Skillshort

Self-Study Preparation Pack

CA FOUNDATION

Paper 2: Business Laws

Chapter-wise Practice Questions with Answers

8 chapters · Quick-check MCQs + exam-style case studies with model answers · Original Skillshort questions

40 quick-check MCQs | 24 exam-style questions | Model answers

Contents

How to practise	2
Chapter 1: Indian Regulatory Framework	2
Chapter 2: Contract Act – General Principles	3
Chapter 3: Special Contracts	4
Chapter 4: Sale of Goods Act, 1930	5
Chapter 5: Indian Partnership Act, 1932	6
Chapter 6: LLP Act, 2008	7
Chapter 7: Companies Act, 2013	8
Chapter 8: Negotiable Instruments Act, 1881	9

This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

3 Past papers: trends & links

4 Mock tests + solutions

5 Chapter practice questions

6 Last-week plan & strategy

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.

How to practise

Business Laws is a written paper, but the quick-check MCQs build the exact recall of **sections and conditions** that case studies need. After each chapter: do the MCQs (5 minutes), then write the exam-style answers in the **provision → facts → conclusion** frame, and compare with the model answers.

Chapter 1: Indian Regulatory Framework

1. The Insolvency and Bankruptcy Board of India was established under:

(a) Companies Act, 2013
(b) IBC, 2016
(c) SEBI Act, 1992
(d) RBI Act, 1934

2. Law declared by the Supreme Court is binding on all courts in India under Article:

(a) 32
(b) 124
(c) 141
(d) 226

3. CBDT and CBIC function under which department?

(a) Department of Revenue
(b) Department of Legal Affairs
(c) Department of Expenditure
(d) DIPAM

4. "Audi alteram partem" means:

(a) No one should be a judge in his own cause
(b) Hear the other side
(c) Let the buyer beware
(d) No one can give a better title

5. Drafting of government bills is done by the:

(a) Department of Justice
(b) Legislative Department
(c) MCA
(d) Department of Legal Affairs

QUESTION Exam-style questions

1. Explain the hierarchy of courts in India and the functions of the judiciary. (6 marks)
2. Describe the role of the Reserve Bank of India and the Insolvency and Bankruptcy Board of India. (6 marks)
3. Explain "common law" and the principles of natural justice. (6 marks)

Answers – Chapter 1 quick check

Q	Ans	Explanation / working
1	(b)	IBBI was set up on 1 October 2016 under the Insolvency and Bankruptcy Code, 2016.
2	(c)	Art. 141 – binding nature of Supreme Court decisions.
3	(a)	Both boards are part of the Department of Revenue, Ministry of Finance.
4	(b)	A principle of natural justice.
5	(b)	The Legislative Department of the Ministry of Law and Justice drafts bills.

SOLUTION Chapter 1 – exam-style answers

1. Supreme Court (Art. 124) at the apex – original, appellate, advisory and writ jurisdiction; High Courts (Art. 214, writs under Art. 226, superintendence Art. 227); district and sessions courts; subordinate civil courts and magistrates; tribunals. Functions: dispute resolution, interpretation of law, protection of fundamental rights, judicial review, guardian of the Constitution.
2. RBI – monetary policy, currency issue, banker to Government and banks, regulator of banks/NBFCs, foreign exchange management, payment systems. IBBI – regulates insolvency professionals, agencies and information utilities; writes regulations for insolvency resolution, liquidation and voluntary liquidation; promotes the insolvency profession.
3. Common law – judge-made law based on precedents; principles of natural justice – rule against bias (*nemo judex in causa sua*), right to be heard (*audi alteram partem*), reasoned decisions.

Chapter 2: Contract Act – General Principles

6. An agreement enforceable by law is a:

(a) Promise
(b) Contract
(c) Proposal
(d) Void agreement

7. Display of goods with price tags in a shop is:

(a) An offer
(b) An invitation to offer
(c) Acceptance
(d) A counter offer

8. A promise to pay a time-barred debt is enforceable if it is:

(a) Oral
(b) Written and signed by the debtor
(c) Registered only
(d) Never enforceable

9. A contract induced by coercion is:

(a) Void
(b) Voidable
(c) Valid
(d) Illegal

10. An agreement in restraint of marriage of an adult is:

(a) Valid
(b) Voidable
(c) Void
(d) Illegal

QUESTION Exam-style questions

1. Ajay promised to pay his nephew ₹1,00,000 if he passed CA Foundation. The nephew passed, but Ajay refused to pay. Can the nephew recover? (4 marks)
2. Ravi, an employee, signed an agreement not to join any competitor anywhere in India for 5 years after leaving. Is it valid? (3 marks)
3. Distinguish between void and voidable contracts. (5 marks)

Answers – Chapter 2 quick check

Q	Ans	Explanation / working
6	(b)	Sec 2(h).
7	(b)	The customer makes the offer at the counter.
8	(b)	Sec 25(3).
9	(b)	Sec 19 – voidable at the option of the coerced party.

Q	Ans	Explanation / working
10	(c)	Sec 26.

SOLUTION **Chapter 2 – exam-style answers**

1. Consideration may be an act or abstinence at the promisor's desire (Sec 2(d)) – the nephew studied and passed at Ajay's desire; there is consideration and intention to create legal relations is a question of fact. Generally enforceable (*Hamer v. Sidway* analogy); if the promise was a mere family arrangement without intention to be bound, not enforceable.
2. Sec 27 – agreements in restraint of trade are **void**; a post-employment restraint is void (only restraint during employment is valid). The exceptions are sale of goodwill and partnership restraints.
3. Void – no legal effect from beginning or becomes unenforceable; voidable – valid until avoided by the aggrieved party; void cannot be ratified; voidable may be affirmed; third party gets no title under void, may get good title under voidable before rescission; causes – Sec 20, 23–30, 56 vs Sec 14–19.

Chapter 3: Special Contracts

11. A contract of guarantee has how many parties?

(a) Two
(b) Three
(c) Four
(d) One

12. Surety is discharged when the creditor, without his consent:

(a) Gives notice
(b) Varies the terms of the contract
(c) Sues the debtor
(d) Accepts part payment

13. The bailee's duty of care is that of a:

(a) Man of ordinary prudence
(b) Trustee
(c) Insurer
(d) Expert

14. A pawnee can sell the goods after:

(a) Default and reasonable notice to the pawnor
(b) Default only
(c) Pledge
(d) Never

15. An agency coupled with interest:

(a) Can be revoked at any time
(b) Cannot be revoked to the prejudice of that interest
(c) Ends on death of principal
(d) Is void

QUESTION **Exam-style questions**

1. Mohan guaranteed payment for goods supplied by Sohan to Ram up to ₹50,000 on a monthly basis. After two months Mohan revoked the guarantee. Explain his liability. (4 marks)
2. Distinguish between bailment and pledge (four points). (4 marks)
3. Explain the modes of termination of agency. (6 marks)

Answers – Chapter 3 quick check

Q	Ans	Explanation / working
11	(b)	Creditor, principal debtor and surety.
12	(b)	Sec 133.
13	(a)	Sec 151.
14	(a)	Sec 176.
15	(b)	Sec 202.

SOLUTION Chapter 3 – exam-style answers

1. A **continuing guarantee** may be revoked as to **future transactions** by notice to the creditor (Sec 130); Mohan remains liable for goods already supplied in the two months (up to ₹50,000) but not for supplies after the notice.
2. Bailment – any purpose; pledge – security for a debt. Bailee may or may not get charges; pawnee has right to sell after notice. Bailee's lien – particular; pawnee may retain for debt, interest and expenses. Bailment can be gratuitous; pledge always for consideration (the debt).
3. By act of parties – agreement, revocation by principal (Sec 203), renunciation by agent (Sec 206); by operation of law – completion of business, expiry of time, death or insanity of either, insolvency of principal, destruction of subject matter, principal becoming an alien enemy, dissolution of a company. Agency coupled with interest is irrevocable (Sec 202).

Chapter 4: Sale of Goods Act, 1930

16. Under SoGA, "goods" does NOT include:

(a) Stocks and shares
(b) Growing crops
(c) Actionable claims and money
(d) Goodwill

17. Breach of warranty gives the buyer the right to:

(a) Reject the goods
(b) Claim damages only
(c) Rescind the contract
(d) Both a and b

18. In a sale of specific goods in a deliverable state, property passes:

(a) On delivery
(b) On payment
(c) When the contract is made
(d) On weighing

19. Stoppage in transit is available only when the buyer:

(a) Delays payment
(b) Becomes insolvent
(c) Refuses delivery
(d) Resells the goods

20. In an auction, the sale is complete:

(a) On payment
(b) On fall of the hammer
(c) On delivery
(d) On highest bid

QUESTION Exam-style questions

1. Sudha bought a hair dye of a famous brand from Kunal's shop. It caused skin allergy because of her peculiar skin, which she did not disclose. Can she claim damages? (4 marks)
2. Explain the rights of the unpaid seller against the buyer personally. (4 marks)
3. State the rules for delivery of wrong quantity (Sec 37). (6 marks)

Answers – Chapter 4 quick check

Q	Ans	Explanation / working
16	(c)	Sec 2(7).
17	(b)	Sec 12(4).
18	(c)	Sec 20.
19	(b)	Sec 50.
20	(b)	Sec 64(2).

SOLUTION Chapter 4 – exam-style answers

1. Implied condition of fitness for purpose (Sec 16(1)) applies only if the buyer makes known the particular purpose and relies on the seller's skill; she did not disclose her peculiar skin and bought a branded product (trade name) – **caveat emptor** applies; no claim (*Griffiths v. Peter Conway*).
2. Suit for **price** (Sec 55); suit for **damages for non-acceptance** (Sec 56); suit for **repudiation** before due date (Sec 60); suit for **interest** (Sec 61).
3. Less quantity – reject or accept and pay at contract rate; larger – accept contract quantity and reject rest, reject whole, or accept whole at contract rate; mixed with goods of a different description – accept goods as per contract and reject the rest, or reject whole.

Chapter 5: Indian Partnership Act, 1932

21. Maximum number of partners in a firm (Companies Rules) is:

(a) 20 (b) 50
(c) 100 (d) 200

22. The true test of partnership is:

(a) Sharing of profits (b) Mutual agency
(c) Registration (d) Capital contribution

23. Unless agreed, interest on a partner's advance is allowed at:

(a) 6% p.a. (b) 9% p.a.
(c) 12% p.a. (d) Nil

24. Compulsory dissolution occurs when:

(a) A partner becomes insolvent in a 2-partner firm
(b) A partner gives notice
(c) A partner retires
(d) A partner dies in a 5-partner firm

25. A partner can be expelled if:

(a) Majority agree in good faith under a power in the contract
(b) Majority agree in any case
(c) One partner wants
(d) Court orders only

QUESTION Exam-style questions

1. P, Q and R share rent from a jointly owned building. Are they partners? (3 marks)
2. Explain the rights of a transferee of a partner's interest. (4 marks)
3. Explain the consequences of non-registration of a firm and the exceptions. (6 marks)

Answers – Chapter 5 quick check

Q	Ans	Explanation / working
21	(b)	Sec 464 of the Companies Act read with Rule 10 – 50.
22	(b)	Sec 6; *Cox v. Hickman*.
23	(a)	Sec 13(d).
24	(a)	Sec 41 – all but one partners insolvent.
25	(a)	Sec 33.

SOLUTION Chapter 5 – exam-style answers

1. Sec 6 Explanation 1 – sharing of gross returns from jointly owned property does not by itself make persons partners; no business carried on by mutual agency → **not partners**.
2. Sec 29 – during continuance: receive the share of profits; must accept the accounts agreed by partners; cannot interfere in business or inspect books. On dissolution or retirement of the transferor: share of assets and right to an account from the date of dissolution.
3. Sec 69 – partner cannot sue firm/co-partners; firm cannot sue third parties; no set-off above ₹100. Exceptions – suit for dissolution, accounts, realising property of dissolved firm; Official Assignee's power; claims up to ₹100; non-contractual rights; third parties can sue the firm.

Chapter 6: LLP Act, 2008

26. Minimum number of designated partners in an LLP is:

(a) 1 (b) 2
(c) 3 (d) 7

27. A resident designated partner must have stayed in India for at least:

(a) 182 days (b) 120 days
(c) 90 days (d) 60 days

28. An LLP is:

(a) A firm
(b) A body corporate with perpetual succession
(c) A company
(d) An association of persons only

29. Every partner of an LLP is an agent of:

(a) Other partners (b) The LLP
(c) Both (d) Neither

30. An LLP can be formed for:

(a) Charitable purpose
(b) Lawful business with a view to profit
(c) Any purpose
(d) Only professional services

QUESTION Exam-style questions

1. Explain the incorporation document and the effect of the certificate of incorporation. (4 marks)
2. Distinguish between an LLP and a partnership firm (four points). (4 marks)
3. What is a small LLP? State any two benefits. (4 marks)

Answers – Chapter 6 quick check

Q	Ans	Explanation / working
26	(b)	Sec 7.
27	(b)	Sec 7 Explanation (after 2021 amendment).
28	(b)	Sec 3.
29	(b)	Sec 26.
30	(b)	Sec 11.

SOLUTION Chapter 6 – exam-style answers

1. Sec 11 – two or more persons subscribe names to the incorporation document (name, business, registered office, partners, designated partners) and file it with a statement of compliance by a professional and a subscriber; Sec 12 – Registrar registers within 14 days; certificate is **conclusive evidence** of incorporation.
2. Separate legal entity vs none; limited vs unlimited liability; registration compulsory vs optional; perpetual succession vs not; partner is agent of LLP vs agent of firm and partners; no limit on partners vs 50.
3. Contribution ≤ ₹25 lakh (or prescribed up to ₹5 crore) and turnover ≤ ₹40 lakh (or prescribed up to ₹50 crore) VERIFY. Benefits – lower additional fees, lesser penalties, simplified filings.

Chapter 7: Companies Act, 2013

31. Minimum number of members in a public company is:

(a) 2 (b) 3
(c) 7 (d) 50

32. A government company requires government holding of at least:

(a) 26% (b) 50%
(c) 51% (d) 75%

33. Doctrine of indoor management protects:

(a) Directors
(b) Outsiders dealing in good faith
(c) Shareholders only
(d) Auditors

34. Common seal of a company is now:

(a) Compulsory (b) Optional
(c) Abolished (d) Only for OPC

35. An act ultra vires the memorandum:

(a) Can be ratified by special resolution
(b) Is void and cannot be ratified
(c) Can be ratified by the Board
(d) Is valid

QUESTION Exam-style questions

1. Explain the features of a One Person Company. (5 marks)
2. What is a dormant company? How can a company obtain dormant status? (4 marks)
3. Distinguish between MOA and AOA (four points). (4 marks)

Answers – Chapter 7 quick check

Q	Ans	Explanation / working
31	(c)	Sec 3(1)(a).
32	(c)	Sec 2(45).
33	(b)	*Royal British Bank v. Turquand*.
34	(b)	Companies (Amendment) Act, 2015.
35	(b)	*Ashbury Railway Carriage v. Riche*.

SOLUTION Chapter 7 – exam-style answers

1. One member (natural person, Indian citizen, resident); nominee required; minimum one director; name with "(OPC) Private Limited"; cannot do NBFI activities or be Sec 8; no AGM; fewer compliance – no cash flow statement, two Board meetings a year; may convert to private/public company.
2. Sec 455 – a company formed for a future project or to hold an asset/IP with no significant accounting transaction (or an inactive company – no business/filings for 2 years) may apply to the Registrar in the prescribed form; the Registrar issues a certificate of dormant status; it must keep minimum directors and file a return of dormant company annually.
3. MOA – charter defining objects and powers, external; AOA – internal rules; MOA is subordinate to the Act, AOA to the MOA; ultra vires MOA void, ultra vires AOA can be ratified; alteration of MOA harder (Sec 13) vs special resolution for AOA (Sec 14).

Chapter 8: Negotiable Instruments Act, 1881

36. Which instrument can be made payable to bearer?

(a) Promissory note
(b) Bill payable on demand
(c) Cheque
(d) None

37. Days of grace are allowed on:

(a) Cheques
(b) Demand bills
(c) Time bills and notes
(d) All instruments

38. Under Sec 138, the payee must give notice within:

(a) 15 days
(b) 30 days
(c) 3 months
(d) 1 month

39. An instrument that can be treated as either a note or a bill is:

(a) Inchoate
(b) Ambiguous
(c) Foreign
(d) Crossed

40. A bearer instrument is negotiated by:

(a) Endorsement only
(b) Delivery
(c) Registration
(d) Notice

QUESTION Exam-style questions

1. Anjali signed a blank stamped promissory note and gave it to Manish for ₹15,000; Manish filled in ₹17,000 (covered by the stamp) and endorsed it to Kavita, a holder in due course. Is Anjali liable to Kavita? To Manish? (4 marks)
2. When is notice of dishonour unnecessary? (5 marks)
3. Distinguish between a bill of exchange and a cheque. (4 marks)

Answers – Chapter 8 quick check

Q	Ans	Explanation / working
36	(c)	RBI Act Sec 31 prohibits bearer PNs/bills on demand.
37	(c)	Sec 22.
38	(b)	30 days of information of dishonour.
39	(b)	Sec 17.
40	(b)	Sec 47.

SOLUTION Chapter 8 – exam-style answers

1. Sec 20 – inchoate instrument: the holder has authority to complete it for any amount not exceeding the stamp; **to a holder in due course** Anjali is liable for ₹17,000; **to Manish** (not a holder in due course; exceeded authority) she is liable only for ₹15,000.
2. Sec 98 – dispensed by party entitled; drawer countermanded payment; party charged not damaged; party cannot be found after search; omission due to unavoidable circumstances; acceptor is drawer; note not negotiable; party promises to pay knowing facts.
3. Cheque is drawn on a specified banker, always payable on demand, needs no acceptance, no grace, may be crossed and payable to bearer, no stamp; a bill may be drawn on anyone, needs acceptance (time bills), grace of 3 days, cannot be crossed, needs stamp, notice of dishonour essential.