

Question Paper

Business Law – I (MB261): July 2008

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

Total Marks : 100

1. In which of the following circumstances, a person does **not** become a member of a company under the Companies Act, 1956? <Answer>
- (a) By merely purchasing shares of a company in the open market
 - (b) By agreeing in writing to become member and consequent registration of his name in the members' register
 - (c) By acquiring qualification shares
 - (d) By subscribing to the Memorandum of Association of the company
 - (e) By transmission of the shares upon the death of the holder of the shares. (1 mark)
2. Which of the following is **false** in respect of the characteristic features of a limited company registered under the Companies Act, 1956? <Answer>
- (a) Separate legal entity
 - (b) Perpetual succession
 - (c) Common seal
 - (d) Common property
 - (e) Transferable shares. (1 mark)
3. Which of the following is **not** considered as material alteration of a negotiable instrument under the Negotiable Instruments Act, 1881? <Answer>
- (a) Alteration relating to date of payment
 - (b) Alteration relating to place of payment
 - (c) Alteration relating to rate of interest payable
 - (d) Alteration relating to the sum payable
 - (e) Conversion of general crossing of a cheque into special crossing. (1 mark)
4. Which of the following is a mode of discharge of contract by operation of law under the Indian Contract Act, 1872? <Answer>
- (a) Accord and satisfaction
 - (b) Remission
 - (c) Novation
 - (d) Waiver
 - (e) Merger. (1 mark)
5. "Every promise or set of promises forming the consideration for each other" is defined under the Indian Contract Act, 1872 as <Answer>
- (a) Offer
 - (b) Contract
 - (c) Agreement
 - (d) Consideration
 - (e) Acceptance. (1 mark)
6. Sumant is a Managing Director for two companies. In case both of the companies get insufficient profits, which of the following is **true** in respect of managerial remuneration under the Companies Act, 1956? <Answer>
- (a) He is entitled to receive remuneration from only one of the two companies
 - (b) He is not entitled to receive any amount of remuneration from both the companies
 - (c) He is entitled to receive remuneration from the company with higher profit
 - (d) He is entitled to receive remuneration from both companies and the total remuneration shall not exceed the limits specified by Schedule XIII
 - (e) He is entitled to receive remuneration from the company in which he was first appointed. (2 marks)
7. Amrita went to the shop of Shraavan and asked for a tin of disinfectant powder. Shraavan sold a tin of disinfectant powder to Amrita knowing fully well that if the tin was not opened with special care, it was likely to cause injury. Shraavan did not disclose the fact about the inherent danger in the use of the (2 marks) <Answer>

disinfectant powder tin to Amrita. Amrita opened the tin whereupon the powder flew into her eyes, causing injury to her eyes. Amrita filed a suit against Shraavan for damages for not disclosing the inherent danger in using the disinfectant tin. Which of the following statements is **true** in respect of these circumstances under the Sale of Goods Act, 1930?

- (a) Amrita cannot file a suit for damages as the doctrine of caveat emptor i.e., let the buyer beware applies in case of inherently dangerous items like disinfectant powder
- (b) Amrita cannot file a suit for damages as she had not relied on the judgment of Shraavan in buying the tin of disinfectant powder
- (c) Amrita cannot file a suit for damages as the opening of the tin of disinfectant powder required special care which need not be disclosed by Shraavan
- (d) Amrita can file a suit for damages as it was the duty of Shraavan to disclose the inherent danger in the goods
- (e) As there was no defect in the disinfectant powder, Amrita cannot file a suit for damages against Shraavan.

<Answer>

8. Which of the following instances is treated as 'special crossing' under the Negotiable Instruments Act, 1881?

- (a) A cheque bearing across its face the words 'account payee' within two transverse parallel lines
- (b) A cheque bearing across its face the words 'not negotiable' within two transverse parallel lines
- (c) A cheque bearing across its face the words 'not exceeding rupees two hundred' within two transverse parallel lines
- (d) A cheque bearing across its face the words 'State Bank of India, New Delhi' within two transverse parallel lines
- (e) A cheque bearing simply two transverse parallel lines.

(2 marks)

<Answer>

9. Malati, aged 17 years, borrowed an amount of Rs.10,000 from Ramlal. On attaining majority, she borrowed a further sum of Rs.2,000 and executed a promissory note in favour of Ramlal to pay the total amount of Rs.12,000. On being reminded of the repayment of the debt, Malati refuses. Which of the following statements is **true** in respect of the liability of Malati under the Indian Contract Act, 1872?

- (a) Malati is liable to pay Rs.10,000 being the amount originally payable
- (b) Malati is liable to pay Rs.2,000 being the amount borrowed after attaining majority
- (c) Malati is liable to pay the entire amount of Rs.12,000
- (d) Malati is not liable to pay any amount as a contract with a minor is void ab initio
- (e) Malati need not pay any amount to Ramlal but he can recover the entire amount from her estate.

(2 marks)

<Answer>

10. Which of the following statements is **false** in respect of the provisions relating to an investigation into the affairs of a company under the Companies Act, 1956?

- (a) Investigation can be conducted only by competent persons appointed by the Central Government
- (b) The inspector has the powers to seize books and documents
- (c) The inspector has the power to investigate into the affairs of holding company or subsidiary of the company with or without the approval of the Central Government
- (d) It is obligatory on the part of the Central Government to forward a copy of the investigation report on request to any member or creditor of such company, free of cost
- (e) The expenses are met by the Central Government and may be reimbursed by the members of the company.

(1 mark)

<Answer>

11. Which of the following is considered as a deposit accepted by the company under the Companies (Acceptance of Deposits) Rules, 1975?

- (a) Amount received from a local authority
- (b) Borrowings from banks and financial institutions
- (c) Amount received from shareholders of the company, otherwise than in respect of subscription for shares held
- (d) Security deposit received from an employee or agent
- (e) Amount received from a director of the company.

(1 mark)

<Answer>

12. Which of the following statements is **false** in respect of an unlimited company under the Companies Act, 1956?

- (a) The company's creditors can directly sue its members for its liabilities
- (b) The company may increase or decrease its share capital without any restriction by passing a
- (c) The company may get itself re-registered as a limited company

(1 mark)

- (c) The company may get itself re-registered as a limited company
- (d) The liability of each member extends to the whole amount of the company's debts and liabilities
- (e) In case of winding up, the official liquidator may call upon the members to discharge the debts and liabilities without limit.

13. Which of the following statements is **true** in respect of the duties of a buyer under the Sale of Goods Act, 1930? [<Answer>](#)

- (a) To make payment for the goods as per his convenience
- (b) To give notice of rejection of goods to the seller
- (c) To make a demand for delivery of goods at any time
- (d) To apply for delivery of goods even in case of express contract
- (e) To take delivery of goods at any time after the tender of the delivery.

(1 mark)

14. Which of the following statements is **false** in respect of a contract of guarantee under the Indian Contract Act, 1872? [<Answer>](#)

- (a) It can be given for future debt
- (b) It can be retrospectively given for an existing debt
- (c) It can be given for a specific debt
- (d) It can be given for a continuous series of transactions
- (e) It can be given even in case of a time barred debt.

(1 mark)

15. Which of the following statements is **false** in respect of valid consideration under the Indian Contract Act, 1872? [<Answer>](#)

- (a) It can be an act, abstinence or forbearance
- (b) It can be the return promised for the performance of a contract
- (c) It can be a detriment to the other party
- (d) It cannot be opposed to public policy
- (e) It can always be given without the desire of the promisor.

(1 mark)

16. Nine Infosolutions Ltd., convened a general meeting on June 30, 2008 by duly issuing notices to all the members of the company. The Chairman of Nine Infosolutions Ltd., adjourned the meeting to the next week for want of quorum. The company did not issue any fresh notice to the members for the adjourned meeting. At the adjourned meeting also quorum was not present. Which of the following statements is **true** in respect of the general meeting under the Companies Act, 1956? [<Answer>](#)

- (a) The adjourned meeting can be held without requirement of any quorum
- (b) The adjourned meeting can be held with the members present as the quorum, after waiting for half an hour from the appointed time of the meeting
- (c) The adjourned meeting is not valid as notices were not issued to the members of the company
- (d) The adjourned meeting is valid only if all the members of the Board of directors are present
- (e) The adjourned meeting is not valid as the absence of quorum at the original meeting indicates disapproval of the members.

(2 marks)

17. Rohit and his wife Roma, together formed a company Sixth Dimension Technologies (Private) Ltd. They were the only members of the company. While on their way to attend a business seminar both of them died in a car accident. Which of the following statements is **true** in such a situation? [<Answer>](#)

- (a) The company ceases to exist as there are no members alive
- (b) The management of the company shall be taken over by the Registrar of Companies
- (c) The legal heirs of Rohit and Roma can continue the company
- (d) The employees of the company can take over as members of the company
- (e) The creditors of the company can take over the business and become its members.

(2 marks)

18. Vasanth Desai endorsed a bill by giving the right to the endorsee to receive the amount due on the instrument dependent on the happening of a specified event which may or may not happen. Under the Negotiable Instruments Act, 1881, such an indorsement is known as [<Answer>](#)

- (a) Conditional indorsement
- (b) Restrictive indorsement
- (c) Partial indorsement
- (d) Special indorsement
- (e) Blank indorsement.

(2 marks)

19. Anuj, an auctioneer in Jaipur advertised in a newspaper dated June 1, 2008 that office computers would be auctioned on June 30, 2008. Harvinder came from Amritsar to Jaipur to attend the auction, but the [<Answer>](#) (2 marks)

auction was withdrawn. Harvinder sued Anuj for damages for the loss of his time and expenses. Which of the following statements is **true** in respect of the auction under the Indian Contract Act, 1872?

- (a) As an invitation to make an offer is binding if a proposal is received in reply to such invitation, Anuj is bound to sell the computers to Harvinder
- (b) Harvinder can claim his expenses as well as damages from Anuj for his failure to conduct auction
- (c) Harvinder will not succeed in getting compensation as the advertisement of auction sale will not amount to a valid offer
- (d) The arrival of Harvinder to participate in the auction amounts to implied acceptance, Anuj is bound to sell the computers
- (e) As Anuj has a right to cancel the auction, Harvinder can claim only his expenses, but not any damages.

[<Answer>](#)

20. In which of the following instances, the National Company Law Tribunal will **not** pass an order for winding up of a company by under section 433 of the Companies Act, 1956?

- (a) Reduction of number of members below statutory minimum
- (b) Inability to pay its debts
- (c) Failure to commence business within a year of its incorporation
- (d) Default in holding annual general meeting
- (e) Default in holding statutory meeting by a public company limited by shares.

(1 mark)

[<Answer>](#)

21. Which of the following statements is **false** in respect of Annual General Meeting (AGM) of a company under the Companies Act, 1956?

- (a) The gap between two consecutive AGMs cannot be more than 15 months
- (b) The AGM should not be held if the accounts are not ready
- (c) An extension of three months to hold the AGM can be granted by the Registrar of Companies
- (d) A public company can fix the time of holding its AGM through its Articles of Association
- (e) The AGM should be held during business hours on a day that is not a public holiday.

(1 mark)

[<Answer>](#)

22. The preference shares which are entitled to fixed preferential dividend and which carry a right to participate in the surplus profits along with equity shareholders after dividend at a certain rate has been paid to equity shareholders are known as

- (a) Cumulative preference shares
- (b) Non-cumulative preference shares
- (c) Redeemable preference shares
- (d) Convertible preference shares
- (e) Participating preference shares.

(1 mark)

[<Answer>](#)

23. Every instrument executed in India and chargeable to stamp duty under the Indian Stamps Act, 1899, should be stamped

- (a) Before the admission of the instrument as an evidence in a Court of law
- (b) At the time of the execution of the instrument
- (c) One month after the execution of the instrument
- (d) Three months after the execution of the instrument
- (e) At any time as desired by the parties to the instrument.

(1 mark)

[<Answer>](#)

24. Under the Indian Contract Act, 1872, a promoter of a company is considered to be an agent of the company. This is an example of

- (a) Agency by operation of law
- (b) Agency by estoppel
- (c) Irrevocable agency
- (d) Agency by ratification
- (e) Agency by necessity.

(1 mark)

[<Answer>](#)

25. A contract where one party promises to save the other from loss caused to him by the conduct of the promisor himself or by the conduct of any other person is called a

- (a) Bailment
- (b) Wagering agreement
- (c) Contract of guarantee
- (d) Contract of indemnity
- (e) Pledge.

(1 mark)

26. Mr. Shivnath is a director in 13 public companies. Which of the following directorships if accepted by him will exceed the limits specified under section 275 of the Companies Act, 1956? <Answer>
- (a) Additional director in 3 public companies
 - (b) Additional director in 2 public companies
 - (c) Alternate director in 3 public companies
 - (d) Director in 3 public companies
 - (e) Director in 3 unlimited companies. (2 marks)
27. Shyam purchased the shares of Reliable Ltd., from the open market after referring to its prospectus wherein it was said that the company had been regularly making profits and declaring dividends, where in fact the company had paid dividend in only three of the previous five years. After coming to know of this fact Shyam is planning to file a suit for damages against the company for misstatements in its prospectus. Which of the following statements is **true** in respect of the above situation under the Companies Act, 1956? <Answer>
- (a) Shyam can only file a suit to recover the nominal price of the shares purchased by him and not any damages
 - (b) Shyam can only file a suit to recover the actual price of the shares purchased by him and not any damages
 - (c) Shyam can not only recover the price paid for the shares purchased by him but also damages from the company
 - (d) Shyam can recover only the price paid by him for the shares from the directors of the company
 - (e) Shyam cannot recover anything from the company or the directors as he had purchased the shares in the open market. (2 marks)
28. Brijesh drew a bill on Anand and sent it to him for acceptance. Anand accepted and signed the bill. However, on coming to know that Brijesh has become insolvent, Anand cancelled his acceptance and sent the bill back to Brijesh. Which of the following statements is **true** in respect of the above bill under the Negotiable Instruments Act, 1881? <Answer>
- (a) As acceptance once given cannot be cancelled under any circumstances, Anand is liable as the drawee of the bill
 - (b) As the bill even though cancelled was delivered back to Brijesh, Anand becomes liable on it as the drawee
 - (c) As Anand has signed on the bill, he is liable as the drawee
 - (d) Official Assignee of Brijesh can recover the bill amount from Anand
 - (e) As Anand has never delivered an accepted bill, Brijesh cannot recover anything from Anand on the bill. (2 marks)
29. Rakesh, Mehul and Sameer are sureties for a debt due by Ranjit to Mohit. Rakesh restricts his liability to Rs.10,000, Mehul to Rs.20,000 and Sameer to Rs.40,000. Ranjit made a default of Rs.40,000 and Mohit filed a suit for recovery of the defaulted amount. Which of the following statements is **true** with respect to the liability of the co-sureties under the Indian Contract Act, 1872? <Answer>
- (a) Sameer is liable to repay the entire amount of Rs.40,000 as the guarantee given by him is for the maximum amount
 - (b) Rakesh is required to contribute Rs.10,000, Mehul Rs.20,000 and Sameer has to contribute the balance Rs.10,000
 - (c) Mehul and Sameer have to contribute Rs.20,000 each
 - (d) Rakesh is required to contribute Rs.10,000 while Mehul and Sameer have to contribute Rs.15,000 each
 - (e) Rakesh is required to contribute Rs.10,000 and Sameer has to contribute Rs.30,000. (2 marks)
30. Which of the following statements amounts to a valid offer under the Indian Contract Act, 1872? <Answer>
- (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)
31. Under the Companies Act, 1956, the first auditors of a company are appointed by the <Answer>
(1 mark)

- (a) Board of Directors
- (b) State Government of the place where the Registered office of the company is situated
- (c) Central Government
- (d) Registrar of Companies
- (e) Shareholders in general meeting.

32. Which of the following statements is **true** in respect of the refusal to transfer the shares under the Companies Act, 1956?

[<Answer>](#)

- (a) The resolution is invalid as no restriction can be placed on the transfer of shares of a company
- (b) Restrictions on the transfer of shares of a company to be effective must be approved by the Registrar of Companies
- (c) Restrictions on transfer of shares can be made to take effect retrospectively
- (d) Restrictions imposed subsequent to the lodging of shares for transfer are not applicable for the transfers already lodged with the company
- (e) The Board of directors can refuse the transfer of shares as the power vests with them in the absence of any provision in the articles of the company.

(1 mark)

[<Answer>](#)

33. 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) Actionable claims.

(1 mark)

[<Answer>](#)

34. A bill of exchange, that is drawn, accepted or endorsed without consideration is called

- (a) Accommodation bill
- (b) Promissory note
- (c) Trade bill
- (d) Bearer Instrument
- (e) Foreign Instrument.

(1 mark)

[<Answer>](#)

35. Under the Indian Contract Act, 1872, attempted performance is also known as tender, which of the following is **false** as regards to the essentials of a valid tender?

- (a) It must be unconditional
- (b) The promisee should be given a reasonable opportunity of inspecting the goods supplied to him
- (c) It should be made at a proper time and place
- (d) It can relate to a part of the quantity contracted for
- (e) It can be made to any one of the several joint promisors.

(1 mark)

[<Answer>](#)

36. Ramakant has been appointed as an additional director by the Board of Directors of Wassmol Healthcare Ltd., in place of Suresh who has gone to London for a period of 18 months. The appointment is effective from June 20, 2008. A meeting of the Board of Directors of Wassmol Healthcare Ltd., has been convened on July 14, 2008. Which of the following statements is **true** in respect of a notice of a Board Meeting of a company under the Companies Act, 1956?

- (a) A notice sent to an alternate director at his address in India is sufficient
- (b) A notice sent to an alternate director at his usual address in India and also to original director at his usual address in India is sufficient
- (c) Notice to original director at his usual address in India is sufficient
- (d) Notice to the original director at his foreign address as well as his address in India is sufficient
- (e) Notice to the original director at his foreign address is sufficient.

(2 marks)

[<Answer>](#)

37. Vikas transferred some of his shares in Visual Media Ltd., in favour of Mrinal by executing a blank transfer. Mrinal later transferred the shares to Rohit. Rohit, unaware of Vikas's death filled up the transfer deed and presented it to the company which refused to register the shares on the ground of Vikas's death. Which of the following statements is **true** in respect of the above circumstances under the Companies Act, 1956?

- (a) The company can register the shares in the name of Rohit only if legal heirs of Vikas execute a fresh transfer deed in favour of Rohit
- (b) The company cannot refuse to register the shares transferred by blank transfer on the ground of the death of the transferor
- (c) The company can register the shares in the name of Rohit only if Mrinal executes a fresh transfer deed in favour of Rohit
- (d) The company can register the shares in the name of Rohit only if legal heirs of Vikas execute a fresh transfer deed in favour of Mrinal who again has execute a fresh transfer deed in favour of Rohit

(2 marks)

- (d) The company can register the shares in the name of Rohit only if legal heirs of Vikas execute a fresh transfer deed in favour of Mrinal who again has execute a fresh transfer deed in favour of Rohit
- (e) The company can refuse to register the shares in the name of Rohit on the ground of Vikas's death as blank transfer becomes nullity upon the death of the transferor.

[<Answer>](#)

38. At a public auction a car was put up for sale and as Mr. Ramlal was the successful bidder, he got possession of the car. Later, it was discovered that the car was a stolen one. This fact was also not known to the auctioneer. The true owner wishes to obtain possession of the car. Under these circumstances which of the following statements is **true** under the Sale of Goods Act, 1930?

- (a) Mr. Ramlal did not get any title against the true owner
- (b) The true owner cannot recover any possession as Mr. Ramlal had bought at a public auction
- (c) As Mr. Ramlal had purchased the car in good faith, Mr. Ramlal can enjoy possession of the car
- (d) The true owner can file a suit against the auctioneer for fraudulently selling a stolen car
- (e) The auctioneer is personally liable to the true owner for damages only and the true owner has no right to obtain possession of the car.

(2 marks)

[<Answer>](#)

39. Kamesh, a non-resident Indian came on a visit to India and hired an air-conditioned car from Ezee Travels for visiting various places. The air conditioning system of the car did not function well due to an inherent defect. Due to exposure to the heat wave Kamesh had to be admitted in a hospital for treatment. Kamesh wants to file a suit against Ezee Travels for recovery of the hospital expenses as well as for damages. Which of the following statements is **true** in respect of the above circumstances under the Indian Contract Act, 1872?

- (a) Ezee Travels cannot be held liable for negligence as Mr. Kamesh could have thoroughly examined the car before hiring it
- (b) Ezee Travels cannot be held liable for negligence as the inherent defect in the air conditioning system of the car could not be detected in ordinary course
- (c) As Kamesh had to be hospitalized due to climatic conditions beyond the control of Ezee Travels, it cannot be held liable for payment of damages or hospitalization charges
- (d) As the stoppage of air conditioner was an unforeseen event, Ezee Travels cannot be held liable for negligence
- (e) Kamesh can recover the expenses of hospitalization even if the inherent defect in the air conditioner was not traceable by Ezee Travels as he is in the position of a bailee.

(2 marks)

[<Answer>](#)

40. Harnath, owner of a farm offered to sell it to Maheshwar for Rs.5,00,000. Maheshwar did not accept the offer at the first instance. A counter offer was made by Maheshwar, expressing his willingness to buy the farm for Rs.4,00,000. The counter offer was rejected by Harnath. Later, Maheshwar agreed to buy the farm for Rs.5,00,000 as indicated by Harnath originally. Harnath refuses to sell his farm. Which of the following statements is **true** in respect of the above situation under the Indian Contract Act, 1872?

- (a) As Harnath had originally offered to sell the farm for Rs.5,00,000, he is bound to accept the offer of Maheshwar to buy the farm for Rs.5,00,000
- (b) As Harnath had originally offered to sell his farm to Maheshwar, Harnath is bound to sell the farm for a price fixed by Maheshwar
- (c) As Maheshwar had rejected the original offer, he can be compelled to buy the farm at a price fixed by Harnath
- (d) As Maheshwar's counter offer to buy the farm was rejected by Harnath, no liability arises as there is no valid contract
- (e) As the original offer by Harnath to sell the farm had been rejected by a counter offer, he is bound to sell the farm to Maheshwar at a mutually agreed price.

(2 marks)

[<Answer>](#)

41. M/s Alert and Co., Chartered Accountants, auditors of Jagruti Ltd., while conducting annual audit of the company noticed huge variation in the book value and realizable value of the assets of the company and submitted a confidential report on the same to the directors. The auditors, however, stated in their official report that the value of the assets of the company depended upon their realization. The directors relying on the official report paid dividend. On coming to know of these facts some of the shareholders allege that the dividend has been declared out of capital and the auditors are liable to compensate the loss. Which of the following statements is **true** in respect of the liability of auditors under the Companies Act, 1956?

- (a) The declaration of dividend amounts to payment of dividend out of profits of the company
- (b) The auditors are liable not only to compensate the company for loss of capital involved in
- (c) The auditors of the company are liable to compensate the company for loss
- (d) The auditors are not liable to compensate the loss as the facts were brought to the notice of the

(2 marks)

Board of directors

- (e) The auditors are not liable to compensate the loss as the auditors had made disclosure in their official report.

[<Answer>](#)

42. Satpal Singh, a cloth merchant in Mumbai, had sold readymade garments worth Rs.2 lakh to Fashion Dresses at Chandni Chowk, New Delhi. Fashion Dresses remitted Rs.1lakh as advance and the balance amount was payable on taking delivery of documents of title to the goods covering the consignment. Satpal Singh dispatched the goods by road and the documents were sent to the banker of Fashion Dresses. Fashion Dresses were unable to pay the amount. Satpal Singh issued a notice to Fashion Dresses to pay the balance amount of Rs.1lakh. As there was no response, Satpal Singh sold the goods to another buyer and received Rs.3 lakhs. Later, Fashion Dresses is contemplating to file a suit for damages. Which of the following statements is **true** under the Sale of Goods Act, 1930?

- (a) Satpal Singh can forfeit the advance of Rs.1 lakh received from Fashion Dresses
(b) Satpal Singh has to refund the advance of Rs.1 lakh along with profit of Rs.1 lakh made to Fashion Dresses
(c) Satpal Singh has to share the profit of Rs.1 lakh equally with Fashion Dresses
(d) Satpal Singh need not share the profit of Rs.1 lakh with Fashion Dresses
(e) Satpal Singh can be held liable to pay damages for breach of contract of sale.

(2 marks)

[<Answer>](#)

43. Ramesh of Delhi authorized Joginder of Patiala to buy wheat on his behalf. Joginder exceeding his authority bought 100 quintals of wheat from Ravinder at the rate of Rs.2,500 per quintal, which was above the rate prescribed by Ramesh. Though Joginder intended to purchase on the joint account, he entered into a contract with Ravinder in his own name and did not disclose his agency to Ravinder. However, the next day, Ramesh gave his ratification to Joginder for the purchase. On the due date when Ravinder requested Ramesh to take delivery of the wheat and make payment, Ramesh refused to take delivery. Which of the following statements is **true** in respect of the above circumstances under the Indian Contract Act, 1872?

- (a) As Joginder, the agent had bought the wheat on behalf of Ramesh, the principal, he is bound to take delivery of the wheat from Ravinder
(b) Ramesh is not liable as the principal to take delivery of the wheat and make payment to Ravinder as the purchase was not made on his behalf
(c) As Ramesh had ratified the purchase, he is liable to take delivery of the wheat and make payment to Ravinder
(d) As Joginder was the authorized agent, Ramesh is liable as the principal to take delivery of the wheat and make payment to Ravinder
(e) As Joginder intended to buy the wheat on the joint account Ramesh is liable as the principal to take delivery of the wheat and make payment to Ravinder.

(2 marks)

[<Answer>](#)

44. Gopal promised to pay Rs.55,555 to the trustee of a temple for its renovation. The trustee initiated the renovation work and thereby incurred a liability. When the trustee requested for payment, Gopal refused to pay the amount. Which of the following statements is **true** in the above circumstances under the Indian Contract Act, 1872?

- (a) The trustee can enforce his right to recover the promised amount as he incurred the liability and thereby suffered a detriment
(b) The trustee has no remedy against Gopal as he is not the agent acting on behalf of Gopal
(c) The trustee cannot demand performance from Gopal as Gopal's promise is a social contract
(d) The trustee cannot recover the promised amount from Gopal for want of consideration
(e) The trustee cannot recover anything from Gopal as the trustee is a stranger to the agreement between the temple and Gopal.

(2 marks)

[<Answer>](#)

45. Which of the following statements is **false** in respect of a scheme of compromise under the Companies Act, 1956?

- (a) An application has to be made to the National Company Law Tribunal (NCLT) to approve the
(b) The NCLT may call a meeting of the creditors or class of creditors of the company to consider
(c) The NCLT may call a meeting of the members of the company to consider the proposed scheme
(d) The notice of the meeting called by the NCLT is required to be sent to all creditors or members
(e) At the meeting, the proposed scheme of compromise is required to be approved by requisite

(1 mark)

majority of the total number of members or creditors of the company.

46. What are the consequences of not registering a registerable charge with the Registrar of Companies under the Companies Act, 1956? <Answer>
- (a) The charge becomes crystallized from the last date as fixed for its registration
 - (b) The charge gets converted into a floating charge on all the assets of the company
 - (c) The charge becomes entirely void and the loan becomes unenforceable
 - (d) The charge becomes void as against the liquidator and all other creditors
 - (e) The charge gets converted into a floating charge on the movable assets of the company. (1 mark)
47. Which of the following statements is **true** in respect of a private company under the Companies Act, 1956? <Answer>
- (a) It can invite the public to subscribe its shares
 - (b) It can invite the public to subscribe debentures issued by it
 - (c) It can restrict the free transferability of its shares
 - (d) It can invite deposits from the public
 - (e) It need not have articles of its own. (1 mark)
48. Which of the following statements is **true** in respect of a contract of sale under the Sale of Goods Act, 1930? <Answer>
- (a) In a contract of sale, a breach of condition cannot be treated as a breach of warranty
 - (b) A contract of sale cannot provide for delivery of goods by installments and payment of price in installments
 - (c) The consideration in a contract of sale may be in kind
 - (d) Title to goods is immediately transferred to the buyer in a contract of sale
 - (e) In case of default by the seller in a contract of sale, the buyer may sue only for delivery of goods. (1 mark)
49. Under the Indian Contract Act, 1872, the damages that are claimed in addition to the damages arising from the breach of contract under some peculiar circumstances are known as <Answer>
- (a) Vindictive damages
 - (b) Nominal damages
 - (c) Special damages
 - (d) General damages
 - (e) Exemplary damages. (1 mark)
50. Which of the following statements is **false** in respect of offer and its acceptance under the Indian Contract Act, 1872? <Answer>
- (a) An offer must be communicated to the intended offeree
 - (b) An offer may be conditional
 - (c) An acceptance may be conditional
 - (d) An offer may be revoked anytime before it is accepted
 - (e) An acceptance cannot precede the offer. (1 mark)
51. The Board of Directors of Cello Ceramics Ltd., have met to consider the half-yearly accounts of the company. Though the company has made profits as per the accounting records, the overall working results are dissatisfactory. The Board of Directors of Cello Ceramics Ltd., want to declare an interim dividend to keep up the good image of the company. However, there is likelihood that if the profits show the current trend they would be just sufficient to cover the entire year's depreciation and the profit will not be sufficient for transfer of requisite amount to reserves. Which of the following statements is **true** in respect of declaration of interim dividend in these circumstances under the Companies Act, 1956? <Answer>
- (a) As the Board of Directors is empowered to declare interim dividends, it can declare the interim
 - (b) The Board of Directors are empowered to carry forward this year's depreciation to next year
 - (c) The interim dividend can be declared if the members of the company agree for such
 - (d) The Board of Directors are empowered to declare interim dividends without considering
 - (e) The interim dividend cannot be declared without providing for depreciation and transfer to

(2 marks)

reserves.

52. Chandra found a diamond ring on the road. Chandra tried to locate the true owner of the ring and even gave an advertisement in the newspapers asking the true owner to collect the ring from him. As even after a reasonable search the owner of the ring could not be traced, Chandra sold the ring to Vikram, who bought it in good faith. At this stage the true owner came and made a claim for possession of the ring from Vikram. Which of the following statements is **true** in the above circumstances under the provisions of the Sale of Goods Act, 1930? <Answer>
- (a) As Chandra had made a reasonable search for the true owner, Chandra became the owner of the ring and hence he can give a valid title to Vikram
 - (b) As Vikram had purchased the ring in good faith, he gets a good title to the ring
 - (c) As the true owner did not respond to the advertisement in time, he cannot claim any ownership of the ring
 - (d) Vikram did not acquire a good title and the true owner was entitled to recover the ring from Vikram, who has recourse only against Chandra
 - (e) The true owner cannot recover the ring from Vikram but only claim damages from Chandra. (2 marks)
53. Which of the following is **not** a foreign bill under the Negotiable Instruments Act, 1881? <Answer>
- (a) A bill drawn in Singapore upon a resident of Chennai, payable in Kuala Lumpur
 - (b) A bill drawn in Kuala Lumpur upon a resident of Singapore, payable in Kolkata
 - (c) A bill drawn in New Delhi upon a resident of Kuala Lumpur, payable in Singapore
 - (d) A bill drawn in Bangalore upon a resident of Mumbai, payable in Kuala Lumpur
 - (e) A bill drawn in Singapore upon a resident of Singapore, payable in Kuala Lumpur. (2 marks)
54. On March 01, 2008, Harjeet Singh offered to sell his house at New Delhi for Rs.20 lakhs to Manoj Sharma, with a condition that Rs.5 lakhs is to be paid as advance by Manoj Sharma within one month from the date of offer. Under which of the following circumstances the offer does **not** lapse under the Companies Act, 1956? <Answer>
- (a) If it is revoked by Harjeet Singh at any time before its acceptance
 - (b) If Harjeet Singh or Manoj Sharma dies or becomes insane and the other party comes to know of it before acceptance
 - (c) If the offer is not accepted within the specified time or within a reasonable time
 - (d) Upon failure to make the advance payment within stipulated period by Manoj Sharma
 - (e) If Harjeet Singh dies or becomes insane, Manoj Sharma comes to know about it after acceptance. (2 marks)
55. Which of the following acts has been held as oppressive on the basis of judicial pronouncements under the Companies Act, 1956? <Answer>
- (a) Inefficient management of the affairs of the company
 - (b) Denial of access of books of accounts to shareholders
 - (c) Failure to comply with the formalities of giving notice for a general meeting
 - (d) Filing of a suit to recover unpaid amount on shares
 - (e) Diversion of business opportunity to another company controlled by the directors of the company. (1 mark)
56. Which of the following statements is **true** in respect of a director of a public limited company under the Companies Act, 1956? <Answer>
- (a) The nominal value of shares required to be taken up by a person to act as a director of a company cannot exceed Rs.5,000 under any circumstance
 - (b) A person who has applied to be adjudged insolvent can become a director until he is declared as insolvent by a competent Court
 - (c) Acts done by a director before his disqualification are neither valid nor binding on the company
 - (d) A person appointed as an additional director cannot be appointed as the Managing Director of the company
 - (e) Nominee directors appointed by financial institutions are not considered for computing maximum strength of the Board of Directors under the Act. (1 mark)
57. An outsider is not bound to see that the company carries out its own internal regulations. This principle is based on the <Answer>
- (a) Doctrine of ultra vires
 - (b) Doctrine of indoor management
 - (c) Doctrine of constructive notice (1 mark)
 - (d) Doctrine of implied authority

- (d) Doctrine of implied authority
(e) Doctrine of ostensible authority. <Answer>
58. Under the Arbitration and Conciliation Act, 1996, in case of International commercial dispute, the application for appointment of arbitrator has to be made to <Answer>
- (a) Arbitration Tribunal
(b) Chief Justice of High Court
(c) Chief Justice of Supreme Court of India
(d) Judge of the Court in whose jurisdiction the parties are situated
(e) International Court of Justice. (1 mark)
59. Which of the following statements is **true** in respect of the expenses incurred in a contract of bailment under the Indian Contract Act, 1872? <Answer>
- (a) The bailee has to bear all the ordinary expenses and the bailor has to bear all the extraordinary expenses in a contract of bailment
(b) The bailee has to bear all the extraordinary expenses and the bailor has to bear all the ordinary expenses in a contract of bailment
(c) The bailor has to bear all the ordinary and extraordinary expenses in a contract of bailment
(d) The bailee has to bear all the ordinary and extraordinary expenses in a contract of bailment
(e) The bailor and the bailee have to equally share all the ordinary and extraordinary expenses in a contract of bailment. (1 mark)
60. Which of the following persons is qualified to enter into a valid contract under the Indian Contract Act, 1872? <Answer>
- (a) A minor
(b) A company acting as per its Memorandum of Association
(c) An insolvent person
(d) An alien enemy
(e) A convict while undergoing imprisonment. (1 mark)
61. The Chairman of Beta (Private) Ltd., which is not a subsidiary of a public company proposes in a general meeting to move a motion for the appointment of three persons as directors of the company by a single resolution. Which of the following statements is **true** in respect of appointment of directors by a single resolution under the Companies Act, 1956? <Answer>
- (a) Appointment of directors requires a separate resolution to be passed for each proposed appointee
(b) More than one director can be appointed by a single resolution with the consent of all the members present at the meeting
(c) More than one director can be appointed by a single resolution by the company if the articles contain a provision for such appointment
(d) The company can appoint more than one director by single resolution if the concerned directors are being re-elected, by virtue of having retired by rotation
(e) The company can appoint more than one director by single resolution if such directors are appointed as additional directors. (2 marks)
62. The Board of Directors of Aashiwaad Dyes Ltd., borrowed money in excess of the limits prescribed by its memorandum and articles of association. Which of the following statements is **false** in respect of the borrowing under the Companies Act, 1956? <Answer>
- (a) The lender has no remedy under the Companies Act
(b) Borrowings which are ultra-vires cannot be ratified even by all the shareholders
(c) The lender cannot sue the company for the return of the borrowed amount
(d) If the money has been used to discharge the lawful debts of the company then the lender can sue the company
(e) If the money advanced by the lender cannot be traced but it can be shown that the company has benefited by an increase in its assets then the lender can claim for repayment. (2 marks)
63. Amit who is the payee of a bill indorses it in blank to Badrinath who indorses it in full to Chinmay as 'Pay Chinmay or order'. Chinmay later delivers the instrument to Deepak without any indorsement. Which of the following statements is **true** in respect of the dishonour of the bill under the Negotiable Instruments Act, 1881? <Answer>
- (a) Deepak can file a suit against the drawee, drawer or Amit for recovery of the amount, but not
(b) Deepak can file a suit only against Chinmay, as his immediate party
(c) Deepak can file a suit only against Badrinath, who converted a blank indorsement into full (2 marks)

- (c) Deepak can file a suit only against Badrinath, who converted a blank indorsement into full
- (d) Deepak can file a suit only against the drawer for recovery of the amount
- (e) Deepak cannot file a suit against any party for recovery of the amount as he had taken a bill, where a blank indorsement is converted into full. [<Answer>](#)
64. Rahul took an insurance policy of Rs.5,00,000 on his life. As Rahul did not have sufficient funds, he approached his friend, Sunil who financed the policy. Rahul made a nomination in favour of Sunil in consideration of his financing of the life insurance policy. On the death of Rahul, when Sunil lodged the insurance claim, being the nominee, wife of Rahul objected to Sunil's claim. Which of the following statements is **true** in respect of the given circumstances? [<Answer>](#)
- (a) Sunil can recover the insurance claim as he has financed the policy
- (b) Sunil can recover the insurance claim being the nominee
- (c) Sunil cannot recover the insurance claim as there is no privity of contract between him and the insurance company
- (d) Sunil cannot recover the insurance claim as he has no insurable interest in the policy
- (e) Wife of Sunil cannot recover the claim as she is not the nominee. (2 marks)
65. A public company which has raised capital from the public by issue of prospectus and its shares are dealt in two or more stock exchanges is known as [<Answer>](#)
- (a) Unlimited company
- (b) Closely held company
- (c) Widely held company
- (d) Foreign company
- (e) Defunct company. (1 mark)
66. Which of the following statements is **false** in respect of the provisions relating to declaration/payment of dividends under the Companies Act, 1956? [<Answer>](#)
- (a) Dividends may be declared out of the current year's profit of the company, after providing for depreciation
- (b) A company is required to compulsorily transfer the prescribed percentage of profits to reserves before declaring any dividend
- (c) A company may declare dividends out of its reserves in case there is an inadequacy of profits in the current financial year
- (d) Dividends can be declared out of capital, if provided in both the Memorandum of Association and the Articles of Association
- (e) Dividend must be paid in cash only. (1 mark)
67. A prospectus which does not have complete particulars on the price of securities offered and the quantum of securities offered by the company is known as [<Answer>](#)
- (a) Statement in lieu of prospectus
- (b) Information memorandum
- (c) Red-herring prospectus
- (d) Deemed prospectus
- (e) Shelf prospectus. (1 mark)
68. Where the mortgagor mortgages the property on a condition that on default of payment of the mortgage-money on a certain date the sale shall become absolute is known as [<Answer>](#)
- (a) Simple Mortgage
- (b) Mortgage by Conditional Sale
- (c) Usufructuary Mortgage
- (d) English Mortgage
- (e) Anomalous Mortgage. (1 mark)
69. An agent who in consideration of an extra commission, guarantees his principal that the persons with whom he enters into contract on behalf of the principal shall perform their obligations, is known as [<Answer>](#)
- (a) General Agent
- (b) Special Agent
- (c) Del credere Agent
- (d) Commission Agent
- (e) Non-mercantile Agent. (1 mark)
70. Which of the following agreements is **void** under the Indian Contract Act, 1872? [<Answer>](#)
- (a) Agreements under mutual mistake as to existence of subject matter (1 mark)
- (b) Agreements under misrepresentation

- (b) Agreements under misrepresentation
- (c) Agreements under undue influence
- (d) Agreements under coercion
- (e) Agreements under fraud.

END OF QUESTION PAPER

Suggested Answers

Business Law – I (MB261): July 2008

- | | ANSWER | REASON | |
|----|---------------|---|---|
| 1. | A | <p>A person may become a member or a shareholder of a company in any of the following ways:</p> <ul style="list-style-type: none"> • By subscribing to the memorandum of association: Section 41 of the Act provides that the subscribers of the memorandum of association shall be deemed to become the members of the company, and on its registration shall be entered as members in the register of members. • By agreement and registration: Section 41(2) of the Companies Act provides that every other person who agrees in writing to become a member and whose name is entered in its register of members shall be a member of the company. • By acquiring qualification shares: Section 266(2) of the Companies Act lays down that ‘no person is capable of being appointed a director of a public company unless he takes, or signs and files with the Registrar an undertaking to take, from the company his qualification shares, if any.’ This section does not apply to companies which are not having a share capital, a private company, or which was private before becoming a public company or the issue of a prospectus one year from the date from which the company was entitled to commence business. Where a director is required to take qualification shares in accordance with the provisions of the articles, and such director fails to acquire such shares within the stipulated period, he automatically vacates office on expiry of the said period. Such a director cannot be placed on the list of contributories. • By transfer: One may purchase shares of a company in the open market and then apply to the company to register him as a member. • By transmission: By transmission of shares upon death of the holder. <p>Hence, it can be said that a person does not become a member of the company by merely purchasing the shares of the company in the open market. In order to become a member, a person has to apply to the company to register him as a member.</p> | ≤ |
| 2. | D | <p>The following are the characteristic features of a company registered under the Companies Act, 1956:</p> <ul style="list-style-type: none"> • Separate legal entity. • Perpetual succession. • Common seal. • Separate property. • Transferable shares. <p>Hence, option ‘D’ is the correct answer.</p> | ≤ |
| 3. | E | <p>An alteration is material which, in any way, alters the character or identity of the instrument, or the terms or relation of the parties thereto. An alteration relating to date, or sum payable or time of payment or place of payment or rate of interest or addition of a new party or destruction of the instrument will be considered as material.</p> <p>The alteration of a negotiable instrument will not invalidate the instrument in the following cases where it is made to cross cheques, qualifies acceptance, convert a blank endorsement into an endorsement in full, for filling blanks of an inchoate</p> | ≤ |

- instrument.
4. E Accord and satisfaction, Remission, novation and waiver are all modes of discharge of a contract by mutual consent under the Indian Contract Act, 1872. A contract discharged by merger is said to be discharged by operation of law. ≤
 5. C According to section 2(e) of the Indian Contract Act, 1872, “Every promise and every set of promises, forming the consideration for each other”, is known as an agreement. ≤
 6. D Managing Director is entitled to remuneration from both companies. However, the total remuneration from both companies shall not exceed the higher of the amount eligible under Schedule XIII from each company. ≤
 7. D One of the implied warranties in a contract of sale is the warranty to disclose the dangerous nature of goods. In the instant case it was the duty of Shravan, the seller to disclose the inherent danger involved in opening the disinfectant tin to Amrita, the buyer. Where a seller of goods is aware of the fact that the goods are dangerous, he should disclose this fact to the buyer. Otherwise, he will be held liable for damages. ≤
The facts of this case are similar to the decided case of *Clarke vs. Army & Navy Co-operative Society Limited*, wherein ‘A’ sold a tin of disinfectant powder to ‘C’ knowing fully well that if the tin was not opened with care, it was likely to cause injury. In spite of this, ‘A’ did not warn ‘C’ about the inherent danger. ‘C’ was injured while opening the tin. ‘A’ was held liable for damages.
 8. D According to Section 124 of the Negotiable Instruments Act, 1881 where a cheque bears across its face an addition of the name of a banker, either with or without the words “not negotiable” that addition shall be deemed a crossing, and the cheques shall be deemed crossed specially, and to be crossed to that banker. Where a cheque is crossed specially, the drawee bank is obliged to make payment only to the bank to whom the cheque is crossed or to its agent for collection. All others are instances of general crossing. ≤
 9. C Where a person receives a part of the benefit during his minority and part of it after attaining majority, then a promise made by him to pay for both will be valid consideration and is enforceable. The facts of the given case are similar to the decided case of *Kundan Bibi vs Sree Narayan*, where S took some goods from K and was indebted to him for an amount of Rs.7,374. On attaining majority, he took a further sum of Rs.76 and executed a bond to pay the total amount of Rs.7,450. S’s contention that he was not liable on the bond as it amounted to ratification of debts incurred during his minority did not hold ground as it was held that S was liable for the whole debt secured by the bond, as there was a new consideration for the promise. ≤
Hence, in the instant case, Malati is liable to pay the entire amount of Rs.12,000.
 10. D It is obligatory on the part of the Central Government to forward a copy of the investigation report to the company concerned and on request and on payment of prescribed fee to any member or creditor of such company. ≤
 11. C The Companies (Acceptance of Deposit) Rules 1975 defines public deposit as any deposit of money including any amount borrowed by a company but excludes: ≤

- Any amount received from or guaranteed by Central or State Government.
- Amount received from foreign government or foreign citizens.
- Any borrowings from banks and financial institutions.
- Inter Corporate Deposits.
- Security deposit received from an employee or an agent.
- Advance received for supply of goods or services.
- Amount received towards subscription to shares or debentures pending allotment and calls in advance.
- Any amount received from a local authority.
- Any amount received in trust or amount in transit.
- Any amount received from a director of the company.
- Bonds or debentures secured by mortgage of immovable property of the company or with conversion option.
- Any unsecured loan brought in by promoters in pursuance to any stipulation by financial institutions to that effect.

Therefore amount received from members and shareholders other than directors of the company is considered as deposit under The Companies (Acceptance of Deposits) Rules, 1975.

12. A In the case of an unlimited company, the liability of each member extends to the whole amount of the company's debts and liabilities. However, the members cannot be sued upon directly by the company's creditors. An unlimited company may increase and decrease its share capital (if it exists) without any restriction by passing a special resolution. A company which is registered as an unlimited company may get itself re-registered as a limited company under Section 32 of the Act. In case of winding up, the official liquidator may call upon the members to discharge the debts and liabilities without limit. ≤

13. B Under the Sale of Goods Act, 1930, duties of a buyer are as follows: ≤

- The buyer is required to take delivery of the goods and make payment according to the terms and conditions of the contract.
- Apart from any express contract, it is the duty of the buyer to apply for delivery.
- The buyer's duty includes a demand to make delivery at a reasonable hour.
- Where the seller agrees to deliver the goods at his own risk at a place other than where they are sold, the buyer shall take any risk of deterioration in the goods necessarily incident to the course of transit.
- It is the duty of the buyer to give notice of rejection of goods to the seller.
- The buyer should take delivery of the goods within a reasonable time after the tender of delivery.
- Where the property in the goods passes to the buyer, it is his duty to pay the price according to the terms of the contract.
- Where the buyer wrongfully neglects or refuses to accept and pay for the goods, he will have to compensate the seller, in a suit by him, for damages for non-acceptance (Section 56).

Hence, 'B' is correct answer.

14. E It should also be noted that a contract of guarantee presupposes the existence of a debt. If there is no existing liability, there cannot be a guarantee. Therefore, if the debt to be guaranteed is already time barred, guarantee given will not be valid and the surety will be discharged from his liability. ≤

A guarantee may be given retrospectively for an existing debt, or for future debt, or for the good conduct or honesty of an employee, in which case the guarantee is called a 'fidelity guarantee'. A guarantee may also be specific or continuing guarantee. A specific guarantee is one which is given for a specific debt, and comes to an end when the debt is paid.

A continuing guarantee relates to a series of transactions where the surety

- remains liable for a fixed sum till the continuance of guarantee. However, a continuing guarantee can be revoked by the surety by giving due notice to the creditor.
15. E Consideration must move at the behest of the promisor. It is important that consideration moves at the behest of the promisor, rather than voluntarily or at the instance of third parties. Consideration given without the desire of the promisor or at the behest of third parties will not be valid consideration. The return promised for the performance of the contract is consideration. Consideration must result in some benefit to the plaintiff or some loss to the defendant. It may be an act, abstinence or forbearance. It must be real and not illusory or opposed to public policy. ≤
16. B If the quorum is not present within half an hour from the appointed time, (i) the meeting if called upon the requisition of members shall stand dissolved; (ii) in any other case, the meeting shall be adjourned to the same day in the next week at the same time and place or to such other day, time and place as the Board of Directors may determine. As the adjourned meeting is only a continuation of the original meeting, the requirement of issuing notices can be dispensed with. However, if the Board fixes any other date for the adjourned meeting, notices will have to be issued to every member in accordance with the provisions relating to issue of notice for general meetings. If at the adjourned meeting also, the quorum is not present within half an hour from the appointed time of the meeting, the members present will be the quorum. As far as directors are concerned, there should be a quorum of 1/3rd of the total strength of the Board or two directors, whichever is higher. ≤
17. C The company being an artificial person, enjoys perpetual succession. The company remains unaffected by the death, insolvency or retirement of its members. In the given case, the legal heirs of Rohit and his wife Roma will become the members. ≤
18. A Under the Negotiable Instruments Act, 1881, Mr. Vasanth Desai's indorsement by giving the right to the endorsee to receive the amount due on the instrument dependent on the happening of a specified event which may not happen is known as conditional indorsement. ≤
19. C The facts of the given case are similar to the decided case of Harris vs Nickerson, where, information regarding an auction was advertised in the newspaper. However, the auction was subsequently canceled and a broker who traveled to the place of auction to attend it sued the auctioneer for recovery of travel expenses. His claim was not entertained as there was no binding contract between the two parties.. Hence, in the instant case, Harvinder will not succeed in getting compensation as the advertisement of auction sale will not amount to a valid offer. ≤
20. D Default in holding Annual General Meeting is not a ground for issue of winding up order by National Company Law Tribunal. All other grounds in options (a), (b), (c) and (e) are the grounds for issue of winding up order. ≤
21. B The AGM should be held whether or not the accounts are ready. Hence, it is incorrect to suggest that an AGM should not be held if the accounts are not ready. All the other statements are true statements in respect of an AGM. ≤
22. E The preference shares which are entitled to fixed preferential dividend and which carry a right to participate in the surplus profits along with equity shareholders ≤

carry a right to participate in the surplus profits along with equity shareholders after dividend at a certain rate has been paid to equity shareholders are known as participating preference shares.

23. B Instruments should be stamped before or at the time of their execution (Section 17). ≤
 Every instrument not being a bill of exchange or a promissory note chargeable with duty executed out of India may be stamped within three months after it has been first received in India. (Section 18) However, where the instrument cannot be duly stamped by a private person, it should be stamped by the collector within a period of three months in such manner as may be prescribed by the State Government.
 In case of bill of exchange or promissory note made out of India, it should be stamped by first holder in India before he presents for payment or endorses or negotiates in India.
24. A Promoters forming a company or partners of a firm are considered to be agents of the principal company/firm by operation of law. ≤
25. D A contract where one party promises to save the other from loss caused to him by the conduct of the promisor himself or by the conduct of any other person is called a Contract of indemnity. Hence, 'D' is correct answer. ≤
26. D Section 275 limits the number of companies in which an individual can hold directorship to fifteen. Section 278 specifies that in calculating, for the purposes of Section 275, 276 and 277, the number of companies of which a person may be a director, the following companies shall be excluded, namely: ≤
 • A private company which is neither a subsidiary nor a holding company of public company,
 • An unlimited company,
 • An association not carrying on business for profit or which prohibits the payment of a dividend, and
 • A company in which such person is only an alternate director, that is to say, a director who is only qualified to act as such during the absence or incapacity of some other director.
 In the instant case Mr. Shivnath can accept only two more directorships in public companies. Hence, 'D' is correct answer.
27. E The facts of the given instance are similar to the decided case of Peek vs. Gurney, wherein it was held that where a person purchases shares from the open market, he has no remedy against the company or any other person, even when he has purchased such shares having relied on the misrepresentation in the prospectus. ≤
 Hence, in the given instance, Shyam cannot recover anything from the company or the directors as he had purchased the shares in the open market.
28. E When the drawee of a bill of exchange signifies his consent in writing to the drawer's order in the bill, by signing across the face of the bill with or without the word "accepted" and delivers back the bill to the holder, the bill is said to have been accepted. ≤
 Hence, as Anand has never delivered an accepted bill, Brijesh cannot recover anything from Anand on the bill.
29. D When a surety has paid more than his share of debt to the creditor, he has a right of contribution from the co-sureties who are equally bound with him in absence ≤

of contribution from the co-sureties who are equally bound with him in absence of any agreement to the contrary. If they are bound in different sums, they are liable to pay equally as far as the limits of their respective obligations permit (Section 147). As between co-sureties, there is equality of burden and benefit.

'A', 'B' and 'C' are sureties for a debt due by 'D' to 'E'. 'A' restricts his liability to Rs.10,000, 'B' to Rs.20,000 and 'C' to Rs.40,000. 'D' makes default to the extent of Rs.30,000. In such an event, 'A', 'B' and 'C' will be liable to the extent of Rs.10,000 each.

The position varies in case 'D' makes default to the extent of Rs.40,000. 'A' shall then be liable to pay Rs.10,000 and 'B' and 'C' Rs.15,000 each.

30. 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. ≤
31. A The First Auditor(s) of a company should be appointed by the Board of Directors within three months of the date of registration of the company by passing a resolution to that effect. Such an auditor shall hold office till the conclusion of the first annual general meeting. ≤
32. D Where once the documents for transfer are lodged with the company, it is the transferee's right to be registered as a member in accordance with the articles then in force. The company cannot deprive the transferee of the right to get himself registered as a member, by changing the articles and giving it a retrospective effect. ≤
33. E The term 'goods' under Sale of Goods Act, 1930 does not include Actionable claims and money. ≤
34. A A bill which is drawn, accepted or endorsed without consideration is called an accommodation bill. The party lending his name to oblige the other party is known as the accommodating or accommodation party, and the party so obliged is called the party accommodated. The accommodated party cannot, after he has paid the amount of the bill, recover the amount from any person who became a party to the bill for his accommodation. An accommodation bill can be negotiated after maturity provided the person to whom it is negotiated takes it in good faith and for consideration. Dishonor or failure to give notice of dishonor does not discharge the prior parties from the liability. ≤
35. D A tender must be unconditional. Where a tender is conditional, the other party is not bound to accept it. ≤
 A tender should be made at a proper time and place. Where it is provided that the tender should be made at a particular place and time, then such a direction should be complied. Where the place is not specified, it is the duty of the debtor to find the creditor.
 A tender in part is not valid. Therefore, a tender will be valid only if relates to the whole quantity contracted for. However, a minor deviation from the terms of the contract will not render the contract invalid.
 A tender should be in a proper form and should be made to the proper person.
 Hence 'D' is the correct answer.
36. B 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. Hence, (b) is the correct answer. ≤

37. B Where the seller gives a blank deed to the buyer by only filling his name and affixing his signature he is said to have executed a blank transfer deed. ≤
 A blank deed enables purchase and sale of shares any number of times and ultimately when it comes into the possession of a holder who prefers to retain the shares, it can be filled up by him and presented to the company within the validity period of the deed in order to get his name registered as a shareholder. A blank transfer deed accompanied by the share certificate gives the transferee both legal as well as equitable right in the shares. A transferee in such a case has a right to get his name registered in the register of members.
 A blank transfer deed can be filled up and presented to the company by the transferee even after the death of the transferor and refusal to register on the ground that the blank transfer deed was signed after the death of the transferor will not be valid.
 Hence, in the given instance, the company cannot refuse to register the shares transferred by blank transfer on the ground of the death of the transferor.
38. A The facts of this case are similar to the decided case of Lee vs. Bayes, wherein at a public auction, there was a sale of a horse. The fact that the horse was a stolen one was not known to the auctioneer. The person who purchased the horse acquired it in good faith. However, it was held that the buyer did not get any title against the true owner. ≤
39. E There may be some instances where the bailor is not aware of any inherent fault but still may be held responsible for damages. The facts of the given case are similar to the decided case of Read vs. Dean, wherein, 'A' hires a motor launch from 'B' for holiday on the river Thames. The launch caught fire and 'A' was unable to extinguish it as the fire-fighting equipment was out of order. As such he was injured and suffered loss. Held 'B' was liable. ≤
 Hence, in the instant case, Kamesh can recover the expenses of hospitalization even if the inherent defect in the air conditioner was not traceable by Ezee Travels as he is in the position of a bailee.
40. D The facts of the case are similar to those in the decided case of Hyde vs Wrench wherein, an offer made for the sale of a farm for 1000 pounds was not accepted in the first instance. A counter offer was made wherein the plaintiff expressed his willingness to pay 950 pounds. When the counter offer was rejected, the plaintiff consented to buy the farm for 1,000 pounds which was again rejected by the defendant. It was held that the suit filed for breach of contract was not maintainable as the counter offer implied that the original offer had been rejected. Hence, there was no valid contract between the parties. ≤
 Maheshwar will not succeed for specific performance of contract to sale of the farm by Harnath.
41. C In Re, London and General Bank No.2 (1895) the auditors stated in their official report that the value of the assets of the company depended upon their realization. They however, submitted a different confidential report to the directors. The directors relying on the official report, paid dividend which resulted in depletion of the company's capital. The auditors were held liable to make good the company's loss. Hence, 'C' is correct answer. ≤
42. D The seller is an unpaid seller until the whole of the price has been paid. In such case the unpaid seller can exercise the right of resale by giving a notice to the buyer and the buyer is not entitled to any profit which may occur to the unpaid seller on resale. Hence Satpal Singh need not share the profit of Rs.1 lakh with Fashion Dresses. ≤
43. B One of the methods of creation of agency is by ratification i.e., where acts are done by one person on behalf of another but without his knowledge or authority. ≤

done by one person on behalf of another but without his knowledge or authority, he may elect to ratify or to disown such acts. If he ratifies them, the same effects will follow as if they had been performed by his authority. The ratification may be expressed or implied.

One of the essential requirements of a valid ratification under the Indian Contract Act, 1872 is that ratification can be made only if the agent purports to act on behalf of the principal.

The facts of this case are similar to the decided case of *Keighley vs Durant*, where, an agent was authorized by his principal to purchase wheat at a particular price on a joint account. As the wheat was not available at that price the agent exceeding his authority purchased the grain at a higher price. Though he intended to purchase on the joint account, he contracted in his own name and did not disclose the agency to the seller. The next day the principal ratified the purchase but ultimately he and the agent failed to take delivery. In an action brought by the seller against the principal for breach of contract, it was held that the principal is not liable as the purchase was not made on his behalf.

44. A The facts of this case are similar to the decided case of *Kedar Nath vs Gauri Mohamed* (1886), where the secretary in this case had incurred a liability on the basis of the promise made out without consideration. The promise was enforceable as it resulted in detriment to the secretary. ≤

Hence, in the instant case, the trustee can enforce his right to recover the promised amount as he incurred the liability and thereby suffered a detriment.

45. E An application has to be made to the National Company Law Tribunal (NCLT) to approve the scheme of compromise or arrangement. The NCLT may call a meeting of the creditors or class of creditors of the company to consider the proposed scheme of compromise or arrangement. The NCLT may call a meeting of the members of the company to consider the proposed scheme of compromise or arrangement. The notice of the meeting called by the NCLT is required to be sent to all creditors or members of the company. At the meeting, the proposed scheme of compromise or arrangement is required to be approved by three-fourths majority of the members or creditors present at the meeting. ≤

46. D Non registration of a registrable charge does not render the transaction void, but only means that the security created by the charge becomes void as against the liquidator and all other creditors. ≤

47. C A private company registered under the Companies Act, 1956: ≤
- Restricts the right to transfer its shares, if any.
 - Prohibits any invitation to the public to subscribe for any shares in, or debentures of the company.
 - Prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.
 - Section 26 provides that a private limited company must have articles of its own.

Therefore, option 'C' is the correct answer as a private company can restrict the free transferability of its shares.

48. D In a contract of sale under the Sale of Goods Act, 1930: ≤
- A breach of condition can only be treated as a breach of warranty.
 - The contract may provide for delivery of goods by installments and payment of price in installments.
 - The consideration must be in money alone.
 - Title to goods is immediately transferred to the buyer.
 - In case of default by the seller, the buyer may sue for delivery of goods, or for conversion or for damages.

Hence, 'D' is the correct answer.

49. C Special Damages, are awarded from a breach of contract under some peculiar circumstances. At the time of entering into the contract the party has notice of special circumstances which makes special loss the likely result of the breach in the ordinary course of things. These are the damages which are claimed in addition to the damages arising from the breach of contract. ≤
50. C Acceptance of an offer should be absolute and unqualified and should conform totally with the offer made. A conditional or qualified acceptance does not result in a valid contract. All the other statements are true. ≤
51. E The provisions of Section 205 of the Act apply to both final as well as interim dividend. Therefore, before payment of interim dividend a company must transfer to reserves the prescribed percentage of the estimated profits of the period arrived at after providing for current year's depreciation and arrears of depreciation/loss. ≤
Hence, in the given instance, the interim dividend cannot be declared without providing for depreciation and transfer to reserves.
52. D The facts of the given instance are similar to the decided case of Cahn vs. Pockett's Bristol Channel Steam Packet Co., where the finder of a ring sold it to another person when the true owner could not be traced in spite of reasonable efforts. It was held that the purchaser of the ring did not acquire a good title and the true owner was entitled to recover the ring from the purchaser. Hence, the true owner can recover the ring from Vikram. ≤
53. D An inland instrument is one which is drawn or made in India upon any person resident therein, even though it is made payable in a foreign country. Hence, a bill drawn in Bangalore upon a resident of Mumbai, payable in Kuala Lumpur is an inland bill. All the other options are examples of foreign bills Hence option 'D' is correct answer. ≤
54. E If Harjeet Singh dies or becomes insane, Manoj Sharma comes to know of it after acceptance then an offer does not lapse. In all the other cases, if it is revoked by Harjeet Singh at any time before its acceptance, or if Harjeet Singh or Manoj Sharma dies or becomes insane and the other party comes to know of it before acceptance, or if the offer is not accepted within the specified time or within a reasonable time and upon failure to fulfill a condition precedent to acceptance, the offer would lapse. ≤
55. E In *London School of Electronics Limited., Re 1985*, it was held that diverting a business opportunity to a company controlled by a director who held a major stake in the first company amounted to oppression because it deprived the minority 25% of the profits which was attributable to that opportunity. Hence, 'E' is correct answer. ≤
56. E Nominee directors appointed by financial institutions are not considered for computing maximum strength of the Board of Directors under the Act. All the other statements are false in respect of directors. ≤
- The nominal value of the qualification shares shall not exceed Rs.5,000 or the nominal value of one share where it exceeds Rs.5,000. Hence, it is incorrect to say that the nominal value of the qualification shares cannot exceed Rs.5,000 under any circumstance.
 - A person who has applied to be adjudged an insolvent is disqualified from becoming a director in any company. Hence, it is incorrect to say that a person who has applied to be adjudged insolvent can become a director until he is declared as insolvent by a competent Court of law
 - Section 290 of the Act specifies that acts done by a person as a director

shall be valid, notwithstanding that it may afterwards be discovered that his appointment was invalid by reason of any defect or disqualification or had terminated by virtue of any provision contained in this Act or in the Articles. Hence, it is incorrect to say that acts done by a director before his disqualification are neither valid nor binding on the company.

- Additional directors enjoy the same powers and rights as other directors and they can be appointed as Managing Director of a company. Hence, it is incorrect to say that a person appointed as an additional director cannot be appointed as the Managing Director of the company.

57. B The persons dealing with the company having satisfied themselves that the proposed transaction is not in its nature inconsistent with the Memorandum and Articles of Association of the company are not bound to inquire into the regularity of the internal proceedings of the company. This principle is based on the doctrine of indoor management. ≤
58. C In case of International commercial dispute, the application for appointment of arbitrator has to be made to Chief Justice of Supreme Court of India. ≤
59. A In a contract of bailment, the bailee will have to bear all the ordinary expenses incurred, while the bailor will be responsible for any extraordinary expenses incurred by virtue of the bailment. In case of a gratuitous bailment, it is the duty of the bailor to bear the ordinary and reasonable expenses incurred by the bailee. ≤
60. B A company acting within the scope of its Memorandum of Association is empowered to enter into a valid contract under the Indian Contract Act, 1872. A company acting beyond the powers conferred to it by its Memorandum of Association is disqualified from entering into a valid contract. Minors, Convicts during the period of their imprisonment, Alien enemies and insolvent persons are also disqualified to enter into a valid contract under the Indian Contract Act, 1872. ≤
61. C Directors of a private company, which is not a subsidiary of a public company need not be appointed by a resolution per each director as in case of public limited companies. They may be appointed by a single resolution (Section 255). Hence, 'C' is correct answer. ≤
62. A To borrow money, the company's MOA and AOA should have a provision but the borrowed money is in excess of limits prescribed by the Memorandum of Association the borrowing is ultravires the company and is void. The lender has no remedy under the Companies Act is false The lender of the money has remedies under the Companies Act like, the right of subrogation, if the money is used for paying off lawful debts. ≤
If the money lent to the company has not been spent, the lender may get injunction order from the court to restrain the company from parting with the money. The lender of the money can recover the damages from the directors in their personal capacities.
63. A According to section 55 of the Negotiable Instruments Act, 1881, where an indorsement in blank is followed by an indorsement in full, the instrument remains payable to bearer and is negotiable against all the parties prior to the indorser in full. The indorser in full is liable to the holder who acquires the instrument by indorsement and any subsequent person who derives title to the instrument from the holder. ≤
For example, 'A' who is the payee holder of a bill indorses it in blank to 'B'

who indorses it in full to C as 'Pay C or order'. 'C' later transfers the instrument to 'D' without any indorsement. 'D' as the bearer of the instrument can either recover the amount or he may sue the drawer, the acceptor or 'A', but he cannot sue 'B' or 'C'.

64. D The facts of the given case are similar to the decided case of Brahm Dutt Sharma vs Life Insurance Corporation of India, where a life insurance policy taken by one Mukhtar Singh was financed by Brahm Dutt as Mukhtar Singh did not have sufficient means to afford such a policy. Mukhtar Singh made the nomination in favor of Brahm Dutt. On Mukhtar Singh's death, Brahm Dutt sought to recover the sum assured. However, it was held that he could not recover the amount as the contract of insurance was in the nature of a wager. Brahm Dutt had financed the insurance policy without having any insurable interest in the subject matter. Hence, in the instant case, Sunil cannot recover the insurance claim as he has no insurable interest in the policy. ≤
65. C A public company which has raised capital from the public by issue of prospectus and its shares are dealt in two or more stock exchanges is known as widely held company. ≤
66. D Section 205 specifies the sources out of which the dividend should be paid. The sources are: ≤
- Current profits
 - Reserves
 - Monies Provided by the Government
- Accordingly, dividends are not allowed to be declared out of capital even if the memorandum or articles give such power.
67. C A prospectus which does not have complete particulars on the price of securities offered and the quantum of securities offered is known as red-herring prospectus. ≤
68. B Where the mortgager mortgages the property on a condition that on default of payment of the mortgage-money on a certain date the sale shall become absolute, on such payment being made sale shall be void is known as Mortgage by Conditional Sale. ≤
69. C An agent who in consideration of an extra commission, guarantees his principal that the persons with whom he enters into contract on behalf of the principal shall perform their obligations, is known as a del credere agent. ≤
70. A Under the Indian Contract Act, 1872, agreements entered into mutual mistake as to the existence of subject matter are treated as void contracts. Agreements induced by coercion, fraud, undue influence and misrepresentation are voidable at the instance of the party whose consent was so obtained by coercion, fraud, undue influence and misrepresentation. Hence, 'A' is correct answer. ≤

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