Model Question Paper
Business Law – I (MB2F1)

- Answer all 70 questions.
- Marks are indicated against each question.

Total Marks : 100

1. Which of the following is **not** one of the characteristic features of a public limited company registered under the Companies Act, 1956?

(a) Independent corporate entity
(b) Perpetual succession
(c) Unlimited liability
(d) Separate property
(e) Transferability of interest. **(1 mark)**

2. In the case of insolvency of a partner, such partner ceases to be a partner of the firm from the date

(a) He applies to a Court of Law to be adjudged as an insolvent
(b) The firm is dissolved by a Court of Law by such insolvency
(c) He is adjudged as an insolvent by a Court of Law
(d) The Court admits the petition for adjudging him as an insolvent
(e) A Receiver is appointed by the Court to realize his property. **(1 mark)**

3. A factor is a mercantile agent

(a) To whom goods are entrusted for sale, for which he is empowered to sell the goods in his own name
(b) Who buys or sells goods for his principal on terms as he thinks fit and receives commission for such work done
(c) Who is employed to negotiate and make contracts for the purchase and sale of goods, without control or possession of goods
(d) Entrusted with the possession of the goods for sale to the highest bidder in competition and authorized only to deliver the goods on receipt of the price
(e) Who for additional consideration from his principal, undertakes to perform the financial obligations of such third person in case such third person fails to fulfill the same. **(1 mark)**

4. Which of the following is considered as a void agreement under the Indian Contract Act, 1872?

(a) Agreement induced by coercion
(b) Agreement induced by fraud
(c) Agreement induced by undue influence
(d) Agreement induced by misrepresentation
(e) Agreement induced by bilateral mistake. **(1 mark)**

5. A rule which prescribes a general course of action imposed by some authority which enforces it by superior power either by physical force or any other form of compulsion is called as

(a) Scientific law
(b) Moral law
(c) Conventional law
(d) Imperative law
(e) Practical law. **(1 mark)**

6. Radha Devi, out of natural love and affection, gifted a house under her possession, by a registered document to her grand-daughter, Anamika, subject to Anamika's acceptance of the gift. Anamika did not accept the gift during the life time of Radha Devi. Later, after the death of Radha Devi, Anamika claims the ownership of the house on the ground of it being gifted to her. Which of the following statements is **true** in case of a gift under the Transfer of Property Act, 1882?

(a) Anamika cannot claim the ownership of the house as there was no consideration in the agreement
(b) Anamika cannot claim the ownership of the house as she had not accepted the gift during the lifetime of Radha Devi

(c) Anamika can claim the ownership of the house as a gift need not be accepted by the donee during the life time of the donor
(d) Anamika can claim the ownership of the house as a conditional gift is a valid gift from the time it is accepted
(e) Anamika can claim the ownership of the house as a gift made by a registered document does not need the acceptance by the donee. **(2 marks)**

7. Ramlal was an employee of Bhargav Constructions Pvt. Ltd. During the course of his employment, Ramlal became a member of the company. Though he has retired, he continues to hold those shares of the company. Which of the following statements is **true** in respect of determining maximum membership of the company under the Companies Act, 1956?

(a) Ramlal's membership is deemed to have terminated from the date of his retirement, as such he is not counted as a member of the company
(b) As Ramlal is an ex-employee of the company, he must be counted as a member of the company
(c) As Ramlal had obtained the shares during the course of his employment he is counted as a member of the company
(d) As Ramlal has continued to be member of the company, he is counted as a member of the company
(e) As Ramlal is an ex-employee of the company, he is not counted as a member for the determination of maximum membership of the company. **(2 marks)**

8. Suresh, Anuj and Prabhakar entered into a partnership and did not register the partnership firm. At the time of the constitution of the firm, Sunil had given a loan of Rs.1,00,000 to the firm, repayable in two equal installments of Rs.50,000 together with interest of Rs.5,000. Upon default in repayment of the second installment, he filed a suit against the firm for the recovery of principal installment of Rs.50,000 together with interest of Rs.5,000. Sunil also owes a sum of Rs.20,000 for goods supplied by the firm to him on credit. The partners adjusted this amount from the installment payable on loan and paid Rs.35,000 to Sunil, who sues against such adjustment. Which of the following statements is **true** in respect of these circumstances?

(a) The firm has every right to adjust the amount due from Sunil and repay the balance loan amount
(b) The firm can adjust the amount due from Sunil only from the interest payable to him
(c) The firm has to pay the amount of Rs.55,000 first and then file a suit for the recovery of Rs.20,000 receivable by it
(d) The firm cannot adjust the amount due from Sunil against the loan payable to him
(e) As Sunil is also the debtor of an unregistered firm he cannot file a suit for the recovery of his loan. **(2 marks)**

9. Which of the following amounts to a valid offer under the Indian Contract Act, 1872?

(a) An auctioneer puts up an advertisement of the proposed auction with the minimum bid for each article
(b) Ajay informs Rajesh 'The price for my car is Rs.1,50,000'
(c) Harry sends a catalogue to William saying 'I will give you 20% discount off the catalogue price'
(d) Amit in reply to Prakash's offer to sell his house says 'I agree to pay Rs.5,00,000, not Rs.6,00,000 as stated by you'
(e) Ali tells Ahmed that he is ready to sell his house to Akbar, but does not say anything to Akbar. **(2 marks)**

10. As per the provisions the Companies Act, 1956, an alternate director can be appointed, in place of the original director during his absence for a period not less than 3 months, by the

(a) Original director himself
(b) Board of directors
(c) Managing Director of the company
(d) Financial Institutions
(e) Shareholders of the company. **(1 mark)**

11. Which of the following companies need not compulsorily have its own articles under the Companies Act, 1956?

(a) A private company limited by shares
(b) A public company limited by shares

(c) An unlimited company
(d) A company limited by guarantee not having share capital
(e) A company limited by guarantee having share capital. **(1 mark)**

12. A charge in some specific and identifiable asset of the company is known as

(a) Fixed charge
(b) Equitable charge
(c) Floating charge
(d) Pledge
(e) Dormant charge. **(1 mark)**

13. Under a letter of credit, where the advising bank in addition to advising credit to the beneficiary, confirms such credit, such an advising bank shall be deemed as

(a) Issuing bank
(b) Notifying bank
(c) Confirming bank
(d) Negotiating bank
(e) Reimbursing bank. **(1 mark)**

14. Under the Indian Contract Act, 1872, if a consideration is paid for a past forbearance that was rendered before the promise is made, it is considered as

(a) Past consideration
(b) Executed consideration
(c) Executory consideration
(d) Future consideration
(e) Inadequate consideration. **(1 mark)**

15. Which among the following is **not** a basic principle of World Trade Organization (WTO)?

(a) Trade without discrimination
(b) No National Special Treatment – locals and foreigners are treated equally
(c) Promoting unfair competition
(d) Encouraging development and economic reform
(e) Freer trade. **(1 mark)**

16. Rakesh Sahay of Kolkata sold certain goods to Bansidhar Rout of Cuttack. The goods were sent by Road to Cuttack and the expenses were borne by Rakesh Sahay. However, as the goods did not correspond with the description given, they were rejected by Bansidhar Rout. Which of the following statements is **true** in respect of these circumstances under the Sale of Goods Act, 1930?

(a) The expenses of returning the rejected goods to Kolkata must be borne by Bansidhar Rout
(b) The expenses of returning the rejected goods to Kolkata must be borne by Rakesh Sahay
(c) The expenses of returning the rejected goods to Kolkata must be borne equally by Rakesh Sahay and Bansidhar Rout
(d) The expenses of sending the goods to Cuttack must be borne by Bansidhar Rout while Rakesh Sahay has to bear the cost of returning the rejected goods to Kolkata
(e) The total expenses of sending and returning the rejected goods must be shared equally by Rakesh Sahay and Bansidhar Rout. **(2 marks)**

17. Silicone Metals Ltd., has issued a notice to all its members offering them rights shares against the payment of specified money. 15% of the shares of Silicone Metals Ltd., are held by Hiralal Torani. As his financial position is weak, Hiralal Torani is not in a position to take up the rights shares offered to him. He is afraid that in case the company goes ahead with this rights issue his shareholding will reduce. He is proposing to file a petition to obtain an injunction restricting the company from issuing rights shares. Which of the following statements is **true** in respect of these circumstances under the Companies Act, 1956?

(a) Silicone Metals Ltd., can be restrained from issuing rights shares on the ground of reduction in shareholding of Hiralal Torani
(b) Silicone Metals Ltd., can be restrained from issuing rights shares provided a minimum of 100 shareholders file petition for an injunction
(c) Silicone Metals Ltd., can be restrained from issuing rights shares provided shareholders holding at least 20% voting power file petition for an injunction
(d) Silicone Metals Ltd., cannot be restrained from issuing rights shares on the ground of reduction

in shareholding of some of its members
(e) Silicone Metals Ltd., cannot be restrained from issuing rights shares, but it must give more time to Hiralal Torani to pay the amount on the shares. **(2 marks)**

18. Ramenbhai Patel, the Karta of a Hindu Undivided Family (HUF), consisting of 6 male (including Karta) and 4 female members entered into a partnership with Ratanlal Sethia, the Karta of another HUF consisting of 5 male (including Karta) and 3 female members. No partnership deed was signed. Which of the following statements is **true** in respect of these circumstances?

(a) The Karta of a HUF is not empowered to enter into partnership whether on behalf of the HUF or in his personal capacity
(b) The two Kartas can form a partnership, but the individual members do not automatically become members of the partnership
(c) Where two Kartas enter into a partnership, the HUFs automatically become partners by virtue of separate legal entity
(d) The profits should be divided in the ratio of total number of members of each HUF as each member automatically becomes a partner
(e) The profits should be divided in the ratio of total number of male members of each HUF as each male member automatically becomes a partner. **(2 marks)**

19. Anand had sold his car to Vijay on the false representation that it was in excellent condition. Even after discovering that the car was not in good condition, Vijay did not rescind the contract but instead accepted the offer of Anand to bear half the cost of repairs of Rs.30,000. After a month when Vijay found that the condition of the car was still bad, he requested Anand to refund his money by taking back the car. Which of the following statements is **true** in respect of course of action available to Vijay under the Indian Contract Act, 1872?

(a) Vijay can recover the amount paid by him together with interest as Anand had made a false representation
(b) Vijay cannot get back the money paid by him as he had accepted the offer of Anand to bear half the cost of repairs
(c) Vijay can only claim the entire cost of repairs of Rs.30,000 from Anand
(d) Vijay can claim damages together with the amount paid by him
(e) Vijay can get back his money by returning the car as it was sold to him by Anand on a false representation. **(2 marks)**

20. Special urgent business that cannot be deferred to the next Annual General Meeting like removal of auditors can be transacted by calling

(a) Board meeting
(b) Class meeting of shareholders
(c) Meeting of the committee of the Board
(d) Statutory meeting
(e) Extra-ordinary General meeting. **(1 mark)**

21. Civil liability for misstatements in prospectus does **not** arise in the case of

(a) Every person who has authorized himself to be named and is named in the prospectus as director immediately after the issue of the prospectus
(b) Every person who is named in the prospectus as a director of the company
(c) Every promoter of the company
(d) An expert who has authorized the issue of the prospectus
(e) A person who is not named as a director in the prospectus, becomes a director of the company after the issue of prospectus. **(1 mark)**

22. Which of the following tax is collected by the concerned State Government?

(a) Wealth Tax
(b) Professional Tax
(c) Customs Duty
(d) Excise Duty
(e) Income Tax. **(1 mark)**

23. Under the Indian Stamps Act, 1899, documents like demand promissory notes, cash receipts, acknowledgement of debt should be stamped with

(a) Revenue stamps

(b) Special adhesive stamps
(c) Embossed stamps
(d) Engraved stamps
(e) Non-judicial stamp paper. **(1 mark)**

24. When a contract is breached by one party, the other party can approach the Court for cancellation of the contract by filing a suit for

(a) Injunction
(b) Specific performance
(c) Damages
(d) Rescission
(e) Quantum meruit. **(1 mark)**

25. When one person offers to another, his willingness to abstain from doing something, with a view to obtaining the assent of other party to such abstinence, he is said to make a/an

(a) Promise
(b) Acceptance
(c) Proposal
(d) Agreement
(e) Contract. **(1 mark)**

26. In the manufacturing process employed by Rex Chemicals Ltd., three different types of products emerge. The preconditions to be to be fulfilled by these products for levying the Excise duty are

(a) Profitability of the products
(b) Volume of the production
(c) Profitability and movability
(d) Movability and marketability
(e) Profitability and marketability. **(2 marks)**

27. Balwant Thakur, being one of the subscribers to the Memorandum of Association of Usha Sulphates Ltd., was deemed to be one of the 'first directors' of the company. Under the Companies Act, 1956, he shall hold office up to the date of

(a) Holding the statutory meeting
(b) Holding the first extraordinary general meeting of the company after the statutory meeting
(c) Three years from the date of his appointment
(d) Appointment as prescribed by the articles of the company
(e) Appointment of directors by the shareholders in a general meeting. **(2 marks)**

28. Aloknath was appointed as a director of Cuprus Cables Ltd. The Articles of Association of the company provide for the holding of a minimum of 100 shares of the company as a qualification to act as its director. Aloknath failed to acquire the qualification shares within the prescribed period of two months from the date of his appointment. Which of the following statements is **true** in respect of these circumstances under the Companies Act, 1956?

(a) Aloknath is deemed to have vacated his office from the date of expiry of two months from the date of his appointment
(b) Aloknath is deemed as a nominee director of the company from the date of expiry of two months from the date of his appointment
(c) Aloknath is deemed as a alternate director of the company from the date of expiry of two months from the date of his appointment
(d) Aloknath is deemed as an additional director of the company from the date of expiry of two months from the date of his appointment
(e) Aloknath has to re-appointed by a special resolution passed at a general meeting of the members of the company. **(2 marks)**

29. Mangesh and Madhavan, two rival shopkeepers in a locality entered into a contract, whereby it was agreed Madhavan should close his shop and shift to another locality for which Mangesh would pay him an amount of Rs.2,00,000. Accordingly, Madhavan closed his shop and shifted his business to another locality which took a period of three months. When Madhavan demanded Rs.2,00,000, Mangesh refused to pay. Which of the following statements is **true** in respect of the above circumstances under the Indian Contract Act, 1872?

(a) Mangesh is liable to pay proportionate profits that could be earned by Madhavan for the three months during which his shop was closed

(b) Mangesh is not liable to pay Rs.2,00,000 to Madhavan as the agreement is void
(c) Mangesh is liable to pay Rs.2,00,000 to Madhavan as the agreement is completely valid and enforceable
(d) Mangesh is not liable to pay Rs.2,00,000 to Madhavan as the agreement is in the nature of a social agreement
(e) Mangesh is liable to pay to Madhavan all the profits earned by Mangesh for the three months during which Madhavan's shop was closed, besides Rs.2,00,000. **(2 marks)**

30. Abhay who was a teacher in Saraswati Vidyalaya, resigned from his job and opened a rival school in the same area under the name of Sharada Educational Academy. As a result of the rival school Saraswati Vidyalaya had to reduce its fees from Rs.800 per month per child to Rs.300 per month per child and the school suffered financial losses. The school management is planning to bring an action for damages against Abhay under the law of torts. Which of the following statements is **true** in respect of the tortuous liability of Abhay under these circumstances?

(a) Abhay can be held liable for payment of damages for causing financial losses to Saraswati Vidyalaya
(b) Sharada Educational Academy can be held liable for payment of damages for causing financial losses to Saraswati Vidyalaya, not Abhay
(c) Abhay can be held liable for payment of damages for causing financial losses to Saraswati Vidyalaya as he has resigned his job from Saraswati Vidyalaya
(d) Abhay cannot be held liable for payment of damages for causing financial losses to Saraswati Vidyalaya as there was no legal injury to Saraswati Vidyalaya
(e) Abhay cannot be held liable for payment of damages for causing financial losses to Saraswati Vidyalaya even though was an ex-employee of Saraswati Vidyalaya. **(2 marks)**

31. A listed public company **cannot** buy-back its securities by way of

(a) Tender offer
(b) Open market through stock exchange
(c) Purchase of securities through its subsidiary company
(d) Book-building process
(e) Purchase of odd lots. **(1 mark)**

32. Under the Income Tax Act, 1961, 'Capital asset' under the head of 'Capital gains' includes

(a) Any stock-in-trade held for the purpose of business
(b) Any consumable stores held for the purpose of business
(c) Any raw materials held for the purpose of business
(d) Jewellery held for personal use
(e) Goodwill of a business. **(1 mark)**

33. Which of the following statements is **true** in respect of a Hindu Undivided Family (HUF) business unit?

(a) It includes unmarried daughters but excludes wives of the coparceners
(b) The family business is not considered as a part of ancestral property
(c) The coparceners are not entitled for partition of the HUF property
(d) The Karta is deemed caretaker of its assets
(e) Its income is not taxed separately. **(1 mark)**

34. When a person, by his conduct or statement, willfully leads another person to believe that a certain person is his agent, the agency is said to be

(a) Agency by holding out
(b) Agency by necessity
(c) Agency is emergency
(d) Agency by ratification
(e) Agency by express agreement. **(1 mark)**

35. An offer under the Indian Contract Act, 1872 lapses when

(a) It is accepted in the prescribed mode
(b) It is accepted within the prescribed time
(c) A counter offer is made

(d) A condition precedent to acceptance is fulfilled

(e) An acceptance is given in ignorance of the offeree's death. **(1 mark)**

36. Apart from other incomes, Subhash also derives income from the letting of plant, machinery and furniture along with the letting of building. The letting of the building is inseparable from the letting of plant, machinery and furniture. Which of the following statements is **true** in respect of the taxability of the income under the Income Tax Act, 1961?

(a) The income is chargeable to tax under the head 'Income from House Property'

(b) The income is chargeable to tax under the head 'Income from Business'

(c) The income is chargeable to tax under the head 'Income from Other Sources'

(d) The income is chargeable to tax under the head 'Income from House Property' and under the head 'Income from Business' in the ratio of cost of building and other assets respectively

(e) The income is chargeable to tax under the head 'Income from House Property' and under the head 'Income from Other Sources" in the ratio of cost of building and other assets respectively. **(2 marks)**

37. A meeting of the Board of Directors of Plutonic Telecom Ltd., was convened on December 24, 2008. The meeting was attended by 8 of the 10 directors of the company and certain resolutions were passed thereat unanimously. Shubham Makhija and Vaibhav Gupta were directors absent from the meeting. While Vaibhav Gupta did not attend the meeting due to health problem, Shubham Makhija, did not attend the meeting as no notice of the meeting was given to him. Which of the following statements is **true** in respect of the above circumstances under the Companies Act, 1956?

(a) The meeting and the resolutions passed thereat are valid being unanimous decisions

(b) The meeting and the resolutions passed thereat are valid as the decisions were taken by more than two-thirds majority of the total directors of the company

(c) The meeting and the resolutions passed thereat are valid as the requisite quorum for the Board meeting was present

(d) The meeting and the resolutions passed thereat are valid provided Vaibhav Gupta the other absent director also votes subsequently in favour of the resolutions

(e) The meeting and the resolutions passed thereat are invalid for want of notice to Shubham Makhija. **(2 marks)**

38. Century Technologies Ltd., proposes to change its registered office from Mumbai, Maharashtra to Pune, Maharashtra from the jurisdiction of one ROC to another ROC. To carry out its intention, the company is required to obtain the

(a) Permission of the High Court of Bombay

(b) Permission of the State Government of Maharashtra

(c) Permission of the Central Government

(d) Confirmation of the Regional Director

(e) Confirmation of the National Company Law Tribunal. **(2 marks)**

39. Manoj advanced a loan of Rs.1,00,000 to Pankaj against a guarantee given by Neeraj. Later, Pankaj paid Rs.60,000 to Manoj who accepted the amount in full and final settlement of his loan and agreed to release Pankaj from the debt. Manoj also filed a suit against Neeraj, being the surety for the recovery of the balance money. Which of the following statements is **true** in respect of guarantee given by Neeraj under the Indian Contract Act, 1872?

(a) Manoj can always recover the amount due from Neeraj, being the surety

(b) Manoj can always recover the amount from Neeraj, being the surety, as there has been no variance in the terms of the contract

(c) Neeraj stands discharged as Manoj has entered into an agreement releasing Pankaj, the principal debtor from his liability

(d) Manoj can recover the entire loan provided he pays Rs.60,000 to Neeraj and then demands payment from him

(e) Manoj can always recover the amount due from Neeraj as his liability is co-extensive with that of Pankaj. **(2 marks)**

40. Amit offered to sell his motor bike to Bhavesh for Rs.20,000, payable in cash only. Bhavesh said "I accept your offer. Here take Rs.5,000 in cash and a post-dated cheque payable after three months, for the balance". Which of the following statements is **true** under the Indian Contract Act, 1872?

(a) A valid contract has resulted as there is a valid offer to sell the motor bike

(b) A valid contract has resulted as the offer has been accepted

(c) A valid contract has resulted as the full consideration has been agreed to be paid by Bhavesh
(d) A valid contract has not resulted as the acceptance is conditional
(e) A valid contract has not resulted as the consideration in a contract can be in cash only. **(2 marks)**

41. Who among the following persons is disqualified from being appointed as a director of a public company under section 274 of the Companies Act, 1956?

(a) A director of a public company that has failed to file its annual accounts and annual returns with the concerned Registrar of Companies for a continuous period of two years
(b) A director of a public company that has failed to pay dividends and the said failure has continued for a period of 6 months
(c) A director of a public company that has failed to repay its deposits and the said failure has continued for a period of 6 months
(d) A director of a public company that has failed to pay interest on its deposits on the due date and the said failure has continued for a period of 6 months
(e) A director of a public company that has failed to redeem its debentures on the due date and the said failure has continued for more than one year. **(2 marks)**

42. The directors of Sheetal Alloys Ltd., borrowed a sum of Rs.2 lakh from Pritam Chawla. The company's articles provided that the directors might borrow on bonds from time to time to be authorized by a resolution passed at a general meeting of the company. The directors of Sheetal Alloys Ltd., gave a bond to Pritam Chawla for the amount borrowed, without the authority of any resolution. Which of the following statements is **true** in respect of the borrowing under the Companies Act, 1956?

(a) The borrowing is within the powers conferred on the directors, hence the company can be held liable for repayment of the sum borrowed on bonds
(b) As the borrowing is ultra vires the articles of the company, it cannot be held liable for repayment of amount borrowed on bonds
(c) The company cannot refuse to repay the loan as directors are the agents of the company and being the principal the company is liable for the acts of its directors
(d) As the director's borrowing is ultra vires, the directors are personally liable for repayment
(e) As the directors were accustomed to borrowing on bonds Pritam Chawla need not enquire about the passing of resolution and he can sue the company on strength of the bond. **(2 marks)**

43. Swati was appointed by Sudha as her agent to carry on the business of selling designer wear for ladies. Swati was instructed to warehouse the goods only in the room behind the shop. On one occasion, Swati warehoused three-fourths of the goods at her shop and after reasonable enquiry and safety precautions the balance one-fourth were stored in the warehouse of another shop belonging to Sunita, another agent of Sudha. The goods warehoused in the other shop were lost by fire without negligence of Swati or Sunita. Which of the following statements is **true** in respect of the liability of Swati under the Indian Contract Act, 1872?

(a) As the fire was caused without the negligence of either Swati or Sunita, none of them is liable to compensate the loss
(b) Swati is liable to compensate the loss as she had not followed the instructions of Sudha, the principal
(c) Sunita is liable to compensate the loss as the fire had occurred in her warehouse
(d) Swati and Sunita are liable to compensate the loss in equal proportion
(e) Swati and Sunita are liable to compensate the loss in the ratio of 3:1 being the ratio of goods held by them. **(2 marks)**

44. Manish, who was of the age of 16 years, borrowed an amount of Rs.25,000 from Sukhilal, the village moneylender. After attaining the age of majority, Manish ratified the agreement by executing a fresh promissory note to repay the borrowed amount together with the interest accrued. Later, when Sukhilal demanded the repayment, Manish is refusing to repay the borrowed amount and the interest. Which of the following statements is **true** in respect of the above circumstances under the Indian Contract Act, 1872?

(a) Manish is not liable to repay anything as the consideration received by him during his minority cannot be considered valid for executing the fresh promise
(b) Manish is liable to repay both the interest and the borrowed amount as he had executed a fresh promissory note for the same
(c) Manish is liable to repay both the interest and the borrowed amount as he had ratified the agreement upon attaining majority
(d) Manish is liable to repay only the interest as the borrowing by him during his minority was void

(e) Manish is liable to repay only Rs.25,000, the amount originally borrowed. **(2 marks)**

45. Which of the following statements is **false** in respect of transmission of shares under the Companies Act, 1956?

(a) It takes place where the right to any shares has passed to a person by acquiring shares by purchase in a Court sale
(b) Where the persons acquire interest in shares by virtue of transmission, they will not be eligible to receive dividends until they get the shares registered in their names
(c) Where the persons acquire interest in shares by virtue of transmission, they will not be eligible to exercise voting rights until they get the shares registered in their names
(d) It requires the lodging of an instrument of transfer with the company
(e) Any calls due on shares acquired by way of transmission will be enforced against the transmitees in their capacity as legal representatives of the deceased shareholder. **(1 mark)**

46. Which of the following statements is **true** in respect of the exemptions enjoyed by a private company under the Companies Act, 1956?

(a) Its rights shares should be offered first to its existing members
(b) Its directors cannot be appointed by single resolution
(c) Its directors are required to retire by rotation at each Annual General Meeting
(d) It need not hold any statutory meeting
(e) It need not fulfill any quorum requirements for its meetings. **(1 mark)**

47. Which of the following items is **not** considered as ‘goods’ under the Sale of Goods Act, 1930?

(a) Every kind of movable property
(b) Stocks
(c) Growing crops
(d) Shares
(e) Money. **(1 mark)**

48. Which of the following statements is **true** in respect of a contract of guarantee under the Indian Contract Act, 1872?

(a) In a contract of guarantee there are only two parties
(b) In a contract of guarantee, there are only two contracts
(c) A guarantee cannot be limited to a certain sum of money
(d) A contract of guarantee cannot be orally entered into
(e) A contract of guarantee presupposes the existence of a debt. **(1 mark)**

49. Who among the following persons is qualified to enter into a valid contract under the Indian Contract Act, 1872?

(a) A person who has not attained the age of majority
(b) A person of sound mind
(c) A person who is considered as an alien enemy
(d) A person who is adjudged insolvent
(e) A convict. **(1 mark)**

50. Which of the following statements is **true** in respect of a tort?

(a) It is inflicted against somebody with his consent
(b) It does not require privity between the parties
(c) The duty in a tort is not imposed by law
(d) The duty in tort is not owed to the community at large
(e) Compensation is not a remedy for tort. **(1 mark)**

51. Gopal borrowed an amount of Rs.2,00,000 from Chandan. As a security for the payment of the debt, delivered the possession of his flat and authorized Chandan to receive the rent from letting of the flat until the repayment of the loan. Such a transaction amounts to

(a) Pledge
(b) Lease
(c) Usufructuary mortgage
(d) Hypothecation
(e) Hire Purchase. **(2 marks)**

52. Asha, a shareholder of Namrata Components Ltd., subscribed to the issue of shares of the company on the strength of assurance given by the promoters of the company in its prospectus that all necessary Government approvals had been obtained. Later, the statements in the prospectus turned out to be misstatements made by the promoters to induce investors to buy the shares of the company as no approvals had been granted by the Government. Which of the following statements is **true** in respect of the remedies available to Asha under the Companies Act, 1956?

(a) Asha can only rescind the purchase of shares and claim the purchase price of the shares
(b) Asha can only claim damages from the promoters for misstatement in prospectus
(c) Asha can rescind the purchase of shares and claim damages from the promoters for misstatement in prospectus
(d) Asha need not rescind the purchase of shares to claim damages from the promoters for misstatement in prospectus
(e) Asha has no remedy against the promoters as she had bought the shares on her own. **(2 marks)**

53. Nagesh, Narsimsha and Krishna started a business as a Limited Liability Partnership (LLP). One of the partners incurs a liability and misappropriates the money and at that time the assets of the partnership are insufficient to meet the liabilities of the firm. Which of the following statements is **true** in respect of the liability of the partners of a LLP in such a situation?

(a) The liability of the partners in a LLP is limited and there is no personal liability of the partners
(b) The partners have to contribute the unpaid balance out of their personal assets in their profit sharing ratio
(c) The partners have to contribute the unpaid balance out of their personal assets in equal proportions
(d) Only the misappropriating partner is personally liable to repay the entire amount from his personal assets
(e) The partners have to contribute the unpaid balance out of their personal assets in the ratio of capital invested by each of them. **(2 marks)**

54. While Ganesh was standing under the wall of the house of Tejas, the wall collapsed and Ganesh was injured. Ganesh threatened to file a suit against Tejas unless he was paid Rs.5,000 within two weeks, as compensation for his injuries. Tejas promised to pay the amount as demanded by Ganesh but later refused to pay, claiming that there was no consideration in the contract. Which of the following statements is **true** in respect of the payment by Tejas under the Indian Contract Act, 1872?

(a) Tejas need not pay any money as there was no consideration in the contract
(b) Tejas need not pay any money as the contract was induced by coercion
(c) Tejas need not pay any money as an agreement not to file a suit amounts to unlawful consideration
(d) Tejas is bound to pay compensation as the agreement not to file a suit amounts to valid consideration
(e) Tejas need not pay any compensation as it is a social agreement not enforceable by Court of law. **(2 marks)**

55. Two or more companies are **not** involved in the case of

(a) Amalgamation by sale of undertaking
(b) Merger
(c) Arrangement
(d) Takeover
(e) Amalgamation by sale of shares. **(1 mark)**

56. The doctrine of ultra vires is devised for the protection of the

(a) Company against outsiders
(b) Outsiders against company
(c) Shareholders against company
(d) Directors against company
(e) Outsiders against directors. **(1 mark)**

57. Under the Transfer of Property Act, 1882, where a person in any of the notified places, delivers to a creditor or his agent, documents of title to immoveable property, with intent to create a security thereon, such a mortgage is called as

(a) Simple Mortgage

(b) Mortgage by Conditional Sale
(c) Usufructuary Mortgage
(d) Mortgage by deposit of title deeds
(e) Anomalous Mortgage. **(1 mark)**

58. Which type of the following guarantees is generally **not** extended by a bank?

(a) Financial guarantee
(b) Fidelity guarantee
(c) Performance guarantee
(d) Statutory guarantee
(e) Deferred payment guarantee. **(1 mark)**

59. Under the Indian Contract Act, 1872, where the wrongdoer, before entering into the contract, makes reckless statements without knowing they were true or false, it is said to amount to

(a) Fraud
(b) Undue influence
(c) Misrepresentation
(d) Unilateral mistake
(e) Coercion. **(1 mark)**

60. When the imposition of tariffs increases the domestic production of products, it is known as

(a) Consumption effect
(b) Protective effect
(c) Balance of trade effect
(d) Revenue effect
(e) Welfare effect. **(1 mark)**

61. Srinivasan Sriraman, a computer dealer in Chennai, had sold desktops and other computer hardware articles worth Rs.5 lakh to Online Systems, Bangalore. Online Systems remitted Rs.2 lakh as advance and the balance amount was payable on taking delivery of documents of title to the goods covering the consignment. Srinivasan Sriraman sent the documents of title to the banker of Online Systems. Online Systems were unable to pay the amount and take delivery. The right of lien available to Srinivasan Sriraman, being an unpaid seller by implication of law under the Sale of Goods Act, 1930 is to

(a) Retain the possession of goods for the price by recalling the documents from the bank
(b) Recover the possession of goods from the buyer
(c) Recover the price from the buyer
(d) Recover damages for breach from the buyer
(e) Make use of the goods till the price is recovered. **(2 marks)**

62. Under section 264 of the Companies Act, 1956, which of the following directors is required to file his consent with the Registrar of Companies, to act as a director within 30 days of his appointment?

(a) An additional director who is reappointed as a regular director at the Annual General Meeting
(b) A person appointed as a director at a general meeting by the shareholders
(c) An alternate director who is reappointed as a regular director at the Annual General Meeting
(d) A person named as a director in the articles first registered
(e) A director reappointed as additional director immediately after retirement. **(2 marks)**

63. In which of the following cases personal liability of directors is attracted under the provisions of the Companies Act, 1956?

(a) The number of members in a private company is reduced below five and the company carries on business for a period exceeding 6 months
(b) The number of members in a private company is reduced below five and the company carries on business for a period exceeding 12 months
(c) The number of members in a private company is reduced below three and the company carries on business for a period exceeding 6 months
(d) The number of members in a public company is reduced below seven and the company carries on business for a period exceeding 6 months
(e) The number of members in a public company is reduced below seven and the company carries on business for a period exceeding 12 months. **(2 marks)**

64. Gupta promised to pay Rs.50,000 to the trustee of a temple for its renovation. The trustee initiated the renovation work by incurring a liability. Gupta refuses to pay the amount when the trustee requested for payment. Which of the following statements is **true** in respect of the rights of the trustee to recover the promised amount of Rs.50,000 under the Indian Contract Act, 1872?

(a) The trustee can enforce his right to recover, as he had incurred the liability on the strength of Gupta's promise
(b) The trustee has no remedy against Gupta as the payment of charitable subscription is a social agreement not enforceable by Court of law
(c) The trustee cannot demand the promised amount from Gupta as he had to obtain approval of Gupta before initiating the renovation work
(d) The trustee cannot enforce the contract for want of consideration
(e) The trustee cannot recover anything as there is no valid offer and its acceptance. **(2 marks)**

65. According to Section 433 of the Companies Act, 1956, a company may be wound up in case it makes a default in holding the statutory meeting or delivering the statutory report to the Registrar of Companies. Which of the following is empowered to order such winding up of the company under the Companies Act, 1956?

(a) The Registrar of Companies
(b) The National Company Law Tribunal
(c) The Central Government
(d) The High Court of the State where the registered office of the company is located
(e) The Regional Director. **(1 mark)**

66. A company is allowed to capitalize profits by issuing fully paid shares to the members, thereby transferring the sums capitalized from the free reserves account to the Share Capital. Such shares are known as

(a) Rights shares
(b) Redeemable preference shares
(c) Cumulative preference shares
(d) Participating preference shares
(e) Bonus shares. **(1 mark)**

67. Wealth tax under the Wealth Tax Act, 1957 is chargeable in respect of the wealth of a/an

(a) Individual
(b) Co-operative society
(c) Social club
(d) Political party
(e) Company registered under section 25 of the Companies Act. **(1 mark)**

68. Which of the following statements is **true** in respect of the features of a sole proprietorship?

(a) It is an incorporated business owned by one person
(b) Its liabilities are not the personal liabilities of the sole proprietor
(c) It has an existence apart from its owner
(d) It can engage independent contractors for carrying on business
(e) Incomes and expenses of the business are excluded from the sole proprietor's tax returns. **(1 mark)**

69. An amount that is specifically mentioned in the contract by the parties themselves to be payable to the aggrieved party in case towards the breach is known as

(a) Nominal damages
(b) General damages
(c) Liquidated damages
(d) Special damages
(e) Indirect damages. **(1 mark)**

70. An agreement does **not** become a valid contract when it involves

(a) Incompetent parties
(b) Valid consideration
(c) Free consent
(d) Legal object
(e) Certainty and possibility of performance. **(1 mark)**

END OF QUESTION PAPER

Suggested Answers
Business Law – I (MB2F1)

No. **Answer** **Reason**

1. C

Characteristic features of a limited company registered under the Companies Act, 1956:

- Independent corporate entity
- Limited liability
- Separate property
- Perpetual succession
- Transferability of interest
- Can sue and be sued.

Hence, option ‘C’ is correct answer.

2. C

In the case of insolvency of a partner, such partner ceases to be a member from the date he is declared insolvent, whether or not the firm is dissolved by such insolvency. Hence, option ‘C’ is correct answer.

3. A

A factor is a mercantile agent to whom goods are entrusted for sale with wide discretionary powers. He may sell such goods on his own name and may the pledge the goods on such terms as he thinks fit.

- A commission agent is one who buys or sells goods for his principal on terms as he thinks fit and receives commission for such work done.
- A mercantile agent who is employed to negotiate and make contracts for the purchase and sale of goods without control or possession of goods is known as broker.
- A mercantile agent entrusted with the possession of the goods for sale to the highest bidder in competition and authorized only to deliver the goods on receipt of the price is known as an auctioneer.
- A mercantile agent who for additional consideration from his principal, undertakes to perform the financial obligations of such third person in case such third person fails to fulfill the same, is known as del credere agent.

4. E

An agreement is voidable at the option of the party whose consent has been obtained by coercion, undue influence, fraud or misrepresentation. If the agreement is induced by bilateral mistake, the agreement is void. Hence, option ‘E’ is correct answer.

5. D

- A rule which prescribes a general course of action imposed by some authority which enforces it by superior power either by physical force or any other form of compulsion is called as Imperative law.
- The expression of the uniformities of nature – general principles expressing the regularity and harmony observable in the activities and operations of the universe are known as Physical or Scientific law.
- The law which is based on the principles of natural right and wrong is known as Natural law or Moral law.
- Any rule or system of rules agreed upon by persons for the regulation of their conduct towards each other is known as Conventional law.

- Practical or Technical law consists of rules for the attainment of certain ends e.g., law of health, the laws of architecture, etc.

6. B The following are the essentials of a valid gift under the Transfer of Property Act, 1881:

- There must be two parties – the donor and the donee.
- The donor should have an intention to gift at the time of making it.
- The subject matter of the gift should be tangible, which include movable or immoveable property and should be in existence at the time of making the gift.
- The transfer of property must be made without any consideration, for a valid gift.
- The gift must be voluntary and with free consent.
- The transfer of ownership of the property in existence must be voluntary.
- The donee must accept the gift unconditionally. The acceptance should be made during the life time of the owner and any acceptance of gift after the demise of donor is void.
- The gift of a property is complete only on registration and followed by the delivery of possession.

Therefore, in the given instance, Anamika cannot claim the ownership of the house as she had not accepted the gift during the lifetime of Radha Devi. Hence, option 'B' is correct answer.

7. E The number of members of a private company is to be compulsorily limited by its articles to fifty. The present employees who are members and former employees who had become members during their employment and continued to be members even after they have ceased to be employees will be excluded.

Therefore, in the given instance, as Ramlal is an ex-employee of the company who has obtained the shares during his employment and continues to be a member, he is not counted as a member of the company. Hence, option 'E' is correct answer.

8. D An unregistered firm or its partners cannot claim a set off or other proceeding based on a contract. Where an outsider sues the firm to recover a sum of money, the firm cannot claim a set off, which means the firm cannot ask the outsider who is also to pay some money to the firm to adjust the amount due on him towards the amount which the firm has to pay to the outsider.

Therefore, the firm cannot adjust the amount due from Sunil against the loan payable to him. Hence, option 'D' is correct answer.

9. B Ajay informs Rajesh 'The price for my car is Rs.1,50,000' amounts to a valid offer under the Indian Contract Act , 1872. All other options do not amount to valid offer.

10. B Section 313 of the Companies Act, 1956, lays down that the Board of Directors of a company can appoint an alternate director in place of the original director during his absence for a period not less than three months from the date in which the board meetings are held. This power can be exercised, only if authorized by the articles or by a resolution passed by the company in a general meeting.

The power to appoint the alternate director is not given to the original director but to the Board. Hence, option 'B' is correct answer.

11. B As per Section 28, a public company limited by shares may either frame its own set of articles or may adopt all or any of the regulations contained in Table A of Schedule I to the Companies Act. If such company does not register the articles, Table A automatically applies.

The following companies should however have their own articles:

- Unlimited Companies
- Companies limited by guarantee and
- Private Companies limited by shares.

The form of memorandum and articles of a guarantee company and not having share capital can be found in Table C of Schedule I to the Companies Act.

The form of memorandum and articles of a guarantee company having share capital can be found in Table D of Schedule I to the Companies Act.

12. A A fixed charge is a charge in some specific and identifiable asset of the company. A fixed charge is a legal charge whereas a floating charge is an equitable charge. A floating charge is created on movable property of the company. A floating charge remains dormant and crystallizes by the happening of some event which fixes the charge i.e. default of the company or liquidation of the company. Hence, option 'A' is correct answer.

13. C Under a letter of credit, where the advising bank in addition to advising credit to the beneficiary, confirms such credit , such an advising bank shall be deemed as a Confirming Bank. Hence, option 'C' is correct answer.

14. A Consideration may be past consideration, Executed or present consideration and Executory or future consideration.

Past consideration is one which is paid for a past act or forbearance. An act constituting consideration, which took place, before the promise is made. This kind of consideration presupposes a request by the promisor. For example, if C pays a cheque of Rs.100 to D for returning his lost purse.

Therefore, under the Indian Contract Act, 1872, if a consideration is paid for a past forbearance that was rendered before the promise is made; it is considered as past consideration Hence, option 'A' is correct answer.

15. C Basic principles of WTO are:

- Trade without discrimination.
- No Most Favoured Nation (MFN) Treatment – no special deals to trading partners, all members of WTO must be treated with the same status.
- No National Special Treatment ─ locals and foreigners are treated equally.
- Freer trade.
- Predictability through binding ─ promising not to raise tariffs is called binding a tariff and binding leads to greater certainty for business.
- Promoting fair competition.
- Encouraging development and economic reform.
- Freer trade.

Hence, option 'C' is correct answer.

16. B According to Section 43, where the goods are sent to the buyer and where it is discovered that the goods do not answer to the description given, the buyer has the right to reject the goods. However, the buyer is not bound to return the goods to the seller. While the goods are in his possession, he occupies the position of a bailee and is required to take care of them. The responsibility of removing the goods from the buyer's possession lies with the seller. Also, while the goods are in possession of the buyer, all risks attached to such goods lie with the seller.

Therefore, in the given case, the expenses of returning the rejected goods to Kolkata must be borne by Rakesh Sahay as he is the seller. Hence, option 'B' is correct answer.

17. D The right of a company to make an issue of shares under this section is not dependant upon the capacity of any shareholder to take up the shares offered. Also, the existing shareholders cannot object to increase on the ground that the shareholding of the holding company would be reduced thereby.

In Free Wheel (India) Limited vs. Dr. Veda Mitra, the Court refused to grant an injunction restraining a subsidiary company to proceed with further issue of shares. In this case, a petition was made by the holding company wherein it pleaded that because of its weak financial position it would not be able to subscribe to the shares issued by the subsidiary, resulting in a reduction in its shareholding in the subsidiary.

Therefore, in the given instance, Silicone Metals Ltd., cannot be restrained from issuing rights shares on the ground of reduction in shareholding of some of its members. Hence, option 'D' is correct answer.

18. B A HUF has a separate legal entity and cannot enter into a partnership with other persons, as a partnership is not a legal person, but the Karta of a HUF can. However, two Kartas of two different HUFs can form a partnership, but the individual members of the two HUFs do not automatically become partners.

Therefore, in the given instance, the two Kartas can form a partnership, but the individual members do not automatically become members of the partnership. Hence, option 'B' is correct answer.

19. B A contract is voidable when the consent of the party to a contract is obtained by fraud, misrepresentation, coercion or undue influence. The party whose consent is so obtained can either reject the contract or proceed with the contract at his option. He may ask the other party to put him in the position he would have been in the absence of such fraud or misrepresentation etc., and proceed with the contract. In such a case the contract would be binding on both the parties.

Therefore, in the given instance, as even after discovering that the car was not in good condition, Vijay did not rescind the contract but instead accepted the offer of Anand to bear half the cost of repairs of Rs.30,000, Vijay cannot get back the money paid by him. Hence, option 'B' is correct answer.

20. E The special business transacted at the Extra-ordinary General Meeting (EGM) has to be urgent, which cannot be deferred to the next Annual General Meeting (AGM). For instance, a change in the objects or shift of registered office or alteration of capital or removal of director/auditors requires immediate attention, necessitating the need to call an EGM. Hence, option 'E' is correct answer.

21. E The following persons will be held liable under Section 62 in case a subscriber has sustained loss because of an untrue statement in the prospectus:

- Every person who is a director of the company at the time of issue of the prospectus.
- Every person who has authorized himself to be named and is named in the prospectus as director, or as one having agreed to become a director, either immediately of after an interval of time.
- Every promoter of the company.
- Every person (including an expert) who has authorized the issue of the prospectus.

A person who is not named as a director in the prospectus, becomes a director of the company after the issue of prospectus cannot be held liable for misstatements in the prospectus. Hence, option 'E' is correct answer.

22. B The Central Government collect wholly indirect taxes like Customs duty, Excise duty, Central Sales Tax (CST) and direct taxes like Income Tax, Wealth Tax, Estate Duty and Education Cess, etc.

Indirect taxes like Sales Tax/VAT, Excise duty on liquor etc., and direct taxes like Property tax, Professional Tax are collected by the concerned State Government.

Hence, option 'B' is correct answer.

23. A Under the Indian Stamps Act, 1899,

Revenue stamps: Documents like demand promissory notes, cash receipts, acknowledgement of debt should be stamped with adhesive revenue stamps of appropriate value before execution.

Special adhesive stamps: printed agreements/Xerox copies of printed blank documents should be affixed with special adhesive stamps. These stamps are cancelled by appropriate authority before execution of documents.

Embossed/Engraved Stamps: Stamps can also be embossed or engraved by the stamps authorities on banks' standard forms.

Non-judicial stamp paper: Non-judicial stamp paper carries the stamp duty embossed on the paper itself and as such stamped paper of requisite value may be purchased from local stamp vendors.

24. D When a contract is breached by one party, the other party may sue to treat the contract as rescinded and refuse further performance. The aggrieved party may need to approach the Court to grant him cancellation of the contract. Hence, option 'D' is correct answer.

25. C Section 2(a) of the Contract Act defines a proposal 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. Thus, a contract is an agreement; an agreement is a promise and a promise is an accepted proposal.

26. D Depending upon case laws and judicial interpretations "goods" for the purposes of levy of excise duty must satisfy two preconditions – their movability and marketability.

Hence, option 'D' is correct answer.

27. E According to Section 254, subject to the provisions of the articles, the subscribers to the memorandum of association will be deemed to be the first directors of the company, until the directors are appointed in accordance with Section 255.

Therefore, in the given instance, Balwant Thakur shall hold office up to the appointment of directors by the shareholders in a general meeting. Hence, option 'E' is correct answer.

28. A According to Section 270, if the articles require a director to take up qualification shares, then such a person to be eligible to act as a director must acquire such qualification shares within two months of his appointment as director. On the expiry of two months, he automatically vacates his office if he has failed to acquire these shares.

Therefore, in the given instance, Aloknath is deemed to have vacated his office from the date of expiry of two months from the date of his appointment. Hence, option 'A' is correct answer.

29. B The facts of the given instance are similar to the decided case of Madhub Chander vs. Raj Coomar, wherein, thre were two rival shopkeepers in a locality, and one of them agreed to pay a sum of money to the plaintiff if he would close the business in that area. The plaintiff accordingly did so, but the defendant refused to give any money to him. The Court held the agreement to be void.

Therefore, in the given instance, Mangesh is not liable to pay Rs.2,00,000 to Madhavan as the agreement is void. Hence, option 'B' is correct answer.

30. D According to the principle damnum sine injuria (damage without a legal injury), no action lies, even when actual and substantial loss occurs if there is no infringement of any legal right.

In Gloucester Grammar School case, a schoolmaster (defendant) set up a rival school against the plaintiff, Because of the defendant's school, the plaintiff had to reduce the price from 40 pence to 12 pence per scholar per quarter. Thus, the plaintiff suffered financial loss. But there was no injury to his legal rights. The plaintiff could not get any compensation from the defendant.

Therefore in the given instance, Abhay cannot be held liable for payment of damages for causing financial losses to Saraswati Vidyalaya as there was no legal injury to Saraswati Vidyalaya. Hence, option 'D' is correct answer.

31. C Buy-back can be made only from the sources and in the modes prescribed by section 77A. A company is also prohibited from purchasing its securities through its subsidiary company or an Investment Company.

A listed company may buy-back its securities through tender offer or from the open market which may be through the stock exchange or through the book-building process or from odd lots, subject to compliance with the conditions specified therein.

Hence, option 'C' is correct answer.

32. E Any stock-in-trade, consumable stores or raw materials held for the purpose of business or profession and Jewellery held for personal use are not treated as capital assets under section 2(14) of the Income Tax Act, 1961.

The goodwill of a business is a capital asset and any excess realized over its book value would be a capital gain chargeable to tax. Hence, option 'E' is correct answer.

33. D Features of HUF:

- A Hindu Undivided Family (HUF) consists of people who have lineally descended from a common ancestor and includes the wives and unmarried daughters.
- The family business is considered as a part of ancesstral property and is a subject matter of coparcenary interest.
- The Karta is bestowed with full control over the affairs of the family business and is not questioned on the acts done for the benefit and in the name of the family. He is a deemed caretaker of the firm's assets.

- The male members of the joint family business are called as coparceners and the female members are referred as ‘members’. The coparceners are entitled for the partition of HUF property, whereas the members receive only the maintenance from the HUF.
- The income earned on the utilization of the HUF’s assets and on the investment of its funds is regarded as the HUF’s income which is assessed separately and is taxed.

Hence, option ‘D’ is correct answer.

34. A An agency may be created by

- Express agreement i.e. by words spoken ort written, or
- Implied agreement i.e. by inference from the circumstances of the case and thigs spoken or written or the ordinary course of things.

Implied agency includes agency by estoppels, agency by necessity, agency in emergency, agency by ratification and agency by operation of law.

When a person, by his conduct or statement, willfully leads another person to believe that a certain person is his agent, he is estopped from denying subsequently that such person is not his agent. This is known as agency by estoppel or holding out. Hence, option ‘A’ is correct answer.

35. C An offer under the Indian Contract Act, 1872 may lapse under any of the following circumstances:

- When the offer is not accepted in the prescribed mode.
- When it is not accepted within the prescribed time.
- By rejection or counter offer.
- By death or insanity of either party to the contract.
- By revocation of offer.
- By subsequent illegality or destruction of subject matter.
- On failure to fulfill a condition precedent to acceptance.

Therefore, an offer is said to lapse when a counter offer is made. Hence, option ‘C’ is correct answer.

36. C Income from Other Sources includes income from the letting of plant, machinery and furniture along with the letting of building. The letting of the building is inseparable from the letting of plant, machinery and furniture.

Hence, option ‘C’ is correct answer.

37. E A written notice of the Board Meeting should be sent to every director for the time being in India and to his usual address in case of every other director. The notice should be issued under the authority of the company.

An officer who fails to give such a notice will be punishable with fine which may extend to Rs.1,000.

Any such failure to give notice will render the proceedings of the meeting invalid.

Therefore, in the instant case, the meeting and the resolutions passed thereat are invalid for want of notice to Shubham Makhija. Hence, option ‘E’ is correct answer.

38. D Change of registered office of the company from one city, town or village to another city town or village but from the jurisdiction of one ROC to another ROC within the same state requires special resolution and confirmation of Regional Director.

Therefore, in the given instance, Century Technologies Ltd., is required to obtain the Confirmation of the Regional Director. Hence, option 'D' is correct answer.

39. C Where the creditor enters into an agreement with the principal debtor releasing him from his liability, the surety stands discharged.

The following illustration aptly discusses this:

'A' give guarantee to 'C' for goods to be supplied by 'C' to 'B'. 'C' supplies goods to 'B', and afterwards 'B' becomes embarrassed and contracts with his creditors (including C's) to assign to then his property in consideration of them releasing him from their demands. Here, 'B' is released from his debt by the contract with 'C', and 'A' is discharged from his suretyship.

Therefore, in the given instance, Neeraj stands discharged as Manoj has entered into an agreement releasing Pankaj, the principal debtor from his liability. Hence, option 'C' is correct answer.

40. D An acceptance must be clear and unconditional. The acceptance becomes invalid if the terms of the offer differ from the original offer at the time of acceptance or after acceptance. In order to convert an offer into a promise, acceptance should be absolute and unqualified. A conditional or qualified acceptance does not result in a valid contract.

Therefore, in the given instance, a valid contract has not resulted as the acceptance is conditional. Hence, option 'D' is correct answer.

41. E Section 274 of the Companies Act, 1956 provides that a person who is already a director of a public company which

i. Has not filed the annual accounts and annual returns for any continuous three financial years commencing on and after the 1st day of April, 1999, or

ii. Has failed to repay its deposit or interest thereon on due date or redeem its debentures on due date or pay dividend and such failure continuous for one year or more.

Shall not be capable of being appointed as director of any company.

Therefore, in the given instance, a director of a public company that has failed to redeem its debentures on the due date and the said failure has continued for a period more than one year and is disqualified. Hence, option 'E' is correct answer.

42. E The facts are similar to the decided case of Royal British Bank vs. Turquand (1856), where the directors of a company borrowed a sum of money from the plaintiff. The company's articles provided that the directors might borrow on bonds from time to time to be authorized by a resolution passed at a general meeting of the company. The directors gave a bond to Turquand without the authority of any such resolution. It was held that Turquand could sue the company on the strength of the bond, as he was entitled to assume that the necessary resolution had been passed.

Therefore, in the given instance, as the directors were accustomed to borrowing on bonds Pritam Chawla need not enquire about the passing of resolution and he can sue the company on strength of the bond. Hence, option 'E' is correct answer.

43. B An agent is bound to conduct the business of his principal according to the directions given, or in the absence of directions, according to the custom which prevails in doing business of the same kind at the place where the agent conducts such business.

In case the agent does not follow the instructions of the principal or in case there are no instructions, he departs from the commonly established practice, he will be liable to compensate the principal for any loss incurred because of the departure.

Therefore, in the give instance, Swati is liable to compensate the loss as she had not followed the instructions of Sudha, the principal. Hence, option 'B' is correct answer.

44. A A contract cannot be ratified by a minor on attaining the age of majority. Therefore, any consideration received during minority cannot amount to consideration for a contract entered on attaining majority. The minor cannot be asked to compensate or pay for a benefit received under a void contract.

The facts of the given case are similar to the decided case of Suraj Narain vs. Sukhu Akhir, wherein a person borrowed some money during his minority and on attaining majority, made a fresh promise to pay that sum along with interest. It was held that consideration received by him during his minority cannot be considered valid for a fresh promise.

Therefore, in the given instance, Manish is not liable to repay anything as the consideration received by him during his minority cannot be considered valid for executing the fresh promise. Hence, option 'A' is correct answer.

45. D Where the right to any shares has passed to a person by operation of law such as the death, insolvency, lunacy of the shareholder or by acquiring shares by purchase in a court sale, a transmission of shares takes place. The process of transmission is not the same as a transfer, and does not require any instrument of transfer to be lodged with the company. Similarly, there is no payment of stamp duty in case of transmission of shares. However, the company may insist upon evidence such as a succession certificate, production of probate or letter of administration.

Where the persons acquire interest in shares by virtue of transmission, they will not be eligible to exercise voting rights or receive dividends in case they do not get the shares registered in their names. However, any calls due on such shares will be enforced against them in their capacity as legal representatives of the deceased shareholder.

Hence, option 'D' is correct answer.

46. D The following exemptions are available to a private company under the Companies Act, 1956:

- A private company is exempted from following the norms of offering rights issue whenever there is an expansion of capital. Hence, the shares of a private company need not be first offered to the existing shareholders. (Section 81).
- Directors of a private company need not be appointed by a resolution per each director as in case of public limited companies. The directors may be appointed by a single resolution.
- The directors of a private company are not required to retire by rotation unlike a public company, where 2/3rds of director must retire by rotation at each Annual general Meeting. (Section 256).
- Quorum required for the general meeting in case of private company is two persons as against five persons in case of public company (Section 174).
- A private company need not hold any statutory meeting or file a statutory report (Section 165).

- A private company, by virtue of restriction on the public participation, is exempt from all the requirements of the Act relating to the prospectus (section 70).
- The restrictions on the commencement of business contained in Section 149 do not govern private companies.

47. E The term ‘goods’ under Sale of Goods Act, 1930 does not include Actionable claims and money. Hence, option ‘E’ is correct answer.

48. E

- There are three parties in a contract of guarantee i.e. the creditor, the debtor and the surety.
- There are three contracts in a contract of guarantee i.e. between the creditor and the debtor, between the creditor and the surety and between the debtor and the surety.
- A guarantee may be specific or continuing. A specific guarantee covers only one transaction or objective, is limited to a certain sum of money and is limited as to time.
- A guarantee may be either oral or written.
- A guarantee presupposes the existence of a debt. If there is no existing liability, there cannot be a guarantee.

Hence, option ‘E’ is correct answer.

49. B Section 11 of the Indian Contract Act, 1872 explains that “Every person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of unsound mind, and is not disqualified from contracting by any law to which he is subject.” Therefore, a person who has not attained the age of majority, a person who is considered as an alien enemy, a person who is adjudged insolvent and a convict are disqualified to enter into a contract. A person with a sound mind can enter into valid contracts. Hence, option ‘B’ is correct answer.

50. B

- A tort is inflicted against somebody without his consent.
- In torts no privity between the parties is required.
- In case of tort the duty is imposed by the law and is owed to the community at large.
- In tort compensation is the only remedy.

Hence, option ‘B’ is correct answer.

51. C According to Section 58 (a) of the Transfer of Property Act, 1882, “A mortgage is the transfer of an interest in specific immoveable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to pecuniary liability.”

In the given instance, the possession of the flat is given to the lender as a security for the payment of the loan and also the right of receiving the rent arising from the letting of the flat till the repayment of the loan is given to the lender, which makes it an usufructuary mortgage. Hence, option ‘C’ is correct answer.

52. C Any person who takes shares from the company relying on a prospectus containing misstatements or omission of material facts may (a) rescind the contract to take the shares (b) claim damages. Rescission of the contract can be resorted to only when an investor subscribes to shares based on a material misrepresentation of fact in the prospectus. The aggrieved investor should also ensure that he rescinds the contract within a reasonable time.

It must be noted that the allottee cannot both retain the shares and get damages from the company.

Therefore, in the given instance, Asha can rescind the purchase of shares and claim damages from the promoters for misstatement in prospectus. Hence, option ‘C’ is correct answer.

53. A The liability of the partners of a LLP is limited except in case of unauthorized acts, fraud and negligence. There is no personal liability for the wrongful acts of other partners and the loss due to such acts shall be borne by the LLP property.

Therefore, in the given instance, the liability of the partners in a LLP is limited and there is no personal liability of the partners. Hence, option ‘A’ is correct answer.

54. D Section 2(d) of the Indian Contract Act, 1872, defines consideration as: “when at 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 act or abstinence or promise is called a consideration for the promise”.

One of the legal rules as to consideration is that it may be an act, abstinence or forbearance or a return promise.

Therefore, in the instant case, Tejas is bound to pay compensation as the agreement not to file a suit amounts to valid consideration. Hence, option ‘D’ is correct answer.

55. C The terms ‘reorganization’ and ‘arrangement’ are used when only one company is involved whereas the term ‘amalgamation’ is used when more than one company is involved (i.e., when two or more companies are amalgamated or where one company is merged with another or where one company is taken over by another).

56. A The rule of ultra vires was devised for the protection of the company’s interest and it is not capable of being used against the company’s interest. Therefore, others cannot sue on the ground of ultra vires, the claim of a company which has matured. Hence, option ‘A’ is correct answer.

57. D Where a person in any of the notified places viz., Kolkata, Chennai, Mumbai and in any other town which the State Government concerned may by notification in the official gazette, specify in this behalf, delivers to a creditor or his agent documents of title to immoveable property, with intent to create a security thereon is called as Mortgage by deposit of title deeds.

58. B Types of bank guarantee:

- Financial guarantee
- Performance guarantee
- Statutory guarantee
- Deferred payment guarantee.

A bank does not give fidelity guarantee. It is given by an individual surety for the good conduct of an individual.

59. C Under the Indian Contract Act, 1872, where the wrongdoer, before entering into the contract, makes reckless statements without knowing they were true or false, it is said to amount to misrepresentation. Hence, option ‘C’ is correct answer.

60. B There are five different reasons for the imposition of tariffs:

- It leads to reduction in consumption in the importing country – the consumption effect.
- It increases the domestic production of products – the protective effect.
- It improves the balance of trade position of that country – the balance of trade effect.
- It generates the revenue for the importing country – the

revenue effect.

- It reduces the economic welfare in the importing country – the welfare effect.

61. A 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:

- Lien on the goods for the price while he is in possession of them.
- In case of the insolvency of the buyer a right of stopping the goods-in-transit after he has parted with their possession.
- A right of resale as limited by this Act.

An unpaid seller can exercise lien on the goods in his possession, irrespective of the fact that the documents transferring the title to the goods have been parted with.

Therefore, in the given instance, the right of lien exercised by an unpaid seller is to retain the possession of goods, as he has not parted the goods. Hence, option 'A' is correct answer.

62. B Filing of consent is not required in case of

- A director re-appointed after retirement by rotation or immediately on the expiry of his term of office, or
- An additional or alternate director, or a person filling a casual vacancy in the office of a director under Section 262, appointed as a director or re-appointed as an additional or alternate director, immediately on the expiry of his term of office, or
- A person named as a director of the company under its articles as first registered.

Therefore, in the given instance, a person appointed as a director at a general meeting by the shareholders has to file his consent to act as such. Hence, option 'B' is correct answer.

63. D Section 45 specifies that "if at any time the number of members of the company is reduced (i) in the case of a public company, below seven, (ii) or in the case of a private company, below two and (iii) the company carries on business for more the six months while the number is so reduced, every person who is a member of the company …. and is cognizant of the fact…..shall be severally liable for the payment of the whole debts of the company contracted during that period".

The number of members in a public company is reduced below seven and the company carries on business for a period exceeding 6 months corporate veil needs to be lifted under the provisions of the Companies Act, 1956 on the ground of reduction of membership. Hence, option 'D' is correct answer.

64. A In the given case, the trustee had incurred a liability on the basis of the promise made out without consideration. The promise is enforceable as it resulted in detriment to the trustee. Hence, the contract is valid.

65. D The High Court of a State is empowered to order winding up of a company under specified circumstances like a default in holding the statutory meeting or delivering the statutory report to the Registrar of Companies. Hence, option 'D' is correct answer.

66. E A company is allowed to capitalize profits by issuing fully paid shares to the members, thereby transferring the sums capitalized from the profit and loss account or reserve account to the Share Capital. Such shares are known as bonus shares and are issued to the existing members of the company, free of charge. Bonus shares are also called as ‘capitalization shares’.

67. A As per the provisions of section 45 of the Wealth Tax Act, no wealth tax is chargeable in respect of net wealth of :

- Any company registered under section 25 of the Companies Act.
- Any co-operative society.
- Any social club.
- Any political party.
- A mutual fund specified under section 10(23D) of the Income Tax Act.

An individual is an assessee for the purpose of the Wealth Tax Act.

68. D Features of a sole proprietorship:

- It is an unincorporated business owned by one person.
- All the liabilities that arise from a sole proprietorship are the personal liabilities of the owner.
- Sole proprietorship has no existence apart from its owner.
- It can engage any number of employees or independent contractors for carrying on business.
- All the incomes and expenses of the business are included in the sole proprietor’s income tax returns and hence there is no need to file separate tax returns for a sole proprietorship.

Hence, option ‘D’ is correct answer.

69. C An amount that is specifically mentioned in the contract by the parties themselves to be payable to the aggrieved party in case towards the breach is called as liquidated damages.

70. A According to Section 10 of the Indian Contract Act, 1872, “All agreements are contracts if they are made by the free consent of parties competent to contract for a lawful consideration and with a lawful object and are not hereby expressly declared to be void”. From this definition we understand that an agreement becomes a contract when it involves competent parties, valid consideration, free consent and legal object.