Skillshort

Self-Study Preparation Pack

CA FOUNDATION

Paper 2: Business Laws

Mock Test 2 – 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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2 Important topics & weightage

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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) Prakash appointed Dinesh as his agent to sell his flat for not less than ₹80 lakh, at a commission of 1%. Dinesh secretly bought the flat himself in the name of his wife for ₹80 lakh and, a month later, resold it for ₹92 lakh. On discovering this, Prakash claims the profit of ₹12 lakh and refuses to pay commission. Decide under the Indian Contract Act, 1872. Would your answer differ if Dinesh had disclosed all facts and Prakash had consented? (7 marks)

(b) Omega Ltd. holds 40% of the equity share capital of Neo Ltd., but under a shareholders' agreement it controls the composition of Neo's Board of Directors. Neo Ltd. holds 55% of the voting power of Zen Pvt. Ltd. Examine the relationship among the three companies under the Companies Act, 2013. (7 marks)

(c) Ravi handed his laptop to Mohit, a dealer in second-hand laptops (mercantile agent), to show to customers and find a buyer at ₹50,000. Mohit sold it in his shop for ₹40,000 to Sunil, who bought in good faith, and absconded with the money. Can Ravi recover the laptop from Sunil under the Sale of Goods Act, 1930? Would the position change if Ravi's laptop had been stolen and sold to Sunil by the thief? (6 marks)

QUESTION Question 2

(a) Distinguish between fraud and misrepresentation. Manoj sold a horse to Ketan, knowing that it was unsound, without saying anything; Ketan did not ask. Later Ketan wants to avoid the contract on the ground of fraud. Decide. (7 marks)

(b) (i) Five friends wish to form "Seva LLP" to run a free health clinic for the poor. Advise them under the LLP Act, 2008. (3 marks) (ii) Arc LLP had two partners; one died on 1 April 2026 and the surviving partner continued the business alone till December 2026. Discuss his liability. (4 marks)

(c) Define law. Explain the main sources of law in India. (6 marks)

QUESTION Question 3

(a) M/s Arun & Co., an **unregistered** firm, filed a suit against Babu for ₹1,80,000 for goods supplied. Babu claims the suit is not maintainable. Separately, partner Arun wants to sue the other partners for dissolution and accounts. Decide both issues under the Indian Partnership Act, 1932. (7 marks)

(b) Shalini agreed to buy a specific heap of 500 kg of wheat from Gopal at ₹30 per kg; the heap was to be weighed by Gopal to ascertain the price. Before weighing, the godown caught fire without anyone's fault and the wheat was destroyed. Who bears the loss under the Sale of Goods Act, 1930? Would it change if weighing had been completed and Shalini had been informed? (7 marks)

(c) Explain the different types of crossing of cheques and the effect of the words "Not Negotiable". (6 marks)

QUESTION Question 4

(a) Galaxy Hall was booked by Tanvi for a wedding on 10 December. On 5 December, the hall was destroyed in an accidental fire. Tanvi had paid an advance of ₹1,00,000. Decide under the Indian Contract Act, 1872 whether the contract is discharged and whether Tanvi can get back the advance. (7 marks)

(b) Mr. Kunal sold his business to Kunal Traders Pvt. Ltd. and agreed not to compete. To avoid the covenant, he incorporated a company with his wife and son as shareholders and started a competing business through it. Can the court disregard the company? Explain with case law and list any four other grounds for lifting the corporate veil. (7 marks)

(c) State the circumstances under which a court may dissolve a partnership firm at the suit of a partner (Sec 44). (6 marks)

QUESTION Question 5

(a) State the rights of an indemnity holder when sued (Sec 125). Distinguish between a contract of indemnity and a contract of guarantee (any four points). (7 marks)

(b) Compute the date of maturity in each case under the Negotiable Instruments Act, 1881: (i) a bill dated 31 January 2026 payable one month after date; (ii) a bill dated 1 March 2026 payable 60 days after date; (iii) a bill payable 3 months after sight, accepted on 15 April 2026; (iv) in (i), if the due date is a public holiday. (7 marks)

(c) What are the clauses of a Memorandum of Association? How is the objects clause altered? (6 marks)

QUESTION Question 6

(a) At an auction of antiques, the auctioneer had not notified any right to bid on behalf of the seller. The seller secretly employed Pinky to bid to raise the price, and Sameer's bid of ₹3,00,000 was accepted. Later Sameer discovered this. Advise Sameer under the Sale of Goods Act, 1930 and state the rules of auction sale. (7 marks)

(b) M/s AB & Co. was dissolved on 31 March 2026. Assets realised ₹2,40,000. Liabilities: trade creditors ₹1,00,000; loan from partner A ₹20,000. Capitals: A ₹80,000, B ₹60,000. Profit-sharing ratio equal. Explain the mode of settlement under Sec 48 of the Indian Partnership Act, 1932 and compute the amount payable to each partner. (7 marks)

(c) Explain pledge by non-owners under the Indian Contract Act, 1872. (6 marks)

OR (c) Explain the doctrine of *quantum meruit* and state the cases in which a claim can be made. (6 marks)

Solutions and Model Answers

SOLUTION Q1(a) Agent dealing on his own account – Sec 215 and 216

Provisions: if an agent deals on his own account in the business of the agency **without the principal's consent** and without disclosing all material facts, the principal may **repudiate** the transaction (Sec 215); and if the agent secretly buys the property himself, the principal may claim from him **any benefit** resulting from the transaction (Sec 216). An agent guilty of misconduct in the business of agency is **not entitled to remuneration** for that business (Sec 220).

Conclusion: Prakash can claim the **profit of ₹12 lakh** from Dinesh and need not pay commission. If Dinesh had **disclosed all facts and obtained consent**, the transaction would be valid; Dinesh could keep the resale profit (he bought as owner), and commission would depend on the agreement.

SOLUTION Q1(b) Holding, subsidiary and step-down subsidiary – Sec 2(87)

A company is a **subsidiary** of another if the other (i) **controls the composition of its Board**, or (ii) **exercises or controls more than one-half of the total voting power**, alone or with its subsidiaries.

- **Neo Ltd.** – Omega controls the composition of its Board → Neo is a **subsidiary** of Omega, though Omega holds only 40%.
- **Zen Pvt. Ltd.** – Neo controls 55% voting power → Zen is a **subsidiary of Neo**, and through Neo, a **subsidiary of Omega** as well (a step-down subsidiary – control "together with one or more of its subsidiaries").
- Omega is the **holding company** of both (Sec 2(46)). Zen, being a subsidiary of a public company, is a **deemed public company**.

SOLUTION Q1(c) Sale by mercantile agent – Sec 27 proviso

Rule: no one can give a better title than he has (*nemo dat quod non habet*, Sec 27). **Exception:** a sale by a **mercantile agent** in possession of goods with the owner's consent, in the ordinary course of business, to a buyer in **good faith** without notice, gives a good title.

Conclusion: Mohit, a mercantile agent, was in possession **with Ravi's consent** in that capacity and sold in the ordinary course of business; Sunil bought in good faith → Sunil gets a **good title** even though Mohit disobeyed the price instruction; Ravi's remedy is against Mohit. If the laptop were **stolen**, the thief has no title and Sunil gets **none** – Ravi can recover it.

SOLUTION Q2(a) Fraud vs misrepresentation

Basis	Fraud (Sec 17)	Misrepresentation (Sec 18)
Intention	Intention to **deceive**	Innocent – no intention to deceive
Belief	Person knows the statement is false	Person believes it to be true
Remedy	Rescind **and** claim damages	Rescind only, no damages
Defence "could discover with ordinary diligence"	Not available (except silence)	Available
Criminal	May be an offence	Not an offence

Analysis: mere silence as to facts likely to affect willingness is **not fraud** (Sec 17 Explanation) unless there is a **duty to speak** or silence is itself equivalent to speech.

Conclusion: Ketan did not ask; there was no duty to disclose → **not fraud**; Ketan cannot avoid the contract (*caveat emptor*). Had Ketan asked and Manoj kept silent or said the horse was sound, it would be fraud.

SOLUTION Q2(b) LLP – purpose and minimum partners

(i) Sec 11 – an LLP is formed by two or more persons for carrying on a **lawful business with a view to profit**. A free clinic is **charitable**, not business with profit motive → Seva LLP **cannot** be formed; they may form a **Section 8 company** or a trust/society.

(ii) Sec 6 – if the number of partners falls below **two** and the LLP carries on business for **more than six months** while so reduced, the person who is the only partner and knows it is **personally liable** for obligations of the LLP incurred **after six months** (i.e., from 1 October 2026). He must admit a new partner promptly.

SOLUTION Q2(c) Law and sources of law

Law – the body of principles recognised and applied by the State in the administration of justice; rules of conduct enforced by the State through courts.

Sources: (1) **customs** – long, continuous, reasonable, certain practices; (2) **judicial precedents** – decisions of higher courts (Supreme Court law binding under Art. 141); (3) **legislation** – Acts of Parliament and State legislatures, and delegated legislation; (4) **personal law** – Hindu, Muslim law for personal matters; (5) **equity, justice and good conscience** – where no rule applies; (6) **foreign law/international conventions** that India adopts (persuasive).

SOLUTION Q3(a) Non-registration – Sec 69

Provision: a suit to enforce a right **arising from a contract** cannot be instituted by or on behalf of an **unregistered firm** against a third party (Sec 69(2)). But Sec 69(3) permits a partner to sue for **dissolution of the firm** and for **accounts** of a dissolved firm or realisation of its property.

Conclusion: (i) The firm's suit against Babu for ₹1,80,000 is **not maintainable** (exceeds the ₹100 exemption and arises from contract). (ii) Arun **can sue** for dissolution and accounts.

SOLUTION Q3(b) Transfer of property and risk – Sec 20, 22, 26

Provision: where specific goods are in a deliverable state but the seller is bound to **weigh, measure or test** them to ascertain the price, property does **not pass** until this is done **and the buyer has notice** (Sec 22). Unless otherwise agreed, **risk follows property** (Sec 26).

Conclusion: weighing was pending → property and risk were with **Gopal**; he bears the loss and cannot claim the price. If weighing had been done and Shalini informed, property (and risk) would have passed to **Shalini** – she would bear the loss and pay ₹15,000.

SOLUTION Q3(c) Crossing of cheques (Sec 123–131)

General crossing – two parallel transverse lines, with or without "& Co." / "Not Negotiable" – payable only through **a bank**. **Special crossing** – name of a banker written across – payable only through **that banker**. **Account payee crossing** ("A/c payee only") – collecting bank must credit only the **payee's** account (banking practice). **Double crossing** – a banker with a special crossing may cross it again to another bank as agent for collection (Sec 127).

"Not negotiable" (Sec 130): the cheque remains **transferable**, but the transferee **cannot get a better title** than the transferor – it protects the true owner if the cheque is stolen.

SOLUTION Q4(a) Supervening impossibility – Sec 56

Provision: a contract to do an act which, after the contract is made, becomes **impossible** due to an event the promisor could not prevent becomes **void** (Sec 56) – *Taylor v. Caldwell* (music hall destroyed by fire). Under **Sec 65**, when a contract becomes void, any person who has received an advantage must **restore** it.

Conclusion: the contract is **discharged** by supervening impossibility; Tanvi can **recover the advance** of ₹1,00,000 (Sec 65).

SOLUTION Q4(b) Lifting the corporate veil

Rule: a company is a separate legal person (*Salomon*). Courts **lift the veil** when the corporate form is used to **evade a legal obligation** or commit fraud. In *Gilford Motor Co. v. Horne* (1933), a former employee bound by a non-solicitation covenant formed a company to solicit customers; the court granted an injunction against both him and the company – a **mere cloak or sham**.

Conclusion: the court will disregard the company and restrain Kunal and the company.

Other grounds: (1) protection of **revenue** / tax evasion (*Dinshaw Maneckjee Petit*); (2) **enemy character** in war (*Daimler Co. v. Continental Tyre*); (3) company acting as an **agent** of shareholders; (4) avoiding **welfare legislation**; (5) statutory grounds – misrepresentation in prospectus (Sec 34–35), fraudulent conduct of business (Sec 339), failure to refund application money.

SOLUTION Q4(c) Dissolution by court – Sec 44

At the suit of a partner, the court may dissolve the firm on the ground that: (a) a partner has become of **unsound mind**; (b) a partner has become **permanently incapable** of performing his duties; (c) a partner is guilty of **misconduct** likely to prejudicially affect the business; (d) a partner **wilfully or persistently commits breach** of the agreement; (e) a partner has **transferred** his whole interest to a third party or allowed it to be sold; (f) the business can only be carried on at a **loss**; (g) any other **just and equitable** ground.

SOLUTION Q5(a) Indemnity holder's rights and indemnity vs guarantee

Sec 125 – the indemnity holder, when sued, can recover from the indemnifier: (1) all **damages** he is compelled to pay in any suit in respect of the matter covered; (2) all **costs** he is compelled to pay in such suit, if he acted prudently or with the indemnifier's authority; (3) all **sums paid under a compromise** of such suit, if not contrary to the indemnifier's orders and prudent.

Basis	Indemnity	Guarantee
Parties	Two	Three
Liability	**Primary**	**Secondary** (surety liable if debtor defaults)
Object	Protection from loss	Security for a debt or performance
Request	Indemnifier acts without request of debtor	Surety acts at the request of the principal debtor
Right to sue third party	Indemnifier cannot sue in own name (unless assigned)	Surety, on payment, steps into creditor's shoes (subrogation)

SOLUTION Q5(b) Maturity of bills – Sec 22–25

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(i) 31 Jan + 1 month → no 31 Feb → last day 28 Feb 2026 + 3 days of grace = 3 March 2026
(ii) 1 March + 60 days (exclude 1 March): March 30 + April 30 = 30 April 2026 + 3 days = 3 May 2026
(iii) Accepted 15 April + 3 months = 15 July 2026 + 3 days = 18 July 2026
(iv) If 3 March 2026 is a public holiday → preceding business day 2 March 2026 (Sec 25)
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SOLUTION Q5(c) Clauses of MOA and alteration of objects

Clauses (Sec 4): (1) **name** clause; (2) **registered office** clause (State); (3) **objects** clause; (4) **liability** clause; (5) **capital** clause; (6) **association/subscription** clause; (7) **nomination** clause (OPC only).

Alteration of objects (Sec 13): by **special resolution**; if the company has raised money from the public through a prospectus and any money remains unutilised, the change also needs a special resolution by **postal ballot**, details published in newspapers, and **exit opportunity** to dissenting shareholders as per SEBI regulations; file with the Registrar who registers the alteration.

SOLUTION Q6(a) Auction sale – Sec 64

Rules: (1) each lot is a separate contract; (2) sale is complete on the **fall of the hammer**; until then any bidder may retract; (3) a right to bid may be reserved expressly by or on behalf of the seller; (4) where a sale is not notified to be subject to the seller's right to bid, the seller may not bid or employ anyone to bid; and the auctioneer may not knowingly accept such a bid – a sale contravening this rule may be treated as **fraudulent by the buyer**; (5) sale may be subject to a reserved price; (6) **pretended bidding** to raise the price makes the sale voidable at the buyer's option.

Conclusion: Pinky's bidding was **pretended bidding** without notification → Sameer may **avoid** the sale (and claim damages).

SOLUTION Q6(b) Settlement of accounts – Sec 48

Order: (1) losses including capital deficiency – paid first out of profits, then capital, then by partners in PSR; (2) assets applied: (i) outside debts, (ii) partners' **advances**, (iii) partners' **capital**, (iv) surplus in PSR.

Step	₹
Assets realised	2,40,000
Less: trade creditors	(1,00,000)
Less: A's loan	(20,000)
Available for capitals	1,20,000
Capitals (80,000 + 60,000)	1,40,000
Capital deficiency (loss) shared equally	20,000 → 10,000 each

Payable: A = 20,000 (loan) + 80,000 − 10,000 = **₹90,000**; B = 60,000 − 10,000 = **₹50,000**. Total 2,40,000 − 1,00,000 = 1,40,000 ✔.

SOLUTION Q6(c) Pledge by non-owners

Generally only the owner can pledge. Exceptions: (1) **mercantile agent** in possession with owner's consent, pledging in the ordinary course to a pawnee in good faith (Sec 178); (2) person in possession under a **voidable contract** not yet rescinded (Sec 178A); (3) **seller in possession** after sale (Sec 30(1) SoGA); (4) **buyer in possession** before property passes, with seller's consent (Sec 30(2)); (5) **pawnor with limited interest** – pledge valid to the extent of that interest (Sec 179); (6) **co-owner in sole possession** with consent of others.

SOLUTION Q6(c) OR – Quantum meruit

"As much as earned" – reasonable compensation for work done. Claims arise: (1) when a contract is **discovered to be void** or becomes void (Sec 65); (2) when one party **abandons/refuses** to perform after the other has partly performed (*Planche v. Colburn*); (3) **divisible contract** partly performed by the party in default – for the part done if benefit accepted; (4) **indivisible contract** performed badly – payment less deduction for defects; (5) when work is done without a fixed price – reasonable price.