
- ◆ Surplus, if any, shall be divided amongst the partners in their profit-sharing ratio.
- ◆ Deficiency, if any, shall be contributed by the partners in their loss-sharing ratio.

(c) What is the main difference between a Guarantee Company and a Company having Share Capital? (03)

Ans. i) **Company Limited by Shares [Sec.2(22)]:**

- In this case, the liability of members is limited to the extent of unpaid value of shares held by them.
- This liability can be enforced either during the
  - Life time of the company or
  - Winding-up of the company.



ii) **Company Limited By Guarantee [Sec.2(21)]:**

**Guarantee Company not having share capital:**

- *In this case, the liability of members is limited to the extent amount guaranteed by them.*
- *This liability can be enforced only at the time of winding up of company.*

**Guarantee Company having share capital:**

- *In this case, the liability of members is limited to the extent of*
  - *Amount guaranteed by them; and*
  - *Unpaid value of shares held by them.*
- *Member can be demanded to pay call money at any time but he can be asked to pay guaranteed amount during winding up.*

## JANUARY 2021

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1. (a) Mr. S aged 58 years was employed in a Govt. Department. He was going to retire after two years. Mr. D made a proposal to Mr. S to apply for voluntary retirement from his post so that Mr. D can be appointed in his place. Mr. D offered a sum of ₹ 10 Lakhs as consideration to Mr. S in order to induce him to retire. (04)
- Mr. S refused at first instance but when he evaluated the amount offered as consideration is just double of his cumulative remuneration to be received during the tenure of two years of employment, he agreed to receive the consideration and accepted the above agreement to receive money to retire from his office.
- Whether the above agreement is valid? Explain with reference to provision of Indian Contract Act, 1872.

**Ans.** Section 10 of the Indian Contract Act, 1872 provides for the legality of consideration and objects thereto. Section 23 of the said Act also states that every agreement of which the object or consideration is unlawful is void.

The given problem talks about entering into an agreement for traffic relating to public office, which is opposed to public policy. Public policy requires that there should be no money consideration for the appointment to an office in which the public is interested. Such consideration paid, being opposed to public policy, is unlawful.

In the given case, Mr. S, who was going to be retired after two years was proposed by Mr. D, to apply for voluntary retirement from his post, in order that he can be appointed in his place. In lieu of that Mr. D offered Mr. S a sum of ₹ 10 lakh as consideration. Mr. S refused initially but later accepted the said offer to receive money to retire from his office.

Here, Mr. S's promise of sale for Mr. D, an employment in the public services is the consideration for Mr. D's promise to pay ₹ 10 lakh. Therefore, in terms of the above provisions of the Indian Contract Act, the said agreement is not valid. It is void, as the consideration being opposed to public policy, is unlawful.

(b) *ABC Limited was registered as a public company. There were 245 members in the company. Their details are as follows:* (04)

*Directors and their relatives* 190

*Employees* 15

*Ex - employees*

*(shares were allotted when they were employees)* 20

*Others* 20

*(Including 10 joint holders holding shares jointly in the name of father and son)*

*The Board of directors of the company propose to convert it into a private company. Advice whether reduction in the number of members is necessary for conversion.*

*Ans. In the given case, ABC Limited was having 245 members in the company. The Board of Directors of said company proposes to convert it into private company. In line with Section 2 (68) of the Companies Act, 2013, a private company by its Articles, limits the number of its members to 200.*

*Provided that, where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member. It is further provided that, following persons shall not be included in the number of members-*

*(i) Persons who are in the employment of the company; and*

*(ii) Persons, who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased.*

*As per the facts, ABC Limited has members constituting of Directors & their relatives, employees, Ex-employees and others including 10 joint holders. In line with the requirement for being a private company, following shall be restricted to be as members i.e., Directors & their relatives & joint holders holding shares jointly constituting 200 members (190+10).*

*Accordingly, ABC Limited when converted to private company shall not be required to reduce the number of members as the number of members as per requirement of a private company, is fulfilled that is of maximum 200 members.*

(c) **What are the rules which regulate the Sale by Auction under the Sale of Goods Act, 1930?** **(04)**

**Ans. Rules of Auction sale:** Section 64 of the Sale of Goods Act, 1930 provides following rules to regulate the sale by auction:

- (i) **Where goods are sold in lots:** Where goods are put up for sale in lots, each lot is prima facie deemed to be subject of a separate contract of sale.
- (ii) **Completion of the contract of sale:** The sale is complete when the auctioneer announces its completion by the fall of hammer or in any other customary manner and until such announcement is made, any bidder may retract from his bid.
- (iii) **Right to bid may be reserved:** Right to bid may be reserved expressly by or on behalf of the seller and where such a right is expressly reserved, but not otherwise, the seller or any one person on his behalf may bid at the auction.
- (iv) **Where the sale is not notified by the seller:** Where the sale is not notified to be subject to a right to bid on behalf of the seller, it shall not be lawful for the seller to bid himself or to employ any person to bid at such sale, or for the auctioneer knowingly to take any bid from the seller or any such person; and any sale contravening this rule may be treated as fraudulent by the buyer.
- (v) **Reserved price:** The reserved price is the lowest price at which a seller is willing to sell an item. The auction sale may be notified to be subject to a reserve or upset price; and
- (vi) **Pretended bidding:** If the seller makes use of pretended bidding to raise the price, the sale is voidable at the option of the buyer.

2. **Define the term acceptance under the Indian Contract Act, 1872. Explain the legal rules regarding a valid acceptance.** **(07)**

**Ans. Definition of Acceptance:** In terms of Section 2(b) of the Indian Contract Act, 1872 the term acceptance is defined as "When the person to whom the proposal is made signifies his assent thereto, proposal is said to be accepted. The proposal, when accepted, becomes a promise".

Legal Rules regarding a valid acceptance

- (1) **Acceptance can be given only by the person to whom offer is made.** In case of a specific offer, it can be accepted only by the person to whom it is made. In case of a general offer, it can be accepted by any person who has the knowledge of the offer.
- (2) **Acceptance must be absolute and unqualified:** As per section 7 of the Act, acceptance is valid only when it is absolute and unqualified and is also expressed in some usual and reasonable manner unless the proposal prescribes the manner in which it must be accepted. If the proposal prescribes the manner in which it must be accepted, then it must be accepted accordingly.
- (3) **The acceptance must be communicated:** To conclude a contract between the parties, the acceptance must be communicated in some perceptible form. Further when a proposal is accepted, the offeree must have the knowledge of the offer made to him. If he does not have the knowledge, there can be no acceptance. The acceptance must relate specifically to the offer made. Then only it can materialize into a contract.
- (4) **Acceptance must be in the prescribed mode:** Where the mode of acceptance is prescribed in the proposal, it must be accepted in that manner. But if the proposer does not insist on the proposal being accepted in the manner prescribed after it has been accepted otherwise, i.e., not in the prescribed manner, the proposer is presumed to have consented to the acceptance.
- (5) **Time:** Acceptance must be given within the specified time limit, if any, and if no time is stipulated, acceptance must be given within the reasonable time and before the offer lapses.
- (6) **Mere silence is not acceptance:** The acceptance of an offer cannot be implied from the silence of the offeree or his failure to answer, unless the offeree has in any previous conduct indicated that his silence is the evidence of acceptance.
- (7) **Acceptance by conduct/ Implied Acceptance:** Section 8 of the Act lays down that “the performance of the conditions of a proposal, or the acceptance of any consideration for a reciprocal promise which may be offered with a proposal, constitutes an acceptance of the proposal. This section provides the acceptance

of the proposal by conduct as against other modes of acceptance i.e. verbal or written communication.

Therefore, when a person performs the act intended by the proposer as the consideration for the promise offered by him, the performance of the act constitutes acceptance.

3. (a) (i) What do you mean by “Particular Partnership” under the Indian Partnership Act, 1932? (02)

**Ans. Particular partnership:** A partnership may be organized for the prosecution of a single adventure as well as for the conduct of a continuous business. Where a person becomes a partner with another person in any particular adventure or undertaking, the partnership is called ‘particular partnership’.

A partnership, constituted for a single adventure or undertaking is, subject to any agreement, dissolved by the completion of the adventure or undertaking.

OR

- (ii) Who is a nominal partner under the Indian Partnership Act, 1932? What are his liabilities?

**Ans. Nominal Partner:** A person who lends his name to the firm, without having any real interest in it, is called a nominal partner.

**Liabilities:** He is not entitled to share the profits of the firm. Neither he invests in the firm nor takes part in the conduct of the business. He is, however liable to third parties for all acts of the firm.

- (b) “Business carried on by all or any of them acting for all.” Discuss the statement under the Indian Partnership Act, 1932. (04)

**Ans. Business carried on by all or any of them acting for all:** The business must be carried on by all the partners or by anyone or more of the partners acting for all. In other words, there should be a binding contract of mutual agency between the partners.

An act of one partner in the course of the business of the firm is in fact an act of all partners. Each partner carrying on the business is the principal as well as

*the agent for all the other partners. He is an agent in so far as he can bind the other partners by his acts and he is a principal to the extent that he is bound by the act of other partners.*

*It may be noted that the true test of partnership is mutual agency. If the element of mutual agency is absent, then there will be no partnership.*

*In KD Kamath & Co., the Supreme Court has held that the two essential conditions to be satisfied are that:*

- (1) there should be an agreement to share the profits as well as the losses of business; and*
- (2) the business must be carried on by all or any of them acting for all, within the meaning of the definition of 'partnership' under section 4.*

*The fact that the exclusive power and control, by agreement of the parties, is vested in one partner or the further circumstance that only one partner can operate the bank accounts or borrow on behalf of the firm are not destructive of the theory of partnership provided the two essential conditions, mentioned earlier, are satisfied.*

- (c) Mr. B makes a proposal to Mr. S by post to sell his house for 10 lakhs and posted the letter on 10<sup>th</sup> April 2020 and the letter reaches to Mr. S on 12<sup>th</sup> April 2020. He reads the letter on 13<sup>th</sup> April 2020.**

**Mr. S sends his letter of acceptance on 16<sup>th</sup> April 2020 and the letter reaches Mr. B on 20<sup>th</sup> April 2020. On 17<sup>th</sup> April Mr. S changed his mind and sends a telegram withdrawing his acceptance. Telegram reaches to Mr. B on 19<sup>th</sup> April 2020.**

**Examine with reference to the Indian Contract Act, 1872:**

- (i) On which date, the offer made by Mr. B will complete?**
- (ii) Discuss the validity of acceptance.**

**What would be validity of acceptance if letter of revocation and letter of acceptance reached together?**

**Ans. (i) According to Section 4 of the Indian Contract Act, 1872, "the communication of offer is complete when it comes to the knowledge of the person to whom it is made".**

*In the given question, Mr. B makes a proposal by post to Mr. S to sell his house. The letter was posted on 10th April 2020 and the letter reaches to Mr. S on 12th April 2020 but he reads the letter on 13th April 2020.*

*Thus, the offer made by Mr. B will complete on the day when Mr. S reads the letter, i.e. 13th April 2020.*

- (ii) *When communication of acceptance is complete: Where a proposal is accepted by a letter sent by the post, in terms of Section 4 of the Act, the communication of acceptance will be complete as against the proposer when the letter of acceptance is posted and as against the acceptor when the letter reaches the proposer.*

**Revocation of Acceptance:** *The acceptor can revoke his acceptance any time before the letter of acceptance reaches the offeror, if the revocation telegram arrives before or at the same time with the letter of acceptance, the revocation is absolute.*

*In the given question, when Mr. S accepts Mr. B's proposal and sends his acceptance by post on 16th April 2020, the communication of acceptance as against Mr. B is complete on 16th April 2020, when the letter is posted. As against Mr. S acceptance will be complete, when the letter reaches Mr. B i.e. 20th April 2020. Whereas, acceptor, will be bound by his acceptance only when the letter of acceptance has reached the proposer.*

*The telegram for revocation of acceptance reached Mr. B on 19th April 2020 i.e. before the letter of acceptance of offer (20th April 2020). Hence, the revocation is absolute. Therefore, acceptance to an offer is invalid.*

- (iii) *It will not make any difference even if the telegram of revocation and letter of acceptance would have reached on the same day, i.e. the revocation then also would have been absolute. As per law, acceptance can be revoked anytime before the communication of acceptance is complete. Since revocation was made before the communication of acceptance was complete and communication can be considered as complete only when the letter of acceptance reaches the proposer i.e. Mr. B.*



4. (a) What are the differences between a 'Condition' and 'Warranty' in a contract of sale? Also explain, when shall a 'breach of condition' be treated as 'breach of warranty' under provisions of the Sale of Goods Act, 1930? (06)

Ans. Difference between conditions and warranties:

The following are important differences between conditions and warranties.

Point of differences	Condition	Warranty
Meaning	A condition is essential to the main purpose of the contract.	It is only collateral to the main purpose of the contract.
Right in case of breach	The aggrieved party can repudiate the contract or claim damages or both in the case of breach of condition.	The aggrieved party can claim only damages in case of breach of warranty.
Conversion of stipulations	A breach of condition may be treated as a breach of warranty.	A breach of warranty cannot be treated as a breach of condition.

Breach of condition be treated as a breach of warranty

Section 13 of the Sales of Goods Act, 1930, specifies cases where a breach of condition be treated as a breach of warranty. As a result of which the buyer loses his right to rescind the contract and can claim for damages only.

In the following cases, a contract is not avoided even on account of a breach of a condition:

- (i) Where the buyer altogether waives the performance of the condition. A party may for his own benefit, waive a stipulation.
- (ii) Where the buyer elects to treat the breach of the conditions, as one of a warranty. That is to say, he may claim only damages instead of repudiating the contract.
- (iii) Where the contract is non-severable and the buyer has accepted either the whole goods or any part thereof.
- (iv) Where the fulfilment of any condition or warranty is excused by law by reason of impossibility or otherwise.

(b) *M, N and P were partners in a firm. The firm ordered JR Limited to supply the furniture. P dies, and M and N continues the business in the firm's name. The firm did not give any notice about P's death to the public or the persons dealing with the firm. The furniture was delivered to the firm after P's death, fact about his death was known to them at the time of delivery. Afterwards the firm became insolvent and failed to pay the price of furniture to JR Limited.* (06)

*Explain with reasons:*

(i) *Whether P's private estate is liable for the price of furniture purchased by the firm?*

(ii) *Whether does it make any difference if JR Limited supplied the furniture to the firm believing that all the three partners are alive?*

*Ans. According to Section 35 of the Indian Partnership Act, 1932, where under a contract between the partners the firm is not dissolved by the death of a partner, the estate of a deceased partner is not liable for any act of the firm done after his death.*

*Further, in order that the estate of the deceased partner may be absolved from liability for the future obligations of the firm, it is not necessary to give any notice either to the public or the persons having dealings with the firm.*

*In the given question, JR Limited has supplied furniture to the partnership firm, after P's death. The firm did not give notice about P's death to public or people dealing with the firm. Afterwards, the firm became insolvent and could not pay JR Limited.*

*In the light of the facts of the case and provisions of law:*

(i) *Since the delivery of furniture was made after P's death, his estate would not be liable for the debt of the firm. A suit for goods sold and delivered would not lie against the representatives of the deceased partner. This is because there was no debt due in respect of the goods in P's lifetime.*

(ii) *It will not make any difference even if JR Limited supplied furniture to the firm believing that all the three partners are alive, as it is not necessary to give any notice either to the public or the persons having dealings with the*

*firm, so the estate of the deceased partner may be absolved from liability for the future obligations of the firm.*

5. (a) *Mr. T was a retail trader of fans of various kinds. Mr. M came to his shop and asked for an exhaust fan for kitchen. Mr. T showed him different brands and Mr. M approved of a particular brand and paid for it. Fan was delivered at Mr. M's house; at the time of opening the packet he found that it was a table fan. He informed Mr. T about the delivery of the wrong fan. Mr. T refused to exchange the same, saying that the contract was complete after the delivery of the fan and payment of price.*

(i) *Discuss whether Mr. T is right in refusing to exchange as per provisions of Sale of Goods Act, 1930?*

(ii) *What is the remedy available to Mr. M?* (06)

Ans. (i) *According to Section 15 of the Sale of Goods Act, 1930, where the goods are sold by sample as well as by description, the implied condition is that the goods supplied shall correspond to both with the sample and the description. In case, the goods do not correspond with the sample or with description or vice versa or both, the buyer can repudiate the contract.*

*Further, as per Section 16(1) of the Sales of Goods Act, 1930, when the buyer makes known to the seller the particular purpose for which the goods are required and he relies on the judgment or skill of the seller, it is the duty of the seller to supply such goods as are reasonably fit for that purpose.*

*In the given case, Mr. M had revealed Mr. T that he wanted the exhaust fan for the kitchen. Since the table fan delivered by Mr. T was unfit for the purpose for which Mr. M wanted the fan, therefore, T cannot refuse to exchange the fan.*

(ii) *When one party does not fulfill his obligation according to the agreed terms, the other party may treat the contract as repudiated or can insist for performance as per the original contract. Accordingly, the remedy available to Mr. M is that he can either rescind the contract or claim refund of the price paid by him or he may require Mr. T to replace it with the fan he wanted.*

- (b) **Explain Doctrine of “Indoor Management’ under the Companies Act, 2013. Also state the circumstances where the outsider cannot claim relief on the ground of ‘Indoor Management’.** (06)

**Ans. Doctrine of Indoor Management (The Companies Act, 2013):** According to the “doctrine of indoor management” the outsiders, dealing with the company though are supposed to have satisfied themselves regarding the competence of the company to enter into the proposed contracts are also entitled to assume that as far as the internal compliance to procedures and regulations by the company is concerned, everything has been done properly. They are bound to examine the registered documents of the company and ensure that the proposed dealing is not inconsistent therewith, but they are not bound to do more. They are fully entitled to presume regularity and compliance by the company with the internal procedures as required by the Memorandum and the Articles. This doctrine is a limitation of the doctrine of “constructive notice” and popularly known as the rule laid down in the celebrated case of **Royal British Bank v. Turquand**. Thus, the doctrine of indoor management aims to protect outsiders against the company.

The above mentioned doctrine of Indoor Management or Turquand Rule has limitations of its own. That is to say, it is inapplicable to the following cases, namely:

- (a) **Actual or constructive knowledge of irregularity:** The rule does not protect any person when the person dealing with the company has notice, whether actual or constructive, of the irregularity.
- (b) **Suspicion of Irregularity:** The doctrine in no way, rewards those who behave negligently. Where the person dealing with the company is put upon an inquiry, for example, where the transaction is unusual or not in the ordinary course of business, it is the duty of the outsider to make the necessary enquiry.
- (c) **Forgery:** The doctrine of indoor management applies only to irregularities which might otherwise affect a transaction but it cannot apply to forgery which must be regarded as nullity.

6. (a) *The general rule is that an agreement without consideration is void. Discuss the cases where the agreement though made without consideration will be valid and enforceable as per Indian Contract Act, 1872.* (05)

*Ans. The general rule is that an agreement made without consideration is void (Section 25 of the Indian Contract Act, 1872). In every valid contract, consideration is very important. A contract may only be enforceable when consideration is there. However, the Indian Contract Act contains certain exceptions to this rule.*

*In the following cases, the agreement though made without consideration, will be valid and enforceable.*

1. **Natural Love and Affection:** *Conditions to be fulfilled under section 25(1)*

- (i) It must be made out of natural love and affection between the parties.*
- (ii) Parties must stand in near relationship to each other.*
- (iii) It must be in writing.*
- (iv) It must also be registered under the law.*

*A written and registered agreement based on natural love and affection between the parties standing in near relation (e.g., husband and wife) to each other is enforceable even without consideration.*

2. **Compensation for past voluntary services:** *A promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor, is enforceable under Section 25(2). In order that a promise to pay for the past voluntary services be binding, the following essential factors must exist:*

- (i) The services should have been rendered voluntarily.*
- (ii) The services must have been rendered for the promisor.*
- (iii) The promisor must be in existence at the time when services were rendered.*
- (iv) The promisor must have intended to compensate the promisee.*

3. **Promise to pay time barred debt:** *Where a promise in writing signed by the person making it or by his authorised agent, is made to pay a debt barred by limitation it is valid without consideration [Section 25(3)].*

4. **Agency:** *According to Section 185 of the Indian Contract Act, 1872, no consideration is necessary to create an agency.*

5. **Completed gift:** In case of completed gift i.e. when gift is made by a donor and accepted by the donee, the rule, no consideration no contract does not apply.
6. **Bailment:** In case, the delivery of goods is made by one person to another for a particular purpose, without transfer of ownership, no consideration is required.
7. **Charity:** If a promisee undertakes the liability on the promise of another person to contribute to charity, the contract shall be valid without consideration.

**(b) Discuss the liability of a partner for the act of the firm and liability of firm for act of a partner to third parties as per Indian Partnership Act, 1932. (04)**

**Ans. Liability of a partner for acts of the firm (Section 25 of the Indian Partnership Act, 1932):** Every partner is liable, jointly with all the other partners and also severally, for all acts of the firm done while he is a partner. The partners are jointly and severally responsible to third parties for all acts which come under the scope of their express or implied authority. This is because that all the acts done within the scope of authority are the acts done towards the business of the firm.

The expression 'act of firm' connotes any act or omission by all the partners or by any partner or agent of the firm, which gives rise to a right enforceable by or against the firm. Again in order to bring a case under Section 25, it is necessary that the act of the firm, in respect of which liability is brought to be enforced against a party, must have been done while he was a partner.

**Liability of the firm for wrongful acts of a partner and for misapplication by partners (Sections 26 & 27 of the Indian Partnership Act, 1932):** Where, - by the wrongful act or omission of a partner in the ordinary course of the business of a firm, or with the authority of his partners, loss or injury is caused to any third party, or any penalty is incurred, the firm is liable therefor to the same extent as the partner.

a partner acting within his apparent authority receives money or property from a third party and misapplies it, or a firm in the course of its business receives money or property from a third party, and the money or property is misapplied

*by any of the partners while it is in the custody of the firm, the firm is liable to make good the loss.*

- (c) SK Infrastructure Limited has a paid-up share capital divided into 6,00,000 equity shares of INR 100 each. 2,00,000 equity shares of the company are held by Central Government and 1,20,000 equity shares are held by Government of Maharashtra. Explain with reference to relevant provisions of the Companies Act, 2013, whether SK Infrastructure limited can be treated as Government Company. (03)**

**Ans. Government Company [Section 2(45) of the Companies Act, 2013]:** Government Company means any company in which not less than 51% of the paid-up share capital is held by-

- (i) The Central Government, or*
- (ii) By any State Government or Governments, or*
- (iii) Partly by the Central Government and partly by one or more State Governments*

*and the section includes a company which is a subsidiary company of such a Government company.*

*In the instant case, paid up share capital of SK Infrastructure Limited is 6,00,000 equity shares of ` 100 each. 200,000 equity shares are held by Central government and 1,20,000 equity shares are held by Government of Maharashtra. The holding of equity shares by both government is 3,20,000 which is more than 51% of total paid up equity shares.*

*Hence, SK Infrastructure Limited is a Government company.*

## NOVEMBER 2020

1. (a) *Mr. X a businessman has been fighting a long drawn litigation with Mr. Y an industrialist. To support his legal campaign he enlists the services of Mr. C a Judicial officer stating that the amount of ` 10 lakhs would be paid to him if he does not take up the brief of Mr. Y.*

*Mr. C agrees but, at the end of the litigation Mr. X refuses to pay to Mr. C. Decide whether Mr. C can recover the amount promised by Mr. X under the provisions of the Indian Contract Act, 1872? (4 Marks)*

*Ans. The problem as asked in the question is based on Section 10 of the Indian Contract Act, 1872. This Section says that all agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object and are not expressly declared to be void. Further, Section 23 also states that every agreement of which the object is unlawful is void.*

*Accordingly, one of the essential elements of a valid contract in the light of the said provision is that the agreement entered into must not be which the law declares to be either illegal or void. An illegal agreement is an agreement expressly or impliedly prohibited by law. A void agreement is one without any legal effects. The given instance is a case of interference with the course of justice and results as opposed to public policy. This can also be called as an agreement in restraint of legal proceedings. This agreement restricts one's right to enforce his legal rights. Such an agreement has been expressly declared to be void under section 28 of the Indian Contract Act, 1872. Hence, Mr. C in the given case cannot recover the amount of ` 10 lakh promised by Mr. X because it is a void agreement and cannot be enforced by law.*

(b) *ABC Limited has allotted equity shares with voting rights to XYZ Limited worth ` 15 Crores and issued Non-Convertible Debentures worth ` 40 Crores during the Financial Year 2019-20. After that total Paid-up Equity Share Capital of the company is ` 100 Crores and Non-Convertible Debentures stands at ` 120 Crores. Define the Meaning of Associate Company and comment on whether ABC Limited and XYZ Limited would be called Associate Company as per the provisions of the Companies Act, 2013? (4 Marks)*



**Ans.** As per Section 2(6) of the Companies Act, 2013, an Associate Company in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

The term “significant influence” means control of at least 20% of total share capital, or control of business decisions under an agreement.

The term “Total Share Capital”, means the aggregate of the –

- (a) Paid-up equity share capital; and
- (b) Convertible preference share capital.

In the given case, as ABC Ltd. has allotted equity shares with voting rights to XYZ Limited of ₹ 15 crore, which is less than requisite control of 20% of total share capital (i.e. 100 crore) to have a significant influence of XYZ Ltd. Since the said requirement is not complied, therefore ABC Ltd. and XYZ Ltd. are not associate companies as per the Companies Act, 2013. Holding/allotment of non-convertible debentures has no relevance for ascertaining significant influence.

**(c) Write any four exceptions to the doctrine of Caveat Emptor as per the Sale of Goods Act, 1930. (4 Marks)**

**Ans.** The doctrine of Caveat Emptor given under the Sale of Goods Act, 1930 is subject to the following exceptions:

1. **Fitness as to quality or use:** Where the buyer makes known to the seller the particular purpose for which the goods are required, it is the duty of the seller to supply such goods as are reasonably fit for that purpose [Section 16 (1)].
2. **Goods purchased under patent or brand name:** In case where the goods are purchased under its patent name or brand name, there is no implied condition that the goods shall be fit for any particular purpose [Section 16(1)].
3. **Goods sold by description:** Where the goods are sold by description there is an implied condition that the goods shall correspond with the description [Section 15]. If it is not so, then seller is responsible.

4. **Goods of Merchantable Quality:** Where the goods are bought by description from a seller who deals in goods of that description there is an implied condition that the goods shall be of merchantable quality. The rule of Caveat Emptor is not applicable. [Section 16(2)].
5. **Sale by sample:** Where the goods are bought by sample, this rule of Caveat Emptor does not apply if the bulk does not correspond with the sample [Section 17].
6. **Goods by sample as well as description:** Where the goods are bought by sample as well as description, the rule of Caveat Emptor is not applicable in case the goods do not correspond with both the sample and description or either of the condition [Section 15].
7. **Trade Usage:** An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade and if the seller deviates from that, this rule of Caveat Emptor is not applicable [Section 16(3)].
8. **Seller actively conceals a defect or is guilty of fraud:** Where the seller sells the goods by making some misrepresentation or fraud and the buyer relies on it or when the seller actively conceals some defect in the goods so that the same could not be discovered by the buyer on a reasonable examination, then the rule of Caveat Emptor will not apply.

2. **Define Misrepresentation and Fraud. Explain the difference between Fraud and Misrepresentation as per the Indian Contract Act, 1872. (07)**

**Ans. Definition of Fraud under Section 17 of the Indian Contract Act, 1872:**

'Fraud' means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his agent, with an intent to deceive another party thereto or his agent, or to induce him to enter into the contract:

- (1) the suggestion, as a fact, of that which is not true, by one who does not believe it to be true;
- (2) the active concealment of a fact by one having knowledge or belief of the fact ;

- (3) a promise made without any intention of performing it;
- (4) any other act fitted to deceive;
- (5) any such act or omission as the law specially declares to be fraudulent.

As per Section 18 of the Indian Contract Act, 1872, misrepresentation means and includes-

- (1) the positive assertion, in a manner not warranted by the information of the person making it, of that which is not true, though he believes it to be true;
- (2) any breach of duty which, without an intent to deceive, gains an advantage to the person committing it, or anyone claiming under him; by misleading another to his prejudice or to the prejudice of anyone claiming under him;
- (3) causing, however, innocently, a party to an agreement to make a mistake as to the substance of the thing which is the subject of the agreement.

**Distinction between fraud and misrepresentation:**

<b>Basis of difference</b>	<b>Fraud</b>	<b>Misrepresentation</b>
<b>Intention</b>	To deceive the other party by hiding the truth.	There is no such intention to deceive the other party.
<b>Knowledge of truth</b>	The person making the suggestion believes that the statement as untrue.	The person making the statement believes it to be true, although it is not true.
<b>Rescission of the contract and claim for damages</b>	The injured party can repudiate the contract and claim damages.	The injured party is entitled to repudiate the contract or sue for restitution but cannot claim the damages.
<b>Means to discover the truth</b>	The party using the fraudulent act cannot secure or protect himself by saying that the injured party had means to discover the truth.	Party can always plead that the injured party had the means to discover the truth.

3. (a) (i) What do you mean by 'Partnership at will' as per the Indian Partnership Act, 1932? (02)

Ans. (i) Partnership at will under the Partnership Act, 1932

According to Section 7 of the Act, partnership at will is a partnership when:

1. no fixed period has been agreed upon for the duration of the partnership; and
2. there is no provision made as to the determination of the partnership.

Where a partnership entered into for a fixed term is continued after the expiry of such term, it is to be treated as having become a partnership at will.

OR

(ii) Comment on 'the right to expel partner must be exercised in good faith' under the Indian Partnership Act, 1932.

Ans. A partner may not be expelled from a firm by a majority of partners except in exercise, in good faith, of powers conferred by contract between the partners. It is, thus, essential that:

- (i) the power of expulsion must have existed in a contract between the partners;
- (ii) the power has been exercised by a majority of the partners; and
- (iii) it has been exercised in good faith.

If all these conditions are not present, the expulsion is not deemed to be in bona fide interest of the business of the firm.

(b) Referring to the Provisions of the Indian Partnership Act, 1932, answer the following:

- (i) What are the consequences of Non-Registration of Partnership firm?
- (ii) What are the rights which won't be affected by Non-Registration of Partnership firm? (04)

Ans. (i) Consequences of Non-registration of partnership firm:

Under Section 69 of the Indian Partnership Act, 1932 non-registration of partnership gives rise to a number of disabilities. Though registration of firms is not compulsory, yet the consequences or disabilities of non-registration have a persuasive pressure for their registration. Following are the consequences:

(a) *No suit in a civil court by firm or other co-partners against third party:*  
The firm or any other person on its behalf cannot bring an action against the third party for breach of contract entered into by the firm.

(b) *No relief to partners for set-off of claim:* If an action is brought against the firm by a third party, then neither the firm nor the partner can claim any set-off, if the suit be valued for more than ₹ 100 or pursue other proceedings to enforce the rights arising from any contract.

(c) *Aggrieved partner cannot bring legal action against other partner or the firm:* A partner of an unregistered firm (or any other person on his behalf) is precluded from bringing legal action against the firm or any person alleged to be or to have been a partner in the firm.

(d) *Third-party can sue the firm:* In case of an unregistered firm, an action can be brought against the firm by a third party.

(ii) **Non-registration of a firm does not, however, affect the following rights:**

1. The right of third parties to sue the firm or any partner.
2. The right of partners to sue for the dissolution of the firm or for the settlement of the accounts of a dissolved firm, or for realization of the property of a dissolved firm.
3. The power of an Official Assignee, Receiver of Court to release the property of the insolvent partner and to bring an action.
4. The right to sue or claim a set-off if the value of suit does not exceed ₹ 100 in value.

(c) **In light of provisions of the Indian Contract Act, 1872 answer the following: (06)**

(i) **Mr. S and Mr. R made contract wherein Mr. S agreed to deliver paper cup manufacture machine to Mr. R and to receive payment on delivery. On the delivery date, Mr. R didn't pay the agreed price. Decide whether Mr. S is bound to fulfil his promise at the time of delivery?**

(ii) **Mr. Y given loan to Mr. G of INR 30,00,000. Mr. G defaulted the loan on due date and debt became time barred. After the time barred debt, Mr. G agreed to settle the full amount to Mr. Y. Whether acceptance of time barred debt Contract is enforceable in law?**

- (iii) *A & B entered into a contract to supply unique item, alternate of which is not available in the market. A refused to supply the agreed unique item to B. What directions could be given by the court for breach of such contract?*

**Ans. (i)** *As per Section 51 of the Indian Contract Act, 1872, when a contract consists of reciprocal promises to be simultaneously performed, no promisor needs to perform his promise unless the promisee is ready and willing to perform his reciprocal promise. Such promises constitute concurrent conditions and the performance of one of the promise is conditional on the performance of the other. If one of the promises is not performed, the other too need not be performed.*

*Referring to the above provisions, in the given case, Mr. S is not bound to deliver goods to Mr. R since payment was not made by him at the time of delivery of goods.*

- (ii) **Promise to pay time-barred debts - Section 25 (3):** *Where there is an agreement, made in writing and signed by the debtor or by his agent, to pay wholly or in part a time barred debt, the agreement is valid and binding even though there is no consideration.*

*In the given case, the loan given by Mr. Y to Mr. G has become time barred. Thereafter, Mr. G agreed to make payment of full amount to Mr. Y.*

*Referring to above provisions of the Indian Contract Act, 1872 contract entered between parties post time barred debt is valid so, Mr. G is bound to pay the agreed amount to Mr. Y provided the above mentioned conditions of section 25 (3) are fulfilled.*

- (iii) *Where there is a breach of contract for supply of a unique item, mere monetary damages may not be an adequate remedy for the other party. In such a case, the court may give order for specific performance and direct the party in breach to carry out his promise according to the terms of contract. Here, in this case, the court may direct A to supply the item to B because the refusal to supply the agreed unique item cannot be compensated through money.*

4. (a) Explain any six circumstances in detail in which non-owner can convey better title to Bona fide purchaser of goods for value as per the Sale of Goods Act, 1930. (06)

Ans. (1) In the following cases, a non-owner can convey better title to the bona fide purchaser of goods for value.

(1) **Sale by a Mercantile Agent:** A sale made by a mercantile agent of the goods for document of title to goods would pass a good title to the buyer in the following circumstances; namely;

(a) If he was in possession of the goods or documents with the consent of the owner;

(b) If the sale was made by him when acting in the ordinary course of business as a mercantile agent; and

(c) If the buyer had acted in good faith and has at the time of the contract of sale, no notice of the fact that the seller had no authority to sell (Proviso to Section 27 of the Sale of Goods Act, 1930).

(2) **Sale by one of the joint owners (Section 28):** If one of several joint owners of goods has the sole possession of them by permission of the co-owners, the property in the goods is transferred to any person who buys them of such joint owner in good faith and has not at the time of the contract of sale notice that the seller has no authority to sell.

(3) **Sale by a person in possession under voidable contract:** A buyer would acquire a good title to the goods sold to him by a seller who had obtained possession of the goods under a contract voidable on the ground of coercion, fraud, misrepresentation or undue influence provided that the contract had not been rescinded until the time of the sale (Section 29).

(4) **Sale by one who has already sold the goods but continues in possession thereof:** If a person has sold goods but continues to be in possession of them or of the documents of title to them, he may sell them to a third person, and if such person obtains the delivery thereof in good faith and without notice of the previous sale, he would have good title to them, although the property in the goods had passed to the first buyer earlier. A pledge or other disposition of the goods or documents of title by the seller in possession are equally valid [Section 30(1)].

**(5) Sale by buyer obtaining possession before the property in the goods has vested in him:** Where a buyer with the consent of the seller obtains possession of the goods before the property in them has passed to him, he may sell, pledge or otherwise dispose of the goods to a third person, and if such person obtains delivery of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods, he would get a good title to them **[Section 30(2)]**.

However, a person in possession of goods under a 'hire-purchase' agreement which gives him only an option to buy is not covered within the section unless it amounts to a sale.

**(6) Effect of Estoppel:** Where the owner is estopped by the conduct from denying the seller's authority to sell, the transferee will get a good title as against the true owner. But before a good title by estoppel can be made, it must be shown that the true owner had actively suffered or held out the other person in question as the true owner or as a person authorized to sell the goods.

**(7) Sale by an unpaid seller:** Where an unpaid seller who had exercised his right of lien or stoppage in transit resells the goods, the buyer acquires a good title to the goods as against the original buyer **[Section 54 (3)]**.

**(8) Sale under the provisions of other Acts:**

**(i)** Sale by an Official Receiver or Liquidator of the Company will give the purchaser a valid title.

**(ii)** Purchase of goods from a finder of goods will get a valid title under circumstances **[Section 169 of the Indian Contract Act, 1872]**

**(iii)** A sale by pawnee can convey a good title to the buyer **[Section 176 of the Indian Contract Act, 1872]**

**(b) P, Q, R and S are the partners in M/S PQRS & Co., a partnership firm which deals in trading of Washing Machines of various brands.**

Due to the conflict of views between partners, P & Q decided to leave the partnership firm and started competitive business on 31<sup>st</sup> July, 2019, in the name of M/S PQ & Co. Meanwhile, R & S have continued using the property in



*the name of M/S PQRS & Co. in which P & Q also has a share.*

*Based on the above facts, explain in detail the rights of outgoing partners as per the Indian Partnership Act, 1932 and comment on the following:*

*(i) Rights of P & Q to start a competitive business.*

*(ii) Rights of P & Q regarding their share in property of M/S PQRS & Co. (06)*

*Ans. (i) Rights of outgoing partner to carry on competing business (Section 36 of the Indian Partnership Act, 1932)*

*(1) An outgoing partner may carry on business competing with that of the firm and he may advertise such business, but subject to contract to the contrary, he may not,-*

*(a) use the firm name,*

*(b) represent himself as carrying on the business of the firm or*

*(c) solicit the custom of persons who were dealing with the firm before he ceased to be a partner.*

*(2) Although this provision has imposed some restrictions on an outgoing partner, it effectively permits him to carry on a business competing with that of the firm. However, the partner may agree with his partners that on his ceasing to be so, he will not carry on a business similar to that of the firm within a specified period or within specified local limits. Such an agreement will not be in restraint of trade if the restraint is reasonable [Section 36 (2)]*

*From the above, we can infer that P & Q can start competitive business in the name of M/S PQ & Co after following above conditions in the absence of any agreement.*

*(ii) Right of outgoing partner in certain cases to share subsequent profits*

*(Section 37 of the Indian Partnership Act, 1932)*

*According to Section 37, where any member of a firm has died or otherwise ceased to be partner, and the surviving or continuing partners carry on the business of the firm with the property of the firm without any final settlement of accounts as between them and the outgoing partner or his estate, then, in the absence of a contract to the contrary, the outgoing*

partner or his estate is entitled at the option of himself or his representatives to such share of the profits made since he ceased to be a partner as may be attributable to the use of his share of the property of the firm or to interest at the rate of six per cent per annum on the amount of his share in the property of the firm.

In the instant case, P & Q can share in property of M/s PQRS & Co. keeping in view of the above provisions.

5. (a) Ms. R owns a Two Wheeler which she handed over to her friend Ms. K on sale or return basis. Even after a week, Ms. K neither returned the vehicle nor made payment for it. She instead pledged the vehicle to Mr. A to obtain a loan. Ms. R now wants to claim the Two Wheeler from Mr. A. Will she succeed? (06)
- (i) Examine with reference to the provisions of the Sale of Goods Act, 1930, what recourse is available to Ms. R?
- (ii) Would your answer be different if it had been expressly provided that the vehicle would remain the property of Ms. R until the price has been paid?

Ans. (a) As per the provisions of Section 24 of the Sale of Goods Act, 1930, when goods are delivered to the buyer on approval or "on sale or return" or other similar terms, the property therein passes to the buyer-

- (i) when the buyer signifies his approval or acceptance to the seller or does any other act adopting the transaction;
- (ii) if he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and, if no time has been fixed, on the expiration of a reasonable time; or
- (iii) he does something to the good which is equivalent to accepting the goods e.g. he pledges or sells the goods.

Referring to the above provisions, we can analyse the situation given in the question.

- (i) In the instant case, Ms. K, who had taken delivery of the two wheeler on Sale or Return basis pledged the two wheeler to Mr. A, has attracted the

*third condition that she has done something to the good which is equivalent to accepting the goods e.g. she pledges or sells the goods. Therefore, the property therein (Two wheeler) passes to Mr. A. Now in this situation, Ms. R cannot claim back her two wheeler from Mr. A, but she can claim the price of the two wheeler from Ms. K only.*

*(ii) It may be noted that where the goods have been delivered by a person on "sale or return" on the terms that the goods were to remain the property of the seller till they are paid for, the property therein does not pass to the buyer until the terms are complied with, i.e., price is paid for.*

*Hence, in this case, it is held that at the time of pledge, the ownership was not transferred to Ms. K. Thus, the pledge was not valid and Ms. R could recover the two wheeler from Mr. A.*

**(b) What are the significant points of Section 8 Company which are not applicable for other companies? Briefly explain with reference to provisions of the Companies Act, 2013. (06)**

**Ans. Section 8 Company- Significant points**

- ◆ *Formed for the promotion of commerce, art, science, religion, charity, protection of the environment, sports, etc.*
- ◆ *Requirement of minimum share capital does not apply.*
- ◆ *Uses its profits for the promotion of the objective for which formed.*
- ◆ *Does not declare dividend to members.*
- ◆ *Operates under a special licence from the Central Government.*
- ◆ *Need not use the word Ltd./ Pvt. Ltd. in its name and adopt a more suitable name such as club, chambers of commerce etc.*
- ◆ *Licence revoked if conditions contravened.*
- ◆ *On revocation, the Central Government may direct it to*
  - *Converts its status and change its name*
  - *Wind – up*
  - *Amalgamate with another company having similar object.*
- ◆ *Can call its general meeting by giving a clear 14 days notice instead of 21 days.*
- ◆ *Requirement of minimum number of directors, independent directors etc. does not apply.*

- ◆ Need not constitute Nomination and Remuneration Committee and Shareholders Relationship Committee.
- ◆ A partnership firm can be a member of Section 8 Company.

6. (a) Enumerate the differences between 'Wagering Agreements' and 'Contract of Insurance' with reference to provision of the Indian Contract Act, 1872. (05)

Ans. Distinction between Wagering Agreement and Contract of Insurance

	Basis	Wagering Agreement	Contract of Insurance
1.	Meaning	It is a promise to pay money or money's worth on the happening or non-happening of an uncertain event.	It is a contract to indemnify the loss.
2.	Consideration	There is no consideration between the two parties. There is just gambling for money.	The crux of the insurance contract is the mutual consideration (premium & compensation amount).
3.	Insurable Interest	There is no property in case of wagering agreement. There is betting on other's life & properties.	Insured party has an insurable interest in the life or property sought to be insured.
4.	Contract of Indemnity	Loser has to pay the fixed amount on the happening of an uncertain event.	Except for life insurance, the contract of insurance indemnifies the insured person against loss
5.	Enforceability	It is void & unenforceable agreement.	It is valid and enforceable
6.	Premium	No such logical calculations are required in case of wagering agreement.	Calculation of premium is based on scientific & actuarial calculation of risks.
7.	Public Welfare	They have been regarded as against the public welfare.	They are beneficial to the society.

(b) Explain in detail the circumstances which lead to liability of firm for misapplication by partners as per provisions of the Indian Partnership Act, 1932. (04)

Ans. Liability of Firm for Misapplication by Partners (Section 27 of Indian Partnership Act, 1932): Where-

- (a) a partner acting within his apparent authority receives money or property from a third party and misapplies it, or
- (b) a firm in the course of its business receives money or property from a third party, and the money or property is misapplied by any of the partners while it is in the custody of the firm, the firm is liable to make good the loss.

**Analysis of section 27:**

It may be observed that the workings of the two clauses of Section 27 are designed to bring out clearly an important point of distinction between the two categories of cases of misapplication of money by partners.

Clause (a) covers the case where a partner acts within his authority and due to his authority as a partner, he receives money or property belonging to a third party and misapplies that money or property. For this provision to be attracted, it is not necessary that the money should have actually come into the custody of the firm.

On the other hand, the provision of clause (b) would be attracted when such money or property has come into the custody of the firm and it is misapplied by any of the partners.

The firm would be liable in both the cases.

- (c) **Mike Limited company incorporated in India having Liaison office at Singapore. Explain in detail meaning of Foreign Company and analysis, on whether Mike Limited would be called as Foreign Company as it established a Liaison office at Singapore as per the provisions of the Companies Act, 2013? (03)**

**Ans. Foreign Company [Section 2(42) of the Companies Act, 2013]:** It means any company or body corporate incorporated outside India which—

- (i) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (ii) conducts any business activity in India in any other manner.

Since Mike Limited is a company incorporated in India, hence, it cannot be called as a foreign company. Even though, Liaison was officially established at Singapore, it would not be called as a foreign company as per the provisions of the Companies Act, 2013.

## NOVEMBER 2019

1. (a) *X found a wallet in a restaurant. He enquired of all the customers present there but the true owner could not be found. He handed over the same to the manager of the restaurant to keep till the true owner is found. After a week he went back to the restaurant to enquire about the wallet. The manager refused to return it back to X, saying that it did not belong to him.*

*In the light of the Indian Contract Act, 1872, can X recover it from the Manager?*

**(04)**

**Ans. Responsibility of finder of goods (Section 71 of the Indian Contract Act, 1872):**

*A person who finds goods belonging to another and takes them into his custody is subject to same responsibility as if he were a bailee.*

*Thus, a finder of lost goods has:*

- (i) to take proper care of the property as man of ordinary prudence would take*
- (ii) no right to appropriate the goods and*
- (iii) to restore the goods if the owner is found.*

*In the light of the above provisions, the manager must return the wallet to X, since X is entitled to retain the wallet found against everybody except the true owner.*

- (b) *State the various essential elements involved in the sale of unascertained goods and its appropriation as per the Sale of Goods Act, 1930.* **(04)**

**Ans. Sale of unascertained goods and Appropriation (Section 23 of the Sale of Goods Act, 1930):** *Appropriation of goods involves selection of goods with the intention of using them in performance of the contract and with the mutual consent of the seller and the buyer.*

*The essentials are:*

- (a) There is a contract for the sale of unascertained or future goods.*
- (b) The goods should conform to the description and quality stated in the contract.*

- (c) *The goods must be in a deliverable state.*
- (d) *The goods must be unconditionally appropriated to the contract either by delivery to the buyer or his agent or the carrier.*
- (e) *The appropriation must be made by:*
  - (i) *the seller with the assent of the buyer; or*
  - (ii) *the buyer with the assent of the seller.*
- (f) *The assent may be express or implied.*
- (g) *The assent may be given either before or after appropriation.*

**2. (a) Define consideration. What are the legal rules regarding consideration under the Indian Contract Act, 1872? (07)**

**Ans.** *Consideration [Section 2(d) of the Indian Contract Act, 1872]: When at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing or promises to do or abstain from doing something, such an act or abstinence or promise is called consideration for the promise.*

*Legal Rules Regarding Consideration*

- (i) *Consideration must move at the desire of the promisor: Consideration must be offered by the promisee or the third party at the desire or request of the promisor. This implies "return" element of consideration.*
- (ii) *Consideration may move from promisee or any other person: In India, consideration may proceed from the promisee or any other person who is not a party to the contract. In other words, there can be a stranger to a consideration but not stranger to a contract.*
- (iii) *Executed and executory consideration: A consideration which consists in the performance of an act is said to be executed. When it consists in a promise, it is said to be executory. The promise by one party may be the consideration for an act by some other party, and vice versa.*
- (iv) *Consideration may be past, present or future: It is a general principle that consideration is given and accepted in exchange for the promise. The consideration,*

*if past, may be the motive but cannot be the real consideration of a subsequent promise. But in the event of the services being rendered in the past at the request or the desire of the promisor, the subsequent promise is regarded as an admission that the past consideration was not gratuitous.*

**(v) Consideration need not be adequate:** *Consideration need not to be of any particular value. It need not be approximately of equal value with the promise for which it is exchanged but it must be something which the law would regard as having some value.*

**(vi) Performance of what one is legally bound to perform:** *The performance of an act by a person who is legally bound to perform the same cannot be consideration for a contract. Hence, a promise to pay money to a witness is void, for it is without consideration. Hence such a contract is void for want of consideration.*

*But where a person promises to do more than he is legally bound to do, such a promise provided it is not opposed to public policy, is a good consideration. It should not be vague or uncertain.*

**(vii) Consideration must be real and not illusory:** *Consideration must be real and must not be illusory. It must be something to which the law attaches some value. If it is legally or physically impossible it is not considered valid consideration.*

**(viii) Consideration must not be unlawful, immoral, or opposed to public policy.** *Only presence of consideration is not sufficient it must be lawful. Anything which is immoral or opposed to public policy also cannot be valued as valid consideration.*

**3. (a) (i) When the continuing guarantee can be revoked under the Indian Partnership Act, 1932? (02)**

**Ans. (i)** *Revocation of continuing guarantee (Section 38 of the Indian Partnership Act, 1932)*

*According to section 38, a continuing guarantee given to a firm or to third party in respect of the transaction of a firm is, in the absence of an agreement to the contrary, revoked as to future transactions from the date of any change in the constitution of the firm. Such change may occur by the death, or retirement of a partner, or by introduction of a new partner.*



OR

**(ii) What do you mean by Goodwill as per the provisions of Indian Partnership Act, 1932? (02)**

**Ans. Goodwill:** The term "Goodwill" has not been defined under the Indian Partnership Act, 1932. Section 14 of the Act lays down that goodwill of a business is to be regarded as a property of the firm.

Goodwill may be defined as the value of the reputation of a business house in respect of profits expected in future over and above the normal level of profits earned by undertaking belonging to the same class of business.

**(b) With reference to the provisions of Indian partnership Act, 1932 explain the various effects of insolvency of a partner. (04)**

**Ans. Effects of insolvency of a partner (Section 34 of the Indian Partnership Act, 1932):**

**(i)** The insolvent partner cannot be continued as a partner.

**(ii)** He will be ceased to be a partner from the very date on which the order of adjudication is made.

**(iii)** The estate of the insolvent partner is not liable for the acts of the firm done after the date of order of adjudication.

**(iv)** The firm is also not liable for any act of the insolvent partner after the date of the order of adjudication,

**(v)** Ordinarily, the insolvency of a partner results in dissolution of a firm; but the partners are competent to agree among themselves that the adjudication of a partner as an insolvent will not give rise to dissolution of the firm.

**(c) Mr. Sonumal a wealthy individual provided a loan of ₹ 80,000 to Mr. Datumal on 26.02.2019. The borrower Mr. Datumal asked for a further loan of ₹ 1,50,000. Mr. Sonumal agreed but provided the loan in parts at different dates. He provided ₹ 1,00,000 on 28.02.2019 and remaining ₹ 50,000 on 03.03.2019.**

**On 10.03.2019 Mr. Datumal while paying off part ₹ 75,000 to Mr. Sonumal insisted that the lender should adjusted ₹ 50,000 towards the loan taken on 03.03.2019 and balance as against the loan on 26.02.2019.**

*Mr. Sonumal objected to this arrangement and asked the borrower to adjust in the order of data of borrowal of funds.*

*Now you decide.*

- (i) Whether the contention of Mr. Datumal correct or otherwise as per the provisions of the Indian Contract Act 1872?*
- (ii) What would be the answer in case the borrower does not insist on such order of adjustment of repayment?*
- (iii) What would the mode of adjustment/appropriation of such part payment in case neither Mr. Sonumal nor Mr. Datumal insist any order of adjustment on their part?*

*Ans. Appropriation of Payments: In case where a debtor owes several debts to the same creditor and makes payment which is not sufficient to discharge all the debts, the payment shall be appropriated (i.e. adjusted against the debts) as per the provisions of Section 59 to 61 of the Indian Contract Act, 1872.*

*(i) As per the provisions of 59 of the Act, where a debtor owing several distinct debts to one person, makes a payment to him either with express intimation or under circumstances implying that the payment is to be applied to the discharge of some particular debt, the payment, if accepted, must be applied accordingly.*

*Therefore, the contention of Mr. Datumal is correct and he can specify the manner of appropriation of repayment of debt.*

*(ii) As per the provisions of 60 of the Act, where the debtor has omitted to intimate and there are no other circumstances indicating to which debt the payment is to be applied, the creditor may apply it at his discretion to any lawful debt actually due and payable to him from the debtor, where its recovery is or is not barred by the law in force for the time being as to the limitation of suits.*

*Hence in case where Mr. Datumal fails to specify the manner of appropriation of debt on part repayment, Mr. Sonumal the creditor, can appropriate the payment as per his choice.*

*(iii) As per the provisions of 61 of the Act, where neither party makes any appropriation, the payment shall be applied in discharge of the debts in order of time, whether they are or are not barred by the law in force for the time being as to the limitation of suits. If the debts are of equal standing, the payments shall be applied in discharge of each proportionately.*

*Hence in case where neither Mr. Datural nor Mr. Sonumal specifies the manner of appropriation of debt on part repayment, the appropriation can be made in proportion of debts.*

**4. (a) What are the rights of an unpaid seller against goods under the Sale of Goods Act, 1930? (06)**

**Ans. Rights of an unpaid seller against the goods:** *As per the provisions of Section 46 of the Sale of Goods Act, 1930, notwithstanding that the property in the goods may have passed to the buyer, the unpaid seller of goods, as such, has by implication of law-*

*(a) a lien on the goods for the price while he is in possession of them;*

*(b) in case of the insolvency of the buyer, a right of stopping the goods in transit after he has parted with the possession of them;*

*(c) a right of re-sale as limited by this Act. [Sub-section (1)]*

*Where the property in goods has not passed to the buyer, the unpaid seller has, in addition to his other remedies, a right of withholding delivery similar to and co-extensive with his rights of lien and stoppage in transit where the property has passed to the buyer. [Sub-section (2)]*

**These rights can be exercised by the unpaid seller in the following circumstances:**

**(i) Right of lien (Section 47):** *According to sub-section (1), the unpaid seller of goods who is in possession of them is entitled to retain possession of them until payment or tender of the price in the following cases, namely:-*

*a. where the goods have been sold without any stipulation as to credit;*

*b. where the goods have been sold on credit, but the term of credit has expired;*

*c. where the buyer becomes insolvent.*

**(ii) Right of stoppage in transit (Section 50):** When the buyer of goods becomes insolvent, the unpaid seller who has parted with the possession of the goods has the right of stopping them in transit, that is to say, he may resume possession of the goods as long as they are in the course of transit, and may retain them until paid or tendered price of the goods.

**(iii) Right to re-sell the goods (Section 54):** The unpaid seller can exercise the right to re-sell the goods under the following conditions:

1. Where the goods are of a perishable nature
2. Where he gives notice to the buyer of his intention to re-sell the goods
3. Where an unpaid seller who has exercised his right of lien or stoppage in transit resells the goods
4. A re-sale by the seller where a right of re-sale is expressly reserved in a contract of sale
5. Where the property in goods has not passed to the buyer

**(b) Master X was introduced to the benefits of partnership of M/s ABC & Co. with the consent of all partners. After attaining majority, more than six months elapsed and he failed to give a public notice as to whether he elected to become or not to become a partner in the firm. Later on, Mr. L, a supplier of material to M/s ABC & Co., filed a suit against M/s ABC & Co. for recovery of the debt due. (06)**

**In the light of the Indian Partnership Act, 1932, explain:**

**(i) To what extent X will be liable if he failed to give public notice after attaining majority?**

**(ii) Can Mr. L recover his debt from X?**

**Ans.** As per the provisions of Section 30(5) of the Indian Partnership Act, 1932, at any time within six months of his attaining majority, or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later, such person may give public notice that he has elected to become or that he has elected not to become a partner in the firm, and such notice shall determine his position as regards the firm.

*However, if he fails to give such notice, he shall become a partner in the firm on the expiry of the said six months.*

*If the minor becomes a partner by his failure to give the public notice within specified time, his rights and liabilities as given in Section 30(7) are as follows:*

*(A) He becomes personally liable to third parties for all acts of the firm done since he was admitted to the benefits of partnership.*

*(B) His share in the property and the profits of the firm remains the same to which he was entitled as a minor.*

*(i) In the instant case, since, X has failed to give a public notice, he shall become a partner in the M/s ABC & Co. and becomes personally liable to Mr. L, a third party.*

*(ii) In the light of the provisions of Section 30(7) read with Section 30(5) of the Indian Partnership Act, 1932, since X has failed to give public notice that he has not elected to not to become a partner within six months, he will be deemed to be a partner after the period of the above six months and therefore, Mr. L can recover his debt from him also in the same way as he can recover from any other partner.*

**5. (a) Mrs. Geeta 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. Geeta insisted that she would like to see the sample of what will be provided to her by the shopkeeper before she agreed upon such purchase.**

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

**The buyer 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 & 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 requirement of the dish.**

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

*Explain the basic law on sale by sample under Sale of Goods Act 1930?*

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

*What would be your answer in case Mrs. Geeta specified her exact requirement as to length of rice?* **(06)**

*Ans. (i) As per the provisions of Sub-Section (2) of Section 17 of the Sale of Goods Act, 1930, in a contract of sale by sample, there is an implied condition that:*

- (a) the bulk shall correspond with the sample in quality;*
- (b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample.*

*In the instant case, in the light of the provisions of Sub-Clause (b) of Sub-Section (2) of Section 17 of the Act, Mrs. Geeta will not be successful as she casually examined the sample of rice (which exactly corresponded to the entire lot) without noticing the fact that even though the sample was that of Basmati Rice but it contained a mix of long and short grains.*

*(ii) Sale by Sample: (Section 17 of the Sale of Goods Act, 1930): As per the provisions of Sub-Section (1) of section 17 of the Sale of Goods Act, 1930, a contract of sale is a contract for sale by sample where there is a term in the contract, express or implied, to that effect.*

*As per the provisions of Sub-Section (2) of section 17 of the Sale of Goods Act, 1930, in a contract of sale by sample, there is an implied condition that:*

- (a) that the bulk shall correspond with the sample in quality;*
- (b) that the buyer shall have a reasonable opportunity of comparing the bulk with the sample.*
- (c) that the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.*

(iii) In the instant case, the buyer does not have any option available to him for grievance redressal.

(iv) In case Mrs. Geeta specified her exact requirement as to length of rice, then there is an implied condition that the goods shall correspond with the description. If it is not so, the seller will be held liable.

(b) “The Memorandum of Association is a charter of a company”. Discuss. Also explain in brief the contents of Memorandum of Association. (06)

**Ans.** The Memorandum of Association of company is in fact its charter; it defines its constitution and the scope of the powers of the company with which it has been established under the Act. It is the very foundation on which the whole edifice of the company is built.

**Object of registering a memorandum of association:**

- It contains the object for which the company is formed and therefore identifies the possible scope of its operations beyond which its actions cannot go.
- It enables shareholders, creditors and all those who deal with company to know what its powers are and what activities it can engage in.

A memorandum is a public document under Section 399 of the Companies Act, 2013. Consequently, every person entering into a contract with the company is presumed to have the knowledge of the conditions contained therein.

- The shareholders must know the purposes for which his money can be used by the company and what risks he is taking in making the investment.

A company cannot depart from the provisions contained in the memorandum however imperative may be the necessity for the departure. It cannot enter into a contract or engage in any trade or business, which is beyond the power conferred on it by the memorandum. If it does so, it would be ultra vires the company and void.

**Contents of the memorandum:** The memorandum of a company shall state—

(a) the name of the company (Name Clause) with the last word “Limited” in the case of a public limited company, or the last words “Private Limited” in the case of a private limited company. This clause is not applicable on the companies formed under section 8 of the Act.

- (b) *the State in which the registered office of the company (Registered Office clause) is to be situated;*
- (c) *the objects for which the company is proposed to be incorporated and any matter considered necessary in furtherance thereof (Object clause);*
- (d) *the liability of members of the company (Liability clause), whether limited or unlimited*
- (e) *the amount of authorized capital (Capital Clause) divided into share of fixed amounts and the number of shares with the subscribers to the memorandum have agreed to take, indicated opposite their names, which shall not be less than one share. A company not having share capital need not have this clause.*
- (f) *the desire of the subscribers to be formed into a company. The Memorandum shall conclude with the association clause. Every subscriber to the Memorandum shall take at least one share, and shall write against his name, the number of shares taken by him.*

**6. (a) Explain the term ‘Coercion’ and what are the effects of coercion under Indian Contract Act, 1872. (05)**

**Ans. Coercion (Section 15 of the Indian Contract Act, 1872):** “Coercion’ is the committing, or threatening to commit, any act forbidden by the Indian Penal Code or the unlawful detaining, or threatening to detain any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement.”

**Effects of coercion under section 19 of Indian Contract Act, 1872**

- (i) *Contract induced by coercion is voidable at the option of the party whose consent was so obtained.*
- (ii) *As to the consequences of the rescission of voidable contract, the party rescinding a void contract should, if he has received any benefit, thereunder from the other party to the contract, restore such benefit so far as may be applicable, to the person from whom it was received.*
- (iii) *A person to whom money has been paid or anything delivered under coercion must repay or return it.*



(b) **“Dissolution of a firm is different from dissolution of partnership”. Discuss. (04)**

S. NO.	BASIS OF DIFFERENCE	DISSOLUTION OF FIRM	DISSOLUTION OF PARTNERSHIP
1.	<i>Continuation of business</i>	<i>It involves discontinuation of business in partnership.</i>	<i>It does not affect continuation of business. It involves only reconstitution of the firm.</i>
2.	<i>Winding up</i>	<i>It involves winding up of the firm and requires realization of assets &amp; settlement of liabilities.</i>	<i>It involves only reconstitution &amp; requires only revaluation of assets and liabilities of the firm.</i>
3.	<i>Order of court</i>	<i>A firm may be dissolved by the order of the court.</i>	<i>Dissolution of partnership is not ordered by the court.</i>
4.	<i>Scope</i>	<i>It necessarily involves dissolution of partnership.</i>	<i>It may or may not involve dissolution of firm.</i>
5.	<i>Final closure of books</i>	<i>It involves final closure of books of the firm.</i>	<i>It does not involve final closure of the books.</i>

(c) **A, an assessee, had large income in the form of dividend and interest. In order to reduce his tax liability, he formed four private limited company and transferred his investments to them in exchange of their shares. The income earned by the companies was taken back by him as pretended loan. Can A be regarded as separate from the private limited company he formed? (03)**

**Ans.** *The House of Lords in Salomon Vs Salomon & Co. Ltd. laid down that a company is a person distinct and separate from its members, and therefore, has an independent separate legal existence from its members who have constituted the company. But under certain circumstances the separate entity of the company may be ignored by the courts. When that happens, the courts ignore the corporate entity of the company and look behind the corporate façade and hold the*

persons in control of the management of its affairs liable for the acts of the company. Where a company is incorporated and formed by certain persons only for the purpose of evading taxes, the courts have discretion to disregard the corporate entity and tax the income in the hands of the appropriate assessee.

In *Dinshaw Maneckjee Petit* case it was held that the company was not a genuine company at all but merely the assessee himself disguised that the legal entity of a limited company. The assessee earned huge income by way of dividends and interest. So, he opened some companies and purchased their shares in exchange of his income by way of dividend and interest. This income was transferred back to assessee by way of loan. The court decided that the private companies were a sham and the corporate veil was lifted to decide the real owner of the income.

In the instant case, the four private limited companies were formed by A, the assessee, purely and simply as a means of avoiding tax and the companies were nothing more than the façade of the assessee himself. Therefore, the whole idea of Mr. A was simply to split his income into four parts with a view to evade tax. No other business was done by the company.

Hence, A cannot be regarded as separate from the private limited companies he formed.

1. (a) Mr. Sohanlal sold 10 acres of his agricultural land to Mr. Mohanlal on 25<sup>th</sup> September 2018 for ` 25 Lakhs. The Property papers mentioned a condition, amongst other details, that whosoever purchases the land is free to use 9 acres as per his choice but the remaining 1 acre has to be allowed to be used by Mr. Chotelal, son of the seller for carrying out farming or other activity of his choice. On 12<sup>th</sup> Oct 2018, Mr. Sohanlal died leaving behind his son and wife. On 15<sup>th</sup> Oct 2018 purchaser started construction of an auditorium on the whole 10 acres of land and denied any land to the son.

Now Mr. Chotelal wants to file a case against the purchaser and get a suitable redressed. Discuss the above in light of provisions of Indian Contract Act, 1872 and decide upon Mr. Chotelal's plan of action? (04)

Ans. Problem as asked in the question is based on the provisions of the Indian Contract Act, 1872 as contained in section 2(d) and on the principle 'privity of consideration'. Consideration is one of the essential elements to make a contract valid and it can flow from the promisee or any other person. In view of the clear language used in definition of 'consideration' in Section 2(d), it is not necessary that consideration should be furnished by the promisee only. A promise is enforceable if there is some consideration for it and it is quite immaterial whether it moves from the promisee or any other person. The leading authority in the decision of the Chinnaya Vs. Ramayya, held that the consideration can legitimately move from a third party and it is an accepted principle of law in India.

In the given problem, Mr. Sohanlal has entered into a contract with Mr. Mohanlal, but Mr. Chotelal has not given any consideration to Mr. Mohanlal but the consideration did flow from Mr. Sohanlal to Mr. Mohanlal on the behalf of Mr. Chotelal and such consideration from third party is sufficient to enforce the promise of Mr. Mohanlal to allow Mr. Chotelal to use 1 acre of land. Further the deed of sale and the promise made by Mr. Mohanlal to Mr. Chotelal to allow the use of 1 acre of land were executed simultaneously and therefore they should be regarded as one transaction and there was sufficient consideration for it.

Moreover, *it is provided in the law that “in case covenant running with the land, where a person purchases land with notice that the owner of the land is bound by certain duties affecting land, the covenant affecting the land may be enforced by the successor of the seller.”*

*In such a case, third party to a contract can file the suit although it has not moved the consideration.*

*Hence, Mr. Chotelal is entitled to file a petition against Mr. Mohanlal for execution of contract.*

- (b) Sound Syndicate Ltd. a public company, its articles of association empowers the managing agents to borrow both short and long term loans on behalf of the company. Mr. Liddle, the director of the company, approached Easy finance Ltd. a nonbanking finance company for a loan of ` 25,00,000 in name of the company. The Lender agreed and provided the above said loan. Later on Sound Syndicate Ltd. refused to repay the money borrowed on the pretext that no resolution authorizing such loan have been actually passed by the company and the lender should have enquired about the same prior providing such loan hence company not liable to pay such loan.**

**Analyse the above situation in terms of the provisions of Doctrine of Indoor Management under the Companies Act, 2013 and examine whether the contention of Sound Syndicate Ltd. is correct or not? (04)**

**Ans. Doctrine of Indoor Management**

*According to this doctrine, persons dealing with the company need not inquire whether internal proceedings relating to the contract are followed correctly, once they are satisfied that the transaction is in accordance with the memorandum and articles of association.*

*Stakeholders need not enquire whether the necessary meeting was convened and held properly or whether necessary resolution was passed properly. They are entitled to take it for granted that the company had gone through all these proceedings in a regular manner.*

*The doctrine helps protect external members from the company and states that the people are entitled to presume that internal proceedings are as per documents submitted with the Registrar of Companies.*

*Thus,*

- 1. What happens internal to a company is not a matter of public knowledge. An outsider can only presume the intentions of a company, but do not know the information he/she is not privy to.*
- 2. If not for the doctrine, the company could escape creditors by denying the authority of officials to act on its behalf.*

*In the given question, Easy Finance Ltd. being external to the company, need not enquire whether the necessary resolution was passed properly. Even if the company claim that no resolution authorizing the loan was passed, the company is bound to pay the loan to Easy Finance Ltd.*

**(c) Discuss the various types of implied warranties as per the Sales of Goods Act 1930? (04)**

**Ans. Various types of implied warranties**

- 1. Warranty as to undisturbed possession [Section 14(b) of the Sales of Goods Act, 1930]:** *An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.*
- 2. Warranty as to non-existence of encumbrances [Section 14(c)]:** *An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.*
- 3. Warranty as to quality or fitness by usage of trade [Section 16(3)]:** *An implied warranty as to quality or fitness for a particular purpose may be annexed or attached by the usage of trade.*
- 4. Disclosure of dangerous nature of goods:** *Where the goods are dangerous in nature and the buyer is ignorant of the danger, the seller must warn the buyer of the probable danger. If there is a breach of warranty, the seller may be liable in damages.*

2. (a) **“Mere silence is not fraud” but there are some circumstances where the “silence is fraud”. Explain the circumstances as per the provision of Indian Contract Act 1872?** (07)

**Ans. Mere silence is not fraud**

*Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, unless the circumstances of the case are such that, regard being had to them, it is the duty of the person keeping silence to speak, or unless his silence is, in itself, equivalent to speech.*

*It is a rule of law that mere silence does not amount to fraud. A contracting party is not duty bound to disclose the whole truth to the other party or to give him the whole information in his possession affecting the subject matter of the contract.*

*The rule is contained in explanation to Section 17 of the Indian Contract Act which clearly states the position that mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud.*

**Silence is fraud:**

1. **Duty of person to speak:** *Where the circumstances of the case are such that it is the duty of the person observing silence to speak.*

**Following contracts come within this category:**

- (a) **Fiduciary Relationship:** *Here, the person in whom confidence is reposed is under a duty to act with utmost good faith and make full disclosure of all material facts concerning the agreement, known to him.*
- (b) **Contracts of Insurance:** *In contracts of marine, fire and life insurance, there is an implied condition that full disclosure of material facts shall be made, otherwise the insurer is entitled to avoid the contract.*
- (c) **Contracts of marriage:** *Every material fact must be disclosed by the parties to a contract of marriage.*
- (d) **Contracts of family settlement:** *These contracts also require full disclosure of material facts within the knowledge of the parties.*
- (e) **Share Allotment contracts:** *Persons issuing ‘Prospectus’ at the time of public issue of shares/debentures by a joint stock company have to disclose all material facts within their knowledge.*

2. **Where the silence itself is equivalent to speech:** For example, A says to B “If you do not deny it, I shall assume that the horse is sound.” A says nothing. His silence amounts to speech.

(b) **“LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.” Explain. (05)**

**Ans.** LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership

**Limited Liability:** Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26 of the LLP Act, 2008). The liability of the partners will be limited to their agreed contribution in the LLP, while the LLP itself will be liable for the full extent of its assets.

**Flexibility of a partnership:** The LLP allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.

3. (a) (i) **What is the provision related to the effect of notice to an acting partner of the firm as per Indian Partnership Act 1932? (02)**

**Ans.** Effect of notice to an acting partner of the firm

According to Section 24 of the Indian Partnership Act, 1932, notice to a partner who habitually acts in the business of the firm of any matter relating to the affairs of the firm operates as notice to the firm, except in the case of a fraud on the firm committed by or with the consent of that partner.

Thus, the notice to one is equivalent to the notice to the rest of the partners of the firm, just as a notice to an agent is notice to his principal. This notice must be actual and not constructive. It must further relate to the firm's business. Only then it would constitute a notice to the firm.

OR

- (ii) *Discuss the provisions regarding personal profits earned by a partner under the Indian Partnership Act, 1932?* (02)

*Ans. Personal Profit earned by Partners (Section 16 of the Indian Partnership Act, 1932)*

*According to section 16, subject to contract between the partners:*

- (a) *If a partner derives any profit for himself from any transaction of the firm, or from the use of the property or business connection of the firm or the firm name, he shall account for that profit and pay it to the firm.*
- (b) *If a partner carries on any business of the same nature and competing with that of the firm, he shall account for and pay to the firm all profits made by him in that business.*

- (b) *“Whether a group of persons is or is not a firm, or whether a person is or not a partner in a firm.” Explain the mode of determining existence of partnership as per The Indian Partnership Act, 1932?* (04)

*Ans. Mode of determining existence of partnership (Section 6 of the Indian Partnership Act, 1932): In determining whether a group of persons is or is not a firm, or whether a person is or not a partner in a firm, regard shall be had to the real relation between the parties, as shown by all relevant facts taken together.*

*For determining the existence of partnership, it must be proved.*

- 1. There was an agreement between all the persons concerned*
- 2. The agreement was to share the profits of a business and*
- 3. The business was carried on by all or any of them acting for all.*

- 1. Agreement: Partnership is created by agreement and not by status (Section 5). The relation of partnership arises from contract and not from status; and in particular, the members of a Hindu Undivided family carrying on a family business as such are not partners in such business.*



**2. Sharing of Profit:** *Sharing of profit is an essential element to constitute a partnership. But, it is only a prima facie evidence and not conclusive evidence, in that regard. The sharing of profits or of gross returns accruing from property by persons holding joint or common interest in the property would not by itself make such persons partners. Although the right to participate in profits is a strong test of partnership, and there may be cases where, upon a simple participation in profits, there is a partnership, yet whether the relation does or does not exist must depend upon the whole contract between the parties.*

**3. Agency:** *Existence of Mutual Agency which is the cardinal principle of partnership law, is very much helpful in reaching a conclusion in this regard. Each partner carrying on the business is the principal as well as an agent of other partners. So, the act of one partner done on behalf of firm, binds all the partners. If the elements of mutual agency relationship exist between the parties constituting a group formed with a view to earn profits by running a business, a partnership may be deemed to exist.*

(c) **Mr. Rich aspired to get a self-portrait made by an artist. He went to the workshop of Mr. C an artist and asked whether he could sketch the former's portrait on oil painting canvass. Mr. C agreed to the offer and asked for ₹ 50,000 as full advance payment for the above creative work. Mr. C clarified that the painting shall be completed in 10 sittings and shall take 3 months.**

**On reaching to the workshop for the 6<sup>th</sup> sitting, Mr. Rich was informed that Mr. C became paralyzed and would not be able to paint for near future. Mr. C had a son Mr. K who was still pursuing his studies and had not taken up his father's profession yet?** (06)

**Discuss in light of Indian Contract Act 1872?**

**(i) Can Mr. Rich ask Mr. K to complete the artistic work in lieu of his father?**

**(ii) Could Mr. Rich ask Mr. K for refund of money paid in advance to his father?**

**Ans.** *A contract which involves the use of personal skill or is founded on personal consideration comes to an end on the death of the promisor. As regards any other contract the legal representatives of the deceased promisor are bound to*

perform *it* unless a contrary intention appears from the contract (Section 37 of the Indian Contract Act, 1872). But their liability under a contract is limited to the value of the property they inherit from the deceased.

(i) In the instant case, since painting involves the use of personal skill and on becoming Mr. C paralyzed, Mr. Rich cannot ask Mr. K to complete the artistic work in lieu of his father Mr. C.

(ii) According to section 65 of the Indian Contract Act, 1872, when an agreement is discovered to be void or when a contract becomes void, any person who has received any advantage under such agreement or contract is bound to restore it, or to make compensation for it to the person from whom he received it.

Hence, in the instant case, the agreement between Mr. Rich and Mr. C has become void because of paralysis to Mr. C. So, Mr. Rich can ask Mr. K for refund of money paid in advance to his father, Mr. C.

**4. (a) "A non-owner can convey better title to the bonafide purchaser of goods for value." Discuss the cases when a person other than the owner can transfer title in goods as per the provisions of Sales of Goods Act 1930? (06)**

**Ans.** In the following cases, a non-owner can convey better title to the bona fide purchaser of goods for value:

(1) **Sale by a Mercantile Agent:** A sale made by a mercantile agent of the goods for document of title to goods would pass a good title to the buyer in the following circumstances; namely;

- (a) If he was in possession of the goods or documents with the consent of the owner;
- (b) If the sale was made by him when acting in the ordinary course of business as a mercantile agent; and
- (c) If the buyer had acted in good faith and has at the time of the contract of sale, no notice of the fact that the seller had no authority to sell (Proviso to Section 27 of the Sale of Goods Act, 1930).

- (2) Sale by one of the joint owners (Section 28):** *If one of several joint owners of goods has the sole possession of them by permission of the co-owners, the property in the goods is transferred to any person who buys them of such joint owner in good faith and has not at the time of the contract of sale notice that the seller has no authority to sell.*
- (3) Sale by a person in possession under voidable contract:** *Abuyer would acquire a good title to the goods sold to him by a seller who had obtained possession of the goods under a contract voidable on the ground of coercion, fraud, misrepresentation or undue influence provided that the contract had not been rescinded until the time of the sale (Section 29).*
- (4) Sale by one who has already sold the goods but continues in possession thereof:** *If a person has sold goods but continues to be in possession of them or of the documents of title to them, he may sell them to a third person, and if such person obtains the delivery thereof in good faith and without notice of the previous sale, he would have good title to them, although the property in the goods had passed to the first buyer earlier. [Section 30(1)]*
- (5) Sale by buyer obtaining possession before the property in the goods has vested in him:** *Where a buyer with the consent of the seller obtains possession of the goods before the property in them has passed to him, he may sell, pledge or otherwise dispose of the goods to a third person, and if such person obtains delivery of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods, he would get a good title to them [Section 30(2)].*
- (6) Effect of Estoppel:** *Where the owner is estopped by the conduct from denying the seller's authority to sell, the transferee will get a good title as against the true owner. But before a good title by estoppel can be made, it must be shown that the true owner had actively suffered or held out the other person in question as the true owner or as a person authorized to sell the goods.*
- (7) Sale by an unpaid seller:** *Where an unpaid seller who had exercised his right of lien or stoppage in transit resells the goods, the buyer acquires a good title to the goods as against the original buyer [Section 54 (3)].*

**(8) Sale under the provisions of other Acts:**

(i) Sale by an Official Receiver or Liquidator of the Company will give the purchaser a valid title.

(ii) Purchase of goods from a finder of goods will get a valid title under circumstances [Section 169 of the Indian Contract Act, 1872]

(iii) A sale by pawnee can convey a good title to the buyer [Section 176 of the Indian Contract Act, 1872]

(b) M/S XYZ & Associates, a partnership firm with X, Y, Z as senior partners were engaged in the business of carpet manufacturing and exporting to foreign countries. On 25<sup>th</sup> Aug 2016 they inducted Mr. G an expert in the field of carpet manufacturing as their partner. On 10<sup>th</sup> Jan 2018, Mr. G was blamed for unauthorized activities and thus expelled from the partnership by united approval of rest of the partners. (06)

(i) Examine whether action by the partners was justified or not?

(ii) What should have the factors to be kept in mind prior expelling a partner from the firm by other partners according to the provisions of the Indian Partnership Act, 1932?

**Ans.** Expulsion of a Partner (Section 33 of the Indian Partnership Act, 1932):

A partner may not be expelled from a firm by a majority of partners except in exercise, in good faith, of powers conferred by contract between the partners.

The test of good faith as required under Section 33(1) includes three things:

- The expulsion must be in the interest of the partnership.
- The partner to be expelled is served with a notice.
- He is given an opportunity of being heard.

If a partner is otherwise expelled, the expulsion is null and void.

(i) Action by the partners of M/s XYZ & Associates, a partnership firm to expel Mr. G from the partnership was justified as he was expelled by united approval of the partners exercised in good faith to protect the interest of the partnership against the unauthorized activities charged against Mr. G. A proper notice and opportunity of being heard has to be given to Mr. G.

- (ii) *The following are the factors to be kept in mind prior expelling a partner from the firm by other partners:*
- (a) *the power of expulsion must have existed in a contract between the partners;*
  - (b) *the power has been exercised by a majority of the partners; and*
  - (c) *it has been exercised in good faith.*

5. (a) *M/S Woodworth & Associates, a firm dealing with the wholesale and retail buying and selling of various kinds of wooden logs, customized as per the requirement of the customers. They dealt with Rose wood; Mango wood; Teak wood; Burma wood etc.*

*Mr. Das a customer came to the shop and asked for wooden logs measuring 4 inches broad and 8 feet long as required by the carpenter. Mr. Das specifically mentioned that he required the wood which would be best suited for the purpose of making wooden doors and window frames. The Shop owner agreed and arranged the wooden pieces cut into as per the buyers requirements.*

*The carpenter visited Mr. Das's house next day, and he found that the seller has supplier Mango Tree wood which would most unsuitable for the purpose. The carpenter asked Mr. Das to return the wooden logs as it would not meet his requirements.* (06)

*The Shop owner refuse to return the wooden logs on the plea that logs were cut to specific requirements of Mr. Das and hence could not be resold.*

- (i) *Explain the duty of the buyer as well as the seller according to the doctrine of "Caveat Emptor".*
- (ii) *Whether Mr. Das would be able to get the money back or the right kind of wood as required serving his purpose?*

*Ans. (i) Duty of the buyer according to the doctrine of "Caveat Emptor": In case of sale of goods, the doctrine 'Caveat Emptor' means 'let the buyer beware'. When sellers display their goods in the open market, it is for the buyers to make a proper selection or choice of the goods. If the goods turn out to be*

*defective he cannot hold the seller liable. The seller is in no way responsible for the bad selection of the buyer. The seller is not bound to disclose the defects in the goods which he is selling.*

***Duty of the seller according to the doctrine of “Caveat Emptor”:*** *The following exceptions to the Caveat Emptor are the duties of the seller:*

- 1. Fitness as to quality or use*
- 2. Goods purchased under patent or brand name*
- 3. Goods sold by description*
- 4. Goods of Merchantable Quality*
- 5. Sale by sample*
- 6. Goods by sample as well as description*
- 7. Trade usage*
- 8. Seller actively conceals a defect or is guilty of fraud*

***(ii) As Mr. Das has specifically mentioned that he required the wood which would be best suited for the purpose of making wooden doors and window frames but the seller supplied Mango tree wood which is most unsuitable for the purpose. Mr. Das is entitled to get the money back or the right kind of wood as required serving his purpose. It is the duty of the seller to supply such goods as are reasonably fit for the purpose mentioned by buyer. [Section 16(1) of the Sale of Goods Act, 1930]***

***(b) What do you mean by “Companies with charitable purpose” (section 8) under the Companies Act 2013? Mention the conditions of the issue and revocation of the Licence of such company by the government. (06)***

***Ans. Formation of companies with charitable purpose etc. (Section 8 Company):***  
*Section 8 of the Companies Act, 2013 deals with the formation of companies which are formed to*

- promote the charitable objects of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment etc.*

*Such company intends to apply its profit in*

- promoting its objects and*
- prohibiting the payment of any dividend to its members.*

**Examples** of section 8 companies are FICCI, ASSOCHAM, National Sports Club of India, CII etc.

**Power of Central government to issue the license–**

- (i) Section 8 allows the Central Government to register such person or association of persons as a company with limited liability without the addition of words 'Limited' or 'Private limited' to its name, by issuing licence on such conditions as it deems fit.
- (ii) The registrar shall on application register such person or association of persons as a company under this section.
- (iii) On registration the company shall enjoy same privileges and obligations as of a limited company.

**Revocation of license:** The Central Government may by order revoke the licence of the company where the company contravenes any of the requirements or the conditions of this sections subject to which a licence is issued or where the affairs of the company are conducted fraudulently, or violative of the objects of the company or prejudicial to public interest, and on revocation the Registrar shall put 'Limited' or 'Private Limited' against the company's name in the register. But before such revocation, the Central Government must give it a written notice of its intention to revoke the licence and opportunity to be heard in the matter.

**6. (a) Discuss the essentials of Undue Influence as per the Indian Contract Act, 1872. (05)**

**Ans. (i)** The essentials of Undue Influence as per the Indian Contract Act, 1872 are the following:

- (1) **Relation between the parties:** A person can be influenced by the other when a near relation between the two exists.
- (2) **Position to dominate the will:** Relation between the parties exist in such a manner that one of them is in a position to dominate the will of the other. A person is deemed to be in such position in the following circumstances:
  - (a) **Real and apparent authority:** Where a person holds a real authority over the other as in the case of master and servant, doctor & patient & etc.

- (b) **Fiduciary relationship:** Where relation of *trust* and confidence exists between the parties to a contract. Such type of relationship exists between father and son, solicitor and client, husband and wife, creditor and debtor, etc.
- (c) **Mental distress:** An undue influence can be used against a person to get his consent on a contract where the mental capacity of the person is temporarily or permanently affected by the reason of mental or bodily distress, illness or of old age.
- (d) **Unconscionable bargains:** Where one of the parties to a contract is in a position to dominate the will of the other and the contract is apparently unconscionable i.e., unfair, it is presumed by law that consent must have been obtained by undue influence. Unconscionable bargains are witnessed mostly in money lending transactions and in gifts.
- (3) **The object must be to take undue advantage:** Where the person is in a position to influence the will of the other in getting consent, must have the object to take advantage of the other.
- (4) **Burden of proof:** The burden of proving the absence of the use of the dominant position to obtain the unfair advantage will lie on the party who is in a position to dominate the will of the other.
- (b) **“Indian Partnership Act does not make the registration of firms compulsory nor does it impose any penalty for non-registration.” Explain. Discuss the various disabilities or disadvantages that a non-registered partnership firm can face in brief? (04)**

**Ans.** Under the English Law, the registration of firms is compulsory. Therefore, there is a penalty for non-registration of firms. But the Indian Partnership Act, 1932 does not make the registration of firms compulsory nor does it impose any penalty for non-registration. The registration of a partnership is optional and one partner cannot compel another partner to join in the registration of the firm. It is not essential that the firm should be registered from the very beginning. However, under Section 69, non-registration of partnership gives rise to a number of disabilities which are as follows:



**(i) No suit in a civil court by firm or other co-partners against third party:**  
The firm or any other person on its behalf cannot bring an action against the third party for breach of contract entered into by the firm, unless the firm is registered and the persons suing are or have been shown in the register of firms as partners in the firm.

**(ii) No relief to partners for set-off of claim:** If an action is brought against the firm by a third party, then neither the firm nor the partner can claim any set-off, if the suit be valued for more than ` 100 or pursue other proceedings to enforce the rights arising from any contract.

**(iii) Aggrieved partner cannot bring legal action against other partner or the firm:**  
A partner of an unregistered firm (or any other person on his behalf) is precluded from bringing legal action against the firm or any person alleged to be or to have been a partner in the firm.

**(iv) Third party can sue the firm:** In case of an unregistered firm, an action can be brought against the firm by a third party.

**(c) Population Products Ltd. is company incorporated in India, having a total Share Capital of ` 20 Crores. The Share capital comprises of 12 Lakh equity shares of ` 100 each and 8 Lakhs Preference Shares of ` 100 each. Delight Products Ltd. And Happy products Lt. hold 2,50,000 and 3,50,000 shares respectively in Popular Products Ltd. Another company cheerful products Ltd. holds 2,50,000 shares in Popular Products Ltd. Jovial Ltd. is the holding company for all above three companies namely Delight Products Ltd; Happy products Ltd; Cheerful products Ltd. Can Jovial Ltd., be termed as subsidiary company of popular Products Ltd., if it controls composition of directors of Popular Products Ltd. State the related provision in the favour of your answer. (03)**

**Ans.** In the present case, the total share capital of Popular Products Ltd. is ` 20 crores comprised of 12 Lakh equity shares and 8 Lakhs preference shares. Delight Products Ltd., Happy Products Ltd. and Cheerful Products Ltd together hold 8,50,000 shares (2,50,000+3,50,000+2,50,000) in Popular Products

*Ltd. Jovial Ltd. is the holding company of all above three companies. So, Jovial Ltd. along with its subsidiaries hold 8,50,000 shares in Popular Products Ltd. which amounts to less than one-half of its total share capital. Hence, Jovial Ltd. by virtue of share holding is not a holding company of Popular Products Ltd.*

*Secondly, it is given that Jovial Ltd. controls the composition of directors of Popular Products Ltd., hence, Jovial Ltd. is a holding company of Popular Products Ltd. and not a subsidiary company. [Section 2(87) of the Companies Act, 2013]*

1. (a) *Mr. X and Mr. Y entered into a contract on 1st August, 2018, by which Mr. X had to supply 50 tons of sugar to Mr. Y at a certain price strictly within a period of 10 days of the contract. Mr. Y also paid an amount of ` 50,000 towards advance as per the terms of the above contract. The mode of transportation available between their places is roadway only/ Severe flood came on 2<sup>nd</sup> August, 2018 and the only road connecting their places was damaged and could not be repaired within fifteen days. Mr. X offered to supply sugar on 20<sup>th</sup> August, 2018 for which Mr. Y did not agree. On 1<sup>st</sup> September, 2018, Mr. X claimed compensation of ` 10,000 from Mr. Y for refusing to accept the supply of sugar, which was not there within the purview of the contract. On the other hand, Mr. Y claimed for refund of ` 50,000, which he had paid as advance in terms of the contract. Analyse the above situation in terms of the provisions of the Indian Contract Act, 1872 and decide on Y's contention. (04)*

*Ans. Subsequent or Supervening impossibility (Becomes impossible after entering into contract): When performance of promise become impossible or illegal by occurrence of an unexpected event or a change of circumstances beyond the contemplation of parties, the contract becomes void e.g. change in law etc.*

*Also, according to section 65 of the Indian Contract Act, 1872, when an agreement is discovered to be void or when a contract becomes void, any person who has received any advantage under such agreement or contract is bound to restore it, or to make compensation for it to the person from whom he received it.*

*In the given question, after Mr. X and Mr. Y have entered into the contract to supply 50 tons of sugar, the event of flood occurred which made it impossible to deliver the sugar within the stipulated time. Thus, the promise in question became void. Further, Mr. X has to pay back the amount of ` 50,000 that he received from Mr. Y as an advance for the supply of sugar within the stipulated time. Hence, the contention of Mr. Y is correct.*

(b) *A company registered under Section 8 of the Companies Act, 2013, earned huge profits during the financial year ended on 31<sup>st</sup> March, 2018 due to some favourable policies declared by the Government of India and implemented by the company. Considering the development, some members of the company wanted the company to distribute dividends to the members of the company. They approached you to advise them about the maximum amount of dividend that can be declared by the company as per the provisions of the Companies Act, 2013. Examine the relevant provisions of the Companies Act, 2013 and advise the members accordingly. (04)*

*Ans. A company that is registered under section 8 of the Companies Act, 2013, is prohibited from the payment of any dividend to its members.*

*The company in question is a section 8 company and hence it cannot declare dividend. Thus, the contention of members is incorrect.*

(c) *Differentiate between Ascertained and Unascertained Goods with example. (04)*

*Ans. Ascertained Goods are those goods which are identified in accordance with the agreement after the contract of sale is made. This term is not defined in the Act but has been judicially interpreted. In actual practice the term 'ascertained goods' is used in the same sense as 'specific goods.' When from a lot or out of large quantity of unascertained goods, the number or quantity contracted for is identified, such identified goods are called ascertained goods.*

*Unascertained goods: The goods which are not specifically identified or ascertained at the time of making of the contract are known as 'unascertained goods'. They are indicated or defined only by description or sample.*

2. (a) *What is Contingent Contract? Discuss the essentials of Contingent Contract as per the Indian Contract Act, 1872. (07)*

*Ans. According to section 31 of the Indian Contract Act, 1872, contingent contract means a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.*

*Example: Contracts of Insurance, indemnity and guarantee.*

### **Essentials of a contingent contract**

- (a) *The performance of a contingent contract would depend upon the happening or non-happening of some event or condition. The condition may be precedent or subsequent.*
- (b) *The event referred to, is collateral to the contract. The event is not part of the contract. The event should be neither performance promised nor a consideration for a promise.*
- (c) *The contingent event should not be a mere 'will' of the promisor. The event should be contingent in addition to being the will of the promisor.*
- (d) *The event must be uncertain. Where the event is certain or bound to happen, the contract is due to be performed, then it is a not contingent contract.*

**(b) Explain the essential elements to incorporate a Limited Liability Partnership and the steps involved therein under the LLP Act, 2008. (05)**

**Ans. Essential elements to incorporate Limited Liability Partnership (LLP)- Under the LLP Act, 2008, the following elements are very essential to form a LLP in India:**

- (i) *To complete and submit incorporation document in the form prescribed with the Registrar electronically;*
- (ii) *To have at least two partners for incorporation of LLP [Individual or body corporate];*
- (iii) *To have registered office in India to which all communications will be made and received;*
- (iv) *To appoint minimum two individuals as designated partners who will be responsible for number of duties including doing of all acts, matters and things as are required to be done by the LLP. Atleast one of them should be resident in India.*
- (v) *A person or nominee of body corporate intending to be appointed as designated partner of LLP should hold a Designated Partner Identification Number (DPIN) allotted by Ministry of Corporate Affairs.*
- (vi) *To execute a partnership agreement between the partners inter se or between the LLP and its partners. In the absence of any agreement the provisions as set out in First Schedule of LLP Act, 2008 will be applied.*
- (vii) *LLP Name.*

*Steps to incorporate LLP:*

1. *Name reservation:*

- ◆ *The first step to incorporate Limited Liability Partnership (LLP) is reservation of name of LLP.*
- ◆ *Applicant has to file e-Form 1, for ascertaining availability and reservation of the name of a LLP business.*

2. *Incorporate LLP:*

- ◆ *After reserving a name, user has to file e- Form 2 for incorporating a new Limited Liability Partnership (LLP).*
- ◆ *e-Form 2 contains the details of LLP proposed to be incorporated, partners'/ designated partners' details and consent of the partners/designated partners to act as partners/ designated partners.*

3. *LLP Agreement*

- ◆ *Execution of LLP Agreement is mandatory as per Section 23 of the Act.*
- ◆ *LLP Agreement is required to be filed with the registrar in e-Form 3 within 30 days of incorporation of LLP.*

3. (a) ***“Though a minor cannot be a partner in a firm, he can nonetheless be admitted to the benefits of partnership.”***

- (i) Referring to the provisions of the Indian Partnership Act, 1932, state the rights which can be enjoyed by a minor partner. (04)***

***Ans. Rights which can be enjoyed by a minor partner:***

- (i) A minor partner has a right to his agreed share of the profits & of the firm.***
- (ii) He can have access to, inspect and copy the accounts of the firm.***
- (iii) He can sue the partners for accounts or for payment of his share but only when severing his connection with the firm, and not otherwise.***
- (i) On attaining majority, he may within 6 months elect to become a partner or not to become a partner. If he elects to become a partner, then he is entitled to the share to which he was entitled as a minor. If he does not, then his share is not liable for any acts of the firm after the date of the public notice served to that effect.***

- (ii) A. State the liabilities of a minor partner both: (02)***

- (i) Before attaining majority and*
- (ii) After attaining majority.*

**Ans. (i) Liabilities of a minor partner before attaining majority:**

- (a) The liability of the minor is confined only to the extent of his share in the profits and the property of the firm.*
- (b) Minor has no personal liability for the debts of the firm incurred during his minority.*
- (c) Minor cannot be declared insolvent, but if the firm is declared insolvent his share in the firm vests in the Official Receiver/ Assignee.*

**(ii) Liabilities of a minor partner after attaining majority:**

*Within 6 months of his attaining majority or on his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later, the minor partner has to decide whether he shall remain a partner or leave the firm.*

*Where he has elected not to become partner he may give public notice that he has elected not to become partner and such notice shall determine his position as regards the firm. If he fails to give such notice he shall become a partner in the firm on the expiry of the said six months.*

**OR**

**B. State the legal position of a minor partner after attaining majority: (02)**

- (i) When he opts to become a partner of the same firm.*
- (ii) When he decide not to become a partner.*

**Ans. (i) When he becomes partner:** *If the minor becomes a partner on his own willingness or by his failure to give the public notice within specified time, his rights and liabilities as given in Section 30(7) of the Indian Partnership Act, 1932, are as follows:*

- (a) He becomes personally liable to third parties for all acts of the firm done since he was admitted to the benefits of partnership.*

(b) *His share in the property and the profits of the firm remains the same to which he was entitled as a minor.*

(ii) **When he elects not to become a partner:**

(a) *His rights and liabilities continue to be those of a minor up to the date of giving public notice.*

(b) *His share shall not be liable for any acts of the firm done after the date of the notice.*

(c) *He shall be entitled to sue the partners for his share of the property and profits. It may be noted that such minor shall give notice to the Registrar that he has or has not become a partner.*

**(b) (i) Mr. Ramesh promised to pay ` 50,000 to his wife Mrs. Lali so that she can spend the sum on her 30<sup>th</sup> birthday. Mrs. Lali insisted her husband to make a written agreement and the agreement was registered under the law. Mr. Ramesh failed to pay the specified amount to his wife Mrs. Lali. Mrs. Lali wants to file a suit against Mr. Ramesh and recover the promised amount. Referring to the applicable provisions of the Contract Act, 1872, advise whether Mrs. Lali will succeed.**

**Ans. Parties must intend to create legal obligations:** *There must be an intention on the part of the parties to create legal relationship between them. Social or domestic type of agreements are not enforceable in court of law and hence they do not result into contracts.*

*In the given question, Mr. Ramesh promised to pay ` 50,000 to his wife so that she can spend the same on her birthday. However, subsequently, Mr. Ramesh failed to fulfil the promise, for which Mrs. Lali wants to file a suit against Mr. Ramesh. Here, in the given circumstance wife will not be able to recover the amount as it was a social agreement and the parties did not intend to create any legal relations.*

**(ii) A shop-keeper displayed a pair of dress in the show-room and a price tag of ` 2,000 was attached to the dress. Ms. Lovely, looked at the tag and**



*rushed to the cash counter. Then she asked the shop-keeper to receive the payment and pack up the dress. The shop-keeper refused to hand-over the dress to Ms. Lovely in consideration of the price stated in the price tag attached to the dress. Ms. Lovely seeks your advice whether she can sue the shop-keeper for the above cause under the Indian Contract Act, 1872.*

*Ans. The offer should be distinguished from an invitation to offer. An offer is definite and capable of converting an intention into a contract. Whereas an invitation to an offer is only a circulation of an offer, it is an attempt to induce offers and precedes a definite offer. Where a party, without expressing his final willingness, proposes certain terms on which he is willing to negotiate, he does not make an offer, but invites only the other party to make an offer on those terms. This is the basic distinction between offer and invitation to offer.*

*The display of articles with a price in it in a self-service shop is merely an invitation to offer. It is in no sense an offer for sale, the acceptance of which constitutes a contract. In this case, Ms. Lovely by selecting the dress and approaching the shopkeeper for payment simply made an offer to buy the dress selected by her. If the shopkeeper does not accept the price, the interested buyer cannot compel him to sell.*

**4. (a) What is the Doctrine of “Caveat Emptor”? What are the exceptions to the Doctrine of “Caveat Emptor”? (06)**

**Ans.** *Caveat Emptor*

*In case of sale of goods, the doctrine ‘Caveat Emptor’ means ‘let the buyer beware’. When sellers display their goods in the open market, it is for the buyers to make a proper selection or choice of the goods. If the goods turn out to be defective, he cannot hold the seller liable. The seller is in no way responsible for the bad selection of the buyer. The seller is not bound to disclose the defects in the goods which he is selling.*

**Exceptions:** *Following are the exceptions to the doctrine of Caveat Emptor:*

1. **Fitness as to quality or use:** *Where the buyer makes known to the seller the particular purpose for which the goods are required, so as to show that he relies on the seller's skill or judgment and the goods are of a description which is in the course of seller's business to supply, it is the duty of the seller to supply such goods as are reasonably fit for that purpose [Section 16 (1) of the Sales of Goods Act, 1930].*
2. **Goods purchased under patent or brand name:** *In case where the goods are purchased under its patent name or brand name, there is no implied condition that the goods shall be fit for any particular purpose [Section 16(1)].*
3. **Goods sold by description:** *Where the goods are sold by description there is an implied condition that the goods shall correspond with the description [Section 15]. If it is not so then seller is responsible.*
4. **Goods of Merchantable Quality:** *Where the goods are bought by description from a seller who deals in goods of that description there is an implied condition that the goods shall be of merchantable quality. The rule of Caveat Emptor is not applicable. But where the buyer has examined the goods this rule shall apply if the defects were such which ought to have not been revealed by ordinary examination [Section 16(2)].*
5. **Sale by sample:** *Where the goods are bought by sample, this rule of Caveat Emptor does not apply if the bulk does not correspond with the sample [Section 17].*
6. **Goods by sample as well as description:** *Where the goods are bought by sample as well as description, the rule of Caveat Emptor is not applicable in case the goods do not correspond with both the sample and description or either of the condition [Section 15].*
7. **Trade Usage:** *An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade and if the seller deviates from that, this rule of Caveat Emptor is not applicable [Section 16(3)].*

**8. Seller actively conceals a defect or is guilty of fraud:** Where the seller sells the goods by making some misrepresentation or fraud and the buyer relies on it or when the seller actively conceals some defect in the goods so that the same could not be discovered by the buyer on a reasonable examination, then the rule of *Caveat Emptor* will not apply. In such a case the buyer has a right to avoid the contract and claim damages.

**(b) (i) Mr. A, Mr. B and Mr. C were partners in a partnership firm M/s ABC & Co.,** which is engaged in the business of trading of branded furniture. The name of the partners was clearly written along with the firm name in front of the head office of the firm as well as on letter-heads of the firm. As per the terms of partnership, the firm continued its operations with Mr. A and Mr. B as partners. The accounts of the firm were settled and the amount due to the legal heirs of Mr. C was also determined on 10<sup>th</sup> October, 2018. But the same was not paid to the legal heirs of Mr. C. On 16<sup>th</sup> October, 2018, Mr. X, a supplier supplied furniture worth ` 20,00,000 to M/s ABC & Co. M/s ABC & Co. could not repay the amount due to heavy losses. Mr. X wants to recover the amount not only from M/s ABC & Co., but also from the legal heirs of Mr. C.

Analyse the above situation in terms of the provisions of the Indian Partnership Act, 1932 and decide whether the legal heirs of Mr. C can also be held liable for the dues towards Mr. X.

**Ans. (i)** Generally, the effect of the death of a partner is the dissolution of the partnership, but the rule in regard to the dissolution of the partnership, by death of partner, is subject to a contract between the parties and the partners are competent to agree that the death of one will not have the effect of dissolving the partnership as regards the surviving partners unless the firm consists of only two partners. In order that the estate of the deceased partner may be absolved from liability for the future obligations of the firm, it is not necessary to give any notice either to the public or the persons having dealings with the firm.

*In the light of the provisions of the Act and the facts of the question, Mr. X (creditor) can have only a personal decree against the surviving partners (Mr. A and Mr. B) and a decree against the partnership assets in the hands of those partners. A suit for goods sold and delivered would not lie against the representatives of the deceased partner. Hence, the legal heirs of Mr. C cannot be held liable for the dues towards Mr. X.*

- (ii) Mr. M, Mr. N and Mr. P were partners in a firm, which was dealing in refrigerators. On 1<sup>st</sup> October, 2018, Mr. P retired from partnership but failed to give public notice of his retirement. (03)**

*After his retirement, Mr. M, Mr. N and Mr. P visited a trade fair and enquired about some refrigerators with latest techniques. Mr. X, who was exhibiting his refrigerators with the new techniques was impressed with the interactions of Mr. P and requested for the visiting card of the firm. The visiting card also included the name of Mr. P as a partner even though he had already retired. Mr. X supplied some refrigerators to the firm and could not recover his dues from the firm. Now, Mr. X wants to recover the dues not only from the firm, but also from Mr. P.*

*Analyse the above case in terms of the provisions of the Indian Partnership Act, 1932 and decide whether Mr. P is liable in this situation.*

**Ans.** *A retiring partner continues to be liable to third party for acts of the firm after his retirement until public notice of his retirement has been given either by himself or by any other partner. But the retired partner will not be liable to any third party if the latter deals with the firm without knowing that the former was partner.*

*Also, if the partnership is at will, the partner by giving notice in writing to all the other partners of his intention to retire will be deemed to be relieved as a partner without giving a public notice to this effect.*

*Also, as per section 28 of the Indian Partnership Act, 1932, where a man holds himself out as a partner, or allows others to do it, he is then stopped from denying the character he has assumed and upon the faith of which creditors may be presumed to have acted.*

*In the light of the provisions of the Act and facts of the case, Mr. P is also liable to Mr. X.*

**5. (a) Mr. G sold some goods to Mr. H for certain price by issue of an invoice, but payment in respect of the same was not received on that day. The goods were packed and lying in the godown of Mr. G. The goods were inspected by H's agent and were found to be in order. Later on, the dues of the goods were settled in cash. Just after receiving cash, Mr. G asked Mr. H that goods should be taken away from his godown to enable him to store other goods purchased by him. After one day, since Mr. H did not take delivery of the goods, Mr. G kept the goods out of the godown in an open space. Due to rain, some goods were damaged. Referring to the provisions of the Sale of Goods Act, 1930, analyse the above situation and decide who will be held responsible for the above damage. Will your answer be different, if the dues were not settled in cash and are still pending?(06)**

**Ans. 1.** According to section 44 of the Sales of Goods Act, 1932, when the seller is ready and willing to deliver the goods and requests the buyer to take delivery, and the buyer does not within a reasonable time after such request take delivery of the goods, he is liable to the seller for any loss occasioned by his neglect or refusal to take delivery and also for a reasonable charge for the care and custody of the goods.

The property in the goods or beneficial right in the goods passes to the buyer at appoint of time depending upon ascertainment, appropriation and delivery of goods. Risk of loss of goods prima facie follows the passing of property in goods. Goods remain at the seller's risk unless the property there in is transferred to the buyer, but after transfer of property therein to the buyer the goods are at the buyer's risk whether delivery has been made or not.

In the given case, since Mr. G has already intimated Mr. H, that he wanted to store some other goods and thus Mr. H should take the delivery of goods kept in the godown of Mr. G, the loss of goods damaged should be borne by Mr. H.

2. *If the price of the goods would not have settled in cash and some amount would have been pending then Mr. G will be treated as an unpaid seller and he can enforce the following rights against the goods as well as against the buyer personally:*

*(a) Where under a contract of sale the property in the goods has passed to the buyer and the buyer wrongfully neglects or refuses to pay for the goods according to the terms of the contract, the seller may sue him for the price of the goods.*

*[Section 55(1) of the Sales of Goods Act, 1930]*

*(b) Where under a contract of sale the price is payable on a day certain irrespective of delivery and the buyer wrongfully neglects or refuses to pay such price, the seller may sue him for the price although the property in the goods has not passed and the goods have not been appropriated to the contract.*

*[Section 55(2) of the Sales of Goods Act, 1930].*

**(b) There are cases where company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct from its shareholders or members. Elucidate. (06)**

**Ans.** *Corporate Veil refers to a legal concept whereby the company is identified separately from the members of the company.*

*However, this veil can be lifted which means looking behind the company as a legal person, i.e., disregarding the corporate entity and paying regard, instead, to the realities behind the legal facade. Where the Courts ignore the company, and concern themselves directly with the members or managers, the corporate veil may be said to have been lifted. Only in appropriate circumstances, the Courts are willing to lift the corporate veil and that too, when questions of control are involved rather than merely a question of ownership.*

*Lifting of Corporate Veil*

*The following are the cases where company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct and separate from its shareholders or members:*

◆ **Trading with enemy:** *If the public interest is likely to be in jeopardy, the*

*Court may be willing to crack the corporate shell*

- ◆ *Where corporate entity is used to evade or circumvent tax, the corporate veil may be lifted*
- ◆ *Where companies form other companies as their subsidiaries to act as their agent*
- ◆ *Company is formed to circumvent welfare of employees*
- ◆ **Where the device of incorporation is adopted for some illegal or improper purpose:** *Where the device of incorporation is adopted for some illegal or improper purpose, e.g., to defeat or circumvent law, to defraud creditors or to avoid legal obligations.*

**6. (a) Explain the modes of revocation of an offer as per the Indian Contract Act, 1872. (05)**

**Ans. Modes of revocation of Offer**

*(i) By notice of revocation*

*(ii) By lapse of time: The time for acceptance can lapse if the acceptance is not given within the specified time and where no time is specified, then within a reasonable time.*

*(iii) By non-fulfillment of condition precedent: Where the acceptor fails to fulfill a condition precedent to acceptance the proposal gets revoked.*

*(iv) By death or insanity: Death or insanity of the proposer would result in automatic revocation of the proposal but only if the fact of death or insanity comes to the knowledge of the acceptor.*

*(v) By counter offer*

*(vi) By the non- acceptance of the offer according to the prescribed or usual mode*

*(vii) By subsequent illegality*

**(b) State any four grounds on which Court may dissolve a partnership firm in case any partner files a suit for the same. (04)**

**Ans. Dissolution by the Court (Section 44 of the Indian Partnership Act, 1932):**

*Court may, at the suit of the partner, dissolve a firm on any of the following ground:*

- (1) **Insanity/unsound mind:** Where a partner (not a sleeping partner) has become of unsound mind, the court may dissolve the firm on a suit of the other partners or by the next friend of the insane partner.
- (2) **Permanent incapacity:** When a partner, other than the partner suing, has become in any way permanently incapable of performing his duties as partner, then the court may dissolve the firm. Such permanent incapacity may result from physical disability or illness etc.
- (3) **Misconduct:** Where a partner, other than the partner suing, is guilty of conduct which is likely to affect prejudicially the carrying on of business, the court may order for dissolution of the firm, by giving regard to the nature of business.
- (4) **Persistent breach of agreement:** Where a partner other than the partner suing, wilfully or persistently commits breach of agreements relating to the management of the affairs of the firm or the conduct of its business, or otherwise so conduct himself in matters relating to the business that it is not reasonably practicable for other partners to carry on the business in partnership with him, then the court may dissolve the firm at the instance of any of the partners. Following comes in to category of breach of contract:
- Embezzlement,
  - Keeping erroneous accounts
  - Holding more cash than allowed
  - Refusal to show accounts despite repeated request etc.
- (5) **Transfer of interest:** Where a partner other than the partner suing, has transferred the whole of his interest in the firm to a third party or has allowed his share to be charged or sold by the court, in the recovery of arrears of land revenue, the court may dissolve the firm at the instance of any other partner.
- (6) **Continuous/Perpetual losses:** Where the business of the firm cannot be carried on except at a loss in future also, the court may order for its dissolution.



**(7) Just and equitable grounds:** Where the court considers any other ground to be just and equitable for the dissolution of the firm, it may dissolve a firm.

The following are the cases for the just and equitable grounds-

(i) Deadlock in the management.

(ii) Where the partners are not in talking terms between them.

(iii) Loss of substratum.

(iv) Gambling by a partner on a stock exchange.

(c) Mr. X had purchased some goods from M/s ABC Limited on credit. A credit period of one month was allowed to Mr. X. Before the due date Mr. X went to the company and wanted to repay the amount due from him. He found only Mr. Z there, who was the factory supervisor of the company. Mr. Z told Mr. X that the accountant and the cashier were on leave, he is in-charge of receiving money and he may pay the amount to him. Mr. Z issued a money receipt under his signature. After two months M/s ABC Limited issued a notice to Mr. X for non-payment of the dues within the stipulated period. Mr. X informed the company that he had already cleared the dues and he is no more responsible for the same. He also contended that Mr. Z is an employee of the company to whom he had made the payment and being an outsider, he trusted the words of Mr. Z as duty distribution is a job of the internal management of the company.

Analyse the situation and decide whether Mr. X is free from his liability. (03)

**Ans. Doctrine of Indoor Management:** The Doctrine of Indoor Management is the exception to the doctrine of constructive notice. The doctrine of constructive notice does not mean that outsiders are deemed to have notice of the internal affairs of the company. For instance, if an act is authorised by the articles or memorandum, an outsider is entitled to assume that all the detailed formalities for doing that act have been observed.

The doctrine of Indoor Management is important to persons dealing with a company through its directors or other persons. They are entitled to assume that the acts of the directors or other officers of the company are validly performed, if they are within the scope of their apparent authority. So long as

*an act is valid under the articles, if done in a particular manner, an outsider dealing with the company is entitled to assume that it has been done in the manner required.*

*In the given question, Mr. X has made payment to Mr. Z and he (Mr. Z) gave to receipt of the same to Mr. X. Thus, it will be rightful on part of Mr. X to assume that Mr. Z was also authorised to receive money on behalf of the company. Hence, Mr. X will be free from liability for payment of goods purchased from M/s ABC Limited, as he has paid amount due to an employee of the company.*

## MAY 2018

1. (a) *X, Y and Z are partners in a firm. They jointly promised to pay ` 3,00,000 to D. Y become insolvent and his private assets are sufficient to pay 1/5 of his share of debts. X is compelled to pay the whole amount to D. Examining the provisions of the Indian Contract Act, 1872, decide the extent to which X can recover the amount from Z. (04)*

*Ans. As per section 43 of the Indian Contract Act, 1872, when two or more persons make a joint promise, the promisee may, in the absence of express agreement to the contrary, compel any one or more of such joint promisors to perform the whole of the promise.*

*Each of two or more joint promisors may compel every other joint promisor to contribute equally with himself to the performance of the promise, unless a contrary intention appears from the contract.*

*If any one of two or more joint promisors makes default in such contribution, the remaining joint promisors must bear the loss arising from such default in equal shares.*

*In the instant case, X, Y and Z jointly promised to pay ` 3,00,000. Y become insolvent and his private assets are sufficient to pay 1/5 of his share of debts. X is compelled to pay the whole amount. X is entitled to receive ` 20,000 from Y's estate, and ` 1,40,000 from Z.*

- (b) *Ravi Private Limited has borrowed 5 crores from Mudra Finance Ltd. This debt is ultra vires to the company. Examine, whether the company is liable to pay this debt? State the remedy if any available to Mudra Finance Ltd.? (04)***

*Ans. As per the facts given, Ravi Private Limited borrowed ` 5 crore from Mudra Finance Ltd. This debt is ultra vires to the company, which signifies that Ravi Private Limited has borrowed the amount beyond the expressed limit prescribed in its memorandum. This act of the company can be said to be null and void. In consequence, any act done or a contract made by the company which travels*

beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company.

So is being the act void in nature, there being no existence of the contract between the Ravi Private Ltd. and Mudra Finance Ltd. Therefore, the company Ravi Private Ltd. is liable to pay this debt amount upto the limit prescribed in the memorandum.

**Remedy available to the Mudra Finance Ltd.:** The impact of the doctrine of ultra vires is that a company can neither be sued on an ultra vires transaction, nor can it sue on it. Since the memorandum is a “public document”, it is open to public inspection. Therefore, a company which deals with the other, is deemed to know about the powers of the company.

So, Mudra Finance Ltd. can claim for the amount within the expressed limit prescribed in its memorandum.

- (c) **What is meant by delivery of goods under the Sale of Goods Act, 1930? State various modes of delivery. (04)**

**Ans. Delivery of goods [section 2(2) of the Sale of Goods Act, 1930]:** Delivery means voluntary transfer of possession from one person to another. As a general rule, delivery of goods may be made by doing anything, which has the effect of putting the goods in the possession of the buyer, or any person authorized to hold them on his behalf.

**Modes of delivery:** Following are the modes of delivery for transfer of possession:

- (i) **Actual delivery:** When the goods are physically delivered to the buyer.
- (ii) **Constructive delivery:** When it is effected without any change in the custody or actual possession of the thing as in the case of delivery by attornment (acknowledgement) e.g., where a warehouseman holding the goods of A agrees to hold them on behalf of B, at A's request.
- (iii) **Symbolic delivery:** When there is a delivery of a thing in token of a transfer of something else, i.e., delivery of goods in the course of transit may be made by handing over documents of title to goods, like bill of lading or railway receipt or delivery orders or the key of a warehouse containing the goods is handed over to buyer.

2. (a) State the exceptions to the rule “An agreement without consideration is void”.

(05)

*Ans. The general rule is that an agreement made without consideration is void (Section 25 of the Indian Contract Act, 1872). However, the Indian Contract Act contains certain exceptions to this rule. In the following cases, the agreement though made even without consideration, will be valid and enforceable.*

1. **Natural Love and Affection:** Any written and registered agreement made on account of love and affection between the parties standing in near relationship to each other.
2. **Compensation for past voluntary services:** A promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor.
3. **Promise to pay time barred debt:** A promise in writing signed by the person making it or by his authorized agent, made to pay a debt barred by limitation.
4. **Agency:** According to Section 185 of the Indian Contract Act, 1872, no consideration is necessary to create an agency.
5. **Completed gift:** In case of completed gifts, the rule no consideration no contract does not apply. Explanation (1) to Section 25 states “nothing in this section shall affect the validity as between the donor and donee, of any gift actually made.” Thus, gifts do not require any consideration.
6. **Bailment:** No consideration is required to effect the contract of bailment (Section 148).
7. **Charity:** If a promisee undertakes the liability on the promise of the person to contribute to charity, there the contract shall be valid.

(b) What are the essential elements to form a LLP in India as per the LLP Act, 2008? (05)

*Ans. Essential elements to incorporate LLP- Under the LLP Act, 2008, the following elements are very essential to form a LLP in India:*

- (i) To complete and submit incorporation document in the form prescribed with the Registrar electronically;

- (ii) To have at least two partners for incorporation of LLP [Individual or body corporate];
- (iii) To have registered office in India to which all communications will be made and received;
- (iv) To appoint minimum two individuals as designated partners who will be responsible for number of duties including doing of all acts, matters and things as are required to be done by the LLP. Atleast one of them should be resident in India.
- (v) A person or nominee of body corporate intending to be appointed as designated partner of LLP should hold a Designated Partner Identification Number (DPIN) allotted by MCA.
- (vi) To execute a partnership agreement between the partners inter se or between the LLP and its partners. In the absence of any agreement the provisions as set out in First Schedule of LLP Act, 2008 will be applied.
- (vii) LLP Name.

(c) (i) Distinguish between wagering agreement and contract of insurance. (02)

	<b>Basis</b>	<b>Wagering Agreement</b>	<b>Contracts of Insurance</b>
1.	<b>Meaning</b>	<i>It is a promise to pay money or money's worth on the happening or non-happening of an uncertain event.</i>	<i>It is a contract to indemnify the loss.</i>
2.	<b>Consideration</b>	<i>There is no consideration between the two parties. There is just gambling for money.</i>	<i>The crux of insurance contract is the mutual consideration (premium and compensation amount).</i>
3.	<b>Insurable Interest</b>	<i>There is no property in case of wagering agreement. There is betting on other's life and properties.</i>	<i>Insured party has insurable interest in the life or property sought to be insured.</i>

4.	<b>Contract of Indemnity</b>	Loser has to pay the fixed amount on the happening of uncertain event.	Except life insurance, the contract of insurance indemnifies the insured person against loss
5.	<b>Enforceability</b>	It is void and unenforceable agreement.	It is valid and enforceable
6.	<b>Premium</b>	No such logical calculations are required in case of wagering agreement.	Calculation of premium is based on scientific and actuarial calculation of risks.
7.	<b>Public Welfare</b>	They have been regarded as against the public welfare.	They are beneficial to the society.

**OR**

**(ii) Examine with reason that the given statement is correct or incorrect “Minor is liable to pay for the necessaries supplied to him”. (02)**

**Ans. Minor is liable to pay for the necessaries supplied to him:** This statement is incorrect. The case of necessaries supplied to a minor or to any other person whom such minor is legally bound to support is governed by section 68 of the Indian Contract Act, 1872. A claim for necessaries supplied to a minor is enforceable by law, only against minor’s estate, if he possesses. But a minor is not liable for any price that he may promise and never for more than the value of the necessaries. There is no personal liability of the minor, but only his property is liable.

**3. (a) Distinguish between dissolution of firm and dissolution of partnership. (02)**

**Ans. DISSOLUTION OF FIRM VS. DISSOLUTION OF PARTNERSHIP**

S. No.	Basis of Difference	Dissolution of Firm	Dissolution of Partnership
1.	<b>Continuation of business</b>	It involves discontinuation of business in partnership.	It does not affect continuation of business. It involves only reconstitution of the firm.

2.	<b>Winding up</b>	<i>It involves winding up of the firm and requires realization of assets and settlement of liabilities.</i>	<i>It involves only reconstitution and requires only revaluation of assets and liabilities of the firm.</i>
3.	<b>Order of court</b>	<i>A firm may be dissolved by the order of the court.</i>	<i>Dissolution of partnership is not ordered by the court.</i>
4.	<b>Scope</b>	<i>It necessarily involves dissolution of partnership.</i>	<i>It may or may not involve dissolution of firm.</i>
5.	<b>Final closure of books</b>	<i>It involves final closure of books of the firm.</i>	<i>It does not involve final closure of the books.</i>

(b) **What are the consequences of Non-Registration of a Partnership Firm Discuss (04)**

**Ans. Consequences of Non-Registration of a Partnership Firm [Section 69 of the Indian Partnership Act, 1932]:** Although registration of firms is not compulsory, yet the consequences or disabilities of non-registration have a persuasive pressure for their registration. These disabilities briefly are as follows:

**(i) No suit in a civil court by firm or other co-partners against third party:**

The firm or any other person on its behalf cannot bring an action against the third party for breach of contract entered into by the firm, unless the firm is registered and the persons suing are or have been shown in the register of firms as partners in the firm.

**(ii) No relief to partners for set-off of claim:** If an action is brought against the firm by a third party, then neither the firm nor the partner can claim any set-off, if the suit be valued for more than ₹100 or pursue other proceedings to enforce the rights arising from any contract.

**(iii) Aggrieved partner cannot bring legal action against other partner or the firm:** A partner of an unregistered firm (or any other person on his behalf) is precluded from bringing legal action against the firm or any person alleged to be or to have been a partner in the firm. But, such a person may sue for dissolution of the firm or for accounts and realization of his share in the firm's property where the firm is dissolved.



(iv) **Third party can sue the firm:** In case of an unregistered firm, an action can be brought against the firm by a third party.

(c) **M Ltd., contract with Shanti Traders to make and deliver certain machinery to them by 30.6.2017 for ` 11.50 lakhs. Due to labour strike, M Ltd. could not manufacture and deliver the machinery to Shanti Traders. Later, Shanti Traders procured the machinery from another manufacturer for ` 12.75 lakhs. Due to this Shanti Traders was also prevented from performing a contract which it had made with Zenith Traders at the time of their contract with M Ltd. and were compelled to pay compensation for breach of contract. Advise Shanti Traders the amount of compensation which it can claim from M Ltd., referring to the legal provisions of the Indian Contract Act, 1872. (06)**

**Ans.** Section 73 of the Indian Contract Act, 1872 provides for consequences of breach of contract. According to it, when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract, compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract, to be likely to result from the breach of it. Such compensation is not given for any remote and indirect loss or damage sustained by reason of the breach. It is further provided in the explanation to the section that in estimating the loss or damage from a breach of contract, the means which existed of remedying the inconvenience caused by the non-performance of the contract must be taken into account.

Applying the above principle of law to the given case, M Ltd. is obliged to compensate for the loss of ` 1.25 lakh (i.e. ` 12.75 minus ` 11.50 = ` 1.25 lakh) which had naturally arisen due to default in performing the contract by the specified date.

Regarding the amount of compensation which Shanti Traders were compelled to make to Zenith Traders, it depends upon the fact whether M Ltd., knew about the contract of Shanti Traders for supply of the contracted machinery to Zenith Traders on the specified date. If so, M Ltd is also obliged to reimburse the

compensation which Shanti Traders had to pay to Zenith Traders for breach of contract. Otherwise M Ltd is not liable.

**4. (a) What is appropriation of goods under the Sale of Goods Act, 1930? State the essentials regarding appropriation of unascertained goods. (06)**

**Ans. Appropriation of goods:** Appropriation of goods involves selection of goods with the intention of using them in performance of the contract and with the mutual consent of the seller and the buyer.

The essentials regarding appropriation of unascertained goods are:

- (a) There is a contract for the sale of unascertained or future goods.
- (b) The goods should conform to the description and quality stated in the contract.
- (c) The goods must be in a deliverable state.
- (d) The goods must be unconditionally (as distinguished from an intention to appropriate) appropriated to the contract either by delivery to the buyer or his agent or the carrier.
- (e) The appropriation must be made by:
  - (i) the seller with the assent of the buyer; or
  - (ii) the buyer with the assent of the seller.
- (f) The assent may be express or implied.
- (g) The assent may be given either before or after appropriation.

**(b) X, Y and Z are partners in a Partnership Firm. They were carrying their business successfully for the past several years. Spouses of X and Y fought in ladies club on their personal issue and X's wife was hurt badly. X got angry on the incident and he convinced Z to expel Y from their partnership firm. Y was expelled from partnership without any notice from X and Z. Considering the provisions of the Indian Partnership Act, 1932, state whether they can expel a partner from the firm. What are the criteria for test of good faith in such circumstances? (06)**

**Ans.** A partner may not be expelled from a firm by a majority of partners except in exercise, in good faith, of powers conferred by contract between the partners. It is, thus, essential that:

(i) the power of expulsion must have existed in a contract between the partners;

(ii) the power has been exercised by a majority of the partners; and

(iii) it has been exercised in good faith.

If all these conditions are not present, the expulsion is not deemed to be in Bonafide interest of the business of the firm.

The test of good faith as required under Section 33(1) includes three things:

- The expulsion must be in the interest of the partnership.
- The partner to be expelled is served with a notice.
- He is given an opportunity of being heard.

If a partner is otherwise expelled, the expulsion is null and void.

Thus, according to the test of good faith as required under Section 33(1), expulsion of Partner Y is not valid.

**5. (a) Mr. D sold some goods to Mr. E for ` 5,00,000 on 15 days credit. Mr. D delivered the goods. On due date Mr. E refused to pay for it. State the position and rights of Mr. D as per The Sale of Goods Act, 1930. (06)**

**Ans.** **Position of Mr. D:** Mr. D sold some goods to Mr. E for ` 5,00,000 on 15 days credit. Mr. D delivered the goods. On due date Mr. E refused to pay for it. So, Mr. D is an unpaid seller as according to section 45(1) of the Sale of Goods Act, 1930 the seller of goods is deemed to be an 'Unpaid Seller' when the whole of the price has not been paid or tendered and the seller had an immediate right of action for the price.

**Rights of Mr. D:** As the goods have parted away from Mr. D, therefore, Mr. D cannot exercise the right against the goods, he can only exercise his rights against the buyer i.e. Mr. E which are as under:

**(i) Suit for price (Section 55)**

*In the mentioned contract of sale, the price is payable after 15 days and Mr. E refuses to pay such price, Mr. D may sue Mr. E for the price.*

**(ii) Suit for damages for non-acceptance (Section 56):** *Mr. D may sue Mr. E for damages for non-acceptance if Mr. E wrongfully neglects or refuses to accept and pay for the goods. As regards measure of damages, Section 73 of the Indian Contract Act, 1872 applies.*

**(iii) Suit for interest [Section 61]:** *If there is no specific agreement between the Mr. D and Mr. E as to interest on the price of the goods from the date on which payment becomes due, Mr. D may charge interest on the price when it becomes due from such day as he may notify to Mr. E.*

**(b) Define OPC (One Person Company) and state the rules regarding its membership. Can it be converted into a non-profit company under Section 8 or a private company? (06)**

**Ans. One Person Company (OPC) [Section 2(62) of the Companies Act, 2013]:** *The Act defines one person company (OPC) as a company which has only one person as a member.*

**OPC (One Person Company) - significant points**

- *Only one person as member.*
- *Minimum paid up capital – no limit prescribed.*
- *The memorandum of OPC shall indicate the name of the other person, who shall, in the event of the subscriber's death or his incapacity to contract, become the member of the company.*
- *The other person whose name is given in the memorandum shall give his prior written consent in prescribed form and the same shall be filed with Registrar of companies at the time of incorporation of the company along with its e-memorandum and e-articles.*
- *Such other person may be given the right to withdraw his consent.*
- *The member of OPC may at any time change the name of such other person by giving notice to the company and the company shall intimate the same to the Registrar.*

- Any such change in *the* name of the person shall not be deemed to be an alternation of *the* memorandum.
- Only a natural person who is an Indian citizen whether resident in India or otherwise and has stayed in India for a period of not less than 120 days during the immediately preceding financial year
  - shall be eligible to incorporate a OPC;
  - shall be a nominee for the sole member of a OPC.
- No person shall be eligible to incorporate more than one OPC or become nominee in more than one such company.
- No minor shall become member or nominee of the OPC or can hold share with beneficial interest.
- Such Company cannot be incorporated or converted into a company under section 8 of the Act. Though it may be converted to private or public companies in certain cases.
- Such Company cannot carry out Non-Banking Financial Investment activities including investment in securities of any body corporate.

**6. (a) Define Fraud. Whether “mere silence will amount to fraud” as per the Indian Contract Act, 1872? (05)**

**Ans. Definition of Fraud under Section 17: 'Fraud' means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his agent, with an intent to deceive another party thereto or his agent, or to induce him to enter into the contract:**

- (1) the suggestion, as a fact, of that which is not true, by one who does not believe *it to be true*;
- (2) the active concealment of a fact by one having knowledge or belief of the fact;
- (3) a promise made without any intention of performing it;
- (4) any other act fitted to deceive;
- (5) any such act or omission as the law specially declares to be fraudulent.

**Mere silence will amount to fraud: This statement is incorrect as per the Indian Contract Act, 1872. A party to the contract is under no obligation to disclose the**

whole truth to the other party. 'Caveat Emptor' i.e. let the purchaser beware is the rule applicable to contracts. There is no duty to speak in such cases and silence does not amount to fraud. Similarly, there is no duty to disclose facts which are within the knowledge of both the parties.

(b) **What is the conclusive evidence of partnership? State the circumstances when partnership is not considered between two or more parties. (04)**

**Ans. Conclusive evidence of partnership:** Existence of Mutual Agency which is the cardinal principle of partnership law is very much helpful in reaching a conclusion with respect to determination of existence of partnership. Each partner carrying on the business is the principal as well as an agent of other partners. So, the act of one partner done on behalf of firm, binds all the partners. If the element of mutual agency relationship exists between the parties constituting a group formed with a view to earn profits by running a business, a partnership may be deemed to exist.

**Circumstances when partnership is not considered between two or more parties:**

Various judicial pronouncements have laid to the following factors leading to no partnership between the parties:

(i) Parties have not retained any record of terms and conditions of partnership.

(ii) Partnership business has maintained no accounts of its own, which would be open to inspection by both parties

(iii) No account of the partnership was opened with any bank.

(iv) No written intimation was conveyed to the Deputy Director of Procurement with respect to the newly created partnership.

(c) **State the limitations of the doctrine of indoor management under the Companies Act, 2013. (03)**

**Ans.** The doctrine of Indoor Management has limitations of its own. That is to say, it is inapplicable to the following cases, namely:

(i) **Actual or constructive knowledge of irregularity:** The rule does not protect any person when the person dealing with the company has notice, whether actual or constructive, of the irregularity.

- (ii) **Suspicion of Irregularity:** *The doctrine in no way, rewards those who behave negligently. Where the person dealing with the company is put upon an inquiry, for example, where the transaction is unusual or not in the ordinary course of business, it is the duty of the outsider to make the necessary enquiry.*
- (iii) **Forgery:** *The doctrine of indoor management applies only to irregularities which might otherwise affect a transaction, but it cannot apply to forgery which must be regarded as nullity.*

# FOUNDATION LAW – PAST YEARS RTPS

## JUNE 2024 PRACTICE RTP

1. *What do you understand by Indian Judicial System and what are its various functions?*
2. *Mr. Parth applied for a job as principal of a school. The school management decided to appoint him. One member of the school management committee privately informed Mr. Parth that he was appointed but official communication was not given by the school. Later, the management of the school decided to appoint someone else as a principal. Mr. Parth filed a suit against the school for cancellation of his appointment and claimed damages for loss of salary. State with reasons, will Mr. Parth be successful in suit filed against school under the Indian Contract Act, 1872?*
3. *Sarthak is employed as a cashier on a monthly salary of ` 50,000 by ABC bank for a period of three years. Mohit gave surety for Sarthak's good conduct. After nine months, the financial position of the bank deteriorates. Then Sarthak agrees to accept a lower salary of ` 40,000 per month from the Bank. Two months later, it was found that Sarthak had misappropriated cash from the time of his appointment. What is the liability of Mohit taking into account the provisions of the Indian Contract Act, 1872?*
4. *Rahul was a Disk Jockey at a five-star hotel. As per the contract, he is supposed to perform every weekend. (i.e. twice a week). Rahul will be paid ` 2,500 per day. However, after a month, Rahul willfully absents himself from the performance. Taking into account the provisions of the Indian Contract Act, 1872, answer the following:*
  - (i) *Does the hotel have the right to end the contract?*
  - (ii) *If the hotel sends out a mail to Rahul that they are interest to continue the contract and Rahul accepts, can the hotel rescind the contract after a month on this ground subsequently?*
  - (iii) *In which of the case – (termination of contract or continuance of contract) can the hotel claim damages that it had suffered as a result of this breach?*



5. Examine whether the following constitute a contract of 'Bailment' under the provisions of the Indian Contract Act, 1872.

(i) Vikas parks his car at a parking lot, locks it, and keeps the keys with himself.

(ii) Seizure of goods by customs authorities.

6. Mr. Sanjay Kothari was a big businessman having two sons and one married daughter. He decided to gift his house to his daughter. For this purpose, he called his lawyer at his house and made a written document for such gift. The lawyer advised him to get the transfer document properly registered. When they both were going for registration of document, they met an accident, and both died. Later, the daughter found the document and claimed the house on the basis of that document. Explain, whether she can get the house as gift under the Indian Contract Act, 1872?

7. (i) Mr. Ayush, the employer induced his employee Mr. Bobby to sell his one room flat to him at less than the market value to secure promotion. Mr. Bobby sold the flat to Mr. Ayush. Later on, Mr. Bobby changed his mind and decided to sue Mr. Ayush. Examine the validity of the contract as per the provisions of the Indian Contract Act, 1872.

(ii) Mr. Sooraj promises Mr. Manoj to paint a family picture for ` 20,000 and assures to complete his assignment by 15<sup>th</sup> March, 2023. Unfortunately, Mr. Sooraj died in a road accident on 1<sup>st</sup> March, 2023 and his assignment remains undone. Can Mr. Manoj bind the legal representative of Mr. Sooraj for the promise made by Mr. Sooraj? Suppose Mr. Sooraj had promised to deliver some photographs to Mr. Manoj on 15<sup>th</sup> March, 2023 against a payment of ` 10,000 but he dies before that day. Will his representative be bound to deliver the photographs in this situation?

Decide as per the provisions of the Indian Contract Act, 1872.

8. Explain the term 'Quasi Contracts' and their characteristics.

9. Prakash reaches a sweet shop and asks for 1 Kg of 'Burfi' if the sweets are fresh. Seller replies 'Sir, my all sweets are fresh and of good quality.' Prakash agrees

to buy on the condition that first he tastes one piece of 'Burfi' to check the quality. The seller gives him one piece to taste. Prakash, on finding the quality is good, ask the seller to pack. On reaching the house, Prakash finds that 'Burfi' is stale not fresh while the piece tasted was fresh. Now Prakash wants to avoid the contract and return the 'Burfi' to the seller.

(a) State with reason whether Prakash can avoid the contract under the Sale of Goods Act, 1930?

(b) Will your answer be different if Prakash does not taste the sweets?

10. Akansh purchased a Television set from Arvind, the owner of Gada Electronics on the condition that first three days he check its quality and if satisfied he will pay for that otherwise he will return the Television set. On the second day, the Television set was spoiled due to an earthquake. Arvind demands the price of a Television set from Akansh. Whether Akansh is liable to pay the price under the Sale of Goods Act, 1930? Who will ultimately bear the loss?

11. Mr. Arun contracted to sell his swift car to Mr. Nikhil. Both missed to discuss the price of the said swift car. Later, Mr. Arun refused to sell his swift car to Mr. Nikhil on the ground that the agreement was void, being uncertain about the price. Does Mr. Nikhil have any right against Mr. Arun under the Sale of Goods Act, 1930?

12. Mr. Shankar sold 1000 kgs wheat to Mr. Ganesh on credit of 3 months. Wheat was to be delivered after 10 days of contract. After 5 days of contract, a friend of Mr. Shankar secretly informed him that Mr. Ganesh may default in payment. On the information of friend, Mr. Shankar applied the right to lien and withheld the delivery. With referring to the provisions of the Sale of Goods Act, 1930:

(i) State, whether Mr. Shankar was right in his decision?

(ii) What would be your answer if Mr. Ganesh became insolvent within five days of contract?

13. Moni and Tony were partners in the firm M/s MOTO & Company. They admitted Sony as partner in the firm and he is actively engaged in day-to-day activities of the

*firm. There is a tradition in the firm that all active partners will get a monthly remuneration of ` 20,000 but no express agreement was there. After admission of Sony in the firm, Moni and Tony continued getting salary from the firm but no salary was given to Sony from the firm. Sony claimed his remuneration but denied by existing partners by saying that there was no express agreement for that. Whether under the Indian Partnership Act, 1932, Sony can claim remuneration from the firm?*

14. *Mr. Ram and Mr. Raheem are working as teachers in Ishwarchand Vidhyasagar Higher Secondary School and also are very good friends. They jointly purchased a flat which was given on rent to Mr. John. It was decided between landlords and tenant that the rent would be ` 10,000 per month inclusive of electricity bill. It means electricity bill will be paid by landlords. The landlords, by mistake, did not pay the electricity bill for the month of March 2021. Due to this, the electricity department cut the connection. Mr. John has to pay the electricity bill of ` 2800 and ` 200 as a penalty to resume the electricity connection. Mr. John claimed ` 3000 from Mr. Ram but Mr. Ram replied that he is liable only for ` 1500. Mr. John said that Mr. Ram and Mr. Raheem are partners therefore he can claim the full amount from any of the partners. Explain, whether under the provision of the Indian Partnership Act, 1932, Mr. Ram is liable to pay whole amount of ` 3000 to Mr. John?*
15. *X and Y were partners in a firm. The firm was dissolved on 12<sup>th</sup> June, 2022 but no public notice was given. Thereafter, X purchased some goods in the firm's name from Z. Z was ignorant of the fact of dissolution of firm. X become insolvent and Z filed a suit against Y for recovery of his amount. State with reasons whether Y would be liable under the provisions of the Indian Partnership Act, 1932?*
16. *A, B and C are partners of a partnership firm carrying on the business of construction of apartments. B who himself was a wholesale dealer of iron bars was entrusted with the work of selection of iron bars after examining its quality. As a wholesaler, B is well aware of the market conditions. Current market price of iron bar for construction is INR 350 per Kilogram. B already had 1000 kg of iron bars in stock which he had purchased before price hike in the market for INR 200 per kg. He supplied iron bars to the firm without the firm realizing the purchase cost. Is B liable to pay the firm*

*the extra money he made, or he doesn't have to inform the firm as it is his own business and he had not taken any amount more than the current prevailing market price of INR 350? Assume there is no contract between the partners regarding the above.*

17. *State the modes by which a partner may transfer his interest in the firm in favour of another person under the Indian Partnership Act, 1932. What are the rights of such a transferee?*
18. *A & B were friends. Now they have plans of setting up a supermarket in their locality. They are confused as to whether to register as a traditional partnership or as a Limited Liability Partnership. As an advisor, enumerate the differences between the two forms of business highlighting the compliances & other legal formalities.*
19. *Mr. Dhruv was appointed as an employee of Sunmoon Timber Private Limited on the condition that if he were to leave his employment, he will not solicit customers of the company. After some time, he was fired from company. He set up his own business under proprietorship and undercut Sunmoon Timber Private Limited's prices. On the legal advice from his legal consultant and to refrain from the provisions of breach of contract, he formed a new company under the name Seven Stars Timbers Private Limited. In this company, his wife and a friend of Mr. Dhruv were the sole shareholders and directors. They took over Dhruv's business and continued it. Sunmoon Timber Private Limited filed a suit against Seven Stars Timbers Private Limited for violation of contract. Seven Stars Timbers Private Limited argued that the contract was entered into between Mr. Dhruv and Sunmoon Timber Private Limited and as company has separate legal entity, Seven Stars Timbers Private Limited has not violated the terms of agreement. Explain with reasons, whether separate legal entity between Mr. Dhruv and Seven Stars Timbers Private Limited will be disregarded?*
20. *AK Private Limited has borrowed ` 36 crore from BK Finance Limited. However, as per memorandum of AK Private Limited, the maximum borrowing power of the company is ` 30 crore. Examine whether AK Private Limited is liable to pay this debt? State the remedy, if any available to BK Finance Limited.*

21. Mike LLC incorporated in Singapore having an office in Pune, India. Analyze whether Mike LLC would be called a foreign company as per the provisions of the Companies Act, 2013? Also explain the meaning of foreign company.
22. Sachin bought 1000 Kg rice from Saurabh for ₹ 1,50,000 on three months credit. For this purpose, Sachin issued a promissory note to Saurabh on the same date payable after 3 months. On the date of maturity, the promissory note was dishonoured. Saurabh filed suit for the recovery of the amount plus fees of advocate paid by him for defending the suit. Referring to the provisions of the Negotiable Instruments Act, 1881, what amount could be recovered by Saurabh from Sachin?
23. A purchased a watch from B. He issued a promissory note to B which was payable on demand but no specific place for payment was mentioned on it. On maturity, B did not present the promissory note for payment. As the promissory note was not duly presented for payment, whether A would be discharged from liability under the provisions of the Negotiable Instruments Act, 1881?

## ANSWERS

1. Indian Judicial System is a branch which through the enforcement of Law resolves dispute between citizens or between citizens and the Government.

The functions of judiciary system of India are:

- ◆ Regulation of the interpretation of the Acts and Codes,
- ◆ Dispute Resolution,
- ◆ Promotion of fairness among the citizens of the land.

Indian Judicial System performs his functions through the hierarchy of courts, the Supreme Court is at the top, followed by the High Courts, District Courts and Metropolitan Courts. Decisions of a High Court are binding in the respective state but are only persuasive in other states. Decisions of the Supreme Court are binding on all High Courts under Article 141 of the Indian Constitution. In fact, a Supreme Court decision is the final word on the matter.

2. *As per the rules of acceptance, the acceptance should be communicated to offeror by offeree himself or by his authorized agent. Communication of acceptance by third person cannot be concluded as valid acceptance.*

*In the instant case, Mr. Parth applied for a job as principal of a school and one member of the school management committee privately informed Mr. Parth that he was appointed. Later, the management of the school appointed someone else as a principal.*

*On the basis of the above provisions and facts, communication of appointment of Mr. Parth should be made by the school management committee or by any authorised agent. Communication by third person cannot be termed as communication of acceptance. Therefore, no valid contract was formed between Mr. Parth and the school and Mr. Parth cannot file a suit against the school for cancellation of his appointment.*

3. *According to section 133 of the Indian Contract Act, 1872, where there is any variance in the terms of contract between the principal debtor and creditor without surety's consent, it would discharge the surety in respect of all transactions taking place subsequent to such variance.*

*In the instant case, the creditor has made a variance (i.e. change in terms) without the consent of surety. Thus, surety is discharged as to the transactions subsequent to the change.*

*Hence, Mohit is liable as surety for the loss suffered by the bank due to misappropriation of cash by Sarthak during the first nine months but not for misappropriations committed after the reduction in salary.*

4. *By analysing Section 39 of the Indian Contract Act, 1872, it is understood that when a party to a contract has refused to perform or disabled himself from performing his promise entirely, the following two rights accrue to the aggrieved party (promisee):*

*(a) To terminate the contract*

*(b) To indicate by words or by conduct that he is interested in its continuance.*

*In either of the two cases, the promisee would be able to claim damages that he suffers.*

*In the given case,*

*(i) Yes, the hotel has the right to end the contract with Rahul, the DJ.*

*(ii) The hotel has the right to continue the contract with Rahul. But once this right is exercised, it cannot subsequently rescind the contract on this ground subsequently.*

*(iii) In both the cases, the hotel (promisee) is entitled to claim damages that has been suffered as a result of breach.*

5. *As per Section 148 of the Indian Contract Act, 1872, bailment is the delivery of goods by one person to another for some purpose, upon a contract, that the goods shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them.*

*For a bailment to exist, the bailor must give possession of the bailed property and the bailee must accept it.*

*(i) No. Mere custody of goods does not mean possession. In the given case, since the keys of the car are with Vikas, Section 148, of the Indian Contract Act, 1872 shall not be applicable.*

*(ii) Yes, the possession of the goods is transferred to the custom authorities. Therefore, bailment exists, and section 148 is applicable.*

6. *Section 25 of the Indian Contract Act, 1872 provides that an agreement made without consideration is valid if it is expressed in writing and registered under the law for the time being in force for the registration of documents and is made on account of natural love and affection between parties standing in a near relation to each other.*

*In the instant case, the transfer of house made by Mr. Sanjay Kothari on account of natural love and affection between the parties standing in near relation to each other is written but not registered. Hence, this transfer is not enforceable, and his daughter cannot get the house as gift under the Indian Contract Act, 1872.*

7. (i) According to section 16 of the Indian Contract Act, 1872, a contract is said to be induced by 'undue influence' where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and he uses that position to obtain an unfair advantage over the other.

When consent to an agreement is caused by undue influence, the contract is voidable at the option of the party, whose consent was so caused.

Hence, the contract between Mr. Ayush and Mr. Bobby is voidable at the option of Mr. Bobby as it was induced by undue influence by Mr. Ayush and therefore Mr. Bobby can sue Mr. Ayush.

(ii) The parties to a contract must either perform, or offer to perform, their respective promises, unless such performance is dispensed with or excused under the provisions of this Act, or of any other law.

Promises bind the representatives of the promisors in case of the death of such promisors before performance, unless a contrary intention appears from the contract. (Section 37 of the Indian Contract Act, 1872).

As per the provisions of Section 40 of the Indian Contract Act, 1872, if it appears from the nature of the case that it was the intention of the parties to any contract that any promise contained in it should be performed by the promisor himself, such promise must be performed by the promisor. In other cases, the promisor or his representative may employ a competent person to perform it.

In terms of the provisions of Section 40 stated above, in case where Mr. Sooraj has to paint a family picture for Mr. Manoj, Mr. Manoj cannot ask the legal representative of Mr. Sooraj to complete the painting work on Mr. Sooraj's death, since painting involves the use of personal skill.

In terms of the provisions of Section 37 stated above, in case where Mr. Sooraj had promised to deliver some photographs to Mr. Manoj, the legal representatives of Mr. Sooraj shall be bound to deliver the photographs in this situation.



8. **Quasi Contracts:** Under certain special circumstances, obligations resembling those created by a contract are imposed by law although the parties have never entered into a contract. Such obligations imposed by law are referred to as 'Quasi-contracts'. Such a contract resembles a contract so far as result or effect is concerned but it has little or no affinity with a contract in respect of mode of creation. These contracts are based on the doctrine that a person shall not be allowed to enrich himself unjustly at the expense of another. The salient features of a quasi-contract are:

1. It does not arise from any agreement of the parties concerned but is imposed by law.
2. Duty and not promise is the basis of such contract.
3. The right under it is always a right to money and generally though not always to a liquidated sum of money.
4. Such a right is available against specific person(s) and not against the whole world.
5. A suit for its breach may be filed in the same way as in case of a complete contract.

9. By virtue of provisions of Section 17 of the Sale of Goods Act, 1930, in the case of a contract for sale by sample there is an implied condition that the bulk shall correspond with the sample in quality and the buyer shall have a reasonable opportunity of comparing the bulk with the sample. According to Section 15, where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description. If the goods do not correspond with implied condition, the buyer can avoid the contract and reject the goods purchased.

(a) In the instant case, the sale of sweets is sale by sample and the quality of bulk does not correspond with quality of sample. Hence, Prakash can return the sweets and avoid the contract.

(b) In the other case, the sale of sweets is the case of sale by description and the quality of goods does not correspond with description made by seller. Hence, answer will be same. Prakash can return the sweets and avoid the contract.

10. According to Section 24 of the Sale of Goods Act, 1930, "When the goods are delivered to the buyer on approval or on sale or return or other similar terms the property passes to the buyer:

(i) when he signifies his approval or acceptance to the seller

(ii) when he does any other act adopting the transaction, and

(iii) if he does not signify his approval or acceptance to the seller but retains goods beyond a reasonable time".

Further, as per Section 8, where there is an agreement to sell specific goods, and subsequently the goods without any fault on the part of the seller or buyer perish or become so damaged as no longer to answer to their description in the agreement before the risk passes to the buyer, the agreement is thereby avoided.

According to the above provisions and fact, the property is not passed to Akansh i.e. buyer as no condition of Section 24 is satisfied. Hence, risk has not passed to buyer and the agreement is thereby avoided. Akansh is not liable to pay the price. The loss finally should be borne by Seller, Mr. Arvind.

11. As per the provisions of Section 2(10) of the Sale of Goods Act, 1930, price is the consideration for sale of goods and therefore is a requirement to make a contract of sale. Section 2(10) is to be read with Section 9 of the Sale of Goods Act, 1930.

According to Section 9 of the Sale of Goods Act, 1930, the price in a contract of sale may be fixed by the contract or may be left to be fixed in a manner thereby agreed or may be determined by the course of dealing between the parties.

Even though both the parties missed discussing the price of the car while making the contract, it will be a valid contract, rather than being uncertain and void; the buyer shall pay a reasonable price in this situation.

In the given case, Mr. Arun and Mr. Nikhil have entered into a contract for the sale of a swift car, but they did not fix the price of the same. Mr. Arun refused to sell the car to Mr. Nikhil on this ground. Mr. Nikhil can legally demand the car from Mr. Arun and Mr. Arun can recover a reasonable price for the car from Mr. Nikhil.

12. According to Section 45(1) of the Sale of Goods Act, 1930 the seller of goods is deemed to be an 'Unpaid Seller' when-

(a) The whole of the price has not been paid or tendered.

(b) A bill of exchange or other negotiable instrument was given as payment, but the same has been dishonoured, unless this payment was an absolute, and not a conditional payment.

Further, Section 47 provides about an unpaid seller's right of lien. Accordingly, an unpaid seller can retain the possession of the goods and refusal to deliver them to the buyer until the price due in respect of them is paid or tendered. This right can be exercised by him in the following cases only:

(a) where goods have been sold without any stipulation of credit; (i.e., on cash sale)

(b) where goods have been sold on credit, but the term of credit has expired; or

(c) where the buyer becomes insolvent.

In the instant case, Mr. Ganesh purchased 1000 Kg wheat from Mr. Shankar on 3 month's credit which was to be delivered after 10 days of contract. But, after 5 days of contract, one friend of Mr. Shankar secretly informed him that Mr. Ganesh may default in payment. On the belief of friend, Mr. Shankar applied the right to lien and withheld the delivery.

(i) On the basis of above provisions and facts, it can be said that even Mr. Ganesh was an unpaid seller until the term of credit i.e. has expired, Mr. Shankar had to perform his promise of supplying 1000 Kg of wheat.

(ii) In case Mr. Ganesh became insolvent before the delivery of wheat, Mr. Shankar had the right to apply the lien and he could withhold the delivery.

13. By virtue of provisions of Section 13(a) of the Indian Partnership Act, 1932 a partner is not entitled to receive remuneration for taking part in the conduct of the business. But this rule can always be varied by an express agreement, or by a course of dealings, in which event the partner will be entitled to remuneration. Thus, a partner can claim remuneration even in the absence of a contract, when such remuneration is payable under the continued usage of the firm. In other words, where it is customary to pay remuneration to a partner for conducting the business of the firm, he can claim it even in the absence of a contract for the payment of the same.

*In the given problem, existing partners are getting regularly a monthly remuneration from firm customarily being working partners of the firm. As Sony also admitted as working partner of the firm, he is entitled to get remuneration like other partners.*

14. *According to Section 4 of the Indian Partnership Act, 1932, "Partnership" is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Therefore, for determining the existence of partnership, it must be proved:*

- 1. There must be an agreement between all the persons concerned;*
- 2. The agreement must be to carry on some business;*
- 3. The agreement must be to share the profits of a business and*
- 4. The business was carried on by all or any of them acting for all.*

*On the basis of above provisions and facts provided in the question, Mr. Ram and Mr. Raheem cannot be said under partnership as they are teachers in a school and just purchased a flat jointly. By merely giving the flat on rent, they are not doing business. They are just earning the income from the property under their co-ownership. Hence, there is no partnership between them. Therefore, Mr. Ram is liable to pay his share only i.e. ` 1500. Mr. John has to claim the rest of ` 1500 from Mr. Raheem.*

15. *By virtue of provisions of Section 45 of the Indian Partnership Act, 1932, notwithstanding the dissolution of a firm, the partners continue to be liable as such to third parties for any act done by any of them which would have been an act of the firm, if done before the dissolution, until public notice is given of the dissolution.*

*In the instant case, X and Y were partners in a firm which was dissolved but no public notice was given. After dissolution, X purchased some goods in the firm's name from Z who was ignorant of the fact of dissolution of firm. X became insolvent and Z filed a suit against Y for recovery of his amount.*

*Following the provisions of Section 45, X and Y are continuing liable against third party even after dissolution of firm until public notice is given. As in the given problem, X became insolvent, therefore, Y will be liable to Z.*

16. According to section 16 of the Indian Partnership Act, 1932, subject to contract between partners –

- (a) if a partner derives any profit for himself from any transaction of the firm, or from the use of the property or business connection of the firm or the firm name, he shall account for that profit and pay it to the firm;
- (b) if a partner carries on any business of the same nature as and competing with that of the firm, he shall account for and pay to the firm all profits made by him in that business.

In the given scenario, B had sold iron bar to the firm at the current prevailing market rate of 350 per Kg though he had stock with him which he bought for INR 200 per Kg. Hence, he made an extra profit of INR 150/Kg. This arises purely out of transactions with the firm. Hence, B is accountable to the firm for the extra profit earned thereby.

17. Section 29 of the Indian Partnership Act, 1932 provides that a share in a partnership is transferable like any other property, but as the partnership relationship is based on mutual confidence, the assignee of a partner's interest by sale, mortgage or otherwise cannot enjoy the same rights and privileges as the original partner.

The rights of such a transferee are as follows:

- (1) During the continuance of partnership, such transferee is not entitled
  - (a) to interfere with the conduct of the business,
  - (b) to require accounts, or
  - (c) to inspect books of the firm.

He is only entitled to receive the share of the profits of the transferring partner, and he is bound to accept the profits as agreed to by the partners, i.e., he cannot challenge the accounts.

- (2) On the dissolution of the firm or on the retirement of the transferring partner, the transferee will be entitled, against the remaining partners:
  - (a) to receive the share of the assets of the firm to which the transferring partner was entitled, and

(b) for the purpose of ascertaining the share,

he is entitled to an account as from the date of the dissolution.

By virtue of Section 31, no person can be introduced as a partner in a firm without the consent of all the partners. A partner cannot by transferring his own interest, make anybody else a partner in his place, unless the other partners agree to accept that person as a partner. At the same time, a partner is not debarred from transferring his interest. A partner's interest in the partnership can be regarded as an existing interest and tangible property which can be assigned.

18. Comparison between a Limited Liability Partnership (LLP) and partnership can be analysed on the below tabulated parameters.

	<b>Basis</b>	<b>LLP</b>	<b>Partnership firm</b>
1.	<b>Regulating Act</b>		
2.	<b>Body corporate</b>		
3.	<b>Separate legal</b>		<i>It is a group of persons with</i>
4.	<b>Creation</b>	<i>It is created by a legal</i>	<i>It is created by an</i>
5.	<b>Registration</b>		
6.	<b>Perpetual</b>	<i>The death, insanity,</i>	

7.	<b>Name</b>	Name of the LLP to contain the word limited liability partners (LLP) as suffix.	No guidelines. The partners can have any name as per their choice.
8.	<b>Liability</b>	Liability of each partner is limited to the extent to agreed contribution except in case of willful fraud.	Liability of each partner is unlimited. It can be extended upto the personal assets of the partners.
9.	<b>Mutual agency</b>	Each partner can bind the LLP by his own acts but not the other partners.	Each partner can bind the firm as well as other partners by his own acts.
10.	<b>Designated partners</b>	At least two designated partners and at least one of them shall be resident in India.	There is no provision for such partners under the Partnership Act, 1932.
11.	<b>Common seal</b>	It may have its common seal as its official signatures.	There is no such concept in partnership
12.	<b>Legal compliances</b>	Only designated partners are responsible for all the compliances and penalties under this Act.	All partners are responsible for all the compliances and penalties under the Act.
13.	<b>Annual filing of documents</b>	LLP is required to file: (i) Annual statement of accounts (ii) Statement of solvency (iii) Annual return with the registration of LLP every year.	Partnership firm is not required to file any annual document with the registrar of firms.
14.	<b>Foreign partnership</b>	Foreign nationals can become a partner in a LLP.	Foreign nationals cannot become a partner in a partnership firm.

17.	<b>Minor as partner</b>	<i>Minor cannot be admitted to the benefits of LLP.</i>	<i>Minor can be admitted to the benefits of the partnership with the prior consent of the existing partners.</i>
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19. *It was decided by the court in the case of Gilford Motor Co. Vs. Horne, if the company is formed simply as a mere device to evade legal obligations, though this is only in limited and discrete circumstances, courts can pierce the corporate veil. In other words, if the company is mere sham or cloak, the separate legal entity can be disregarded.*

*On considering the decision taken in Gilford Motor Co. Vs. Horne and facts of the problem given, it is very much clear that Seven Stars Timbers Private Limited was formed just to evade legal obligations of the agreement between Mr. Dhruv and Sunmoon Timber Private Limited. Hence, Seven Stars Timbers Private Limited is just a sham or cloak and the separate legal entity between Mr. Dhruv and Seven Stars Timbers Private Limited should be disregarded.*

20. *This case is governed by the 'Doctrine of Ultra Vires'. According to this doctrine, any act done, or a contract made by the company which travels beyond the powers of the company conferred upon it by its Memorandum of Association is wholly void and inoperative in law and is therefore not binding on the company. This is because the Memorandum of Association of the company is, in fact, its charter; it defines its constitution and the scope of the powers of the company. Hence, a company cannot depart from the provisions contained in the memorandum however imperative may be the necessity for the departure. Hence, any agreement ultra vires the company shall be null and void.*

*(i) Whether AK Private Limited is liable to pay the debt?*

*As per the facts given, AK Private Limited borrowed ` 36 crore from BK Finance Limited which is beyond its borrowing power of ` 30 crore.*

*Hence, contract for borrowing of ` 36 crore, being ultra vires the Memorandum of Association and thereby is void. AK Private Limited is not, therefore, liable to pay the debt.*



*(ii) Remedy available to BK Finance Limited:*

*In light of the legal position explained above, BK Finance Limited cannot enforce the said transaction and thus has no remedy against the company for recovery of the money lent. BK Finance limited may take action against the directors of AK Private Limited as it is the personal liability of its directors to restore the borrowed funds. Besides, BK Finance Limited may take recourse to the remedy by means of 'Injunction', if feasible.*

**21. Foreign Company [Section 2(42) of the Companies Act, 2013]:** *It means any company or body corporate incorporated outside India which—*

*(i) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and*

*(ii) conducts any business activity in India in any other manner.*

*As Mike LLC is incorporated in Singapore and having a place of business in Pune, India, it is a foreign Company.*

**22. According to section 117 of the Negotiable Instruments Act, 1881, the compensation payable in case of dishonour of promissory note, bill of exchange or cheque, by any party liable to the holder or any endorsee, shall be determined by the following rules:**

*(a) the holder is entitled to the amount due upon the instrument, together with the expenses properly incurred in presenting, noting and protesting it;*

*(b) when the person charged resides at a place different from that at which the instrument was payable, the holder is entitled to receive such sum at the current rate of exchange between the two places;*

*(c) an endorser who, being liable, has paid the amount due on the same is entitled to the amount so paid with interest at 18% per annum from the date of payment until tender or realisation thereof, together with all expenses caused by the dishonour and payment;*

*On the basis of the above provisions of law and facts of the case, Saurabh has right to claim price of rice plus fees of advocate plus interest @18% p.a. from the date of payment until tender or realisation thereof.*

23. Section 64 of the Negotiable Instruments Act, 1881 provides, Promissory notes, bill of exchange and cheques must be presented for payment to the maker, acceptor or drawee thereof respectively, by or on behalf of the holder as hereinafter provided. In default of such presentment, the other parties thereto are not liable thereon to such holder. Provided that where a promissory note is payable on demand and is not payable at a specified place, no presentment is necessary in order to charge the maker thereof.

On the basis of the above law provisions and facts of the case, although non-presentment of promissory note for payment results in discharge of maker from liability but the given case is covered under the exception to section 64. Hence, A would not be discharged from liability even if the non-presentment by B as the promissory note was payable on demand and no specific place for payment was mentioned.

## JUNE 2023

1. *State which of the following agreements are valid contract under the Indian Contract Act, 1872?*
  - (a) *A, who owns two cars is selling red car to B. B thinks he is purchasing the black car.*
  - (b) *A threatened to shoot B if he (B) does not lend him `2,00,000 and B agreed to it.*
  - (c) *A agrees to sell his house to B against 100 kgs. of cocaine (drugs).*
  - (d) *A ask B if he wants to buy his bike for `50,000. B agrees to buy bike.*
  - (e) *Mr. X agrees to write a book with a publisher. But after few days, X dies in an accident.*
  
2. *Mr. Harish owes payment of 3 bills to Mr. Ashish as on 31<sup>st</sup> March, 2022. (i) `12,120 which was due in May 2018. (ii) `5,650 which was due in August 2020 (iii) `9,680 which was due in May 20210 Mr. Harish made payment on 1<sup>st</sup> April 2022 as below without any notice of how to appropriate them:*
  - (i) *A cheque of `9,680*
  - (ii) *A cheque of `15,000**Advice under the provision of the Indian Contract Act, 1872.*
  
3. *Mr. Shyam Mundra was a big businessman having one son and one married daughter. He decided to gift his house to his daughter. For this purpose, he called his lawyer at his house and made a written document for such gift. The lawyer advised him to get the transfer document properly registered. When they both were going for registration of document, they met with an accident and bot died. Later, the daughter found the document and claimed the house on the basis of that document. Explain, whether she can get the house as gift under the Indian Contract Act, 1872?*
  
4. *Mr. Mukund wants to sell his car. For this purpose, he appoints Mr. Parth, a minor as his agent. Mr. Mukund instructs Mr. Parth that car should not be sold at price less than `2,00,000. Mr. Parth ignores the instruction of Mr. Mukund and sells*

*the car to Mr. Naman for ` 1,50,000. Explain the legal position of contract under Indian Contract Act, 1872 whether:*

*(a) Mr. Mukund can recover the loss of ` 50,000 from Mr. Parth?*

*(b) Mr. Mukund can recover his car from Mr. Naman?*

- 5. Mukesh is running a grocery store in Delhi. He sells his grocery business, including goodwill worth ` 1,00,000 to Rohit for a sum of ` 5,00,000. After the sale of goodwill, Rohit made an agreement with Mukesh. As per this agreement, Mukesh cannot open another grocery store (similar kind of business) in the whole of India for next ten years. However, Mukesh opens another store in the same city two months later. What are the rights available with Rohit regarding the restriction imposed on Mukesh with reference to Indian Contract Act, 1872?*
- 6. P left his carriage on D's premises. Landlord of D seized the carriage against the rent due from D. P paid the rent and got his carriage released. Can P recover the amount from D?*
- 7. Avyukt purchased 100 Kgs of wheat from Bhaskar at ` 30 per kg. Bhaskar says that wheat is in his warehouse in the custody of Kishore, the warehouse keeper. Kishore confirmed Avyukt that he can take the delivery of wheat from him and till then he is holding wheat on Avyukt's behalf. Before Avyukt picks the goods from warehouse, the whole wheat in the warehouse has flowed in flood. Now Avyukt wants his price on the contention that no delivery has been done by seller. Whether Avyukt is right with his views under the Sale of Goods Act, 1930.*
- 8. Priyansh orders an iron window to an Iron Merchant for his new house. Iron merchant sends his technician to take the size of windows. The technician comes at the site and takes size of area where window to be fitted. Afterwards, Iron merchant on discussion with his technician intimates Priyansh that cost of the window will be ` 5,000 and he will take `1,000 as advance. Priyansh gives ` 1,000 as advance and rest after fitting of window. After three days when technician try to fit the window made by him at the site of Priyansh, it was noticed that the size of window was not proper. Priyansh requests the Iron merchant either to remove the defect or*

return his advance. Iron merchant replies that the window was specifically made for his site and the defect cannot be removed nor can it be of other use. So, he will not refund the advance money rather Priyansh should give him the balance of ₹ 4,000. State with reason under the provisions of the Sale of Goods Act, 1930, whether Priyansh can take his advance back?

9. Ayushman is the owner of a residential property situated at Indraprastha Marg, New Delhi. He wants to sell this property and for this purpose he appoints Ravi, a mercantile agent with a condition that Ravi will not sell the house at a price not less than ₹ 5 crores. Ravi sells the house for ₹ 4 crores to Mudit, who buys in good faith. Ravi misappropriated the money received from Mudit. Ayushman files a suit against Mudit to recover his property. Decide with reasons, can Ayushman do so under the Sale of Goods Act, 1930?
10. A agrees to sell certain goods to B on a certain date on 10 days credit. The period of 10 days expired and goods were still in the possession of A. B has also not paid the price of the goods. Can he do so under the Sale of Goods Act, 1930?
11. State the difference between Sale and Agreement to sell.
12. Mr. Ram and Mr. Raheem are working as teacher in Ishwarchand Vidhyasagar Higher Secondary School and also are very good friends. They jointly purchased a flat which was given on rent to Mr. John. It was decided between landlords and tenant that the rent would be ₹ 10,000 per month inclusive of electricity bill. It means electricity bill will be paid by landlords. The landlords, by mistake, did not pay the electricity bill for the month of March 2021. Due to this, the electricity department cut the connection. Mr. John has to pay the electricity bill of ₹ 2800 and ₹ 200 as penalty to resume the electricity connection. Mr. John said that Mr. Ram and Mr. Raheem are partners therefore he can claim the full amount from any of the partner. Explain, whether under the provision of Indian Partnership Act, 1932, Mr. Ram is liable to pay whole amount of ₹ 3000 to Mr. John?

13. *Shyam, Mohan and Keshav were partners in M/s Nandlal Gokulwale and Company. They mutually decided that Shyam will take the responsibility to sell the goods, Mohan will do the purchase of goods for firm and Keshav will look after the accounts and banking department. No one will interfere in other's department. Once, when Shyam and Keshav were out of town, Mohan got the information that the price of their good is going down sharply due to some government policy which would result in heavy loss to firm if goods not sold immediately. He tried to contact Shyam who has authority to sell the goods. When Mohan couldn't contact to Shyam, he sold all goods at some reduced price to save the firm from heavy loss. Thereafter, Shyam and Keshav denied accepting the loss due to sale of goods at reduced price as it's only Shyam who has express authority to sell the goods. Discuss the consequences under the provisions of the Indian Partnership Act, 1932.*
14. *X and Y were partners in a firm. The firm was dissolved on 12<sup>th</sup> June, 2022 but no public notice was given. Thereafter, X purchased some goods in the firm's name from Z. Z was ignorant of the fact of dissolution of firm. X became insolvent and Z filed a suit against Y for recovery of his amount. State with reasons whether Y would be liable under the provisions of the Indian Partnership Act, 1932?*
15. *State the modes by which a partner may transfer his interest in the firm in favour of another person under the Indian Partnership Act, 1932. What are the rights of such a transferee?*
16. *Explain the Small Limited Liability Partnership under the LLP Act, 2008.*
17. *In the Flower Fans Private Limited, there are only 5 members. All of them go in a boat on a pleasure trip into an open sea. The boat capsizes and all of them died being drowned. Explain with reference to the provisions of Companies Act, 2013.*
- (i) Is Flower Fans Private Limited no longer in existence?*
- (ii) Further is it correct to say that a company being an artificial person cannot own property and cannot sue or be sued?*

18. *ABC Limited was into sale and purchase of iron rods. This was the main object of the company mentioned in the Memorandum of Association. The company entered into a contract with Mr. John for some finance related work. Later on, the company repudiated the contract as being ultra vires.*

*With reference to the same, briefly explain the doctrine of “ultravires” under the Companies Act, 2013. What are the consequences of ultravires acts of the company?*

19. *Articles of Association of XYZ Private Limited provides that Board of Directors (BOD) can take the loan upto ` 5,00,000 for Company by passing the board resolution. In that case, the loan amount is in excess of the limit, special resolution is required to be passed in general meeting. Due to urgent needs of funds, BOD applied for loan in a reputed bank for ` 10,00,000 without passing the resolution in the general meeting. BOD gave an undertaking to bank that Special Resolution has been passed for such loan. The bank on believing on such undertaking lend the money. On demanding the repayment of loan, company denied the payment as act was ultra vires to company. Kindly, advise.*

20. *Explain the classification of the companies on the basis of control as per the Companies Act, 2013.*

### **ANSWERS**

1. (a) *A, who owns two cars is selling red car to B. B thinks he is purchasing the black car. There is no consensus ad idem and hence not a valid contract.*
- (b) *A threatened to shoot B if he (B) does not lend him ` 2,00,000 and B agreed to it. Here the agreement is entered into under coercion and hence not a valid contract.*
- (c) *A agrees to sell his house to B against 100 kgs of cocaine (drugs). Such agreement is illegal as the consideration is unlawful.*
- (d) *A ask B if he wants to buy his bike for ` 50,000. B agrees to buy bike. It is agreement which is enforceable by law. Hence, it is a valid contract.*
- (e) *Mr. X agrees to write a book with a publisher. But after few days, X dies in an accident. Here the contract becomes void due to the impossibility of performance of the contract.*

2. *If the performance consists of payment of money and there are several debts to be paid, the payment shall be appropriated as per provisions of Sections 59, 60 and 61 of the Indian Contract Act, 1872. The debtor has, at the time of payment, the right of appropriating the payment. In default of debtor, the creditor has option of election and in default of either, the law will allow appropriation of debts in order of time.*

*In the present case, Mr. Harish had made two payments by way of two cheques. One cheque was exactly the amount of the bill drawn. It would be understood even though not specifically appropriated by Mr. Harish that it will be against the bill of exact amount. Hence cheque of `9,680 will be appropriated against the bill of ` 9,680 which was due in May 2021.*

*Cheque of ` 15000 can be appropriated against any lawful debt which is due even though the same is time-barred.*

*Hence, Mr. Ashish can appropriate the same against the debt of `12,120 which was due in 2018 and balance against ` 5650 which was due in August 2020.*

3. *Section 25 of Indian Contract Act, 1872 provides that an agreement made without consideration is valid if it is expressed in writing and registered under the law for the time being in force for the registration of documents and is made on account of natural love and affection between parties standing in a near relation to each other. In other words, a written and registered agreement based on natural love and affection between the parties standing in near relation to each other is enforceable even without consideration.*

*In the given problem, the transfer of house made by Mr. Shyam Mundra on account of natural love and affection between the parties standing in near relation to each other is written but not registered. Hence, this transfer is not enforceable.*

4. *According to the provisions of Section 11 of Indian Contract Act, 1872, a minor is disqualified from contracting. A contract with minor is void-ab-initio but minor can act as an agent. But he will not be liable to his principal for his acts.*

*In the instant case, Mr. Mukund appoints Mr. Parth, a minor as his agent to sale his*



car. Mr. Mukund clearly instructed to Mr. Parth that the minimum sale price of the car should be ` 2,00,000 yet Mr. Parth sold the car to Mr. Naman for ` 1,50,000.

(a) Considering the facts, although the contract between Mr. Mukund and Mr. Parth is valid, Mr. Parth will not be liable to his principal for his acts. Hence, Mr. Mukund cannot recover the loss of ` 50,000.

(b) Further, Mr. Naman purchased the car from agent of Mr. Mukund, he got good title. Hence, Mr. Mukund cannot recover his car from Mr. Naman.

5. According to Section 27 of the Indian Contract Act, 1872, any agreement that restrains a person from carrying on a lawful trade, profession or business is a void agreement. However, there are certain exceptions to this rule. One of the statutory exceptions includes sale of Goodwill. The restraint as to sale of goodwill would be a valid restraint provided –

(i) Where the restraint is to refrain from carrying on a similar business,

(ii) The restraint should be within the specified local limits

(iii) The restraint should be not to carry on the similar business after sale of goodwill to the buyer for a price,

(iv) The restriction should be reasonable. Reasonableness of restriction will depend upon number of factors as considered by court.

In the given case, Mukesh has sold the goodwill and there is restraint for not carrying on the same business of grocery store. However, the restriction imposed on Mukesh is unreasonable as he cannot carry similar business in whole of India for next 10 years. The restriction on restraint to similar kind of trade should be reasonable to make it a valid agreement.

Hence, Rohit cannot take any legal action against Mukesh as the restriction is unreasonable as per Section 27 of Indian Contract Act, 1872. Hence, the agreement made between in restraint of trade between Mukesh and Rohit is void agreement.

6. Section 69 of the Indian Contract Act, 1872 states that a person who is interested in the payment of money which another person is bound by law to pay, and who therefore pays it, is entitled to get it reimbursed by the other.

*In the present case, D was lawfully bound to pay rent. P was interested in making the payment to D's landlord as his carriage was seized by him. Hence being an interested party, P made the payment and can recover the same from D.*

7. *As per the provisions of the Sale of Goods Act, 1930 there are three modes of delivery, i) Actual delivery, ii) Constructive delivery and iii) Symbolic delivery. When delivery is affected without any change in the custody or actual possession of the things, it is called constructive delivery or delivery by acknowledgement. Constructive delivery takes place when a person in possession of goods belonging to seller acknowledges to the buyer that he is holding the goods on buyer's behalf.*

*On the basis of above provisions and facts, it is clear that possession of the wheat has been transferred through constructive delivery. Hence, Avyukt is not right. He cannot claim the price back.*

8. *By virtue of provisions of Section 16 of the Sale of Goods Act, 1930, there is an implied condition that the goods should be in merchantable position at the time of transfer of property. Sometimes, the purpose for which the goods are required may be ascertained from the facts and conduct of the parties to the sale, or from the nature of description of the article purchased. In such a case, the buyer need not tell the seller the purpose for which he buys the goods.*

*On the basis of above provisions and facts given in the question, it is clear that as window size was not proper, window was not in merchantable condition. Hence, the implied condition as to merchantability was not fulfilled and Priyansh has the right to avoid the contract and recover his advance money back.*

9. *As per the Proviso to Section 27 of the Sale of Goods Act, 1930, a sale made by a mercantile agent of the goods would pass a good title to the buyer in the following circumstances; namely;*

- (a) If he was in possession of the goods or documents with the consent of the owner;*
- (b) If the sale was made by him when acting in the ordinary course of business as a mercantile agent; and*

(c) *If the buyer had acted in good faith and has at the time of the contract of sale, no notice of the fact that the seller had no authority to sell.*

*On the basis of above, it can be said that Ravi, the mercantile agent, sells property to Mudit who bought in good faith. Mudit obtained a good title of that residential property. Hence, Ayushman cannot recover his property from Mudit. Rather, Ayushman can recover his loss from Ravi.*

10. *Lien is the right of a person to retain possession of the goods belonging to another until claim of the person in possession is satisfied. The unpaid seller has also right of lien over the goods for the price of the goods sold.*

*Section 47(1) of the Sale of Goods Act, 1930 provides that the unpaid seller who is in the possession of the goods is entitled to exercise right of lien in the following cases:-*

- 1. Where the goods have been sold without any stipulation as to credit*
- 2. Where the goods have been sold on credit but the term of credit has expired*
- 3. Where the buyer has become insolvent even though the period of credit has not yet expired.*

*In the given case, A has agreed to sell certain goods to B on a credit of 10 days. The period of 10 days has expired. B has neither paid the price of goods nor taken the possession of the goods. That means the goods are still physically in the possession of A, the seller. In the meantime, B, the buyer has become insolvent. In this case, A is entitled to exercise the right of lien on the goods because the buyer has become insolvent and the term of credit has expired without any payment of price by the buyer.*

11. *The differences between Sale and Agreement to sell are as follows:*

<b>Basis of difference</b>	<b>Sale</b>	<b>Agreement to sell</b>
<b>Transfer of property</b>	<i>The property in the goods passes to the buyer immediately.</i>	<i>Property in the goods passes to the buyer on future date or on fulfilment of some condition.</i>
<b>Nature of contract</b>	<i>It is an executed contract i.e. contract for which consideration has been paid.</i>	<i>It is an executory contract i.e. contract for which consideration is to be paid at a future date.</i>

<b>Remedies for breach</b>	<i>The seller can sue the buyer for the price of the goods because of the passing of the property therein to the buyer.</i>	<i>The aggrieved party can sue for damages only and not for the price, unless the price was payable at a stated date.</i>
<b>Liability of parties</b>	<i>A subsequent loss or destruction of the goods is the liability of the buyer.</i>	<i>Such loss or destruction is the liability of the seller.</i>
<b>Burden of risk</b>	<i>Risk of loss is that of buyer since risk follows ownership.</i>	<i>Risk of loss is that of seller.</i>
<b>Nature of rights</b>	<i>Creates Jus in rem means right against the whole world.</i>	<i>Creates Jus in personam means rights against a particular party to the contract.</i>
<b>Right of resale</b>	<i>The seller cannot resell the goods.</i>	<i>The seller may sell the goods since ownership is with the seller.</i>
<b>In case of insolvency of seller</b>	<i>The official assignee will not be able to take over the goods but will recover the price from the buyer.</i>	<i>The official assignee will acquire control over the goods but the price will not be recoverable.</i>
<b>In case of insolvency of buyer</b>	<i>The official assignee will have control over the goods.</i>	<i>The official assignee will not have any control over the goods.</i>

12. According to Section 4 of the Indian Partnership Act, 1932, "Partnership" is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Therefore, for determining the existence of partnership, it must be proved.

1. There must be an agreement between all the persons concerned;
2. The agreement must be to carry on some business;
3. The agreement must be to share the profits of a business and
4. The business was carried on by all or any of them acting for all.

On the basis of above provisions and facts provided in the question, Mr. Ram and Mr. Raheem cannot be said under partnership as they are teachers in a school and just purchased a flat jointly. By merely giving the flat on rent, they are not doing business. They are just earning the income from the property under their co-ownership. Hence, there is no partnership between them. Therefore, Mr. Ram is liable to pay his share only i.e. ₹ 1500. Mr. John has to claim rest ₹ 1500 from Mr. Raheem.

13. According to Section 20 of Indian Partnership Act, 1932, the partners in a firm may, by contract between the partners, extend or restrict the implied authority of any partner. Notwithstanding any such restriction, any act done by a partner on behalf of the firm which falls within his implied authority binds the firm, unless the person with whom he is dealing knows of the restriction or does not know or believe that partner to be a partner.

Further, according to Section 21, a partner has authority, in an emergency to do all such acts for the purpose of protecting the firm from loss as would be done by a person of ordinary prudence, in his own case, acting under similar circumstances, and such acts bind the firm.

On the basis of provisions and facts provided in the question, though Shyam was expressly authorised to sell the goods, Mohan sold the goods at some loss. It was very much clear that Mohan has done what a person of ordinary prudence does in an emergency to protect the firm from heavy loss. Hence, this sale will bind the firm.

14. By virtue of provisions of Section 45 of the Indian Partnership Act, 1932, notwithstanding the dissolution of a firm, the partners continue to be liable as such to third parties for any act done by any of them which would have been an act of the firm, if done before the dissolution, until public notice is given of the dissolution. In the instant case, X and Y were partners in a firm which was dissolved but no public notice was given. After dissolution, X purchased some goods in the firm's name from Z who was ignorant of the fact of dissolution of firm. X became insolvent and Z filed a suit against Y for recovery of his amount.

Following the provisions of Section 45, X and Y are continuing liable against third party even after dissolution of firm until public notice is given. As in the given problem, X became insolvent, therefore, Y will be liable to Z.

15. Section 29 of the Indian Partnership Act, 1932 provides that a share in a partnership is transferable like any other property, but as the partnership relationship is based on mutual confidence, the assignee of a partner's interest by sale, mortgage or otherwise cannot enjoy the same rights and privileges as the original partner.

The rights of such a transferee are as follows:

- (1) During the continuance of partnership, such transferee is not entitled
- (a) to interfere with the conduct of the business,
  - (b) to require accounts, or
  - (c) to inspect books of the firm

He is only entitled to receive the share of the profits of the transferring partner and he is bound to accept the profits as agreed to by the partners, i.e., he cannot challenge the accounts.

- (2) On the dissolution of the firm or on the retirement of the transferring partner, the transferee will be entitled, against the remaining partners:
- (a) to receive the share of the assets of the firm to which the transferring partner was entitled, and
  - (b) for the purpose of ascertaining the share,

he is entitled to an account as from the date of the dissolution.

By virtue of Section 31, no person can be introduced as a partner in a firm without the consent of all the partners. A partner cannot by transferring his own interest, make anybody else a partner in his place, unless the other partners agree to accept that person as a partner. At the same time, a partner is not debarred from transferring his interest. A partner's interest in the partnership can be regarded as an existing interest and tangible property which can be assigned.

16. **Small Limited Liability Partnership [Section 2(ta) of the LLP Act, 2008]:** It means a limited liability partnership—

- (i) the contribution of which, does not exceed twenty-five lakh rupees or such higher amount, not exceeding five crore rupees, as may be prescribed; and*
- (ii) the turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed forty lakh rupees or such higher amount, not exceeding fifty crore rupees, as may be prescribed; or*
- (iii) which meets such other requirements as may be prescribed, and fulfils such terms and conditions as may be prescribed.*

17. *(i) Perpetual Succession – A company on incorporation becomes a separate legal entity. It is an artificial legal person and have perpetual succession which means even if all the members of a company die, the company still continues to exist. It has permanent existence.*

*The existence of a company is independent of the lives of its members. It has a perpetual succession. In this problem, the company will continue as a legal entity. The company's existence is in no way affected by the death of all its members.*

*(ii) The statement given is incorrect. A company is an artificial person as it is created by a process other than natural birth. It is legal or judicial as it is created by law. It is a person since it is clothed with all the rights of an individual. Further, the company being a separate legal entity can own property, have banking account, raise loans, incur liabilities and enter into contracts. Even members can contract with company, acquire right against it or incur liability to it. It can sue and be sued in its own name. It can do everything which any natural person can do except be sent to jail, take an oath, marry or practice a learned profession. Hence, it is a legal person in its own sense.*

18. **Doctrine of ultra vires:** *The meaning of the term ultra vires is simply “beyond (their) powers”. The legal phrase “ultra vires” is applicable only to acts done in excess of the legal powers of the doers. This presupposes that the powers in their nature are limited. It is a fundamental rule of Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent*

*permitted by the Act, thus far and no further. In consequence, any act done or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company. On this account, a company can be restrained from employing its fund for purposes other than those sanctioned by the memorandum. Likewise, it can be restrained from carrying on a trade different from the one it is authorised to carry on.*

*The impact of the doctrine of ultra vires is that a company can neither be sued on an ultra vires transaction, nor can it sue on it. Since the memorandum is a "public document", it is open to public inspection. Therefore, when one deals with a company one is deemed to know about the powers of the company. If in spite of this you enter into a transaction which is ultra vires the company, you cannot enforce it against the company.*

*An act which is ultra vires the company being void, cannot be ratified even by the unanimous consent of all the shareholders of the company.*

*Hence in the given case, ABC Limited cannot enter into a contract outside the purview of its object clause of Memorandum of Association as it becomes ultra vires and thus null and void.*

19. *According to doctrine of Indoor Management, persons dealing with the Company are presumed to have read the registered documents and to see that the proposed dealing is not inconsistent therewith, but they are not bound to do more; they need not enquire into the regularity of internal proceedings as required by Memorandum and Articles. This was also decided in case of Royal British Bank Vs. Turquand.*

*In the instant case, XYZ Private Limited have taken loan from reputed bank for ` 10,00,000 by passing Board Resolution while Special Resolution was necessary for such amount. BOD gave an undertaking to bank that Special Resolution has been passed for such loan. The bank on believing on such undertaking lends the money. On demanding the repayment of loan, company denied the payment as act was ultra vires to company.*



On the basis of provisions of doctrine of indoor management, the bank can claim the amount of his loan from the company. The bank can believe on the undertaking given by board and no need to enquire further.

20. In line with the Companies Act, 2013, following are the classification of the Companies on the basis of control:

(a) **Holding and subsidiary companies:** 'Holding and subsidiary' companies are relative terms.

A company is a holding company in relation to one or more other companies, means a company of which such companies are subsidiary companies. [Section 2(46)]

For the purposes of this clause, the expression "company" includes any body corporate.

Whereas section 2(87) defines "subsidiary company" in relation to any other company (that is to say the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

(b) **Associate company [Section 2(6)]:** In relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation. — For the purpose of this clause —

(i) the expression "significant influence" means control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement;

(ii) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The term "Total Share Capital", means the aggregate of the —

(1) Paid-up equity share capital; and

(2) Convertible preference share capital.

## DECEMBER 2023

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1. *Shital* was a classical dancer. She entered into an agreement with *Sharad Vidya Mandir* for 50 dance performances. As per the contract, she was supposed to perform every weekend and she will be paid ` 8,000/- per performance. However, after a month, she was absent without informing, due to her personal reasons. Answer the following questions as per the Indian Contract Act, 1872.

(i) Whether the management of *Sharad Vidya Mandir* has right to terminate the contract?

(ii) If the management of *Sharad Vidya Mandir* informed *Shital* about its continuance, can the management still rescind the contract after a month on this ground subsequently?

(iii) Can the *Sharad Vidya Mandir* claim damages that it has suffered because of this breach in any of the above cases?

2. *Paridhee*, a minor, falsely representing her age, enters into an agreement with an authorised Laptop dealer *Mr. Mittal*, owner of *MP Laptops*, for purchase of Laptop on credit amounting ` 60,000/- on 1st August 2022. She promised to pay back the outstanding amount with interest @ 16% p.a. by 31st July 2023. She told him that in case she won't be able to pay the outstanding amount, her father *Mr. Ram* will pay back on her behalf. After One year, when *Paridhee* was asked to pay the outstanding amount with interest she refused to pay the amount and told the owner that she is minor and now he can't recover a single penny from her.

She will be a major on 1st January 2025 and only after that agreement can be ratified. Explain by which of the following ways, *Mr. Mittal* will succeed in recovering the outstanding amount with reference to the Indian Contract Act, 1872.

(i) By filing a case against *Paridhee*, a minor for recovery of outstanding amount with interest?

(ii) By filing a case against *Mr. Ram*, father of *Paridhee* for recovery of outstanding amount?

(iii) By filing a case against *Paridhee*, a minor for recovery of outstanding amount after she attains majority?

3. *Rohan* found a wallet in a restaurant. He enquired all the customers present there but the true owner could not be found. He handed over the same to the manager

of the restaurant to keep the wallet till the true owner is found. After a week, Rohan went back to the restaurant to enquire about the wallet. The manager refused to return it to Rohan, saying that it did not belong to him. In the light of the Indian Contract Act, 1872, can Rohan recover the wallet from the Manager?

4. Mr. Sohan, a wealthy individual provided a loan of ₹ 80,000 to Mr. Mukesh on 26th February, 2021. The borrower, Mr. Mukesh asked for a further loan of ₹ 1,50,000. Mr. Sohan agreed but provided the loan in parts on different dates. He provided ₹ 1,00,000 on 28th February, 2021 and remaining ₹ 50,000 on 3<sup>rd</sup> March, 2021.

On 10th March, 2021 Mr. Mukesh while paying off part ₹ 75,000 to Mr. Sohan insisted that the lender should adjust ₹ 50,000 towards the loan taken on 3<sup>rd</sup> March, 2021 and balance as against the loan on 26<sup>th</sup> February, 2021.

Mr. Sohan objected to this arrangement and asked the borrower to adjust in the order of date of borrowal of funds.

Now you decide:

- (i) Whether the contention of Mr. Mukesh correct or otherwise as per the provisions of the Indian Contract Act, 1872?
- (ii) What would be the answer in case the borrower does not insist on such order of adjustment of repayment?
- (iii) What would be the mode of adjustment/appropriation of such part payment in case neither Mr. Sohan nor Mr. Mukesh insist any order of adjustment on their part?
5. State with reason(s) whether the following agreements are valid or void as per the Indian Contract Act, 1872:
- (i) Where two courts have jurisdiction to try a suit, an agreement between the parties that the suit should be filed in one of those courts alone and not in the other.
- (ii) X offers to sell his Maruti car to Y. Y believes that X has only Wagon R Car but agrees to buy it.
- (iii) X, a physician and surgeon, employs Y as an assistant on a salary of ₹ 75,000 per month for a term of two years and Y agrees not to practice as a surgeon and physician during these two years.

6. *Mr. Seth (an industrialist) has been fighting a long-drawn litigation with Mr. Raman (another industrialist). To support his legal campaign, Mr. Seth enlists the services of Mr. X, a legal expert stating that an amount of ` 5 lakhs would be paid, if Mr. X does not take up the case of Mr. Raman. Mr. X agrees, but at the end of the litigation, Mr. Seth refused to pay. Decide whether Mr. X can recover the amount promised by Mr. Seth under the provisions of the Indian Contract Act, 1872.*
7. *What are the consequences of the destruction of specified goods, before making of contract and after the agreement to sell under the Sale of Goods Act, 1930.*
8. *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.*
9. *Shubhangi went to a Jewellery shop and asked the salesgirl to show her diamond necklace with Sapphire stones. The Jeweller told her that we have a lot of designs of diamond necklace but with blue stones. If she chooses for herself any special design of diamond necklace with blue stones, they will replace blue stones with Sapphire stones. But for the Sapphire stones they will charge some extra cost. Shubhangi selected a beautiful designer necklace and paid for it. She also paid the extra cost of Sapphire stones. The Jeweller requested her to come back a week later for delivery of that necklace. When she came after a week to take delivery of necklace, she noticed that due to Sapphire stones, the design of necklace had been completely disturbed. Now, she wants to terminate the contract and thus, asked the manager to give her money back, but he denied for the same. Answer the following questions as per the Sale of Goods Act, 1930.*
- (i) State with reasons whether Shubhangi can recover the amount from the Jeweller.*
- (ii) What would be your answer if Jeweller says that he can change the design, but he will charge extra cost for the same?*
10. *State the various essential elements involved in the sale of unascertained goods and its appropriation as per the Sale of Goods Act, 1930.*
11. *Mrs. Kanchan 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. Kanchan insisted that she would like to see the sample of*

*what* would be provided to her by the shopkeeper before she agreed upon such purchase.

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

Mrs. Kanchan 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 requirement of the dish.

Now Mrs. Kanchan wants to file a suit of 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. Kanchan for grievance redressal as per the provisions of Sale of Goods Act 1930?

What would be your answer in case Mrs. Kanchan specified her exact requirement as to length of rice?

12. Ravi sold 500 bags of wheat to Tushar. Each bag contains 50 Kilograms of wheat. Ravi sent 450 bags by road transport and Tushar himself took remaining 50 bags. Before Tushar receives delivery of 450 bags sent by road transport, he becomes bankrupt. Ravi being still unpaid, stops the bags in transit. The official receiver, on Tushar's insolvency claims the bags. Decide the case with reference to the provisions of the Sale of Goods Act, 1930.
13. (i) What do you mean by 'Partnership for a fixed period' as per the Indian Partnership Act, 1932?  
(ii) When the continuing guarantee can be revoked under the Indian Partnership Act, 1932?  
(iii) What do you mean by Goodwill as per the provisions of Indian Partnership Act, 1932?
14. M/s ABC Associates has been a partnership firm since 1990. Mr. A, Mr. B and Mr. C were partners in the firm since beginning. Mr. A, being a very senior partner of

aged 78 years transfers his share in the firm to his son Mr. Vikas, a Chartered Accountant. Mr. B and Mr. C were not interested that Mr. Vikas joining them as partner in M/s ABC Associates. After some time, Mr. Vikas felt that the books of accounts were displaying only a small amount as profit despite a huge turnover. He wanted to inspect the book of accounts of the firm arguing that it is his entitlement as a transferee. However, the other partners believed that he cannot challenge the books of accounts. Can Mr. Vikas be introduced as a partner if his father wants to retire? As an advisor, help them resolve the issues applying the necessary provisions from the Indian Partnership Act, 1932.

15. With reference to the provisions of Indian Partnership Act, 1932 explain the various effects of insolvency of a partner.
16. Master X was introduced to the benefits of partnership of M/s ABC & Co. with the consent of all partners. After attaining majority, more than six months elapsed and he failed to give a public notice as to whether he elected to become or not to become a partner in the firm. Later on, Mr. L, a supplier of material to M/s ABC & Co., filed a suit against M/s ABC & Co. for recovery of the debt due.

In the light of the Indian Partnership Act, 1932, explain:

- (i) To what extent X will be liable if he failed to give public notice after attaining majority?
- (ii) Can Mr. L recover his debt from X?
17. State whether the following are partnerships under the Indian Partnership Act, 1932:
- (i) Two firms each having 12 partners combined by an agreement into one firm.
- (ii) A and B, co-owners, agree to conduct the business in common for profit.
- (iii) 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.
- (iv) A and B, co-owners share between themselves the rent derived from a piece of land.
- (v) A and B buy commodity X and agree to sell the commodity with sharing the profits equally.

18. *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 is holding 1,60,000 shares in PQ Private Limited and no shares are held by BC Private Limited in PQ Private Limited?*
19. *Narendra Motors Limited is a Government Company. Shah Auto Private Limited have share capital of ` 10 crore in the form of 10,00,000 shares of ` 100 each. Narendra Motors Limited is holding 5,05,000 shares in Shah Auto Private Limited. Shah Auto Private Limited claimed the status of Government Company. Advise as legal advisor, whether Shah Auto Private Limited is government company under the provisions of Companies Act, 2013?*

#### **ANSWER**

1. *Section 39 of the Indian Contract Act, 1872 provides that when a party to a contract has refused to perform or disabled himself from performing his promise in its entirety, the promisee may put an end to the contract unless he had signified, by words or conduct his acquiescence in its continuance. Further, in terms of Section 40, the promisee shall be required to perform personally, if there is such an apparent intention of the parties.*

*Also, as per Section 75 of the Act, a person who rightfully rescinds a contract is entitled to compensation for any damage which he has sustained through non-fulfilment of the contract.*

*Therefore, in the instant case,*

- (i) Since, Shital could not perform as per the terms of contract, Sharad Vidya Mandir can terminate the contract.*
- (ii) In the second situation, the management of Sharad Vidya Mandir informed Shital about the continuance of the contract. Hence, the management cannot rescind the contract after a month on this ground subsequently.*

*(iii) As per Section 75, Sharad Vidya Mandir can claim damages that it has suffered because of this breach in part (i).*

2. **A contract made with or by a minor is void ab-initio:** Pursuant to Section 11 of the Indian Contract Act, 1872, a minor is not competent to contract and any agreement with or by a minor is void from the very beginning.

*(i) By following the above provision, Mr. Mittal will not succeed in recovering the outstanding amount by filing a case against Paridhee, a minor.*

*(ii) Minor cannot bind parent or guardian: In the absence of authority, express or implied, a minor is not capable of binding his parent or guardian, even for necessities. The parents will be held liable only when the child is acting as an agent for parents.*

*In the instant case, Mr. Mittal will not succeed in recovering the outstanding amount by filing a case against Mr. Ram, father of Paridhee.*

*(iii) No ratification after attaining majority: A minor cannot ratify the agreement on attaining majority as the original agreement is void ab initio and a void agreement can never be ratified.*

*Hence, in this case also, Mr. Mittal will not succeed in recovering the outstanding amount by filing a case against Paridhee, after she attains majority.*

3. **Responsibility of finder of goods (Section 71 of the Indian Contract Act, 1872):** A person who find goods belonging to another and takes them into his custody is subject to same responsibility as if he were a bailee.

*Thus, a finder of lost goods has:*

*(i) to take proper care of the property as man of ordinary prudence would take*

*(ii) no right to appropriate the goods and*

*(iii) to restore the goods if the owner is found.*

*In the light of the above provisions, the manager must return the wallet to Rohan, since Rohan is entitled to retain the wallet found against everybody except the true owner.*

4. **Appropriation of Payments:** In case where a debtor owes several debts to the same creditor and makes payment, which is not sufficient to discharge all the debts, the



payment shall be appropriated (i.e. adjusted against the debts) as per the provisions of Section 59 to 61 of the Indian Contract Act, 1872.

(i) As per the provisions of 59 of the Act, where a debtor owing several distinct debts to one person, makes a payment to him either with express intimation or under circumstances implying that the payment is to be applied to the discharge of some particular debt, the payment, if accepted, must be applied accordingly.

Therefore, the contention of Mr. Mukesh is correct, and he can specify the manner of appropriation of repayment of debt.

(ii) As per the provisions of 60 of the Act, where the debtor has omitted to intimate and there are no other circumstances indicating to which debt the payment is to be applied, the creditor may apply it at his discretion to any lawful debt actually due and payable to him from the debtor, where its recovery is or is not barred by the law in force for the time being as to the limitation of suits.

Hence in case Mr. Mukesh fails to specify the manner of appropriation of debt on part repayment, Mr. Sohan the creditor, can appropriate the payment as per his choice.

(iii) As per the provisions of 61 of the Act, where neither party makes any appropriation, the payment shall be applied in discharge of the debts in order of time, whether they are or are not barred by the law in force for the time being as to the limitation of suits. If the debts are of equal standing, the payments shall be applied in discharge of each proportionately.

Hence in case where neither Mr. Mukesh nor Mr. Sohan specifies the manner of appropriation of debt on part repayment, the appropriation can be made in proportion of debts.

5. (i) The given agreement is valid.

**Reason:** An agreement in restraint of legal proceeding is the one by which any party thereto is restricted absolutely from enforcing his rights under a contract through a Court (Section 28 of the Indian Contract Act, 1872). A contract of this nature is void. However, in the given statement, no absolute restriction is marked on parties on filing of suit. As per the agreement, suit may be filed in one of the courts having jurisdiction.

(ii) *The said agreement is void.*

*Reason: This agreement is void as the two parties are thinking about different subject matters so that there is no real consent, and the agreement may be treated as void because of mistake of fact as well as absence of consensus.*

(iii) *The said agreement is valid.*

*Reason: An agreement by which any person is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void (Section 27). But, as an exception, agreement of service by which an employee binds himself, during the term of his agreement, not to compete with his employer is not in restraint of trade.*

6. *According to Section 27 of Indian Contract Act, 1872 an agreement by which any person is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void.*

*In the instant case, Mr. Seth is in litigation with Mr. Raman since long. Mr. Seth enlists the services of Mr. X a legal expert stating that an amount of ` 5 lakhs would be paid, if Mr. X does not take up the case of Mr. Raman. Mr. X agrees, but at the end of the litigation, Mr. Seth refused to pay.*

*As section 27 makes the contracts in restraint of trade, void, the contract between Mr. Seth and Mr. X is also void. Hence, Mr. X cannot recover the amount promised by Mr. Seth.*

7. (i) **Goods perishing before making of Contract (Section 7 of the Sale of Goods Act, 1930):** *In accordance with the provisions of the Sale of Goods Act, 1930 as contained in Section 7, a contract for the sale of specific goods is void, if at the time when the contract was made; the goods without the knowledge of the seller, perished or become so damaged as no longer to answer to their description in the contract, then the contract is void ab initio.*

(ii) **Goods perishing before sale but after agreement to sell (Section 8 of the Sale of Goods Act, 1930):** *Where there is an agreement to sell specific goods, and subsequently the goods without any fault on the part of the seller or buyer perish or become so damaged as no longer to answer to their description in the agreement before the risk passes to the buyer, the agreement is thereby avoided or becomes void.*

8. **(i) Sale by sample [Section 17 of the Sale of Goods Act, 1930]:** In a contract of sale by sample, there is an implied condition that

(a) the bulk shall correspond with the sample in quality;

(b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample,

(c) the goods shall be free from any defect rendering them un-merchantable, which would not be apparent on reasonable examination of the sample. This condition is applicable only with regard to defects, which could not be discovered by an ordinary examination of the goods. If the defects are latent, then the buyer can avoid the contract. This simply means that the goods shall be free from any latent defect i.e. a hidden defect.

(ii) **The following are the implied warranties operative under the Act:**

1. **Warranty as to undisturbed possession [Section 14(b)]:** An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.

2. **Warranty as to non-existence of encumbrances [Section 14(c)]:** An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.

3. **Warranty as to quality or fitness by usage of trade [Section 16(3)]:** An implied warranty as to quality or fitness for a particular purpose may be annexed or attached by the usage of trade.

Regarding implied condition or warranty as to the quality or fitness for any particular purpose of goods supplied, the rule is 'let the buyer beware' i.e., the seller is under no duty to reveal unflattering truths about the goods sold, but this rule has certain exceptions.

4. **Disclosure of dangerous nature of goods:** Where the goods are dangerous in nature and the buyer is ignorant of the danger, the seller must warn the buyer of the probable danger. If there is a breach of warranty, the seller may be liable in damages.

9. As per Section 4(3) of the Sale of Goods Act, 1930, where under a contract of sale, the property in the goods is transferred from the seller to the buyer, the contract is called a sale, but where the transfer of the property in the goods is to take place at a future time or subject to some condition thereafter to be fulfilled, the contract is called an agreement to sell and as per Section 4(4), an agreement to sell becomes a sale when the time elapses or the conditions are fulfilled subject to which the property in the goods is to be transferred.

(i) On the basis of above provisions and facts given in the question, it can be said that there is an agreement to sell between Shubhangi and Jeweller and not a sale. Even though the payment was made by Shubhangi, the property in goods can be transferred only after the fulfilment of conditions fixed between the buyer and the seller. As due to Sapphire Stones, the original design is disturbed, necklace is not in original position. Hence, Shubhangi has right to avoid the agreement to sell and can recover the price paid.

(ii) If Jeweller offers to bring the necklace in original position by repairing, he cannot charge extra cost from Shubhangi. Even though he has to bear some expenses for repair; he cannot charge it from Shubhangi.

10. **Sale of unascertained goods and Appropriation (Section 23 of the Sale of Goods Act, 1930):** Appropriation of goods involves selection of goods with the intention of using them in performance of the contract and with the mutual consent of the seller and the buyer.

The essentials are:

(a) There is a contract for the sale of unascertained or future goods.

(b) The goods should conform to the description and quality stated in the contract.

(c) The goods must be in a deliverable state.

(d) The goods must be unconditionally appropriated to the contract either by delivery to the buyer or his agent or the carrier.

(e) The appropriation must be made by:

(i) the seller with the assent of the buyer; or

(ii) the buyer with the assent of the seller.

(f) The assent may be express or implied.

(g) The assent may be given either before or after appropriation.

11. (i) As per the provisions of Sub-Section (2) of Section 17 of the Sale of Goods Act, 1930, in a contract of sale by sample, there is an implied condition that:
- (a) the bulk shall correspond with the sample in quality;
  - (b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample.

In the instant case, in the light of the provisions of Sub-Clause (b) of Sub-Section (2) of Section 17 of the Act, Mrs. Kanchan will not be successful as she casually examined the sample of rice (which exactly corresponded to the entire lot) without noticing the fact that even though the sample was that of Basmati Rice but it contained a mix of long and short grains.

(ii) In the instant case, Mrs. Kanchan does not have any option available to her for grievance redressal.

(iii) In case Mrs. Kanchan specified her exact requirement as to length of rice, then there is an implied condition that the goods shall correspond with the description. If it is not so, the seller will be held liable.

**12. Right of stoppage in transit (Section 50 of the Sale of Goods Act, 1930):**

Subject to the provisions of this Act, when the buyer of goods becomes insolvent, the unpaid seller who has parted with the possession of the goods has the right of stopping them in transit, that is to say, he may resume possession of the goods as long as they are in the course of transit and may retain them until paid or tendered price of the goods.

When the unpaid seller has parted with the goods to a carrier and the buyer has become insolvent, he can exercise this right of asking the carrier to return the goods back, or not to deliver the goods to the buyer.

In the instant case, Tushar, the buyer becomes insolvent, and 450 bags are in transit. Ravi, the seller, can stop the goods in transit by giving a notice of it to Tushar. The official receiver, on Tushar's insolvency cannot claim the bags.

13. (i) **Partnership for a fixed period (Indian Partnership Act, 1932):** Where a provision is made by a contract for the duration of the partnership, the partnership is called 'partnership for a fixed period'. It is a partnership created for a particular period of time. Such a partnership comes to an end on the expiry of the fixed period.

- (ii) **Revocation of continuing guarantee (Section 38 of the Indian Partnership Act, 1932):** According to section 38, a continuing guarantee given to a firm or to third party in respect of the transaction of a firm is, in the absence of an agreement to the contrary, revoked as to future transactions from the date of any change in the constitution of the firm. Such change may occur by the death, or retirement of a partner, or by introduction of a new partner.
- (iii) **Goodwill:** The term “Goodwill” has not been defined under the Indian Partnership Act, 1932. Section 14 of the Act lays down that goodwill of a business is to be regarded as a property of the firm.

Goodwill may be defined as the value of the reputation of a business in respect of profits expected in future over and above the normal level of profits earned by undertaking belonging to the same class of business.

14. (i) **Introduction of a Partner (Section 31 of the Indian Partnership Act, 1932):** Subject to contract between the partners and to the provisions of Section 30, no person shall be introduced as a partner into a firm without the consent of all the existing partners.

In the instant case, Mr. Vikas can be introduced as a partner with the consent of Mr. B and Mr. C, the existing partners.

- (ii) **Rights of Transferee of a Partner’s interest (Section 29):** A transfer by a partner of his interest in the firm, either absolute or by mortgage, or by the creation by him of a charge on such interest, does not entitle the transferee, during the continuance of the firm, to interfere in the conduct of business, or to require accounts, or to inspect the books of the firm, but entitles the transferee only to receive the share of profits of the transferring partner, and the transferee shall accept the account of profits agreed to by the partners.

Hence, here Mr. Vikas, the transferee in M/S ABC Associates, cannot inspect the books of the firm and the contention of the other partners is right that Mr. Vikas cannot challenge the books of accounts.

15. **Effects of insolvency of a partner (Section 34 of the Indian Partnership Act, 1932):**
- (i) The insolvent partner cannot be continued as a partner.
- (ii) He will be ceased to be a partner from the very date on which the order of adjudication is made.

*(iii) The estate of the insolvent partner is not liable for the acts of the firm done after the date of order of adjudication.*

*(iv) The firm is also not liable for any act of the insolvent partner after the date of the order of adjudication,*

*(v) Ordinarily, the insolvency of a partner results in dissolution of a firm; but the partners are competent to agree among themselves that the adjudication of a partner as an insolvent will not give rise to dissolution of the firm.*

16. *As per the provisions of Section 30(5) of the Indian Partnership Act, 1932, at any time within six months of his attaining majority, or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later, such person may give public notice that he has elected to become or that he has elected not to become a partner in the firm, and such notice shall determine his position as regards the firm.*

*However, if he fails to give such notice, he shall become a partner in the firm on the expiry of the said six months.*

*If the minor becomes a partner by his failure to give the public notice within specified time, his rights and liabilities as given in Section 30(7) are as follows:*

*(A) He becomes personally liable to third parties for all acts of the firm done since he was admitted to the benefits of partnership.*

*(B) His share in the property and the profits of the firm remains the same to which he was entitled as a minor.*

*(i) In the instant case, since, X has failed to give a public notice, he shall become a partner in the M/s ABC & Co. and becomes personally liable to Mr. L, a third party.*

*(ii) In the light of the provisions of Section 30(7) read with Section 30(5) of the Indian Partnership Act, 1932, since X has failed to give public notice that he has not elected to not to become a partner within six months, he will be deemed to be a partner after the period of the above six months and therefore, Mr. L can recover his debt from him also in the same way as he can recover from any other partner.*

17. (i) Yes, this is a case of partnership because there is an agreement between two firms to combine into one firm.
- (ii) Yes, this is a case of partnership because A & B, co-owners, have agreed to conduct a business in common for profit.
- (iii) No, this is not a case of partnership as no charitable association can be floated in partnership.
- (iv) No, this is not a case of partnership as they are co-owners and not the partners. Further, there exist no business.
- (v) Yes, this is a case of partnership as there exist the element of doing business and sharing of profits equally.
18. Section 2(87) of the Companies Act, 2013 defines “subsidiary company” in relation to any other company (that is to say the holding company), means a company in which the holding company—
- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:
- For the purposes of this section —
- (I) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- (II) “layer” in relation to a holding company means its subsidiary or subsidiaries. In the instant case, BC Private Limited together with its subsidiary KL Private Limited is holding 1,60,000 shares (90,000+70,000 respectively) which is more than one half in nominal value of the Equity Share Capital of PQ Private Limited. Hence, PQ Private Limited is subsidiary of BC Private Limited.
- (iii) In the second case, the answer will remain the same. KL Private Limited is a holding 1,60,000 shares i.e., more than one half in nominal value of the Equity Share Capital of PQ Private Limited (i.e., holding more than one half of voting power). Hence, KL Private Limited is holding company of PQ Private Company and BC Private Limited is a holding company of KL Private Limited.



*Hence, by virtue of Chain relationship, BC Private Limited becomes the holding company of PQ Private Limited.*

19. *According to the provisions of Section 2(45) of Companies Act, 2013, Government Company means any company in which not less than 51% of the paid-up share capital is held by-*

*(i) the Central Government, or*

*(ii) by any State Government or Governments, or*

*(iii) partly by the Central Government and partly by one or more State Governments, and the section includes a company which is a subsidiary company of such a Government company.*

*According to Section 2(87), “subsidiary company” in relation to any other company (that is to say the holding company), means a company in which the holding exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.*

*By virtue of provisions of Section 2(87) of Companies Act, 2013, Shah Auto Private Limited is a subsidiary company of Narendra Motors Limited because Narendra Motors Limited is holding more than one-half of the total voting power in Shah Auto Private Limited. Further as per Section 2(45), a subsidiary company of Government Company is also termed as Government Company. Hence, Shah Auto Private Limited being subsidiary of Narendra Motors Limited will also be considered as Government Company.*

## MAY 2022

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1. *A enters into a contract with B that he (A) sells his house for ` 10,00,000 to B. Further they both signed an agreement that if B uses the house for gambling purposes, then B shall pay A ` 50,000 for it. B agreed to this, however after a year of sale, B started gambling business in that house. Can A claim ` 50,000 from B? Discuss with reference to the provisions of Indian Contract Act, 1872.*
2. *Seema was running a boutique in New Delhi. She has to deliver some cloth to her friend Kiran who was putting up an exhibition at Mumbai. Seema delivered the sewing machine and some cloth to a railway company to be delivered at a place where the exhibition was to be held. Seema expected to earn an exceptional profit from the sales made at this exhibition however she did not bring this fact to the notice of the railway's authorities. The goods were delivered at the place after the conclusion of the exhibition. On account of such breach of contract by railways authorities, can Seema recover the loss of profits under the Indian Contract Act, 1872?*
3. *Chandan was suffering from some disease and was in great pain. He went to Dr. Jhunjunwala whose consultation fee was ` 300. The doctor agreed to treat him but on the condition that Chandan had to sign a promissory note of ` 5,000 payable to doctor. Chandan signed the promissory note and gave it to doctor. On recovering from the disease, Chandan refused to honour the promissory note. State with reasons, can doctor recover the amount of promissory note under the provisions of the Indian Contract Act, 1872?*
4. *Mr. Aseem is a learned advocate. His car was stolen from his house. He gave an advertisement in newspaper that he will give the reward of ` 10,000 who will give the information about his car. Mr. Vikram reads the advertisement and on making some efforts got the stolen car and informed Mr. Aseem. Mr. Aseem found his car but denied giving reward of ` 10,000 to Mr. Vikram with the words, "An advertisement in newspaper is just an invitation to make offer and not an offer. Hence, he is not liable to make the reward." State with reasons whether under Indian Contract Act, 1872, Mr. Vikram can claim the reward of ` 10,000.*

5. *Mr. Singhania entered into a contract with Mr. Sonu to sing in his hotel for six weeks on every Saturday and Sunday. Mr. Singhania promised to pay ` 20,000 for every performance. Mr. Sonu performed for two weeks but on third week his health condition was very bad, so he did not come to sing. Mr. Singhania terminated the contract. State in the light of provisions of the Indian Contract Act, 1872.*

*(a) Can Mr. Singhania terminate the contract with Mr. Sonu?*

*(b) What would be your answer in case Mr. Sonu turns up in fourth week and Mr. Singhania allows him to perform without saying anything?*

*(c) What would be your answer in case Mr. Sonu sends Mr. Mika on his place in third week and Mr. Singhania allows him to perform without saying anything?*

6. *“An anticipatory breach of contract is a breach of contract occurring before the time fixed for performance has arrived”. Discuss stating also the effect of anticipatory breach on contracts.*

7. *AB Cloth House, a firm dealing with the wholesale and retail buying and selling of various kinds of clothes, customized as per the requirement of the customers. They dealt with Silk, Organdie, cotton, khadi, chiffon and many other different varieties of cloth.*

*Mrs. Reema, a customer came to the shop and asked for specific type of cloth suitable for making a saree for her daughter’s wedding. She specifically mentioned that she required cotton silk cloth which is best suited for the purpose.*

*The Shop owner agreed and arranged the cloth pieces cut into as per the buyers’ requirements.*

*When Reema went to the tailor for getting the saree stitched, she found that seller has supplied her cotton organdie material, cloth was not suitable for the said purpose. It has heavily starched and not suitable for making the saree that Reema desired for. The Tailor asked Reema to return the cotton organdie cloth as it would not meet his requirements.*

*The Shop owner refused to return the cloth on the plea that it was cut to specific requirements of Mrs. Reema and hence could not be resold.*

*With reference to the doctrine of “Caveat Emptor” explain the duty of the buyer as well as the seller. Also explain whether Mrs. Reema would be able to get the money back or the right kind of cloth as per the requirement?*

8. *A went to B’s shop and selected some jewellery. He falsely represented himself to be a man of credit and thereby persuaded B to take the payment by cheque. He further requested him to hand over the particular type of ring immediately. On the due date, when the seller, B presented the cheque for payment, the cheque was found to be dishonoured. Before B could avoid the contract on the ground of fraud by A, he had sold the ring to C. C had taken the ring in good faith and without any notice of the fact that the goods with A were under a voidable contract. Discuss if such a sale made by non-owner is valid or not as per the provisions of Sale of Goods Act, 1930?*
9. *Classify the following transactions according to the types of goods they are:*
  - (i) *A wholesaler of cotton has 100 bales in his godown. He agrees to sell 50 bales and these bales were selected and set aside.*
  - (ii) *A agrees to sell to B one packet of sugar out of the lot of one hundred packets lying in his shop.*
  - (iii) *T agrees to sell to S all the apples which will be produced in his garden this year.*
10. *Certain goods were sold by sample by A to B, who in turn sold the same goods by sample to C and C by sample sold the goods to D. The goods were not according to the sample. Therefore, D who found the deviation of the goods from the sample rejected the goods and gave a notice to C. C sued B and B sued A. Advise B and C under the Sale of Goods Act, 1930.*
11. *Sohan, Rohan and Jay were partners in a firm. The firm is dealer in office furniture. They have regular dealings with M/s AB and Co. for the supply of furniture for their business. On 30<sup>th</sup> June, 2018, one of the partners, Mr. Jay died in a road accident. The firm has ordered M/s AB and Co. to supply the furniture for their business on 25 May 2018, when Jay was also alive.*

Now Sohan and Rohan continue the business in the firm's name after Jay's death. The firm did not give any notice about Jay's death to the public or the persons dealing with the firm. M/s AB and Co. delivered the furniture to the firm on 25 July 2018. The fact about Jay's death was known to them at the time of delivery of goods. Afterwards the firm became insolvent and failed to pay the price of furniture to M/s AB and Co. Now M/s AB and Co. has filed a case against the firm for recovery of the price of furniture. With reference to the provisions of Indian Partnership Act, 1932, explain whether Jay's private estate is also liable for the price of furniture purchased by the firm?

12. Moni and Tony were partners in the firm M/s MOTO & Company. They admitted Sony as partner in the firm and he is actively engaged in day-to-day activities of the firm. There is a tradition in the firm that all active partners will get a monthly remuneration of ` 20,000 but no express agreement was there. After admission of Sony in the firm, Moni and Tony were continuing getting salary from the firm but not salary was given to Sony from the firm. Sony claimed his remuneration but denied by existing partners by saying that there was no express agreement for that. Whether under the Indian Partnership Act, 1932, Sony can claim remuneration from the firm?
13. M/s XYZ & Company is a partnership firm. The firm is an unregistered firm. The firm has purchased some iron rods from another partnership firm M/s LMN & Company which is also an unregistered firm. M/s XYZ & Company could not pay the price within the time as decided. M/s LMN & Company has filed the suit against M/s XYZ & Company for recovery of price. State under the provisions of the Indian Partnership Act 1932;
- (a) Whether M/s LMN & Company can file the suit against M/s XYZ & Company?
- (b) What would be your answer, in case M/s XYZ & Company is a registered firm while M/s LMN & Company is an unregistered firm?
- (c) What would be your answer, in case M/s XYZ & Company is an unregistered firm while M/s LMN & Company is a registered firm?

14. *“LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership”. Explain.*
15. *Jagannath Oils Limited is a public company and having 220 members. Of which 25 members were employee 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 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?*
16. *A, B and C has decided to set up a new club with name of ABC club having objects to promote welfare of Christian society. They planned to do charitable work or social activity for promoting the art work of economically weaker section of Christian society. The company obtained the status of section 8 company and started operating from 1<sup>st</sup> April, 2017 onwards.*
- However, on 30<sup>th</sup> September 2019, it was observed that ABC club was violating the objects of its objective clause due to which it was granted the status of section 8 Company under the Companies Act 2013.*
- Discuss what powers can be exercised by the central government against ABC club, in such a case?*
17. *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 the employment contract and for soliciting their customers for own business. Mr. Karan contended that there*

*is 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?*

## **ANSWERS**

1. *According to Section 24 of the Indian Contract Act, 1872, in an agreement, where some part of the object is legal and the other part is illegal, the question arises about the validity and enforceability of such agreements. Where the legal and illegal part can be severed and divided, and separated, lawful part of object is enforceable, and the unlawful part of the object is void.*

*In the given case, A sells the house to B, is a valid transaction as the sale of house and consideration paid for the same i.e. `10,00,000 is valid and enforceable. However, the agreement to pay ` 50,000 for gambling done in the house is illegal and thus void.*

*Hence, in the instant case, sale of house agreement is valid agreement and gambling agreement is illegal and not enforceable by law.*

2. *As per Section 73 to 75 of Indian Contract Act, 1872, Damage means a sum of money claimed or awarded in compensation for a loss or an injury. Whenever a party commits a breach, the aggrieved party can claim the compensation for the loss so suffered by him. General damages are those which arise naturally in the usual course of things from the breach itself. (Hadley Vs Baxendale). Therefore, when breach is committed by a party, the defendant shall be held liable for all such losses that naturally arise in the usual course of business. Such damages are called ordinary damages. However, special damages are those which arise in unusual circumstances affecting the aggrieved party and such damages are recoverable only when the special circumstances were brought to the knowledge of the defendant. If no special notice is given, then the aggrieved party can only claim the ordinary damages.*

*In the given case, Seema was to earn an exceptional profit out of the sales made at*

*the exhibition, however she never informed about it to the railway authorities. Since the goods were delivered after the conclusion of the exhibition, therefore Seema can recover only the losses arising in the ordinary course of business. Since no notice about special circumstances was given to railways authorities, she could not recover the loss of profits.*

3. *Section 16 of Indian Contract Act, 1872 provides that a contract is said to be induced by “undue influence” where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage over the other.*

*Further, a person is deemed to be in a position to dominate the will of another—*

*(a) where he holds a real or apparent authority over the other, or*

*(b) where he stands in a fiduciary relation to the other; or*

*(c) where he makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness, or mental or bodily distress.*

*Section 19A provides that when consent to an agreement is caused by undue influence, the agreement is a contract voidable at the option of the party whose consent was so caused. Any such contract may be set aside either absolutely or, if the party who was entitled to avoid it has received any benefit thereunder, upon such terms and conditions as to the Court may seem just.*

*From the facts of the case, Chandan signed the promissory note under undue influence applied by doctor. Hence, Dr. Jhunjhunwala cannot recover the amount of promissory note but can claim his normal consultation fee from Chandan.*

4. *An invitation to offer is different from offer. Quotations, menu cards, price tags, advertisements in newspaper for sale are not offer. These are merely invitations to public to make an offer. An invitation to offer is an act precedent to making an offer. Acceptance of an invitation to an offer does not result in the contract and only an offer emerges in the process of negotiation. But there is an exception to above provisions. When advertisement in newspaper is made for reward, it is the general offer to public.*

*On the basis of above provisions and facts, it can be said that as advertisement*



made by Mr. Aseem to find lost car is an offer, he is liable to pay ` 10,000 to Mr. Vikram.

5. According to Section 40 of the Indian Contract Act, 1872, if it appears from the nature of the case that it was the intention of the parties to any contract that any promise contained in it should be performed by the promisor himself, such promise must be performed by the promisor. Section 41 provides that when a promisee accepts performance of the promise from a third person, he cannot afterwards enforce it against the promisor.

Therefore, in the instant case,

- (a) As Mr. Sonu could not perform as per the contract, Mr. Singhania can repudiate the contract.
- (b) In the second situation, as Mr. Singhania allowed Mr. Sonu to perform in the fourth week without saying anything, by conduct, Mr. Singhania had given his assent to continue the contract. Mr. Singhania cannot terminate the contract however he can claim damages from Mr. Sonu.
- (c) In case Mr. Singhania allows Mr. Mika to perform in the third week without saying anything, by conduct, Mr. Singhania had given his assent for performance by third party. Now Mr. Singhania cannot terminate the contract nor can claim any damages from Mr. Sonu.

6. An anticipatory breach of contract is a breach of contract occurring before the time fixed for performance has arrived. When the promisor refuses altogether to perform his promise and signifies his unwillingness even before the time for performance has arrived, it is called Anticipatory Breach. The law in this regard has very well summed up in *Frost v. Knight* and *Hochster v. DelaTour*:

Section 39 of the Indian Contract Act, 1872 deals with anticipatory breach of contract and provides as follows: "When a party to a contract has refused to perform or disable himself from performing, his promise in its entirety, the promisee may put an end to the contract, unless he has signified, but words or conduct, his acquiescence in its continuance."

**Effect of anticipatory breach:** The promisee is excused from performance or from

further performance. Further he gets an option:

- (1) To either *treat* the contract as “rescinded and sue the other party for damages from breach of contract immediately without waiting until the due date of performance; or
- (2) He may elect not to rescind but to *treat* the contract as still operative and wait for the time of performance and then hold the other party responsible for the consequences of non-performance. But in this case, he will keep the contract alive for the benefit of the other party as well as his own, and the guilty party, if he so decides on re - consideration, may still perform his part of the contract and can also take advantage of any supervening impossibility which may have the effect of discharging the contract.

7. **Duty of the buyer according to the doctrine of “Caveat Emptor”:** In case of sale of goods, the doctrine ‘Caveat Emptor’ means ‘let the buyer beware’. When sellers display their goods in the open market, it is for the buyers to make a proper selection or choice of the goods. If the goods turn out to be defective, he cannot hold the seller liable. The seller is in no way responsible for the bad selection of the buyer. The seller is not bound to disclose the defects in the goods which he is selling.

**Duty of the seller according to the doctrine of “Caveat Emptor”:** The following exceptions to the Caveat Emptor are the duties of the seller:

- (i) Fitness as to quality or use
- (ii) Goods purchased under patent or brand name
- (iii) Goods sold by description
- (iv) Goods of Merchantable Quality
- (v) Sale by sample
- (vi) Goods by sample as well as description
- (vii) Trade usage
- (viii) Seller actively conceals a defect or is guilty of fraud

Based on the above provision and facts given in the question, it can be concluded that Mrs. Reema is entitled to get the money back or the right kind of cloth as required serving her purpose. It is the duty of the seller to supply such goods as are reasonably fit for the purpose mentioned by buyer. [Section 16(1) of the Sale of Goods Act, 1930].

8. Section 27 of Sale of Goods Act, 1930 states that no man can sell the goods and give a good title unless he is the owner of the goods. However, there are certain exceptions to this rule of transfer of title of goods.

One of the exceptions is sale by person in possession under a voidable contract (Section 29 of Sale of Goods Act, 1930)

1. If a person has possession of goods under a voidable contract.
2. The contract has not been rescinded or avoided so far
3. The person having possession sells it to a buyer
4. The buyer acts in good faith
5. The buyer has no knowledge that the seller has no right to sell.

Then, such a sale by a person who has possession of goods under a voidable contract shall amount to a valid sale and the buyer gets the better title.

Based on the provisions, Mr. A is in possession of the ring under a voidable contract as per provisions of Indian Contract Act, 1872. Also, B has not rescinded or avoided the contract, Mr. A is in possession of the ring and he sells it new buyer Mr. C who acts in good faith and has no knowledge that A is not the real owner. Since all the conditions of Section 29 of Sale of Goods Act, 1930 are fulfilled, therefore sale of ring made by Mr. A to Mr. C is a valid sale.

9. (i) A wholesaler of cotton has 100 bales in his godown. So, the goods are existing goods. He agrees to sell 50 bales and these bales were selected and set aside. On selection, the goods become ascertained. In this case, the contract is for the sale of ascertained goods, as the cotton bales to be sold are identified and agreed after the formation of the contract

(ii) If A agrees to sell to B one packet of sugar out of the lot of one hundred packets lying in his shop, it is a sale of existing but unascertained goods because it is not known which packet is to be delivered.

(iii) T agrees to sell to S all the apples which will be produced in his garden this year. It is contract of sale of future goods, amounting to 'an agreement to sell.'

10. *In the instant case, D who noticed the deviation of goods from the sample can reject the goods and treat it as a breach of implied condition as to sample which provides that when the goods are sold by sample the goods must correspond to the sample in quality and the buyer should be given reasonable time and opportunity of comparing the bulk with the sample. Whereas C can recover only damages from B and B can recover damages from A. For C and B it will not be treated as a breach of implied condition as to sample as they have accepted and sold the goods according to Section 13(2) of the Sales of Goods Act, 1930.*

11. *According to Section 35 of the Indian Partnership Act, 1932, where under a contract between the partners the firm is not dissolved by the death of a partner, the estate of a deceased partner is not liable for any act of the firm done after his death.*

*Further, in order that the estate of the deceased partner may be absolved from liability for the future obligations of the firm, it is not necessary to give any notice either to the public or the persons having dealings with the firm.*

*In the light of the facts of the case and provisions of law, since the delivery of furniture was made after Jay's death, his estate would not be liable for the debt of the firm. A suit for goods sold and delivered would not lie against the representatives of the deceased partner. This is because there was no debt due in respect of the goods in Jay's lifetime. He was already dead when the delivery of goods was made to the firm and also it is not necessary to give any notice either to the public or the persons having dealings with the firm on a death of a partner (Section 35). So, the estate of the deceased partner may be absolved from liability for the future obligations of the firm.*

12. *By virtue of provisions of Section 13(a) of the Indian Partnership Act, 1932 a partner is not entitled to receive remuneration for taking part in the conduct of the business. But this rule can always be varied by an express agreement, or by a course of dealings, in which event the partner will be entitled to remuneration. Thus, a partner can claim remuneration even in the absence of a contract, when*

such remuneration is payable under the continued usage of the firm. In other words, where it is customary to pay remuneration to a partner for conducting the business of the firm, he can claim it even in the absence of a contract for the payment of the same.

In the given problem, existing partners are getting regularly a monthly remuneration from firm customarily being working partners of the firm. As Sony also admitted as working partner of the firm, he is entitled to get remuneration like other partners.

13. According to provisions of Section 69 of the Indian Partnership Act, 1932 an unregistered firm cannot file a suit against a third party to enforce any right arising from contract, e.g., for the recovery of the price of goods supplied. But this section does not prohibit a third party to file suit against the unregistered firm or its partners.

(a) On the basis of above, M/s LMN & Company cannot file the suit against M/s XYZ & Company as M/s LMN & Company is an unregistered firm.

(b) In case M/s XYZ & Company is a registered firm while M/s LMN & Company is an unregistered firm, the answer would remain same as in point a) above.

(c) In case M/s LMN & Company is a registered firm, it can file the suit against M/s XYZ & Company.

14. LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.

**Limited Liability:** Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26 of the LLP Act, 2008). The liability of the partners will be limited to their agreed contribution in the LLP, while the LLP itself will be liable for the full extent of its assets.

**Flexibility of a partnership:** The LLP allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure

*and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.*

15. *According to Section 2(68) of Companies Act, 2013, "Private company" means a company having a minimum paid-up share capital as may be prescribed, and which by its articles,—*

*(i) restricts the right to transfer its shares;*

*(ii) except in case of One Person Company, limits the number of its members to two hundred:*

*Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member:*

*Provided further that—*

*(A) persons who are in the employment of the company; and*

*(B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and*

*(iii) prohibits any invitation to the public to subscribe for any securities of the company;*

*(a) Following the provisions of Section 2(68), 25 members were employees of the company but not during present membership which was started from 1st December 2016 i.e. after the date on which these 25 members were ceased to the employee in Jagannath Oils Limited. Hence, they will be considered as members for the purpose of the limit of 200 members. The company is required to reduce the number of members before converting it into a private company.*

*(b) On the other hand, if those 25 members were ceased to be employee on 28th June 2017, they were employee at the time of getting present membership. Hence, they will not be counted as members for the purpose of the limit of 200 members and the total number of members for the purpose of this sub section will be 195. Therefore, Jagannath Oils Limited is not required to reduce the number of members before converting it into a private company.*

16. *Section 8 of the Companies Act, 2013 deals with the formation of companies which are formed to promote the charitable objects of commerce, art, science, education,*

sports etc. Such company intends to apply its profit in promoting its objects. Section 8 companies are registered by the Registrar only when a license is issued by the Central Government to them.

Since ABC Club was a Section 8 company and it was observed on 30<sup>th</sup> September, 2019 that it had started violating the objects of its objective clause. Hence in such a situation the following powers can be exercised by the Central Government:

- (i) The Central Government may by order revoke the licence of the company where the company contravenes any of the requirements or the conditions of this sections subject to which a licence is issued or where the affairs of the company are conducted fraudulently, or violative of the objects of the company or prejudicial to public interest, and on revocation the Registrar shall put 'Limited' or 'Private Limited' against the company's name in the register. But before such revocation, the Central Government must give it a written notice of its intention to revoke the licence and opportunity to be heard in the matter.
- (ii) Where a licence is revoked, the Central Government may, by order, if it is satisfied that it is essential in the public interest, direct that the company be wound up under this Act or amalgamated with another company registered under this section. However, no such order shall be made unless the company is given a reasonable opportunity of being heard.
- (iii) Where a licence is revoked and where the Central Government is satisfied that it is essential in the public interest that the company registered under this section should be amalgamated with another company registered under this section and having similar objects, then, notwithstanding anything to the contrary contained in this Act, the Central Government may, by order, provide for such amalgamation to form a single company with such constitution, properties, powers, rights, interest, authorities and privileges and with such liabilities, duties and obligations as may be specified in the order.

17. **Corporate Veil:** Corporate Veil refers to a legal concept whereby the company is identified separately from the members of the company.

The term Corporate Veil refers to the concept that members of a company are shielded from liability connected to the company's actions. If the company incurs any

debts or contravenes any laws, the corporate veil concept implies that members should not be liable for those errors. In other words, they enjoy corporate insulation. Thus, the shareholders are protected from the acts of the company.

However, under certain exceptional circumstances the courts lift or pierce the corporate veil by ignoring the separate entity of the company and the promoters and other persons who have managed and controlled the affairs of the company. Thus, when the corporate veil is lifted by the courts, the promoters and persons exercising control over the affairs of the company are held personally liable for the acts and debts of the company.

The following are the cases where company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct and separate from its shareholders or members:

- (i) To determine the character of the company i.e. to find out whether co-enemy or friend.
- (ii) To protect revenue/tax
- (iii) To avoid a legal obligation
- (iv) Formation of subsidiaries to act as agents
- (v) Company formed for fraud/improper conduct or to defeat law

Based on the above provisions and leading case law of *Gilford Motor Co. Vs Horne*, the company PQR Limited was created to avoid the legal obligation arising out of the contract, therefore that employee Mr. Karan and the company PQR Limited created by him should be treated as one and thus veil between the company and that person shall be lifted. Karan has formed the only for fraud/improper conduct or to defeat the law. Hence, he shall be personally held liable for the acts of the company.



## NOVEMBER 2020

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1. 'X' entered into a contract with 'Y' to supply him 1,000 water bottles @ ` 5.00 per water bottle, to be delivered at a specified time. Thereafter, 'X' contracts with 'Z' for the purchase of 1,000 water bottles @ ` 4.50 per water bottle, and at the same time told 'Z' that he did so for the purpose of performing his contract entered into with 'Y'. 'Z' failed to perform his contract in due course and market price of each water bottle on that day was ` 5.25 per water bottle. Consequently, 'X' could not procure any water bottle and 'Y' rescinded the contract. Calculate the amount of damages which 'X' could claim from 'Z' in the circumstances? What would be your answer if 'Z' had not informed about the 'Y's contract? Explain with reference to the provisions of the Indian Contract Act, 187.
2. Mr. SHYAM owned a motor car. He approached Mr. VIKAS and offered to sell his motor car for ` 3,00,000. Mr. SHYAM told Mr. VIKAS that the motor car is running at the rate of 30 KMs per litre of petrol. Both the fuel meter and the speed meter and the speed meter of the car were working perfectly.  
  
Mr. VIKAS agreed with the proposal of Mr. SHYAM and took delivery of the car by paying ` 3,00,000/- to Mr. SHYAM. After 10 days, Mr. VIKAS came back with the car and stated that the claim made by Mr. SHYAM regarding fuel efficiency was not correct and therefore there was a case of misrepresentation. Referring to the provisions of the Indian Contract Act, 1872, decide and write whether Mr. VIKAS can rescind the contract in the above ground.
3. Define the term "Acceptance". Discuss the legal provisions relating to communication of acceptance.
4. "To form a valid contract, consideration must be adequate". Comment.
5. Explain the term 'Quasi Contracts' and state their characteristics.
6. J the owner of a Fiat car wants to sell his car. For this purpose he hand over the car to P, a mercantile agent for sale at a price not less than ` 50,000. The agent sells the car for ` 40,000 to A, who buys the car in good faith and without notice

of any fraud. P misappropriated the money also. J sues A to recover the Car. Decide given reasons whether J would succeed.

7. Suraj sold his car to Sohan for ₹ 75,000. After inspection and satisfaction, Sohan paid ₹ 25,000 and took possession of the car and promised to pay the remaining amount within a month. Later on, Sohan refuses to give the remaining amount on the ground that the car was not in a good condition. Advise Suraj as to what remedy is available to him against Sohan.
8. What are the consequences of “destruction of goods” under the Sale of Goods Act, 1930, where the goods have been destroyed after the agreement to sell but before the sale is affected.
9. Distinguish between a ‘Condition’ and a ‘Warranty’ in a contract of sale. When shall a ‘breach of condition’ be treated as ‘breach of warranty’ under the provisions of the Sale of Goods Act, 1930? Explain.
10. Explain the provisions of the Indian Partnership Act, 1932 relating to the creating of Partnership by holding out.
11. Master X was introduced to the benefits of partnership of M/s ABC & Co. with the consent of all partners. After attaining majority, more than six months elapsed and he failed to give a public notice as to whether he elected to become or not to become a partner in the firm. Later on, Mr. L, a supplier of material to M/s ABC & Co., filed a suit against M/s ABC & Co. for recovery of the debt due.  
In the light of the Indian Partnership Act, 1932, explain:
  - (i) To what extent X will be liable if he failed to give public notice after attaining majority?
  - (ii) Can Mr. L recover his debt from X?
12. What do you mean by Designated Partner? Whether it is mandatory to appoint Designated partner in a LLP?
13. Mr. Anil formed a One Person Company (OPC) on 16<sup>th</sup> April, 2018 for manufacturing electric cars. The turnover of the OPC for the financial year ended 31<sup>st</sup> March, 2019

was about ` 2.25 Crores. His friend Sunil wanted to invest in his OPC, so they decided to convert it voluntarily into a private limited company. Can Anil do so?

14. Explain clearly the doctrine of 'Indoor Management' as applicable in cases of companies registered under the Companies Act, 2013. Explain the circumstances in which an outsider dealing with the company cannot claim any relief on the ground of 'Indoor Management'.

## ANSWERS

1. **BREACH OF CONTRACT- DAMAGES:** Section 73 of the Indian Contract Act, 1872 lays down that when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract to be likely to result from the breach of it.

The leading case on this point is "Hadley v. Baxendale" in which it was decided by the Court that the special circumstances under which the contract was actually made were communicated by the plaintiff to the defendant, and thus known to both the parties to the contract, the damages resulting from the breach of such contract which they would reasonably contemplate, would be the amount of injury which would ordinarily follow from the breach of contract under these special circumstances so known and communicated.

The problem asked in this question is based on the provisions of Section 73 of the Indian Contract Act, 1872. In the instant case 'X' had intimated to 'Z' that he was purchasing water bottles from him for the purpose of performing his contract with 'Y'. Thus, 'Z' had the knowledge of the special circumstances. Therefore, 'X' is entitled to claim from 'Z' ` 500/- at the rate of 0.50 paise i.e. 1000 water bottles x 0.50 paise (difference between the procuring price of water bottles and contracted selling price to 'Y') being the amount of profit 'X' would have made by the performance of his contract with 'Y'.

If 'X' had not informed 'Z' of 'Y's contract, then the amount of damages would

have been the difference between the contract price and the market price on the day of default. In other words, the amount of damages would be ` 750/- (i.e. 1000 water bottles x 0.75 paise).

2. As per the provisions of Section 19 of the Indian Contract Act, 1872, when consent to an agreement is caused by coercion, fraud or misrepresentation, the agreement is a contract voidable at the option of the party whose consent was so caused.

A party to contract, whose consent was caused by fraud or misrepresentation, may, if he think fit, insist that the contract shall be performed, and that he shall be put in the position in which he would have been if the representations made had been true.

**Exception-** If such consent was caused by misrepresentation or by silence, fraudulent within the meaning of section 17, the contract, nevertheless, is not voidable if the party whose consent was so caused had the means of discovering the truth with ordinary diligence.

In the situation given in the question, both the fuel meter and the speed meter of the car were working perfectly, Mr. VIKAS had the means of discovering the truth with ordinary diligence. Therefore, the contract is not voidable. Hence, Mr. VIKAS cannot rescind the contract on the above ground.

3. According to Section 2(b), the term 'acceptance' is defined as follows:

"When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted, becomes a promise."

An acceptance in order to be valid must be absolute, unqualified, accepted according to the mode if any prescribed within the reasonable time and communicated to offeror. Acceptance can also be made by way of conduct.

The legal provisions relating to communication of acceptance are contained in Section 4.

The communication of an acceptance is complete:

- (a) as against the proposer, when it is put in a course of transmission to him, so as to be out of power of the acceptor;

*(b) as against the acceptor, when it comes to the knowledge of the proposer.*

*Section 3 of the Act prescribes, in general terms, two modes of communication, namely:*

*(1) by any act or*

*(2) by omission intending thereby communicate to the other or which has the effect of communicating it to the other.*

*The first method would include any conduct and words whether written or oral. Written words would include letters, telegrams, advertisements, etc. Oral words would include telephone messages. Any conduct would include positive acts or signs so that the other person understands what the person acting or making signs means to say or convey. Omission would exclude silence but include such conduct or forbearance on one's part that the other person takes it as his willingness or assent. These are not the only modes of communication of the intention of the parties. There are other means as well, e.g., if you as the owner, deliver the goods to me as the buyer thereof at a certain price, this transaction will be understood by everyone, as acceptance by act or conduct, unless there is an indication to the contrary.*

*The phrase appearing in Section 3 "which has the effect of communicating it", clearly refers to an act or omission or conduct which may be indirect but which results in communicating an acceptance or non-acceptance. However, a mere mental but unilateral act of assent in one's own mind does not tantamount to communication, since it cannot have the effect of communicating it to the other.*

- 4. The law provides that a contract should be supported by consideration. So long as consideration exists, the Courts are not concerned to its adequacy, provided it is of some value. The adequacy of the consideration is for the parties to consider at the time of making the agreement, not for the Court when it is sought to be enforced (**Bolton v. Modden**). Consideration must however, be something to which the law attaches value though it need not be equivalent in value to the promise made.*

*According to Explanation 2 to Section 25 of the Indian Contract Act, 1872, an agreement to which the consent of the promisor is freely given is not void merely because the consideration is inadequate but the inadequacy of the consideration may be taken into account by the Court in determining the question whether the consent of the promisor was freely given.*

*5. Quasi Contracts: Under certain special circumstances obligation resembling those created by a contract are imposed by law although the parties have never entered into a contract. Such obligations imposed by law are referred to as 'Quasi-contracts'. Such a contract resembles with a contract so far as result or effect is concerned but it has little or no affinity with a contract in respect of mode of creation. These contracts are based on the doctrine that a person shall not be allowed to enrich himself unjustly at the expense of another. The salient features of a quasi-contract are:*

- 1. It does not arise from any agreement of the parties concerned but is imposed by law.*
- 2. Duty and not promise is the basis of such contract.*
- 3. The right under it is always a right to money and generally though not always to a liquidated sum of money.*
- 4. Such a right is available against specific person(s) and not against the whole world.*
- 5. A suit for its breach may be filed in the same way as in case of a complete contract.*

*6. The problem in this case is based on the provisions of the Sale of Goods Act, 1930 contained in the proviso to Section 27. The proviso provides that a mercantile agent is one who in the customary course of his business, has, as such agent, authority either to sell goods, or to consign goods, for the purpose of sale, or to buy goods, or to raise money on the security of goods [Section 2(9)]. The buyer of goods from a mercantile agent, who has no authority from the principal to sell, gets a good title to the goods if the following conditions are satisfied:*

- (1) The agent should be in possession of the goods or documents of title to the*

*goods with the consent of the owner.*

- (2) The agent should sell the goods while acting in the ordinary course of business of a mercantile agent.*
- (3) The buyer should act in good faith.*
- (4) The buyer should not have at the time of the contract of sale notice that the agent has no authority to sell.*

*In the instant case, P, the agent, was in the possession of the car with J's consent for the purpose of sale. A, the buyer, therefore obtained a good title to the car. Hence, J in this case, cannot recover the car from A.*

*7. As per the section 55 of the Sale of Goods Act, 1930 an unpaid seller has a right to institute a suit for price against the buyer personally. The said Section lays down that*

- (i) Where under a contract of sale the property in the goods has passed to buyer and the buyer wrongfully neglects or refuses to pay for the goods, the seller may sue him for the price of the goods [Section 55(1)].*
- (ii) Where under a contract of sale the price is payable on a certain day irrespective of delivery and the buyer wrongfully neglects or refuses to pay such price, the seller may sue him for the price. It makes no difference even if the property in the goods has not passed and the goods have not been appropriated to the contract [Section 55(2)].*

*This problem is based on above provisions. Hence, Suraj will succeed against Sohan for recovery of the remaining amount. Apart from this, Suraj is also entitled to: -*

- (1) Interest on the remaining amount*
- (2) Interest during the pendency of the suit.*
- (3) Costs of the proceedings.*

*8. Destruction of Goods-Consequences:*

- (i) In accordance with the provisions of the Sale of Goods Act, 1930 as contained in Section 7, a contract for the sale of specific goods is void if at the time when the contract was made; the goods without the knowledge of the seller, perished or become so damaged as no longer to answer to their description in*

*the contract, then the contract is void ab initio. This section is based on the rule that where both the parties to a contract are under a mistake as to a matter of fact essential to a contract, the contract is void.*

*(ii) In a similar way Section 8 provides that an agreement to sell specific goods becomes void if subsequently the goods, without any fault on the part of the seller or buyer, perish or become so damaged as no longer to answer to their description in agreement before the risk passes to the buyer.*

*It may, however, be noted that section 7 & 8 apply only to specific goods and not to unascertained goods. If the agreement is to sell a certain quantity of unascertained goods, the perishing of even the whole quantity of such goods in the possession of the seller will not relieve him of his obligation to deliver the goods.*

#### **9. Difference between Condition and Warranty**

*(i) A condition is a stipulation essential to the main purpose of the contract whereas a warranty is a stipulation collateral to the main purpose of the contract.*

*(ii) Breach of condition gives rise to a right to treat the contract as repudiated whereas in case of breach of warranty, the aggrieved party can claim damage only.*

*(iii) Breach of condition may be treated as breach of warranty whereas a breach of warranty cannot be treated as breach of condition.*

*According to Section 13 of the Sale of Goods Act, 1930 a breach of condition may be treated as breach of warranty in following circumstances:*

*(i) Where a contract of sale is subject to any condition to be fulfilled by the seller, the buyer may waive the condition.*

*(ii) Where the buyer elects to treat the breach of condition as breach of a warranty.*

*(iii) Where the contract of sale is non-severable and the buyer has accepted the whole goods or any part thereof.*

*(iv) Where the fulfillment of any condition or warranty is excused by law by reason of impossibility or otherwise.*



10. *Partnership by holding out is also known as partnership by estoppel. Where a man holds himself out as a partner, or allows others to do it, he is then stopped from denying the character he has assumed and upon the faith of which creditors may be presumed to have acted.*

*A person may himself, by his words or conduct have induced others to believe that he is a partner or he may have allowed others to represent him as a partner. The result in both the cases is identical.*

**Example:** *X and Y are partners in a partnership firm. X introduced A, a manager, as his partner to Z. A remained silent. Z, a trader believing A as partner supplied 100 T.V sets to the firm on credit. After expiry of credit period, Z did not get amount of T.V sets sold to the partnership firm. Z filed a suit against X and A for the recovery of price. Here, in the given case, A, the Manager is also liable for the price because he becomes a partner by holding out (Section 28, Indian Partnership Act, 1932).*

*It is only the person to whom the representation has been made and who has acted thereon that has right to enforce liability arising out of 'holding out'.*

11. *As per the provisions of Section 30(5) of the Indian Partnership Act, 1932, at any time within six months of his attaining majority, or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later, such person may give public notice that he has elected to become or that he has elected not to become a partner in the firm, and such notice shall determine his position as regards the firm.*

*However, if he fails to give such notice, he shall become a partner in the firm on the expiry of the said six months.*

*If the minor becomes a partner by his failure to give the public notice within specified time, his rights and liabilities as given in Section 30(7) are as follows:*

*(A) He becomes personally liable to third parties for all acts of the firm done since he was admitted to the benefits of partnership.*

*(B) His share in the property and the profits of the firm remains the same to which he was entitled as a minor.*

(i) In the instant case, since, X has failed to give a public notice, he shall become a partner in the M/s ABC & Co. and becomes personally liable to Mr. L, a third party.

(ii) In the light of the provisions of Section 30(7) read with Section 30(5) of the Indian Partnership Act, 1932, since X has failed to give public notice that he has not elected to not to become a partner within six months, he will be deemed to be a partner after the period of the above six months and therefore, Mr. L can recover his debt from him also in the same way as he can recover from any other partner.

12. **Designated Partner [Section 2(j)]:** “Designated partner” means any partner designated as such pursuant to section 7.

According to section 7 of the LLP Act, 2008:

(i) Every LLP shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

(ii) If in LLP, all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such LLP or nominees of such bodies corporate shall act as designated partners.

(iii) Resident in India: For the purposes of this section, the term “resident in India” means a person who has stayed in India for a period of not less than 182 days during the immediately preceding one year.

13. As per the provisions of Sub-Rule (7) of Rule 3 of the Companies (Incorporation) Rules, 2014, an OPC cannot convert voluntarily into any kind of company unless two years have expired from the date of its incorporation, except threshold limit (paid up share capital) is increased beyond fifty lakh rupees or its average annual turnover during the relevant period exceeds two crore rupees.

In the instant case, Mr. Anil formed an OPC on 16th April, 2018 and its turnover for the financial year ended 31st March, 2019 was ` 2.25 Crores. Even though two years have not expired from the date of its incorporation, since its average annual turnover during the period starting from 16th April, 2018 to 31st March,

2019 has exceeded ` 2 Crores, Mr. Anil can convert the OPC into a private limited company along with Sunil.

14. **Doctrine of Indoor Management (the Companies Act, 2013):** According to the “doctrine of indoor management” the outsiders, dealing with the company though are supposed to have satisfied themselves regarding the competence of the company to enter into the proposed contracts are also entitled to assume that as far as the internal compliance to procedures and regulations by the company is concerned, everything has been done properly. They are bound to examine the registered documents of the company and ensure that the proposed dealing is not inconsistent therewith, but they are not bound to do more. They are fully entitled to presume regularity and compliance by the company with the internal procedures as required by the Memorandum and the Articles. This doctrine is a limitation of the doctrine of “constructive notice” and popularly known as the rule laid down in the case of **Royal British Bank v. Turquand**. Thus, the doctrine of indoor management aims to protect outsiders against the company.

The above mentioned doctrine of Indoor Management or Turquand Rule has limitations of its own. That is to say, it is inapplicable to the following cases, namely:

- (a) **Actual or constructive knowledge of irregularity:** The rule does not protect any person when the person dealing with the company has notice, whether actual or constructive, of the irregularity.
- (b) **Suspicion of Irregularity:** The doctrine in no way, rewards those who behave negligently. Where the person dealing with the company is put upon an inquiry, for example, where the transaction is unusual or not in the ordinary course of business, it is the duty of the outsider to make the necessary enquiry.
- (c) **Forgery:** The doctrine of indoor management applies only to irregularities which might otherwise affect a transaction but it cannot apply to forgery which must be regarded as nullity.

## MAY 2020

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1. Explain the type of contracts in the following agreements under the Indian Contract Act, 1872:
  - (i) A coolie in uniform picks up the luggage of A to be carried out of the railway station without being asked by A and A allows him to do so.
  - (ii) Obligation of finder of lost goods to return them to the true owner
  - (iii) A contracts with B (owner of the factory) for the supply of 10 tons of sugar, but before the supply is effected, the fire caught in the factory and everything was destroyed.
2. "Only a person who is party to a contract can sue on it". Explain this statement and describe its exceptions, if any.
3. Explain the circumstances in which the person is deemed to be in a position to dominate the will of the other person under the Indian Contract Act, 1872.
4. What is a wagering agreement? Describe the transactions which resembles with wagering transactions but are not void.
5. "The basic rule is that the promisor must perform exactly what he has promised to perform." Explain stating the obligation of parties to contracts.
6. What do you mean by Quantum Meruit and state the cases where the claim for Quantum Meruit arises?
7. Explain the meaning of 'Contingent Contracts' and state the rules relating to such contracts.
8. Explain the concept of 'misrepresentation' in matters of contract. Sohan induced Suraj to buy his motorcycle saying that it was in a very good condition. After taking the motorcycle, Suraj complained that there were many defects in the motorcycle. Sohan proposed to get it repaired and promised to pay 40% cost of repairs after a few days, the motorcycle did not work at all. Now Suraj wants to rescind the contract. Decide giving reasons whether Suraj can rescind the contract?

9. X, a minor was studying in M.Com. in a college. On 1<sup>st</sup> July, 2019 he took a loan of ` 1,00,000 from B for payment of his college fees and to purchase books and agreed to repay by 31<sup>st</sup> December, 2019. X possesses assets worth ` 9 lakhs. On due date, X fails to pay back the loan to B. B now wants to recover the loan from X out of his (X's) assets. Referring to the provisions of Indian Contract Act, 1872 decide whether B would succeed.
10. State briefly the essential element of a contract of sale under the Sale of Goods Act, 1930.
11. What is an Implied Warranty and state the various types of Implied Warranties.
12. "Nemo Dat Quod Non Habet" – "None can give or transfer goods what he does not himself own." Explain the rule and state the cases in which the rule does not apply under the provisions of the Sale of Goods Act, 1930.
13. What are the rights of buyer against the seller, if the seller commits a breach of contract under the Sale of Goods Act, 1930?
14. Mr. S agreed to purchase 100 bales of cotton from V, out of his large stock and sent his men to take delivery of the goods. They could pack only 60 bales. Later on, there was an accidental fire and the entire stock was destroyed including 60 bales that were already packed. Referring to the provisions of the Sale of Goods Act, 1930 explain as to who will bear the loss and to what extent?
15. Mr. Amit was shopping in a self-service Super market. He picked up a bottle of cold drink from a shelf. While he was examining the bottle, it exploded in his hand and injured him. He files a suit for damages against the owner of the market on the ground of breach of condition. Decide under the Sale of Goods Act, 1930, whether Mr. Amit would succeed in his claim?
16. Explain the following kinds of partnership under the Indian Partnership Act, 1932:
- (i) Partnership at will
  - (ii) Particular partnership

17. *“Partner indeed virtually embraces the character of both a principal and an agent”.* Describe the said statement keeping in view of the provisions of the Indian Partnership Act, 1932.
18. *What are the various grounds under the Indian Partnership Act, 1932, on which the Court may, at the suit of the partner, dissolve a firm?*
19. *A, B and C are partners in a firm. As per terms of the partnership deed, A is entitled to 20 percent of the partnership property and profits. A retires from the firm and dies after 15 days. B and C continue business of the firm without settling accounts. What are the rights of A’s legal representatives against the firm under the Indian Partnership Act, 1932?*
20. *What is the procedure for changing the name of Limited Liability Partnership (LLP) under the LLP Act, 2008?*
21. *Naveen incorporated a “One Person Company” making his sister Navita as the nominee. Navita is leaving India permanently due to her marriage abroad. Due to this fact, she is withdrawing her consent of nomination in the said One Person Company. Taking into consideration the provisions of the Companies Act, 2013 answer the questions given below.*
- (a) *If Navita is leaving India permanently, is it mandatory for her to withdraw her nomination in the said One Person Company?*
- (b) *If Navita maintained the status of Resident of India after her marriage, then can she continue her nomination in the said One Person Company?*
22. *Examine the following whether they are correct or incorrect along with reasons:*
- (a) *A company being an artificial person cannot own property and cannot sue or be sued.*
- (b) *A private limited company must have a minimum of two members, while a public limited company must have at least seven members.*
23. *Briefly explain the doctrine of “ultravires” under the Companies Act, 2013. What are the consequences of ultravires acts of the company?*

## **ANSWERS:**

1. (i) *It is an implied contract and A must pay for the services of the coolie.*

**Implied Contracts:** *Implied contracts come into existence by implication. Most often the implication is by law and or by action. Section 9 of the Indian Contract Act, 1872 contemplates such implied contracts when it lays down that in so far as such proposal or acceptance is made otherwise than in words, the promise is said to be implied.*

- (ii) *Obligation of finder of lost goods to return them to the true owner cannot be said to arise out of a contract even in its remotest sense, as there is neither offer and acceptance nor consent. These are said to be quasi-contracts.*

**Quasi-Contract:** *A quasi-contract is not an actual contract but it resembles a contract. It is created by law under certain circumstances. The law creates and enforces legal rights and obligations when no real contract exists. Such obligations are known as quasi-contracts. In other words, it is a contract in which there is no intention on part of either party to make a contract but law imposes a contract upon the parties.*

- (iii) *The above contract is a void contract.*

**Void Contract:** *Section 2 (j) of the Act states as follows: "A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable". Thus, a void contract is one which cannot be enforced by a court of law.*

2. *Though under the Indian Contract Act, 1872, the consideration for an agreement may proceed from a third party, the third party cannot sue on contract. Only a person who is party to a contract can sue on it.*

*Thus, the concept of stranger to consideration is valid and is different from stranger to a contract.*

*The aforesaid rule, that stranger to a contract cannot sue is known as a "doctrine of privity of contract", is however, subject to certain exceptions. In other words, even a stranger to a contract may enforce a claim in the following cases:*

- (1) *In the case of trust, a beneficiary can enforce his right under the trust, though*

he was not a party to the contract between the settler and the trustee.

(2) In the case of a family settlement, if the terms of the settlement are reduced into writing, the members of family who originally had not been parties to the settlement may enforce the agreement.

(3) In the case of certain marriage contracts, a female member can enforce a provision for marriage expenses made on the partition of the Hindu Undivided Family.

(4) In the case of assignment of a contract, when the benefit under a contract has been assigned, the assignee can enforce the contract.

(5) Acknowledgement or estoppel - where the promisor by his conduct acknowledges himself as an agent of the third party, it would result into a binding obligation towards third party.

(6) In the case of covenant running with the land, the person who purchases land with notice that the owner of land is bound by certain duties affecting land, the covenant affecting the land may be enforced by the successor of the seller.

(7) Contracts entered into through an agent: The principal can enforce the contracts entered by his agent where the agent has acted within the scope of his authority and in the name of the principal.

3. **Position to dominate the will:** A person is deemed to be in such position in the following circumstances:

(a) **Real and apparent authority:** Where a person holds a real authority over the other as in the case of master and servant, doctor and patient and etc.

(b) **Fiduciary relationship:** where relation of trust and confidence exists between the parties to a contract. Such type of relationship exists between father and son, solicitor and client, husband and wife, creditor and debtor, etc.

(c) **Mental distress:** An undue influence can be used against a person to get his consent on a contract where the mental capacity of the person is temporarily or permanently affected by the reason of mental or bodily distress, illness or of old age.



**(d) Unconscionable bargains:** Where one of the parties to a contract is in a position to dominate the will of the other and the contract is apparently unconscionable i.e., unfair, it is presumed by law that consent must have been obtained by undue influence. Unconscionable bargains are witnessed mostly in money-lending transactions and in gifts.

4. **Wagering agreement (Section 30 of the Indian Contract Act, 1872):** An agreement by way of a wager is void. It is an agreement involving payment of a sum of money upon the determination of an uncertain event. The essence of a wager is that each side should stand to win or lose, depending on the way an uncertain event takes place in reference to which the chance is taken and in the occurrence of which neither of the parties has legitimate interest.

For example, A agrees to pay ₹ 50,000 to B if it rains, and B promises to pay a like amount to A if it does not rain, the agreement will be by way of wager. But if one of the parties has control over the event, agreement is not a wager.

Transactions resembling with wagering transaction but are not void

- (i) Chit fund:** Chit fund does not come within the scope of wager (Section 30). In case of a chit fund, a certain number of persons decide to contribute a fixed sum for a specified period and at the end of a month, the amount so contributed is paid to the lucky winner of the lucky draw.
- (ii) Commercial transactions or share market transactions:** In these transactions in which delivery of goods or shares is intended to be given or taken, do not amount to wagers.
- (iii) Games of skill and Athletic Competition:** Crossword puzzles, picture competitions and athletic competitions where prizes are awarded on the basis of skill and intelligence are the games of skill and hence such competition are valid. According to the Prize Competition Act, 1955 prize competition in games of skill are not wagers provided the prize money does not exceed ₹ 1,000.
- (iv) A contract of insurance:** A contract of insurance is a type of contingent contract and is valid under law and these contracts are different from wagering agreements.

5. *Obligations of parties to contracts (Section 37 of the Indian Contract Act, 1872)*

*The parties to a contract must either perform, or offer to perform, their respective promises unless such performance is dispensed with or excused under the provisions of the Contract Act or of any other law.*

*Promises bind the representatives of the promisor in case of death of such promisor before performance, unless a contrary intention appears from the contract.*

*Example 1: A promises to deliver goods to B on a certain day on payment of ₹ 1,00,000. A dies before that day. A's representatives are bound to deliver the goods to B, and B is bound to pay ₹ 1,00,000 to A's representatives.*

**Example 2**

*A promises to paint a picture for B by a certain day, at a certain price. A dies before the day. The contract cannot be enforced either by A's representatives or by B because it involves use of personal skill.*

**Analysis of Section 37**

*A contract being an agreement enforceable by law, creates a legal obligation, which subsists until discharged. Performance of the promise or promises remaining to be performed is the principal and most usual mode of discharge.*

*The basic rule is that the promisor must perform exactly what he has promised to perform. The obligation to perform is absolute. Thus, it may be noted that it is necessary for a party who wants to enforce the promise made to him, to perform his promise for himself or offer to perform his promise. Only after that he can ask the other party to carry out his promise. This is the principle which is enshrined in Section 37. Thus, it is the primary duty of each party to a contract to either perform or offer to perform his promise. He is absolved from such a responsibility only when under a provision of law or an act of the other party to the contract, the performance can be dispensed with or excused.*

*Thus, from above it can be drawn that performance may be actual or offer to perform.*

6. **Quantum Meruit:** Where one person has rendered service to another in circumstances which indicate an understanding between them that it is to be paid for although no particular remuneration has been fixed, the law will infer a promise to pay. Quantum Meruit i.e. as much as the party doing the service has deserved. It covers a case where the party injured by the breach had at time of breach done part but not all of the work which he is bound to do under the contract and seeks to be compensated for the value of the work done. For the application of this doctrine, two conditions must be fulfilled:

(1) It is only available if the original contract has been discharged.

(2) The claim must be brought by a party not in default.

The object of allowing a claim on quantum meruit is to recompensate the party or person for value of work which he has done. Damages are compensatory in nature while quantum meruit is restitutory. It is but reasonable compensation awarded on implication of a contract to remunerate.

The claim for quantum meruit arises in the following cases:

(a) when an agreement is discovered to be void or when a contract becomes void.

(b) When something is done without any intention to do so gratuitously.

(c) Where there is an express or implied contract to render services but there is no agreement as to remuneration.

(d) When one party abandons or refuses to perform the contract.

(e) Where a contract is divisible and the party not in default has enjoyed the benefit of part performance.

(f) When an indivisible contract for a lump sum is completely performed but badly the person who has performed the contract can claim the lump sum, but the other party can make a deduction for bad work.

7. **Essential characteristics of a contingent contract:** A contract may be absolute or contingent. A contract is said to be absolute when the promisor undertakes to perform the contract in all events. A contingent contract, on the other hand "is a contract to do or not to do something, if some event, collateral to such contract does or does not happening (Section 31). It is a contract in which the performance

becomes due only upon the happening of some event which may or may not happen. For example, A contracts to pay B ` 10,000 if he is elected President of a particular association. This is a contingent contract. The essential characteristics of a contingent contract may be listed as follows:

- (i) There must be a contract to do or not to do something,
- (ii) The performance of the contract must depend upon the happening or non-happening of some event.
- (iii) The happening of the event is uncertain.
- (iv) The event on which the performance is made to depend upon is an event collateral to the contract i.e. it does not form part of the reciprocal promises which constitute the contract. The event should neither be a performance promised, nor the consideration for the promise.
- (v) The contingent event should not be the mere will of the promisor. However, where the event is within the promisor's will, but not merely his will, it may be a contingent contract.

The rules regarding the contingent contract are as follows:

- (1) Contingent contract dependent on the happening of an uncertain future cannot be enforced until the event has happened. If the event becomes impossible, such contracts become void. (Section 32).
- (2) Where a contingent contract is to be performed if a particular event does not happening performance can be enforced only when happening of that event becomes impossible (Section 33).
- (3) If a contract is contingent upon, how a person will act at an unspecified time, the event shall be considered to become impossible; when such person does anything which renders it impossible that he should so act within any definite time or otherwise than under further contingencies. (Section 34 and 35).
- (4) The contingent contracts to do or not to do anything if an impossible event happens, are void whether or not the fact is known to the parties (Section 36).

8. **Misrepresentation:** According to Section 18 of the Indian Contract Act, 1872, misrepresentation is:

1. When a person *positively* asserts that a fact is true when his information does not warrant it to be so, though he believes it to be true.
2. When there is any breach of duty by a person, which brings an advantage to the person committing it by misleading another to his prejudice.
3. When a party causes, however, innocently, the other party to the agreement to make a mistake as to the substance of the thing which is the subject of the agreement.

The aggrieved party, in case of misrepresentation by the other party, can avoid or rescind the contract [Section 19, Indian Contract Act, 1872]. The aggrieved party loses the right to rescind the contract if he, after becoming aware of the misrepresentation, takes a benefit under the contract or in some way affirms it.

Accordingly, in the given case Suraj could not rescind the contract, as his acceptance to the offer of Sohan to bear 40% of the cost of repairs impliedly amounts to final acceptance of the sale.

9. Yes, B can proceed against the assets of X. According to section 68 of Indian Contract Act, 1872, if a person, incapable of entering into a contract, or any one whom he is legally bound to support, is supplied by another person with necessaries suited to his condition in life, the person who has furnished such supplies is entitled to be reimbursed from the property of such incapable person.

Since the loan given to X is for the necessaries suited to the conditions in life of the minor, his assets can be sued to reimburse B.

#### 10. Essentials of Contract of Sale

The following elements must co-exist so as to constitute a contract of sale of goods under the Sale of Goods Act, 1930.

- (i) There must be at least two parties
- (ii) The subject matter of the contract must necessarily be goods
- (iii) A price in money (not in kind) should be paid or promised.
- (iv) A transfer of property in goods from seller to the buyer must take place.
- (v) A contract of sale must be absolute or conditional [section 4(2)].

*(vi) All other essential elements of a valid contract must be present in the contract of sale.*

**11. Implied Warranties:** *It is a warranty which the law implies into the contract of sale. In other words, it is the stipulation which has not been included in the contract of sale in express words. But the law presumes that the parties have incorporated it into their contract. It will be interesting to know that implied warranties are read into every contract of sale unless they are expressly excluded by the express agreement of the parties.*

*These may also be excluded by the course of dealings between the parties or by usage of trade (Section 62).*

*The examination of Sections 14 and 16 of the Sale of Goods Act, 1930 discloses the following implied warranties:*

- 1. Warranty as to undisturbed possession [Section 14(b)]:** *An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.*
- 2. Warranty as to non-existence of encumbrances [Section 14(c)]:** *An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.*
- 3. Warranty as to quality or fitness by usage of trade [Section 16(3)]:** *An implied warranty as to quality or fitness for a particular purpose may be annexed or attached by the usage of trade.*

*Regarding implied condition or warranty as to the quality or fitness for any particular purpose of goods supplied, the rule is 'let the buyer beware' i.e., the seller is under no duty to reveal unflattering truths about the goods sold, but this rule has certain exceptions.*

- 4. Disclosure of dangerous nature of goods:** *Where the goods are dangerous in nature and the buyer is ignorant of the danger, the seller must warn the buyer of the*

probable danger. If there is a breach of warranty, the seller may be liable in damages.

12. **Exceptions to the Rule “Nemo dat Quod Non Habet”:** The term means, “none can give or transfer goods what he does not himself own”. Exceptions to the rule and the cases in which the Rule does not apply under the provisions of the Sale of Goods Act, 1930 are enumerated below:

(i) **Effect of Estoppel (Section 27):** Where the owner is stopped by the conduct from denying the seller’s authority to sell, the transferee will get a good title as against the true owner. But before a good title by estoppel can be made, it must be shown that the true owner had actively suffered or held out the other person in question as the true owner or as a person authorized to sell the goods.

(ii) **Sale by a Mercantile Agent:** A sale made by a mercantile agent of the goods or document of title to goods would pass a good title to the buyer in the following circumstances, namely;

(a) if he was in possession of the goods or documents with the consent of the owner;

(b) if the sale was made by him when acting in the ordinary course of business as a mercantile agent; and

(c) if the buyer had acted in good faith and has at the time of the contract of sale, no notice of the fact that the seller had no authority to sell. (Proviso to Section 27).

(iii) **Sale by one of the joint owners:** If one of the several joint owners of goods has the sole possession of them with the permission of the others, the property in the goods may be transferred to any person who buys them from such a joint owner in good faith and does not at the time of the contract of sale have notice that the seller has no authority to sell. (Section 28)

(iv) **Sale by a person in possession under voidable contract:** A buyer would acquire a good title to the goods sold to him by seller who had obtained possession of the goods under a contract voidable on the ground of coercion, fraud, misrepresentation or undue influence provided that the contract had not been rescinded until the time of the sale (Section 29).

**(v) Sale by one who has already sold the goods but continues in possession thereof:**

*If a person has sold goods but continues to be in possession of them or of the documents of title to them, he may sell them to a third person, and if such person obtains the delivery thereof in good faith without notice of the previous sale, he would have good title to them, although the property in the goods had passed to the first buyer earlier. A pledge or other deposition of the goods or documents of title by the seller in possession are equally valid. [Section 30(1)]*

**(vi) Sale by buyer obtaining possession before the property in the goods has vested in him:**

*Where a buyer with the consent of seller obtains possession of the goods before the property in them has passed to him, he may sell, pledge or otherwise dispose of the goods to a third person, and if such person obtains delivery of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods, he would get a good title to them. [Section 30(2)]*

**(vii) Sale by an unpaid seller:**

*Where an unpaid seller who had exercised his right of lien or stoppage in transit resells the goods, the buyer acquires a good title to the goods as against the original buyer [Section 54(3)]*

**(viii) Sale under the provisions of other Acts:**

*(i) Sale by an official Receiver or liquidator of the company will give the purchaser a valid title.*

*(ii) Purchase of goods from a finder of goods will get a valid title under circumstances.*

*(iii) Sale by a pawnee under default of pawnor will give valid title to the purchaser.*

13. *If the seller commits a breach of contract, the buyer gets the following rights against the seller:*

1. **Damages for non-delivery [Section 57]:** *Where the seller wrongfully neglects or refuses to deliver the goods to the buyer, the buyer may sue the seller for damages for non-delivery.*

2. **Suit for specific performance (Section 58):** *Where the seller commits of breach of the contract of sale, the buyer can appeal to the court for specific*



performance. The court can order for specific performance only when the goods are ascertained or specific.

3. **Suit for breach of warranty (section 59):** Where there is breach of warranty on the part of the seller, or where the buyer elects to treat breach of condition as breach of warranty, the buyer is not entitled to reject the goods only on the basis of such breach of warranty. But he may –

(i) set up against the seller the breach of warranty in diminution or extinction of the price; or

(ii) sue the seller for damages for breach of warranty.

4. **Repudiation of contract before due date (Section 60):** Where either party to a contract of sale repudiates the contract before the date of delivery, the other may either treat the contract as subsisting and wait till the date of delivery, or he may treat the contract as rescinded and sue for damages for the breach.

5. **Suit for interest:** Nothing in this Act shall affect the right of the seller or the buyer to recover interest or special damages, in any case where by law interest or special damages may be recoverable, or to recover the money paid where the consideration for the payment of it has failed.

In the absence of a contract to the contrary, the court may award interest at such rate as it thinks fit on the amount of the price to the buyer in a suit by him for the refund of the price in a case of a breach of the contract on the part of the seller from the date on which the payment was made.

14. Section 26 of the Sale of Goods Act, 1930 provides that unless otherwise agreed, the goods remain at the seller's risk until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at buyer's risk whether delivery has been made or not. Further Section 18 read with Section 23 of the Act provide that in a contract for the sale of unascertained goods, no property in the goods is transferred to the buyer, unless and until the goods are ascertained and where there is contract for the sale of unascertained or future goods by description, and goods of that description and in a deliverable state are unconditionally appropriated to the contract, either by the seller with the assent of the buyer or by the buyer with the assent of the seller, the property in

*the goods thereupon passes to the buyer. Such assent may be express or implied. Applying the aforesaid law to the facts of the case in hand, it is clear that Mr. S has the right to select the good out of the bulk and he has sent his men for same purpose.*

*Hence the problem can be answered based on the following two assumptions and the answer will vary accordingly.*

**(i)** *Where the bales have been selected with the consent of the buyer's representatives:*

*In this case the 60 bales has been transferred to the buyer and goods have been appropriated to the contract. Thus, loss arising due to fire in case of 60 bales would be borne by Mr. S. As regards 40 bales, the loss would be borne by Mr. V, since the goods have not been identified and appropriated.*

**(ii)** *Where the bales have not been selected with the consent of buyer's representatives:*

*In this case, the goods has not been transferred at all and hence the loss of 100 bales would be borne by Mr. V completely.*

15. **Essentials of Sale:** *The problem as given in the question is based on Section 16(2) of the Sale of Goods Act, 1930, which states that where goods are bought by description from a seller who deals in goods of that description (whether he is the manufacturer or producer or not), there is an implied condition that the goods shall be of merchantable quality. Though the term 'merchantable quality' is not defined in the Act, it means that in the present case, the bottle must be properly sealed. In other words, if the goods are purchased for self-use, they should be reasonably fit for the purpose for which it is being used.*

*In the instant case, on an examination of the bottle of cold drink, it exploded and injured the buyer. Applying the provision of Section 16(2), Mr. Amit would succeed in claim for damages from the owner of the shop.*

16. (i) **Partnership at will:** According to Section 7 of the Indian Partnership Act, 1932, partnership at will is a partnership when:

1. no fixed period has been agreed upon for the duration of the partnership;  
and
2. there is no provision made as to the determination of the partnership.

These two conditions must be satisfied before a partnership can be regarded as a partnership at will. But, where there is an agreement between the partners either for the duration of the partnership or for the determination of the partnership, the partnership is not partnership at will.

Where a partnership entered into for a fixed term is continued after the expiry of such term, it is to be treated as having become a partnership at will.

A partnership at will may be dissolved by any partner by giving notice in writing to all the other partners of his intention to dissolve the same.

(ii) **Particular partnership:** A partnership may be organized for the prosecution of a single adventure as well as for the conduct of a continuous business. Where a person becomes a partner with another person in any particular adventure or undertaking the partnership is called 'particular partnership'.

A partnership, constituted for a single adventure or undertaking is, subject to any agreement, dissolved by the completion of the adventure or undertaking.

17. **"Partner indeed virtually embraces the character of both a principal and an agent":** Subject to the provisions of section 18 of the Indian Partnership Act, 1932, a partner is the agent of the firm for the purposes of the business of the firm.

A partnership is the relationship between the partners who have agreed to share the profits of the business carried on by all or any of them acting for all (Section 4). This definition suggests that any of the partners can be the agent of the others.

Section 18 clarifies this position by providing that, subject to the provisions of the Act, a partner is the agent of the firm for the purpose of the business of the firm. **The partner indeed virtually embraces the character of both a principal and an agent.** So far as he acts for himself and in his own interest in the common

concern of the partnership, he may properly be deemed as a principal and so far as he acts for his partners, he may properly be deemed as an agent.

The principal distinction between him and a mere agent is that he has a community of interest with other partners in the whole property and business and liabilities of partnership, whereas an agent as such has no interest in either.

The rule that a partner is the agent of the firm for the purpose of the business of the firm cannot be applied to all transactions and dealings between the partners themselves. It is applicable only to the act done by partners for the purpose of the business of the firm.

18. **DISSOLUTION BY THE COURT (Section 44 of the Indian Partnership Act, 1932):** Court may, at the suit of the partner, dissolve a firm on any of the following ground:

(a) **Insanity/unsound mind:** Where a partner (not a sleeping partner) has become of unsound mind, the court may dissolve the firm on a suit of the other partners or by the next friend of the insane partner. Temporary sickness is no ground for dissolution of firm.

(b) **Permanent incapacity:** When a partner, other than the partner suing, has become in any way permanently incapable of performing his duties as partner, then the court may dissolve the firm. Such permanent incapacity may result from physical disability or illness etc.

(c) **Misconduct:** Where a partner, other than the partner suing, is guilty of conduct which is likely to affect prejudicially the carrying on of business, the court may order for dissolution of the firm, by giving regard to the nature of business. It is not necessary that misconduct must relate to the conduct of the business. The important point is the adverse effect of misconduct on the business. In each case, nature of business will decide whether an act is misconduct or not.

(d) **Persistent breach of agreement:** Where a partner other than the partner suing, wilfully or persistently commits breach of agreements relating to the management of the affairs of the firm or the conduct of its business, or

*otherwise so conduct himself in matters relating to the business that it is not reasonably practicable for other partners to carry on the business in partnership with him, then the court may dissolve the firm at the instance of any of the partners. Following comes in to category of breach of contract:*

- ◆ *Embezzlement,*
- ◆ *Keeping erroneous accounts*
- ◆ *Holding more cash than allowed*
- ◆ *Refusal to show accounts despite repeated request etc.*

*(e) **Transfer of interest:** Where a partner other than the partner suing, has transferred the whole of his interest in the firm to a third party or has allowed his share to be charged or sold by the court, in the recovery of arrears of land revenue, the court may dissolve the firm at the instance of any other partner.*

*(f) **Continuous/Perpetual losses:** Where the business of the firm cannot be carried on except at a loss in future also, the court may order for its dissolution.*

*(g) **Just and equitable grounds:** Where the court considers any other ground to be just and equitable for the dissolution of the firm, it may dissolve a firm. The following are the cases for the just and equitable grounds-*

*(i) Deadlock in the management.*

*(ii) Where the partners are not in talking terms between them.*

*(iii) Loss of substratum.*

*(iv) Gambling by a partner on a stock exchange*

19. **Retirement / Death of Partner:** *Section 37 of the Indian Partnership Act, 1932 provides that where a partner dies or otherwise ceases to be a partner and there is no final settlement of account between the legal representatives of the deceased partner or the firms with the property of the firm, then, in the absence of a contract to the contrary, the legal representatives of the deceased partner or the retired partner are entitled to claim either.*

*(i) Such shares of the profits earned after the death or retirement of the partner which is attributable to the use of his share in the property of the firm; or*

*(ii) Interest at the rate of 6 per cent annum on the amount of his share in the property.*

*Based on the aforesaid provisions of Section 37 of the Indian Partnership Act, 1932, in the given problem, A shall be entitled, at his option to:*

*(i) the 20% shares of profits (as per the partnership deed); or*

*(ii) interest at the rate of 6 per cent per annum on the amount of A's share in the property.*

20. *Change of name of LLP (Section 17 of LLP Act, 2008):*

*(1) Notwithstanding anything contained in sections 15 and 16, where the Central Government is satisfied that a LLP has been registered (whether through inadvertence or otherwise and whether originally or by a change of name) under a name which –*

*(a) is a name referred to in sub-section (2) of section 15; or*

*(b) is identical with or too nearly resembles the name of any other LLP or body corporate or other name as to be likely to be mistaken for it,*

*the Central Government may direct such LLP to change its name, and the LLP shall comply with the said direction within 3 months after the date of the direction or such longer period as the Central Government may allow.*

*(2) (i) Any LLP which fails to comply with a direction given under sub-section (1) shall be punishable with fine which shall not be less than ` 10,000 but which may extend to ` 5 Lakhs.*

*(ii) The designated partner of such LLP shall be punishable with fine which shall not be less than ` 10,000 but which may extend to ` 1 Lakh.*

21. *◆ Only a natural person who is an Indian citizen whether resident in India or otherwise and has stayed in India for a period of not less than 120 days during the immediately preceding financial year*

- shall be eligible to incorporate a OPC;*
- shall be a nominee for the sale member of a OPC.*

22. *(a) A company being an artificial person cannot own property and cannot sue or be sued*

*Incorrect: A company is an artificial person as it is created by a process other than natural birth. It is legal or judicial as it is created by law. It is a person since it is clothed with all the rights of an individual.*

*Further, the company being a separate legal entity can own property, have banking account, raise loans, incur liabilities and enter into contracts. Even members can contract with company, acquire right against it or incur liability to it. It can sue and be sued in its own name. It can do everything which any natural person can do except be sent to jail, take an oath, marry or practice a learned profession. Hence, it is a legal person in its own sense.*

*(b) A private limited company must have a minimum of two members, while a public limited company must have at least seven members.*

*Correct: Section 3 of the Companies Act, 2013 deals with the basic requirement with respect to the constitution of the company. In the case of a public company, any 7 or more persons can form a company for any lawful purpose by subscribing their names to memorandum and complying with the requirements of this Act in respect of registration. In exactly the same way, 2 or more persons can form a private company.*

23. *Doctrine of ultra vires: The meaning of the term ultra vires is simply “beyond (their) powers”. The legal phrase “ultra vires” is applicable only to acts done in excess of the legal powers of the doers. This presupposes that the powers in their nature are limited.*

*It is a fundamental rule of Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent permitted by the Act, thus far and no further. In consequence, any act done or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company. On this account, a company can be restrained from employing its fund for purposes other than those sanctioned by the memorandum. Likewise, it can be restrained from carrying on a trade different from the one it is authorised to carry on.*

*The impact of the doctrine of ultra vires is that a company can neither be sued on an ultra vires transaction, nor can it sue on it. Since the memorandum is a "public document", it is open to public inspection. Therefore, when one deals with a company one is deemed to know about the powers of the company. If in spite of this you enter into a transaction which is ultra vires the company, you cannot enforce it against the company.*

*An act which is ultra vires the company being void, cannot be ratified by the shareholders of the company. Sometimes, act which is ultra vires can be regularised by ratifying it subsequently.*



## NOV 2019

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1. Define an offer. Explain the essentials of a valid offer. How an offer is different from an invitation to offer?
2. What do you understand by the term 'Consideration'? Are there any circumstances under which a contract, under the provisions of the Indian Contract Act, 1872, without consideration is valid? Explain.
3. A sends an offer to B to sell his second-car for ` 1,40,000 with a condition that if B does not reply within a week, he (A) shall treat the offer as accepted. Is a correct in his proposition? What shall be the position if B communicates his acceptance after one week?
4. X, Y and Z jointly borrowed ` 50,000 from A. The whole amount was repaid to A by Y. Decide in the light of the Indian Contract Act, 1872 whether:
  - (i) Y can recover the contribution from X and Z,
  - (ii) Legal representatives of X are liable in case of death of X,
  - (iii) Y can recover the contribution from the assets, in case Z becomes insolvent.
5. A student was induced by his teacher to sell his brand new car to the later at less than the purchase price to secure more marks in the examination. Accordingly, the car was sold. However, the father of the student persuaded him to sue his teacher. State whether the student can sue the teacher?
6. Explain the meaning of 'Quasi-Contracts'. State the circumstances which are identified as quasi contracts by the Indian Contract Act, 1872.
7. What is the law relating to determination of compensation, on breach of contract, contained in section 73 of the Indian Contract Act, 1872?
8. Classify the following transactions according to the types of goods they are:
  - (i) A wholesaler of cotton has 100 bales in his godown. He agrees to sell 50 bales and these bales were selected and set aside.
  - (ii) A agrees to sell to B one packet of salt out of the lot of one hundred packets lying in his shop.

(iii) *T agrees to sell to S all the oranges which will be produced in his garden this year.*

9. *Suraj sold his car to Sohan for ` 75,000. After inspection and satisfaction, Sohan paid ` 25,000 and took possession of the car and promised to pay the remaining amount within a month. Later on Sohan refuses to give the remaining amount of the ground that the car was not in a good condition. Advise Suraj as to what remedy is available to him against Sohan.*
10. *J the owner of a car wants to sell his car. For this purpose, he hand over the car to P, a mercantile agent for sale at a price not less than ` 50,000. The agent sells the car for ` 40,000 to A, who buys the car in good faith and without notice of any fraud. P misappropriated the money also. J sues A to recover the Car. Decide given reasons whether J would succeed.*
11. *What are the implied conditions in a contract of 'Sale by sample' under the Sale of Goods Act, 1930? State also the implied warranties operatives under the said Act.*
12. *State the legal consequences of the following as per the provisions of the Indian Partnership Act, 1932:*
  - (i) *Retirement of a partner*
  - (ii) *Insolvency of a partner*
13. *X and Y are partners in a partnership firm. X introduced A, a manager, as his partner to Z. A remained silent. Z, a trader believing A as partner supplied 100 T.V sets to the firm on credit. After expiry of credit period, Z did not get amount of T.V sets sold to the partnership firm. Z filed a suit against X and A for the recovery of price. Advice Z whether he can recover the amount from X and A under the Indian Partnership Act, 1932.*
14. *When does dissolution of a partnership firm take place under the provisions of the Indian Partnership Act, 1932? Explain.*
15. *Who are the individuals which shall not be capable of becoming a partner of a Limited Liability Partnership?*

16. *What are the effects of registration of LLP?*
17. *Some of the creditors of Pharmaceutical Appliances Ltd. have complained that the company was formed by the promoters only to defraud the creditors and circumvent the compliance of legal provisions of the Companies Act, 2013. In this context they seek your advice as to the meaning of corporate veil and when the promoters can be made personally liable for the debts of the company.*
18. *Explain clearly the doctrine of 'Indoor Management' as applicable in cases of companies registered under the Companies Act, 1956. Explain the circumstances in which an outsider dealing with the company cannot claim any relief on the ground of 'Indoor Management'.*

**ANSWERS:**

1. **Definition:** *The word Proposal and offer are used interchangeably and it is defined under Section 2(a) of the Indian Contract Act, 1872 as when one person signifies to another his willingness to do or to abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal.*

**Essentials:** *The following are important essentials of an offer: -*

- ◆ *Must be capable of creating legal relation.*
- ◆ *Must be certain, definite and not vague.*
- ◆ *Must be communicated.*
- ◆ *Must be made with a view to obtaining the assent of the other party*
- ◆ *May be conditional*
- ◆ *Offer should not contain a term the non compliance of which would amount to acceptance*
- ◆ *May be general or specific*
- ◆ *May be expressed or implied*
- ◆ *A statement of price is not an offer*

**Offer and an Invitation to an offer:** *In terms of Section 2(a) of the Act, an offer is the final expression of willingness by the offeror to be bound by the offer should*

*the other party chooses to accept it. On the other hand, offers made with the intention to negotiate or offers to receive offers are known as invitation to offer. Thus, where a party without expressing his final willingness proposes certain terms on which he is willing to negotiate he does not make an offer, but only invites the other party to make an offer on those terms. Hence, the only thing that is required is the willingness of the offeree to abide by the terms of offer.*

**2. Meaning of consideration:** *The expression 'consideration' in general means price paid for an obligation. According to Section 2 (d) of the Indian Contract Act, 1872 when at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing or promises to do or abstain from doing something, such an act or abstinence or promise is called consideration for the promise. Thus, on analyzing the above definition, the following ingredients are essential in understanding the meaning of the term consideration:-*

*(i) An act i.e. doing something*

*(ii) An abstinence or forbearance i.e. abstaining or refraining from doing something, and*

*(iii) A return promise*

*The general rule is that an agreement made without consideration is void. Sections 25 of the Indian Contract Act, 1872, provides for exceptions to this rule where an agreement without consideration is valid. These are:*

*(1) Natural Love & Affection [Section 25 (1)]*

*Where an agreement is expressed in writing and registered under the law for the time being in force for the registration of documents and is made on account of natural love and affection between the parties standing in near relation to each other, the agreement is enforceable, even though, the consideration is absent.*

*(2) Compensation for past voluntary service [Section 25 (2)]*

*A promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor, is enforceable even without consideration.*

(3) *Promise to pay time barred Debt [Section 25 (3)]*

*The agreement is valid provided it is made in writing and is signed by the debtor or by his agent authorized in that behalf.*

(4) *Completed Gift – [Explanation 1 to Section 25]*

*As per explanation 1 to section 25, nothing in section 25 shall affect the validity as between donor and donee, on any gift actually made. Thus, gifts do not require any consideration.*

(5) *Agency (Section 185)*

*No consideration is necessary to create an agency.*

(6) *Bailment (Section 148)*

*No consideration is required to effect the contract of bailment.*

(7) *Charity*

*If a promise undertakes the liability on the promise of the person to contribute to charity, there the contract shall be valid.*

3. *Acceptance to an offer cannot be implied merely from the silence of the offeree, even if it is expressly stated in the offer itself. Unless the offeree has by his previous conduct indicated that his silence amount to acceptance, it cannot be taken as valid acceptance. So in the given problem, if B remains silent, it does not amount to acceptance.*

*The acceptance must be made within the time limit prescribed by the offer. The acceptance of an offer after the time prescribed by the offeror has elapsed will not avail to turn the offer into a contract.*

4. *Section 42 of the Indian Contract Act, 1872 requires that when two or more persons have made a joint promise, then, unless a contrary intention appears from the contract, all such persons jointly must fulfill the promise. In the event of the death of any of them, his representative jointly with the survivors and in case of the death of all promisors, the representatives of all jointly must fulfill the promise.*

*Section 43 allows the promisee to seek performance from any of the joint promisors.*

*The liability of the joint promisors has thus been made not only joint but "joint and several". Section 43 provides that in the absence of express agreement to the contrary, the promisee may compel any one or more of the joint promisors to perform the whole of the promise.*

*Section 43 deals with the contribution among joint promisors. The promisors, may compel every joint promisor to contribute equally to the performance of the promise (unless a contrary intention appears from the contract). If any one of the joint promisors makes default in such contribution the remaining joint promisors must bear the loss arising from such default in equal shares.*

*As per the provisions of above sections,*

- (i) Y can recover the contribution from X and Z because X, Y and Z are joint promisors.*
- (ii) Legal representative of X are liable to pay the contribution to Y. However, a legal representative is liable only to the extent of property of the deceased received by him.*
- (iii) Y also can recover the contribution from Z's assets.*

*5. Yes, A can sue his teacher on the ground of undue influence under the provisions of Indian Contract Act, 1872.*

*According to section 16 of the Indian Contract Act, 1872, "A contract is said to be induced by 'undue influence' where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and he uses that position to obtain an unfair advantage over the other".*

*A person is deemed to be in position to dominate the will of another:*

- (a) Where he holds a real or apparent authority over the other; or*
- (b) Where he stands in a fiduciary relationship to the other; or*
- (c) Where he makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness or mental or bodily distress for example, an old illiterate person.*

*A contract brought as a result of coercion, undue influence, fraud or misrepresentation would be voidable at the option of the person whose consent was caused.*

6. **Quasi-Contracts:** *Even in the absence of a contract, certain social relationships give rise to certain specific obligations to be performed by certain persons. These are known as “quasi-contracts” as they create some obligations as in the case of regular contracts. Quasi-contracts are based on the principles of equity, justice and good conscience.*

*The salient features of quasi-contracts are:*

- (i) such a right is always a right to money and generally, though not always, to a liquidated sum of money;*
- (ii) does not arise from any agreement between the parties concerned but the obligation is imposed by law and;*
- (iii) the rights available are not against all the world but against a particular person or persons only, so in this respect it resembles to a contractual right.*

*Circumstances Identified as Quasi-Contracts:*

- 1. Claim for necessities supplied to persons incapable of contracting:** *Any person supplying necessities of life to persons who are incapable of contracting is entitled to claim the price from the other person's property. Similarly, where money is paid to such persons for purchase of necessities, reimbursement can be claimed.*
- 2. Payment by an interested person:** *A person who has paid a sum of money which another person is obliged to pay, is entitled to be reimbursed by that other person provided that the payment has been made by him to protect his own interest.*
- 3. Obligation of person enjoying benefits of non-gratuitous act:** *Where a person lawfully does anything for another person, or delivers anything to him not intending to do so gratuitously and such other person enjoys the benefit thereof, the latter is bound to pay compensation to the former in respect of, or to restore, the thing so done or delivered.*
- 4. Responsibility of finder of goods:** *A person who finds goods belonging to another person and takes them into his custody is subject to same responsibility as if he were a bailee.*

**5. Liability for money paid or thing delivered by mistake or by coercion :**

*A person to whom money has been paid or anything delivered by mistake or under coercion, must repay or return it.*

*In all the above cases contractual liability arises without any agreement between the parties.*

**7. Compensation on Breach of Contract:** *Section 73 of the Indian Contract Act, 1872 provides that when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract, compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract, to be likely to result from the breach of it. Such compensation is not given for any remote and indirect loss or damage sustained by reason of the breach. The explanation to the section further provides that in estimating the loss or damage from a breach of contract, the means which existed of remedying the inconvenience caused by the non-performance of the contract must be taken into account.*

**8. (i)** *A wholesaler of cotton has 100 bales in his godown. He agrees to sell 50 bales and these bales were selected and set aside. On selection the goods becomes ascertained. In this case, the contract is for the sale of ascertained goods, as the cotton bales to be sold are identified and agreed after the formation of the contract.*

*(ii) If A agrees to sell to B one packet of salt out of the lot of one hundred packets lying in his shop, it is a sale of unascertained goods because it is not known which packet is to be delivered.*

*(iii) T agrees to sell to S all the oranges which will be produced in his garden this year. It is contract of sale of future goods, amounting to 'an agreement to sell.'*

**9.** *As per the section 55 of the Sale of Goods Act, 1930 an unpaid seller has a right to institute a suit for price against the buyer personally. The said Section lays down that*



(i) Where under a contract of sale the property in the goods has passed to buyer and the buyer wrongfully neglects or refuses to pay for the goods, the seller may sue him for the price of the goods [Section 55(1)].

(ii) Where under a contract of sale the price is payable on a certain day irrespective of delivery and the buyer wrongfully neglects or refuses to pay such price, the seller may sue him for the price. It makes no difference even if the property in the goods has not passed and the goods have not been appropriated to the contract [Section 55(2)].

This problem is based on above provisions. Hence, Suraj will succeed against Sohan for recovery of the remaining amount. Apart from this Suraj is also entitled to:-

- (1) Interest on the remaining amount
- (2) Interest during the pendency of the suit.
- (3) Costs of the proceedings.

10. The problem in this case is based on the provisions of the Sale of Goods Act, 1930 contained in the proviso to Section 27. The proviso provides that a mercantile agent is one who in the customary course of his business, has, as such agent, authority either to sell goods, or to consign goods, for the purpose of sale, or to buy goods, or to raise money on the security of goods [Section 2(9)]. The buyer of goods from a mercantile agent, who has no authority from the principal to sell, gets a good title to the goods if the following conditions are satisfied:

- (1) The agent should be in possession of the goods or documents of title to the goods with the consent of the owner.
- (2) The agent should sell the goods while acting in the ordinary course of business of a mercantile agent.
- (3) The buyer should act in good faith.
- (4) The buyer should not have at the time of the contract of sale notice that the agent has no authority to sell.

In the instant case, P, the agent, was in the possession of the car with J's consent for the purpose of sale. A, the buyer, therefore obtained a good title to the car. Hence, J in this case, cannot recover the car from A.

11. *The following are implied conditions in a contract of sale by sample in accordance with Section 17 of the Sale of Goods Act, 1930;*

*(a) that the bulk shall correspond with the sample in quality;*

*(b) that the buyer shall have a reasonable opportunity of comparing the bulk with the sample.*

*(c) that the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on a reasonable examination of the sample [Section 17(2)].*

*Implied Warrants:*

- 1. Warranty of quiet possession [Section 14(b)]: In a contract of sale, unless there is a contrary intention, there is an implied warranty that the buyer shall have and enjoy quiet possession of the goods. If the buyer is in any way distributed in the enjoyment of the goods in consequence of the seller's defective title to sell, he can claim damages from the seller.*
- 2. Warranty as to non-existence of encumbrances [Section 14(c)]: The buyer is entitled to a further warranty that the goods are not subject to any charge or encumbrance in favour of a third party. If his possession is in any way disturbed by reason of the existence of any charge or encumbrances on the goods in favour of any third party, he shall have a right to claim damages for breach of this warranty.*
- 3. Warranty as to quality or fitness by usage of trade [Section 16(3)]. An implied warranty as to quality or fitness for a particular purpose may be annexed by the usage of trade*
- 4. Warranty to disclose dangerous nature of goods: Where a person sells goods, knowing that the goods are inherently dangerous or they are likely to be dangerous to the buyer and that the buyer is ignorant of the danger, he must warn the buyer of the probable danger, otherwise he will be liable in damages.*

## 12. RETIREMENT OF A PARTNER (SECTION 32):

- (1) A partner may retire:
    - (a) with the consent of all the other partners;
    - (b) in accordance with an express agreement by the partners; or
    - (c) where the partnership is at will, by giving notice in writing to all the other partners of his intention to retire.
  - (2) A retiring partner may be discharged from any liability to any third party for acts of the firm done before his retirement by an agreement made by him with such third party and the partners of the reconstituted firm, and such agreement may be implied by a course of dealing between the third party and the reconstituted firm after he had knowledge of the retirement.
  - (3) Notwithstanding the retirement of a partner from a firm, he and the partners continue to be liable as partners to third parties for any act done by any of them which would have been an act of the firm if done before the retirement, until public notice is given of the retirement:

Provided that a retired partner is not liable to any third party who deals with the firm without knowing that he was a partner.
  - (4) Notices under sub-section (3) may be given by the retired partner or by any partner of the reconstituted firm.
- (ii) Insolvency of a partner (Section 34)
- (1) The insolvent partner cannot be continued as a partner.
  - (2) He will be ceased to be a partner from the very date on which the order of adjudication is made.
  - (3) The estate of the insolvent partner is not liable for the acts of the firm done after the date of order of adjudication.
  - (4) The firm is also not liable for any act of the insolvent partner after the date of the order of adjudication,
  - (5) Ordinarily but not invariably, the insolvency of a partner results in dissolution of a firm; but the partners are competent to agree among themselves that the adjudication of a partner as an insolvent will not give rise to dissolution of the firm

13. *In the given case, along with X, the Manager (A) is also liable for the price because he becomes a partner by holding out (Section 28, Indian Partnership Act, 1932).*
- Partner by holding out (Section 28):** *Partnership by holding out is also known as partnership by estoppel. Where a man holds himself out as a partner, or allows others to do it, he is then stopped from denying the character he has assumed and upon the faith of which creditors may be presumed to have acted. It is only the person to whom the representation has been made and who has acted thereon that has right to enforce liability arising out of 'holding out'. You must also note that for the purpose of fixing liability on a person who has, by representation, led another to act, it is not necessary to show that he was actuated by a fraudulent intention. The rule given in Section 28 is also applicable to a former partner who has retired from the firm without giving proper public notice of his retirement. In such cases, a person who, even subsequent to the retirement, give credit to the firm on the belief that he was a partner, will be entitled to hold him liable.*
14. **Dissolution of Firm:** *The Dissolution of Firm means the discontinuation of the jural relation existing between all the partners of the Firm. But when only one of the partners retires or becomes incapacitated from acting as a partner due to death, insolvency or insanity, the partnership, i.e., the relationship between such a partner and other is dissolved, but the rest may decide to continue. In such cases, there is in practice, no dissolution of the firm. The particular partner goes out, but the remaining partners carry on the business of the Firm. In the case of dissolution of the firm, on the other hand, the whole firm is dissolved. The partnership terminates as between each and every partner of the firm.*
- Dissolution of a Firm may take place (Section 39 - 44)*
- (a) as a result of any agreement between all the partners (i.e., dissolution by agreement);*
  - (b) by the adjudication of all the partners, or of all the partners but one, as insolvent (i.e., compulsory dissolution);*
  - (c) by the business of the Firm becoming unlawful (i.e., compulsory dissolution);*

- (d) *subject to agreement between the parties, on the happening of certain contingencies, such as: (i) effluence of time; (ii) completion of the venture for which it was entered into; (iii) death of a partner; (iv) insolvency of a partner.*
- (e) *by a partner giving notice of his intention to dissolve the firm, in case of partnership at will and the firm being dissolved as from the date mentioned in the notice, or if no date is mentioned, as from the date of the communication of the notice; and*
- (f) *by intervention of court in case of: (i) a partner becoming the unsound mind; (ii) permanent incapacity of a partner to perform his duties as such; (iii) Misconduct of a partner affecting the business; (iv) willful or persistent breaches of agreement by a partner; (v) transfer or sale of the whole interest of a partner; (vi) improbability of the business being carried on save at a loss; (vii) the court being satisfied on other equitable grounds that the firm should be dissolved.*

15. **Partners (Section 5 of Limited Liability Partnership Act, 2008):** *Any individual or body corporate may be a partner in a LLP.*

*However, an individual shall not be capable of becoming a partner of a LLP, if—*

- (a) *he has been found to be of unsound mind by a Court of competent jurisdiction and the finding is in force;*
- (b) *he is an undischarged insolvent; or*
- (c) *he has applied to be adjudicated as an insolvent and his application is pending.*

16. **Effect of registration (Section 14 of Limited Liability Partnership Act, 2008):** *On registration, a LLP shall, by its name, be capable of—*

- (a) *suing and being sued;*
- (b) *acquiring, owning, holding and developing or disposing of property, whether movable or immovable, tangible or intangible;*
- (c) *having a common seal, if it decides to have one; and*
- (d) *doing and suffering such other acts and things as bodies corporate may lawfully do and suffer.*

17. **Corporate Veil:** Corporate Veil refers to a legal concept whereby the company is identified separately from the members of the company.

The term Corporate Veil refers to the concept that members of a company are shielded from liability connected to the company's actions. If the company incurs any debts or contravenes any laws, the corporate veil concept implies that members should not be liable for those errors. In other words, they enjoy corporate insulation. Thus, the shareholders are protected from the acts of the company.

However, under certain exceptional circumstances the courts lift or pierce the corporate veil by ignoring the separate entity of the company and the promoters and other persons who have managed and controlled the affairs of the company. Thus, when the corporate veil is lifted by the courts, the promoters and persons exercising control over the affairs of the company are held personally liable for the acts and debts of the company.

The following are the cases where company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct and separate from its shareholders or members:

- (i) To determine the character of the company i.e. to find out whether co-enemy or friend
- (ii) To protect revenue/tax
- (iii) To avoid a legal obligation
- (iv) Formation of subsidiaries to act as agents
- (v) Company formed for fraud/improper conduct or to defeat law

18. **Doctrine of Indoor Management (Companies Act, 2013):** According to the “doctrine of indoor management” the outsiders, dealing with the company though are supposed to have satisfied themselves regarding the competence of the company to enter into the proposed contracts are also entitled to assume that as far as the internal compliance to procedures and regulations by the company is concerned, everything has been done properly. They are bound to examine the registered documents of the company and ensure that the proposed dealing is not inconsistent therewith, but they are not bound to do more. They are fully entitled to presume regularity and compliance by the company with the internal procedures as required by the Memorandum and the Articles. This doctrine is a limitation of the doctrine of

*“constructive notice” and popularly known as the rule laid down in the celebrated case of Royal British Bank v. Turquand. Thus, the doctrine of indoor management aims to protect outsiders against the company.*

*The above mentioned doctrine of Indoor Management or Turquand Rule has limitations of its own. That is to say, it is inapplicable to the following cases, namely:*

*(a) Actual or constructive knowledge of irregularity: The rule does not protect any person when the person dealing with the company has notice, whether actual or constructive, of the irregularity.*

*In Howard vs. Patent Ivory Manufacturing Co. where the directors could not defend the issue of debentures to themselves because they should have known that the extent to which they were lending money to the company required the assent of the general meeting which they had not obtained.*

*Likewise, in Morris v Kanssen, a director could not defend an allotment of shares to him as he participated in the meeting, which made the allotment. His appointment as a director also fell through because none of the directors appointed him was validly in office.*

*(b) Suspicion of Irregularity: The doctrine in no way, rewards those who behave negligently. Where the person dealing with the company is put upon an inquiry, for example, where the transaction is unusual or not in the ordinary course of business, it is the duty of the outsider to make the necessary enquiry.*

*The protection of the “Turquand Rule” is also not available where the circumstances surrounding the contract are suspicious and therefore invite inquiry. Suspicion should arise, for example, from the fact that an officer is purporting to act in matter, which is apparently outside the scope of his authority. Where, for example, as in the case of Anand Bihari Lal vs. Dinshaw & Co. the plaintiff accepted a transfer of a company’s property from its accountant, the transfer was held void. The plaintiff could not have supposed, in absence of a power of attorney that the accountant had authority to effect transfer of the company’s property.*

Similarly, in the case of *Haughton & Co. v. Nothard, Lowe & Wills Ltd.* where a person holding directorship in two companies agreed to apply the money of one company in payment of the debt to other, the court said that it was something so unusual “that the plaintiff were put upon inquiry to ascertain whether the persons making the contract had any authority in fact to make it.” Any other rule would “place limited companies without any sufficient reasons for so doing, at the mercy of any servant or agent who should purport to contract on their behalf.”

- (c) **Forgery:** The doctrine of indoor management applies only to irregularities which might otherwise affect a transaction but it cannot apply to forgery which must be regarded as nullity.

Forgery may in circumstances exclude the ‘Turquand Rule’. The only clear illustration is found in the *Ruben v Great Fingall Consolidated*. In this case the plaintiff was the transferee of a share certificate issued under the seal of the defendant’s company. The company’s secretary, who had affixed the seal of the company and forged the signature of the two directors, issued the certificate. The plaintiff contended that whether the signature were genuine or forged was a part of the internal management, and therefore, the company should be estopped from denying genuineness of the document. But it was held, that the rule has never been extended to cover such a complete forgery.