

CA FOUNDATION

PAPER 2 : BUSINESS LAW

Question No.1 is compulsory.

Answer any four questions from the remaining five questions.

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

(Time allowed: 3 Hours)

(100 Marks)

Q1. (a) In light of provisions of the Indian Contract Act, 1872 answer the following :

- (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 did not pay the agreed price. Decide whether Mr. S is bound to fulfil his promise at the time of delivery?
- (ii) Mr. Y has given loan to Mr. G of 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 as per the Indian Contract Act, 1872?
- (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?

{ 7 Marks }

(b) Articles of Association of XYZ Private Limited provides that Board of Directors can take the loan up to ₹50,00,000 for company by passing the Board Resolution. In the case where the loan amount is in excess of the said limit, Special Resolution is required to be passed in general meeting. Due to urgent need of funds, Board of Directors applied for loan in a reputed bank for ₹60,00,000 without passing the Special Resolution in the general meeting. Board of Directors 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 the act was ultra vires to company. Advise.

{ 7 Marks }

(c) (i) "Partners in a firm may be classified into various types based on the extent of their liability." Describe the following :

- (i) Dormant Partner
- (ii) Nominal Partner
- (iii) Partner in profits only
- (iv) Partner by holding out

(ii) When the continuing guarantee can be revoked under the Indian Partnership Act, 1932? Also define Goodwill.

{ 4 + 2 = 6 Marks }

- Q2. (a) (i)** Ms. Preeti owned a motor car which she handed over to Mr. Joshi on sale or return basis. After a week, Mr. Joshi pledged the motor car to Mr. Ganesh. Ms. Preeti now claims back the motor car from Mr. Ganesh. Will she succeed? Referring to the provisions of the Sale of Goods Act, 1930, decide and examine what recourse is available to Ms. Preeti.
- (ii)** J the owner of a Fiat car wants to sell his car. For this purpose, he hands 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 giving reasons whether J would succeed.

{ 4 + 3 = 7 Marks }

- (b)** Briefly explain the doctrine of “ultra vires” under the Companies Act, 2013. What are the consequences of ultra vires acts of the company?

{ 7 Marks }

- (c) (i)** What is the procedure for changing the name of Limited Liability Partnership (LLP) under the LLP Act, 2008?
- (ii)** What is Small Limited Liability Partnership as per Limited Liability Partnership (Amendment) Act, 2021?

{ 4 + 2 = 6 Marks }

- Q3. (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 on continuing the business?
- (ii)** 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?

{ 4 + 3 = 7 Marks }

- (b) (i) 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 companies 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?
- (ii) 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

{ 3 + 4 = 7 Marks }

- (c) Explain the meaning of 'Contingent Contracts' and state the rules relating to such contracts.

OR

What is Quasi Contract? Elaborate the cases which are deemed as Quasi Contract.

{ 6 Marks }

- Q4. (a) (i) Rahul is the owner of an electronics shop. Priyanka reached the shop to purchase an air conditioner whose compressor should be of copper. As Priyanka wanted to purchase the air conditioner on credit, Rahul demanded a guarantor for such a transaction. Mr. Arvind (a friend of Priyanka) came forward and gave the guarantee for payment of air conditioner. Rahul sold the air conditioner of a particular brand, misrepresenting that it is made of copper while it is made of aluminium. Neither Priyanka nor Mr. Arvind had the knowledge of fact that it is made of aluminium. On being aware of the facts, Priyanka denied payment of price. Rahul filed the suit against Mr. Arvind. Explain with reference to the Indian Contract Act 1872, whether Mr. Arvind is liable to pay the price of air conditioner?
- (ii) Ankit has taken a loan of ₹1,00,000 from Kishore on the guarantee of Sudeep at the interest rate of 12% p.a. After some time, due to financial crises of Ankit and at his request, Kishore reduced the interest rate to 8% and also extended the time for repayment of loan without the consent of Sudeep. Ankit becomes insolvent. Whether Kishore sue Sudeep for recovery of the amount under the provisions of the Indian Contract Act, 1872?

{ 4 + 3 = 7 Marks }

- (b) Explain the Rules as to compensation payable in case of dishonour of promissory note, bill of exchange or cheque, by any party liable to the holder or any endorsee covered under the Negotiable Instruments Act, 1881. Also Explain Inchoate and Ambiguous Instruments.

{ 7 Marks }

- (c) What is Law ? What do you understand by Indian Judicial System and what are its various functions?

{ 6 Marks }

Q5. (a) (i) 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?
- (ii)** Mr. Dheeraj was running a shop selling good quality washing machines. Mr. Vishal came to his shop and asked for a washing machine which is suitable for washing woollen clothes. Mr. Dheeraj showed him a particular machine which Mr. Vishal liked and paid for it. Later on, when the machine was delivered at Mr. Vishal's house, it was found that it was the wrong machine and also unfit for washing woollen clothes. He immediately informed Mr. Dheeraj about the delivery of the wrong machine. Mr. Dheeraj refused to exchange the same, saying that the contract was complete after the delivery of the washing machine and payment of price. With reference to the provisions of Sale of Goods Act, 1930, discuss whether Mr. Dheeraj is right in refusing to exchange the washing machine?

{ 4 + 3 = 7 Marks }

- (b) (i) Dissolution of a partnership firm may occur by mutual agreement with the consent of the majority of partners, while compulsory dissolution requires an order from the court." Discuss this statement with reference to the relevant provisions of the Indian Partnership Act, 1932.
- (ii) "Indian Partnership Act does not make the registration of firms compulsory nor does it impose any penalty for non-registration." In light of the given statement, discuss the consequences of nonregistration of the partnership firms In India?
- { 3 + 4 = 7 Marks }**

- (c) Explain any five circumstances under which contracts need not be performed with the consent of both the parties.
- { 6 Marks }**

- Q6. (a)** Priyansh purchased some goods from Sumit. He issued a cheque to Sumit for the sale price on 14th June, 2023. Sumit presented the cheque in his bank and his bank informed him on 19th June, 2023 that cheque was returned unpaid due to insufficiency of funds in the account of Priyansh. Sumit sued against Priyansh under section 138 of the Negotiable Instruments Act, 1881. State with reasons, whether this suit is maintainable?
- { 7 Marks }**

- (b) What do you mean by Quantum Meruit and state the cases where the claim for Quantum Meruit arises? Explain the meaning of 'Contingent Contracts' and state the rules relating to such contracts.
- { 7 Marks }**

- (c) What are the rights of unpaid seller in context to re-sale the goods under Sale of Goods Act, 1930?
- { 6 Marks }**