



The Institute of Chartered Accountants of India

Code: FD2BL686161
Subject : 02 Business Laws

Total Marks: 100
Marks Obtained : 70

GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
FOUNDATION Examination

Group No. 1 Paper No. 2
Subject BUSINESS LAWS
Number of Answer Books used : Main + 4 additional sheets
Date Seal 18 SEP 2025

For use by ICAI only

686161

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
SEAL
SEPTEMBER 2025

Paper Code
J
L
X
1

MCQ Booklet Serial No. 1

Paper No. 1

Level of Exam → FOUNDATION Intermediate (1) Final (2)

MCQ Answers

1	A B C D	11	A B C D	21	A B C D
2	A B C D	12	A B C D	22	A B C D
3	A B C D	13	A B C D	23	A B C D
4	A B C D	14	A B C D	24	A B C D
5	A B C D	15	A B C D	25	A B C D
6	A B C D	16	A B C D	26	A B C D
7	A B C D	17	A B C D	27	A B C D
8	A B C D	18	A B C D	28	A B C D
9	A B C D	19	A B C D	29	A B C D
10	A B C D	20	A B C D	30	A B C D



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should be distinctly written in the margin.

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INSTRUCTIONS TO THE CANDIDATE FOR FILLING THE MCQ ANSWER FIELDS

to Darken the appropriate Circle.

the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.

candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.

darken the complete circle.

want to change your Answer, erase the all darkened circle completely and make a fresh mark.

do NOT make any stray marks on the OMR cover page.

Rough work must NOT be done on the OMR cover page.

7. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers

CORRECT METHOD: (A) ● (C) (D) ✗

WRONG METHOD: ✗ ✗ ✗ ✗

Q. No.	To be ticked ☒ by the candidate against the Questions answered (Descriptive Type)			
1	☒	8	☐	
2	☒	9	☐	
3	☒	10	☐	
4	☒	11	☐	
5	☒	12	☐	
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Total		Total		



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ICAI

03



Question 2(a)

(1) PROVISION

As per the relevant provision under The Sales of Goods Act 1930, an agreement to sell converts into a sale when time lapses or upon fulfillment of certain condition.



The property of goods does not pass until the condition has been fulfilled and buyer has notice thereof.

As per [Section 8] of The Act, when the subject matter of the contract of sale is destroyed after agreement to sell but before sale, without the fault of either party, the contract becomes void due to supervening or subsequent impossibility.

2aiStep1



2

Both the parties are discharged from their obligations as the contract has become void. Seller cannot claim any price.

In The instant case,



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X offered to sell a machine to Y for ₹ 5,00,000. It was decided that machine was to be put into a running condition. During repair, it was destroyed without the fault of either person.

ANALYSIS AND CONCLUSION

It ~~is~~ was a contract of specific goods to be put into a deliverable state, the property of the machine did not pass to Y because the repairs were still incomplete.

2aiStep2



1

The contract became void due to the destruction of goods before sale. It is a case of supervening impossibility.

Therefore, X cannot recover the price from Y.

2ai



3



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(ii) PROVISION

As per The Section 16 of The Sales of Goods Act 1930, the seller is not liable for buyer's bad selection. This is the rule of Caveat Emptor which means 'Let The Buyer Beware'

It is the buyer's duty to make sure that the goods would be fit for his purpose. Seller is not bound to disclose faults in the goods until asked.

However, this rule has one exception i.e. seller needs to provide goods of reasonable quality when:-

- (a) The buyer makes known to the seller his purpose of purchasing the goods
- (b) The buyer relies on the skill and judgement of the seller
- (c) Seller ordinarily deals in goods of that description

2aiiStep1



1.5

In the instant case,



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VK brought dark blue coloured cloth from PK for making uniforms for employees, but did not disclose the purpose of purchase. The cloth was found unfit.

ANALYSIS AND CONCLUSION

After applying the above provision in the above case, we can conclude that the Rule of caveat emptor shall apply here. Since the buyer (VK) did not make known to the seller, his purpose of purchase, seller is not bound to provide goods of reasonable fitness.

2aiiStep2



1

VK would be himself liable for his bad selection and he is not entitled to have any remedy. as per The Sales of Goods Act, 1930

2aii



2.5



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Question 2(b)

Memorandum of Association →

As per the [Section 4] of The Companies Act, 2013 Memorandum of Association is the Charter of The company. It is also known as the constitution of the company.

Memorandum contains the scope, powers and objects of the company beyond which it cannot go. It must be divided into paragraphs and numbered.

Any act done which is beyond the powers of the company i.e. beyond the object clause of the MOA shall be treated as ultra vires and shall not be binding on the company. It will have no legal effect.

As per the [Section 399] of The Act, Memorandum and Articles of the company are public documents which are available with the Registrar and outsiders are deemed to have knowledge about it before



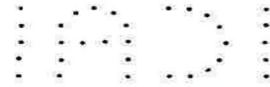
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entering into any contract with the company.

Articles of Association →

As per the [Section 5] of The Companies Act, 2013 the Article of Association and Memorandum are business documents.

AOA contains the internal rules and regulations of the company.

It is also known as By-laws of the company.

✓ AOA can be originally framed or altered from time to time by passing a special resolution.

It can also include provisions for entrenchment. Entrenchment means adding a protective layer to a provision to make it difficult to override.

Entrenchment provision can be added

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2bStep1 ☒ 3

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during incorporation or post incorporation by giving notice to the Registrar.

To include provision for entrenchment:-

(a) in case of a private company, unanimous consent (100%) of all members is necessary.

(b) in case of a public company, special resolution needs to be passed.

Basis	Memorandum of Association	Articles of Association
Ratification	A transaction ultra vires the MOA cannot be ratified even by the unanimous (100%) consent of all members.	Any transaction/act ultra vires the AOA can be ratified by passing a special resolution provided it is within (intra vires) the object clause (MOA).
Alteration	The memorandum cannot be easily altered, it requires permission in most cases.	Articles can be altered merely by passing a special resolution.



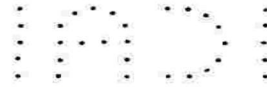
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Purpose

Memorandum governs the relations of the company with outsiders. It states the objects, powers and scope of the company.

Articles govern the relation of the company with insiders. It states the internal rules and regulations of the company.

2bStep2



3

2b



6

Question 2 (c)

PROVISION

As per the relevant provisions of The Limited Liability Partnership Act, 2008, a Limited Liability Partnership has an essential characteristic :-

"Business for Profit Only" which means a Limited Liability Partnership can only be incorporated with a view to earn profit.

It cannot be formed for charitable purposes, like donation or a non-profit organisation.

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As per the Section 7 of The Limited Liability Partnership Act,

(a) Every LP must have at least two designated partners who are individuals and at least one of them must be a resident of India.

(b) If in an LP, two or more partners are individuals or body corporates or all partners are individuals, then any two individuals who are partners of such LP's or nominees of such body corporates shall act as designated partners.

(c) For the purposes of this section, the term Resident of India means any person who has stayed in India for not less than 120 days in the preceding financial year.

ANALYSIS AND CONCLUSION

(i) EDDED LP cannot be formed for the above purpose since an LP cannot be formed for charitable purpose.



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It can only carry business with motive of acquisition of gains

2cStep1 ✓ 2.5

(ii) No, Mr A and Mr B cannot be appointed as designated partners in EDDED UP since both of them are non residents

2cStep2 ✓ 2.5

At least one designated partner shall be resident of India.

2c ✓ 5

2 ✓ 16.5

Question 5(a)

(i) PROVISION

After [Section 16] of The Sales of Goods Act, 1930, although the General Rule is that there is no implied condition as to quality or fitness. (Caveat emptor) there is an exception to this rule.

✓ The seller has to provide goods of reasonable quality and fitness if the below these conditions



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are fulfilled :-

(a) The buyer makes known to the seller his purpose of purchasing the goods.

(b) He relies on the skill and judgement of the seller

(c) The seller ordinarily deals in goods of that description.

If the goods can only be used for a single purpose, then the buyer need not disclose his purpose of purchase.

5aiStep1 ✓ 1.5

In the instant case, Mrs S asks for a laptop suitable for her design work. Salesman suggests her a specific model, relying on which she purchases the laptop. Mrs S realises that the laptop was unfit for her purpose.

ANALYSIS AND CONCLUSION

After applying the above provision in the given case we can conclude that Mrs S can take legal action against

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the seller on account of breach of implied condition as to quality and fitness.

5aiStep2



1

5ai



2.5

Mr S had made known to the seller her purpose of purchase and relied upon the skill and judgment of the seller. It was seller's duty that goods shall fit her needs.

(ii) PROVISION

As per the Relevant provision under The Sales of Goods Act, 1930 warranties in a contract of sale may be express or may be implied.

✓ Express warranties are those which are clearly stated in the contract while implied warranties are presumed by the law.

One such implied warranty is :-
"Warranty as to non-existence of encumbrances". It states that it is presumed in a contract of

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ICAI 15

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5aiiStep1 ✓ 2

sale, that the goods are free from any third party claims or charges. i.e. The goods are not pledged against any debt.

The buyer gets a good title if he purchases the goods without the knowledge of claim of a third party

FACTS OF THE CASE

In the instant case, Mr S pledged his wife's jewellery to Mr R and subsequently sold it to M/s RL Jewellers, who purchased it in good faith. Mr S declared insolvent, and Mr R filed a suit against M/s RL Jewellers.

ANALYSIS AND CONCLUSION

In the given case, there is a breach of implied warranty as to non existence of incumbrances. The buyer M/s RL Jewellers purchased the jewellery in good faith without knowing that the goods were already pledged. Therefore, they get a

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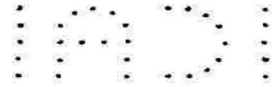
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good title of the jewellery and
~~MR~~ MR. R cannot sue
M/s R1 Jewellers.

5aiiStep2



1

MR R can however claim damages
from M/s.

5aii



3

(Question 5(b))

(i) PROVISION

As per the Section 32 of The
Indian Partnership Act, 1932 a
partner leaving the firm i.e. retiring
partner must give a public
notice of his retirement from the
firm.

The retiring partner will be liable
to third parties for all the acts
of the firm ~~and~~ even after his
retirement until public notice is
given.

5biStep1



1

The effect of not giving a
public notice after retirement
shall be the same as in the

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case of partner by holding out wherein the third party enters into a transaction with the firm believing that he was a partner. The partner cannot deny the liability in that case.

FACTS OF THE CASE

In the instant case, Mr. AM retired from a firm in 2022 but never made a public announcement. A supplier entered in a transaction believing that AM was a partner. Mr. R demanded that AM shall also be liable for dues but AM refused.



ANALYSIS AND CONCLUSION

After applying the above provisions in the given case, it can be concluded that Mr. AM can be held liable for the above debt, since he failed to give a public notice of his retirement.

5biStep2



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5bi



2



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	(ii) <u>PROVISION</u>	
(2)	As per the <u>Section 33</u> of the Indian Partnership Act, 1932, a partner can be expelled from a firm provided that :-	DO NOT WRITE ANYTHING HERE
5biiStep2 ✓ 1.5	(a) The power to expel a partner is stated in an express contract made by the partners. (b) The power has been exercised by majority of the partners. (c) Expulsion must be in good faith.	DO NOT WRITE ANYTHING HERE
	If the conditions are not fulfilled, expulsion is null and void and the partner can claim reinstatement in the firm.	
	The test of good faith requires the following conditions :-	
	(a) The expelled partner must be given a reasonable opportunity of being heard.	DO NOT WRITE ANYTHING HERE



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(b) partner to be ~~expelled~~ expelled must be served with a notice.
(c) The expulsion must be in the benefit of the partnership.

(1) In the instant case,
Mr G was accused of unauthorised activities and subsequently expelled from the partnership with the unanimous approval of remaining partners.

The action by the partners was justified since the power to expel was exercised by majority of partners but it is assumed that Mr G was served with a notice prior to expulsion and was given a reasonable opportunity of being heard. and the power to expel exists between the contract.

If the assumptions don't hold true the expulsion would not be justified and will be null and void.

5biiStep1



2

5bii



3.5



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Question 5(c)

(i) The given statement is **FALSE**

Reason: The General Rule is that, any pledge by a person who is not the true owner of the goods is not valid, however as an exception to this rule:-

5cStep1



"Pledge by a Mercantile Agent" agent has an authority to pledge the goods, provided he acts in the course of business with the consent of the owner. Therefore, it is a valid pledge.

(ii). The given statement is **FALSE**

Reason: As per the Indian Contract Act, when a ^{Principal} ~~agent~~ revokes the authority of an agent, the authority of sub agents appointed by the agent also terminates. Therefore, the authority of C is automatically terminated upon the termination of authority of B.

5cStep2



1.5

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(ii) The given statement is TRUE

Reason: Contract of indemnity is a contract in which promisor (indemnifier) promises to make good the loss caused to promisee through his neglect or of any third person. In India, acts of god are not covered under indemnity, since the life of a person cannot be measured in money terms, it cannot be indemnified.

5cStep3 ✓ 1.5

5c ✓ 4.5

5 ✓ 15.5

Question 4(a)

PROVISION →

(i) As per the relevant provision under The Indian Contract Act 1872, an offer is distinguished from an invitation to offer.

✓

An offer is a final willingness to be bound by the offer as soon as the other party chooses to accept it, whereas an invitation to offer precedes an actual offer. It is made to induce offers from people.



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When a party without expressing his final willingness proposes some terms on which he is willing to negotiate, he is said to make an invitation to offer.

4aiStep1



2

An offer is different from a mere statement of intention, advertisement, prospectus,

FACTS OF THE CASE

In the instant case, Mr X visited Cosmo Mega Mall not Nagpur and picked up ten different items of his choice. Cashier did not accept the price of one item.

ANALYSIS AND CONCLUSION

Since the self service outlets, price tags and advertisements are not definite offers, but are mere invitation to offer. Coso Mega Mall cannot be compelled to sell the said article to Mr X.

4aiStep2



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4ai



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(iii) PROVISION

As per the ~~not~~ Section 2 (h) of The Indian Contract Act, 1872, a contract is an agreement enforceable by law.

All contracts are agreements but all agreements are not contracts, social and domestic agreements are not contracts since they do not intend to create any legal relationship between the parties and are not enforceable in the court of law.

Reference Case law

4aiStep1 ☒ 1.5 Balfour v/s Balfour

FACTS OF THE CASE

In the instant case, Mr AT promised his wife Priya to send her ₹30,000/- per month for her routine expenses. But he did not send, Mrs Priya decided to file a suit on Mr AT.

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<u>ANALYSIS AND CONCLUSION:</u>	
Since the agreement between Mr. A and Mrs. Priya was a social / domestic agreement, it cannot be enforced in the court of law. It is not a valid contract and the parties had no intention to create any legal relationship.	
4aiiStep2 ✓ 4aii ✓	1 2.5
Mrs. Priya would not be able to recover the amount.	
<u>Question 4 (b)</u>	
As per the provisions of The Negotiable Instruments Act, they can be classified into the following kinds according to the manner in which they are made :-	
(1) Bearer instrument	
✓ A promissory note, bill of exchange or cheque is payable to bearer when -	
(a) it is expressed to be so payable	



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- (b) The name of the payee is 'blank'
(c) The name of the payee is specified by the words 'or bearer'
(d) The last endorsement is blank.

It is negotiated by mere delivery.

(2) Order Instrument

A negotiable instrument is payable to order when :-

- ✓ (a) It is expressed to be so payable
(b) ~~The~~ It is payable to a person or his order
(c) ~~It~~ is payable to the order of a person.
(d) The last endorsement is full.

It is negotiated by endorsement and delivery.

(3) Time Instrument

A time instrument is an instrument which has a fixed maturity date, or it is payable after a certain period of making / drawing the instrument.

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(4) Demand Instrument

A demand instrument is one which is payable at any time on sight / or on demand.

(5) Inchoate Instrument

An inchoate instrument is an instrument which is either wholly or partially blank signed by the ☒ maker and ~~has~~ the holder has the authority to complete the instrument.

The holder can recover upto the intended amount.

The holder ~~is~~ in due course can recover any amount provided it is covered within the limits of stamp affixed on it.

(6) Ambiguous Instrument

An Ambiguous instrument is one which cannot be clearly identified either as a promissory note or a bill of exchange, i.e. it is vague.

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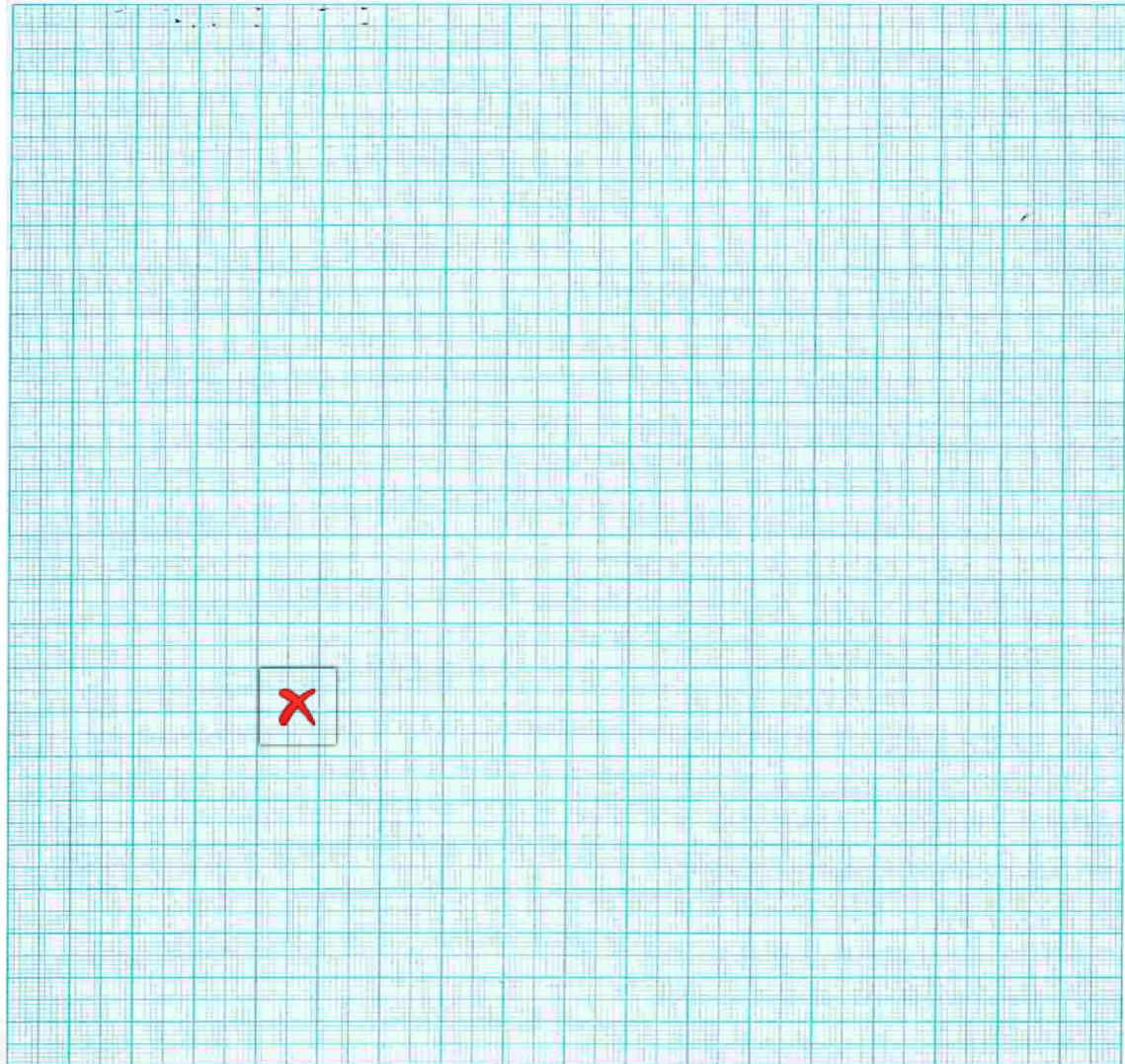


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Addl. Bk

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ADDL. BOOK

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ADDITIONAL ANSWER BOOK

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4bStep1 ✓ 4

4b ✓ 4

The holder at its discretion may elect to treat the instrument as per his wish but once decided cannot be changed to another instrument.

Question 4 (c)

Law is a set of obligations and duties imposed by the government for securing welfare and providing justice to the society. India's legal framework reflects its ~~vast~~ political, geographical, social and cultural aspects of our vast and diversified country.

4cStep1 ✓ 2

The various sources of law are as follows :-

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(1) The Constitution of India

The constitution is the basis and source of all the laws.

It gives the parliament powers to make laws and it has divided it into three lists as per Article 246 viz Union list, State list and concurrent list.

(2) Statutes or laws made by the Parliament

Parliament is the ultimate law making body.

It can make, amend or repeal the laws.

It consists of two houses - Lok Sabha and Rajya Sabha.

(3) Decisions / Judicial Precedents by Various Courts

As per the Article 141 of the Constitution of India, The Supreme Court is the highest authority in India. Judgement declared by Supreme Court

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will be binding upon the territory of India. It is also called common law.

(4) Established Customs & usages.

Established, customs, practices and usages also form a basis of law known as common law.

Question 1 (a)

(i) PROVISION

As per the relevant provision of The Indian Contract Act 1872, the authority of an agent can be revoked at any time by the Principal. If the agent suffers any loss due to such premature revocation, the principal must compensate for it.

The termination of agent's authority shall come into effect when it comes into the knowledge of the agent. i.e. when the communication

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	4 of the termination is completed. But as an exception to this rule, when the agent is personally interested in the subject matter of the contract, the agency becomes irrevocable. It cannot be rescued revoked even on the death or insanity of the principal. In the instant case, P_G asked V_G to sell his shares on his behalf and to appropriate the amount of loan with interest from the proceeds, later Mr P_G revoked the authorisation. <u>ANALYSIS AND CONCLUSION</u> In the given case Mr V_G was personally interested in the subject matter of the agency, hence the agency becomes irrevocable. Therefore, revocation of agency by Mr P_G was not lawful.
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(i) PROVISION

As per the [Section 148] of The Indian Contract Act, 1872 Bailment is the delivery of goods from one person to another for some purpose upon a contract, and when the purpose is accomplished, the goods must be returned or disposed off as per the directions of the person delivering them.

It is the duty of The Bailee not to mix, the goods with his own goods unless the bailor has consented to do so.

If the bailee mixes the goods and they are separable, the goods shall be separated at the bailee's expense.



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Marks Obtained: 70

2



1aiiStep1



In case goods are mixed, by the bailee without bailor's consent and they are not separable, then the bailee is liable to pay the entire price of goods to the bailor.

FACTS OF THE CASE

In the instant case,
An Order of 5 kg Mamsa Badam @ ₹3400/- per kg was delivered to the neighbors of Mr PK on their behalf. The neighbour's wife mixed the badam with California almond.

ANALYSIS AND CONCLUSION

1aiiStep2



In the given case, Mr Shah's wife (as a bailee) did not fulfill her duty not to mix the bailor's goods with their own, as a result they would be liable to pay the entire price of badam i.e. $3400 \times 5 = ₹17000$ to Mr PK. [since the goods are non-severable].

1aii



2.5



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3



2686161-04

Question 1 (b)

Yes, a company is an Artificial legal person. It is an incorporated association having perpetual succession and a common seal.



It can enter into contracts, acquire property, raise loans, etc.

It is a person since it is clothed with all the rights of an individual. A company is a legal person since it is formed by the law (registered under The Companies Act 2013).

However a company cannot marry, take an oath, practice a learned profession and cannot be sent to jail.

Thus a company is a legal person in its own sense. Its existence is distinct and separate from its members.

A company is different from.



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	4	
1bStep1 ✓	3 the subscribers to the memorandum are from those who compose it. Then members can contract with company or acquire right against it.	DO NOT WRITE ANYTHING HERE
	COMMON SEAL is the official signature of a company which is affixed by its authorised persons on every document.	DO NOT WRITE ANYTHING HERE
1bStep2 ✓	2 The Companies (Amendment) Act 2015 has made the common seal optional. In case a company does not have a common seal, authorisation can be made by two directors or by one director and a company secretary whereby the company has appointed a company secretary.	DO NOT WRITE ANYTHING HERE
1b ✓	5	DO NOT WRITE ANYTHING HERE



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Addl. Boc

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ADDL. BOOK

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ADDITIONAL ANSWER BOOK

Question 1(c)

PROVISION

As per The [Section 69] of The Indian Partnership Act 1932, although the registration of a firm is not compulsory, there are certain disabilities which an unregistered firm needs to face :-

- (1) An unregistered firm cannot file a suit against any third party (or any person on behalf of firm)
- (2) Third party can sue an unregistered firm
- (3) An unregistered firm or any partner cannot claim any set off if the suit is valued more than Rs. 100.
- (4) Any partner of any unregistered firm cannot file a suit on the



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2		Barcode	
		firm or any other partner, except when suing for the settlement, and claiming assets in case of dissolution of the firm.	
1cStep1	✓	1	(i) The suit is not maintainable. Since M/s ABC & Associates is an unregistered firm and a partner of an unregistered firm cannot file a suit on the firm or any other partner
1cStep2	✓	1.5	(ii) The suit is maintainable. Since, irrespective of being an registered firm, the partners have a right to sue for claiming share on the dissolution of the firm.
1cStep3	✓	1.5	(ii) The suit by M is maintainable while the firm's claim to set off 4000/- is not valid. Since, M is a third party and non registration of a firm does not affects the right of third parties to claim any sue the firm.



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3

2686161-06

moreover, partness of unregistered firm or the firm cannot claim any set off if the suit is valued more than Rs. 100 (4000 in this case)

1c ✓ 4

1 ✓ 12.5

~~Question 3 (b)~~

PROVISION

Question 6 (b)

✓

6bStep1 ✓ 0.5

'Quantum Merit' is one of the reliefs in breach of contract. While damages are compensatory in nature, quantum merit is restitutory in nature. It states that one should get compensation for the work he has done. It works on principles of equity, justice and to compensate one party for work done by them.

Claim for Quantum Merit arises:-

(i) Abandonment of contract during performance.

When the promisor abandons the



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		4			
		contract during the performance, they should get partial payment			
		(2) Bad work in an indivisible contract			
		when a lumpsum is agreed to be paid in an indivisible contract, and the task is performed poorly the lumpsum amount still needs to be paid but the promisee can deduct for bad work.			
		(3) No agreed remuneration			
		when there is no agreed remuneration fixed between the parties, a reasonable amount needs to be paid.			
		(4) Payment for non-gratuitous task			
		when one person does something for another non-gratuitously, the claim for quantum meruit arises			
6bStep2	✓	3.5			
6b	✓	4			



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6cStep1 ✓

Question 6(c)

Hire purchase contract is distinguished from sale. In a contract of hire purchase, the payment of price is made in installments and only upon the payment of last installment the property in the goods passes to the hirer.

Base	Sale	Hire purchase-
Right to Resale	The buyer has a right to resale as he becomes the owner of the goods.	The hirer has no right to resale until he pays the last installment.

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Risk of loss	Risk of loss of goods is that of the Buyer.	Risk of loss of goods is that of the owner.
Time of passing of property	property is passed at the time of making of the contract of sale.	property is passed upon the payment of the last installment.
Insolvency of buyer	The official assignee can take control over the goods since buyer is the owner.	The official assignee cannot take over the goods since seller is not the true owner.
Nature of right	ius in rem	ius in personam

6c Step 2 ✓ 4

6c ✓ 5

6 ✓ 12

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Question 6(a)

6aiStep2 ✓ 1

6aiStep1 ✗ 0

6ai ✓ 1

6aiiStep1 ✓ 1

6aiiStep2 ✓ 1

6aii ✓ 2

(i) The maturity period of the bill would commence when Mr N accepts the bill.

(ii) (A) No, Mr Mohan's right to recover the amount is not affected because any delay in presentation is excused when it is not in the hands of any of the parties.

(B) A delay in presentation of the instrument is excused when it is due to unforeseen circumstance and not due to fault of any party.



Total Marks:	100
Marks Obtained :	70

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