Skillshort

Self-Study Preparation Pack

CA FOUNDATION

Paper 2: Business Laws

Mock Test 1 – Full Paper with Detailed Solutions

Exam pattern: 100 marks · 3 hours · Q1 compulsory + any 4 of Q2–Q6 · Original Skillshort questions

Time: 3 hours | Max marks: 100 | Model answers in provision → facts → conclusion format

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Question Paper

Instructions: Question No. 1 is compulsory. Attempt **any four** questions from the remaining five. Answers must be supported by relevant provisions of law. Time allowed: 3 hours. Maximum marks: 100.

QUESTION Question 1 (compulsory)

(a) Vikram took a loan of ₹9,00,000 from Pragati Bank. Paras, Qadir and Rhea signed as co-sureties under separate agreements, limiting their liability to ₹2,00,000, ₹3,00,000 and ₹6,00,000 respectively. Vikram defaulted on the entire amount. With reference to the Indian Contract Act, 1872, (i) determine the amount each surety must contribute; (ii) what would be your answer if the default were only ₹6,00,000? (7 marks)

(b) Classify the following under the Companies Act, 2013, giving reasons: (i) Alpha Pvt. Ltd. – paid-up capital ₹6 crore, turnover of the preceding year ₹80 crore, not a holding or subsidiary company; (ii) Beta Pvt. Ltd. – paid-up capital ₹2 crore, turnover ₹25 crore, 60% of its shares held by Gamma Ltd. (a public company); (iii) Delta Ltd. – 30% of paid-up capital held by the Central Government and 25% by the Government of Gujarat. (7 marks)

(c) Rohan, aged 16, was admitted to the benefits of partnership in M/s Arya Traders with the consent of all partners. The firm owes ₹5,00,000 to a supplier, Sona Ltd. Sona Ltd. wants to recover the amount from Rohan's personal property. Advise Sona Ltd. under the Indian Partnership Act, 1932. Also state Rohan's position if, on attaining majority, he does not give any public notice within six months. (6 marks)

QUESTION Question 2

(a) Meera ordered 200 bags of "Basmati rice" from Sharma Traders after seeing a sample. The bulk delivered matched the sample in quality and grain size, but on testing it was found to be non-Basmati long-grain rice. Can Meera reject the goods under the Sale of Goods Act, 1930? Would your answer differ if Meera had personally inspected every bag before accepting delivery and the defect was apparent on such inspection? (7 marks)

(b) Arjun, a minor, mortgaged his house to Kapoor for a loan of ₹3,00,000 by misrepresenting his age. On default, Kapoor sued for the loan. Arjun pleaded minority. Decide with reasons under the Indian Contract Act, 1872. What would be the position if the loan were used for his college fees (necessaries)? (7 marks)

(c) Explain the functions of (i) the Securities and Exchange Board of India and (ii) the Ministry of Corporate Affairs. (6 marks)

QUESTION Question 3

(a) Neha retired from M/s NSK & Co. on 31 March 2026 but no public notice of her retirement was given. On 15 May 2026, Kiran, an old customer who knew Neha as a partner, supplied goods on credit to the firm. The firm did not pay. Can Kiran hold Neha liable? Would it make a difference if Kiran had never dealt with the firm earlier and did not know that Neha was a partner? (7 marks)

(b) Sahil issued a cheque dated 10 January 2026 for ₹2,50,000 to Tanya towards repayment of a loan. Tanya presented it on 5 March 2026; it was dishonoured for insufficient funds on 6 March and she received the bank memo on 8 March. Explain the steps and the **last dates** for Tanya to proceed against Sahil under Section 138 of the Negotiable Instruments Act, 1881, if notice is sent on 20 March and received by Sahil on 23 March 2026. State the punishment. (7 marks)

(c) Green Earth LLP has three partners: two companies (X Ltd. and Y Ltd.) and an individual, Mr. Joseph, who stayed in India for 100 days in the current financial year. Discuss the provisions of the LLP Act, 2008 regarding designated partners and advise how Green Earth LLP can comply. (6 marks)

QUESTION Question 4

(a) On 1 June, Anil posted a letter offering to sell his car to Bina for ₹4,00,000. The letter reached Bina on 3 June. She posted her acceptance on 4 June, which reached Anil on 6 June. On 5 June Anil sent a telegram revoking the offer, received by Bina on 5 June after posting her acceptance. Decide whether the revocation is valid and whether a contract exists. When can Bina revoke her acceptance? (7 marks)

(b) The articles of Sun Ltd. authorise the directors to borrow up to ₹1 crore and beyond that only with the approval of a general meeting resolution. The directors borrowed ₹1.5 crore from Classic Finance without any such resolution. The company refuses to repay the excess. Advise Classic Finance under the Companies Act, 2013 and state any three exceptions to the doctrine involved. (7 marks)

(c) Distinguish between the right of lien and the right of stoppage in transit of an unpaid seller. (6 marks)

QUESTION Question 5

(a) Raju, without authority, purchased a machine for ₹6,00,000 on behalf of Sanjay from Tech Ltd. Sanjay ratified the purchase after a week but only for one of the two machines bought under the same contract. Discuss the rules of ratification under the Indian Contract Act, 1872 and decide whether Sanjay's partial ratification is valid. (7 marks)

(b) Partner Imran of M/s IJK & Co., without consulting others, (i) compromised a debt of ₹2,00,000 due from a customer for ₹1,20,000; (ii) bought stationery worth ₹15,000 on credit; (iii) agreed with a creditor to refer a dispute to arbitration. Examine whether the firm is bound under the Indian Partnership Act, 1932. (7 marks)

(c) Who is a "holder in due course"? State any four privileges available to him under the Negotiable Instruments Act, 1881. (6 marks)

QUESTION Question 6

(a) Komal found a gold ring on the platform and, after advertising, spent ₹2,000 on finding the owner. The owner, Leena, turned up after a month but refused to pay the expenses. Komal refuses to return the ring. A reward of ₹5,000 had also been offered by Leena in a newspaper. Discuss the rights of Komal under the Indian Contract Act, 1872. (7 marks)

(b) Explain the doctrine of ultra vires with the help of *Ashbury Railway Carriage & Iron Co. Ltd. v. Riche*. What are its consequences for the company and its directors? (7 marks)

(c) Explain the rules relating to contingent contracts under Sections 32 to 36 of the Indian Contract Act, 1872. (6 marks)

OR (c) Explain the obligations of a person enjoying the benefit of a non-gratuitous act (Sec 70) with an example, and distinguish a quasi-contract from a contract. (6 marks)

Solutions and Model Answers

SOLUTION Q1(a) Co-sureties with different limits

Provision: Under **Sec 146**, co-sureties liable for the same debt contribute **equally**. Under **Sec 147**, co-sureties bound in **different sums** pay equally **subject to the limit** of their respective obligations.

Default	Equal share	Paras (limit 2 L)	Qadir (limit 3 L)	Rhea (limit 6 L)	Total
₹9,00,000	3,00,000	2,00,000 (limit)	3,00,000 (limit)	4,00,000 (balance)	9,00,000
₹6,00,000	2,00,000	2,00,000	2,00,000	2,00,000	6,00,000

Working (i): Paras' equal share 3,00,000 exceeds his limit → pays 2,00,000. Balance 7,00,000 shared equally by Qadir and Rhea = 3,50,000 each; Qadir's limit is 3,00,000 → Rhea pays the remaining 4,00,000 (within her 6,00,000 limit).

Conclusion: (i) Paras ₹2,00,000; Qadir ₹3,00,000; Rhea ₹4,00,000. (ii) Each pays ₹2,00,000.

SOLUTION Q1(b) Classification of companies

(i) **Small company – Sec 2(85):** a private company (not holding/subsidiary, not Sec 8, not under special Act) with paid-up capital not exceeding **₹10 crore** and turnover not exceeding **₹100 crore** (limits revised w.e.f. 1 December 2025) VERIFY. Alpha (₹6 crore; ₹80 crore) is a **small company**. (Under the earlier ₹4 crore/₹40 crore limits it would not be – always state the limit you apply.)

(ii) Beta is a **subsidiary** of Gamma Ltd. (holds more than one-half of the voting power – Sec 2(87)). A subsidiary of a public company is **deemed public** (Sec 2(71) proviso) and a subsidiary cannot be a small company. Beta is a **deemed public company and subsidiary**, not a small company.

(iii) **Government company – Sec 2(45):** not less than **51%** of paid-up capital held by the Central Government, State Government(s), or partly by both. Delta: 30% + 25% = **55%** → Delta is a **government company**.

SOLUTION Q1(c) Liability of a minor partner

Provision – Sec 30: a minor admitted to the benefits of partnership is **not personally liable** for the acts of the firm; only his **share in the property and profits** of the firm is liable. Within **6 months** of attaining majority (or of knowing of his admission, whichever is later) he must elect, by **public notice**, whether to become a partner. If he gives no notice, he **becomes a partner** on expiry of 6 months (Sec 30(5)) and is **personally liable** for all acts of the firm **from the date of his admission to benefits** (Sec 30(7)).

Conclusion: Sona Ltd. cannot proceed against Rohan's personal property while he is a minor; it may recover from his share in the firm and from the other partners personally. If Rohan gives no notice within six months of majority, he becomes a partner and is personally liable even for this debt incurred since his admission.

SOLUTION Q2(a) Sale by sample as well as description – Sec 15

Provision: where goods are sold by **sample as well as by description**, it is not enough that the bulk corresponds with the sample – it must **also correspond with the description** (Sec 15). This is an implied **condition**; its breach entitles the buyer to reject.

Analysis: the rice matched the sample but not the description "Basmati".

Conclusion: Meera **can reject** the goods and claim damages. **Second part:** examination does not cure a breach of description; but where the buyer has **examined** the goods, there is no implied condition of merchantability as regards **defects that such examination ought to have revealed** (Sec 16(2) proviso). The description condition (Sec 15) still applies, so Meera can still reject, but she cannot rely on merchantability for an obvious defect she accepted.

SOLUTION Q2(b) Minor's agreement

Provision: an agreement with a minor is **void ab initio** (*Mohori Bibee v. Dharmodas Ghose*, 1903); a minor cannot be made liable even if he misrepresented his age – no estoppel against a minor. The court may, on equitable grounds, order restitution of property/goods still traceable in his hands, but **not** repayment of money. Under **Sec 68**, a supplier of **necessaries** to a minor is reimbursed from the minor's **property** (not personally).

Conclusion: Kapoor cannot recover the loan or enforce the mortgage. If the loan was for college fees (necessaries), Kapoor can recover a reasonable amount **out of Arjun's property**; Arjun is not personally liable.

SOLUTION Q2(c) Functions of SEBI and MCA

SEBI (SEBI Act, 1992): (1) protect the interests of investors in securities; (2) regulate stock exchanges and the securities market; (3) register and regulate intermediaries – brokers, merchant bankers, mutual funds, portfolio managers; (4) prohibit fraudulent and unfair trade practices and **insider trading**; (5) regulate substantial acquisition of shares and takeovers; (6) promote investor education and training of intermediaries.

MCA: (1) administers the Companies Act, 2013, the LLP Act, 2008, the Competition Act, 2002 and (with IBBI) the Insolvency and Bankruptcy Code, 2016; (2) registration of companies and LLPs through the **Registrar of Companies**; (3) oversight through Regional Directors, Official Liquidators and the **SFIO** (serious fraud investigation); (4) investor protection through the **IEPF Authority**; (5) policy for corporate governance and CSR.

SOLUTION Q3(a) Liability of a retired partner – Sec 32(3)

Provision: a retired partner and the partners continue to be liable to third parties for acts which would have been acts of the firm **until public notice** of retirement is given. But a retired partner is not liable to a third party who deals with the firm **without knowing** that he was a partner.

Conclusion: Kiran knew Neha as a partner and no public notice was given → **Neha is liable**. In the second case, Kiran did not know Neha was a partner → **Neha is not liable**.

SOLUTION Q3(b) Sec 138 timeline

Step	Rule	Last date / date
Presentation	Within 3 months of the date of cheque (10 Jan)	5 March – within validity ✔
Notice of demand	Within **30 days** of information of dishonour (8 March)	By **7 April 2026** – sent 20 March ✔
Drawer's time to pay	**15 days** from receipt of notice (23 March)	Up to **7 April 2026**
Cause of action	Arises on failure to pay	**8 April 2026**
Complaint	Within **1 month** of cause of action, before a Metropolitan Magistrate / Judicial Magistrate First Class	By **7 May 2026**

Punishment: imprisonment up to **2 years**, or fine up to **twice the cheque amount** (₹5,00,000), or both; interim compensation up to 20% may be ordered (Sec 143A). The cheque was for a **legally enforceable debt**, so Sec 138 applies.

SOLUTION Q3(c) Designated partners – Sec 7

Every LLP must have at least **two designated partners who are individuals**, and at least **one of them resident in India** (stayed at least **120 days** in the financial year). Where all or some partners are **bodies corporate**, their **nominees** (individuals) may act as designated partners. Each needs a **DPIN/DIN** and must give prior consent.

Advice: Mr. Joseph (100 days) is not a resident partner. X Ltd. and Y Ltd. should nominate individuals as designated partners, and at least one designated partner (a nominee or Mr. Joseph in a later year) must be **resident** in India. Until then the LLP does not comply and the LLP and partners are liable to penalty.

SOLUTION Q4(a) Communication of offer, acceptance and revocation – Sec 4 and 5

Provisions: communication of acceptance is complete **as against the proposer** when it is put in course of transmission (posted) – **4 June**; **as against the acceptor** when it comes to the knowledge of the proposer – **6 June**. A proposal may be revoked any time **before** communication of acceptance is complete as against the proposer (Sec 5).

Analysis: Anil's revocation (5 June) came after Bina posted acceptance (4 June).

Conclusion: the revocation is **invalid**; a binding **contract exists** from 4 June. Bina could revoke her acceptance any time before **6 June** (before her acceptance reached Anil) – e.g., by a faster message reaching Anil earlier.

SOLUTION Q4(b) Doctrine of indoor management

Provision: outsiders dealing with a company are entitled to assume that **internal formalities** (e.g., a general meeting resolution) have been complied with – *Royal British Bank v. Turquand*. They are bound by **constructive notice** of the public documents (MOA/AOA), not of internal proceedings.

Analysis: the AOA permits borrowing beyond ₹1 crore with a resolution; Classic Finance could assume it was passed.

Conclusion: Classic Finance can **recover the full ₹1.5 crore** from Sun Ltd.

Exceptions: (1) **knowledge of irregularity** by the outsider; (2) **negligence** – failure to enquire where circumstances were suspicious; (3) **forgery** – void documents (*Ruben v. Great Fingall Consolidated*); (4) acts **outside the apparent authority** of the officer; (5) the outsider was **not aware of the articles** at all and did not rely on them.

SOLUTION Q4(c) Lien vs stoppage in transit

Basis	Lien (Sec 47–49)	Stoppage in transit (Sec 50–52)
Possession	Seller is **in possession**	Seller has **parted** with possession; goods with a carrier
Condition	Price unpaid (even if buyer solvent)	Buyer has become **insolvent**
Nature	Right to **retain**	Right to **regain** possession
Ends	On delivery to carrier, buyer getting possession, waiver	When goods reach the buyer / transit ends
Purpose	Retain till paid	Resume possession and retain till paid

SOLUTION Q5(a) Ratification – Sec 196–200

Rules: the principal may ratify acts done on his behalf without authority (Sec 196); ratification may be express or implied (Sec 197); must be with **full knowledge** of facts (Sec 198); the agent must have acted **on behalf of** the principal who was in existence and competent; ratification relates back to the date of the act; an act which is void cannot be ratified; ratification must be of the **whole transaction** – ratifying part of a transaction amounts to ratifying the whole (Sec 199); ratification cannot injure a third person (Sec 200).

Conclusion: Sanjay cannot ratify only one machine; by ratifying part, he is deemed to have **ratified the whole** contract for both machines.

SOLUTION Q5(b) Implied authority of a partner – Sec 19

(i) Compromise or relinquishment of a claim is **excluded** from implied authority (Sec 19(2)(c)) – the firm is **not bound** unless authorised or ratified.

(ii) Buying stationery on credit is in the **usual course** of business – the firm **is bound** (Sec 19(1)).

(iii) Submitting a dispute to **arbitration** is excluded (Sec 19(2)(a)) – the firm is **not bound**.

SOLUTION Q5(c) Holder in due course – Sec 9

A person who, **for consideration**, became the possessor of a bearer instrument or the payee/endorsee of an order instrument **before maturity**, without sufficient cause to believe that any defect existed in the title of the transferor (**good faith**).

Privileges: (1) gets a title **free from defects** of prior parties (Sec 53); (2) every prior party is liable to him until the instrument is satisfied (Sec 36); (3) an **inchoate** instrument completed for a larger amount is enforceable up to the stamp value (Sec 20); (4) **estoppel** – maker/drawer cannot deny the validity of the instrument or the payee's capacity (Sec 120–122); (5) a person deriving title from a holder in due course has his rights (Sec 53); (6) fictitious bill – acceptor liable (Sec 42).

SOLUTION Q6(a) Rights of a finder of goods – Sec 71, 168, 169

Provision: a finder of goods has the responsibility of a **bailee** (Sec 71). He may **retain the goods** until he receives compensation for trouble and expenses voluntarily incurred to preserve the goods and find the owner, but cannot sue for such compensation (Sec 168). Where the owner has offered a **specific reward**, the finder may **sue for the reward** and retain the goods till paid. He may sell the goods if the owner cannot be found or refuses to pay lawful charges and the goods are perishable or the charges amount to two-thirds of the value (Sec 169).

Conclusion: Komal may **retain the ring** until Leena pays ₹2,000 expenses, and can **sue for the reward** of ₹5,000.

SOLUTION Q6(b) Doctrine of ultra vires

An act **beyond the objects** stated in the MOA (or the powers conferred by the Act) is *ultra vires* the company and **void** – it cannot be ratified even by all the shareholders. In *Ashbury Railway Carriage v. Riche* (1875), the company's objects were to make railway carriages; the directors contracted to finance a railway line in Belgium. The House of Lords held the contract void and incapable of ratification.

Consequences: (1) contract **void**, neither party can enforce; (2) **injunction** – members can restrain the act; (3) **personal liability of directors** for breach of warranty of authority and for misapplication of funds; (4) property acquired out of ultra vires expenditure may be held by the company; (5) an act ultra vires the **directors** but intra vires the company can be ratified by the shareholders.

SOLUTION Q6(c) Contingent contracts (Sec 32–36)

Sec 32 – enforceable only when the uncertain future event **happens**; void if it becomes impossible. Sec 33 – contingent on an event **not happening**: enforceable when the happening becomes impossible. Sec 34 – where the event is the future conduct of a living person, it is deemed impossible when he acts so as to make it impossible. Sec 35 – event within a **fixed time**: void if it does not happen in time; event not to happen within a fixed time – enforceable after expiry. Sec 36 – contingent on an **impossible event** – void. (Give one example for each.)

SOLUTION Q6(c) OR – Sec 70 and quasi-contracts

Where a person lawfully does anything for another, or delivers anything, **not intending to do so gratuitously**, and the other **enjoys the benefit**, the latter must compensate or restore the thing (Sec 70). Example: a trader leaves goods at B's house by mistake and B uses them – B must pay. **Quasi-contract vs contract:** a quasi-contract is **imposed by law** without agreement, offer, acceptance or consent; it gives only a right to money, available against specific persons; a contract arises from a **voluntary agreement** with all essentials of Sec 10.