Skillshort

Self-Study Preparation Pack

CMA FOUNDATION

Paper 1: Fundamentals of Business Laws and Business Communication (FBLC)

Module-wise Detailed Notes

For December 2026 and June 2027 terms · ICMAI Syllabus 2022 · 5 modules

50 MCQs × 2 marks | 1 hour (Papers 1 + 2 in one 2-hour session) | No negative marking | Law 80% · Communication 20%

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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 use these notes

The paper is fully objective: **50 MCQs of 2 marks** each. ICMAI sets questions on definitions, section numbers, case names and short case-based situations ("A sells to B ... B has"). The notes follow the **ICMAI module order and weightage**. Learn the tables, the section numbers in bold and the solved situations.

File	Use it for
01 Module Notes (this file)	Law and communication theory, sections, cases, examples
02 Important Topics & Weightage	Official weightage vs the June 2026 paper
03 Past Papers – Trend Analysis & Links	ICMAI question patterns and official links
04 Mock Tests 1–3 with Solutions	Three full 50-MCQ papers with explanations
05 Module-wise Practice Questions	MCQs module by module
06 Last-Week Plan & Exam Strategy	Revision plan, one-liners, exam-hall plan

Paper at a glance

Item	Detail
Marks / questions	100 marks · 50 MCQs × 2 marks · **no negative marking**
Time	1 hour per paper – Papers 1 and 2 are answered in one **2-hour morning session** (OMR) VERIFY
Weightage	Module 1 Introduction 10% · Module 2 Indian Contract Act 30% · Module 3 Sale of Goods Act 20% · Module 4 Negotiable Instruments Act 20% · Module 5 Business Communication 20%
Pass rule	40% in each paper and 50% in aggregate VERIFY

Module 1: Introduction to Law

1.1 Sources of law

Law is a body of rules, recognised and enforced by the State, that regulates the conduct of persons in society. Laws give certainty, protect rights, settle disputes and set the framework within which business operates.

Source of law	Meaning
Customs	Long-standing, reasonable, certain and continuous practices accepted as binding (e.g., Hindu customary law). Must not be against public policy or statute
Judicial precedent	Decisions of higher courts bind lower courts (*stare decisis*). Supreme Court decisions bind all courts in India (Art. 141)
Legislation	Law made by Parliament / State legislatures – the most important modern source; includes delegated (subordinate) legislation – rules, regulations, notifications
Personal law	Religious texts and commentaries for personal matters (marriage, succession) – Hindu, Muslim law etc.
Equity, justice and good conscience	Where no law applies, courts decide on fairness

1.2 Legislative process in India

- India is a **sovereign, socialist, secular, democratic republic** with a **parliamentary** system. It is called **quasi-federal** – a federation with a **strong Centre** (single citizenship, emergency powers, residuary powers with the Union, all-India services).
- **Parliament** = President + Lok Sabha + Rajya Sabha. Subjects are divided by the **Seventh Schedule** into the **Union List, State List and Concurrent List**; residuary powers rest with Parliament (Art. 248).

Stage	What happens
Introduction (first reading)	Bill introduced by a minister (government bill) or a member (private member's bill)
Second reading	General discussion; reference to a select/joint committee; clause-by-clause consideration
Third reading	Bill passed (or rejected) as a whole
Other House	Same three stages; a deadlock on an ordinary bill is resolved by a **joint sitting** (Art. 108)
President's assent (Art. 111)	Assent, withhold, or return (except money bills) – the bill becomes an **Act** only after assent and comes into force on the notified date

> **NOTE** **Money bills (Art. 110) can be introduced only in the Lok Sabha; the Rajya Sabha can delay them by at most 14 days. The Constitution is amended by Parliament under Art. 368; the Supreme Court is the final interpreter of the Constitution. An ordinance (Art. 123) is a temporary law made by the President when Parliament is not in session.**

1.3 Legal methods and the court system

- **Supreme Court of India** (Art. 124) – apex court; original, appellate, advisory (Art. 143) and writ jurisdiction (Art. 32); its law binds all courts (Art. 141).
- **High Courts** (Art. 214) – highest court of a State; writ jurisdiction under Art. 226; supervision over subordinate courts (Art. 227).
- **District courts and subordinate courts** – District Judge / Sessions Judge (civil and criminal); below them civil judges and judicial magistrates.
- **Tribunals** – NCLT/NCLAT (company law, insolvency), ITAT (income tax), SAT (securities), NCDRC (consumer).
- **Functions:** interpreting laws, settling disputes, protecting fundamental rights, judicial review of laws and executive action, guardian of the Constitution.
- **Legal methods: interpretation of statutes** (literal rule, golden rule, mischief rule, harmonious construction), **precedent** (*ratio decidendi* binds; *obiter dicta* only persuasive) and **codification**, which gives certainty and predictability.

- The Indian legal system is based mainly on **English common law**. The judiciary acts as a **watchdog of democracy and guardian of the Constitution**.

1.4 Primary and subordinate legislation

Primary legislation	Subordinate (delegated) legislation
Act made by Parliament / State legislature	Rules, regulations, by-laws, notifications made by the executive or local bodies under the authority of an Act
Derives power from the Constitution	Derives validity from the **parent Act** (delegated authority) – it **cannot go beyond the ambit of the Act** (ultra vires otherwise)
E.g., Companies Act, 2013	E.g., Companies (Accounts) Rules, 2014; municipal by-laws

REMEMBER **Why delegated legislation? Parliament lacks time and technical expertise; it gives flexibility, speed and room for experimentation, and helps in emergencies. Controls: parliamentary (laying of rules before the House), judicial (courts can strike down ultra vires rules) and procedural (publication, consultation).**

- **Temporary legislation** – an Act for a limited period or for an emergency; **permanent legislation** remains until repealed.

Module 2: The Indian Contract Act, 1872

The **Indian Contract Act, 1872** came into force on **1 September 1872** and extends to the whole of India. It lays down the general principles of contract (Sections 1–75) and special contracts – indemnity, guarantee, bailment, pledge and agency (Sections 124–238). Sale of goods and partnership, originally part of the Act, are now governed by separate Acts.

Section	Term	Meaning (in simple words)
2(a)	Proposal / offer	When one person signifies to another his willingness to do or not to do something, with a view to obtaining that person's assent
2(b)	Acceptance / promise	When the person to whom the proposal is made signifies his assent; a proposal when accepted becomes a promise
2(c)	Promisor and promisee	Person making the proposal is the promisor; person accepting is the promisee
2(d)	Consideration	Something done, abstained from, or promised at the desire of the promisor, by the promisee or any other person
2(e)	Agreement	Every promise and every set of promises forming consideration for each other
2(g)	Void agreement	An agreement not enforceable by law
2(h)	Contract	An agreement enforceable by law
2(i)	Voidable contract	Enforceable at the option of one party but not of the other
2(j)	Void contract	A contract which ceases to be enforceable

FORMULA Contract

Contract = Agreement + Enforceability by law

Agreement = Offer + Acceptance

REMEMBER **"All contracts are agreements, but all agreements are not contracts." Social and domestic agreements (e.g. promise to go to a movie) are not contracts because there is no intention to create legal relations.**

2.3 Essentials of a valid contract

1. **Offer and acceptance** – two or more parties; lawful offer and lawful acceptance.
2. **Intention to create legal relations** – *Balfour v. Balfour* (1919): husband's promise to pay monthly allowance to wife was a domestic arrangement, not a contract.
3. **Lawful consideration** – something in return (Sec 23).
4. **Capacity of parties** – competent to contract (Sec 11).
5. **Free consent** – not caused by coercion, undue influence, fraud, misrepresentation or mistake (Sec 14).
6. **Lawful object** – not forbidden by law, fraudulent, injurious, immoral or against public policy.
7. **Not expressly declared void** (Secs 24–30, 56).
8. **Certainty of meaning** (Sec 29).
9. **Possibility of performance** (Sec 56).
10. **Legal formalities** – writing, registration where required by law.

2.4 Offer and acceptance

Types of offer

Type	Meaning	Example
Express offer	By words, spoken or written	Email offering to sell a laptop for ₹40,000
Implied offer	By conduct	Bus running on a route offers to carry passengers

Type	Meaning	Example
Specific offer	Made to a definite person	A offers to sell his car to B
General offer	Made to the public at large; anyone fulfilling the conditions can accept	*Carlill v. Carbolic Smoke Ball Co.* (1893) – reward of £100
Cross offer	Two identical offers cross each other in post	No contract – no acceptance
Counter offer	Acceptance with changed terms	Rejects the original offer – *Hyde v. Wrench*
Standing / continuing offer	Open for a period; tender for supply as required	Supply of goods "as and when ordered"

Rules of a valid offer

- Must intend to create legal relations.
- Terms must be definite and certain.
- Must be **communicated** to the offeree – *Lalman Shukla v. Gauri Dutt* (1913): servant who found the boy without knowing of the reward could not claim it.
- Must be distinguished from an **invitation to offer** – price tags in shops, catalogues, advertisements, auction announcements, tenders, timetable (*Pharmaceutical Society v. Boots Cash Chemists*; *Harvey v. Facey*).
- May be conditional; but cannot say silence will amount to acceptance (*Felthouse v. Bindley*).

Lapse / revocation of offer (Sec 6)

By notice of revocation, lapse of prescribed or reasonable time, failure to fulfil a condition precedent, death or insanity of the offeror (if known to offeree before acceptance), counter offer, rejection, or subsequent illegality.

- Must be **absolute and unqualified** (Sec 7) – mirror image of the offer.
- Expressed in the usual and reasonable manner, or the prescribed manner.
- Must be **communicated** to the offeror; mental acceptance is not enough – *Brogden v. Metropolitan Railway* (acceptance by conduct).
- Given by the offeree or his authorised agent, while the offer is still in force.
- Cannot precede the offer.

Communication when complete (Sec 4)

Communication of	Complete as against the offeror	Complete as against the acceptor
Offer	When it comes to the knowledge of the offeree	–
Acceptance	When it is put in the course of transmission (posted)	When it comes to the knowledge of the offeror
Revocation	As against the person making it – when put in course of transmission; as against the recipient – when it comes to his knowledge	

Revocation of offer is possible before the communication of acceptance is complete against the offeror (i.e. before the letter of acceptance is posted). **Revocation of acceptance** is possible before acceptance reaches the offeror (Sec 5).

WORKED EXAMPLE Postal rules

A posts an offer to B on 1 March, received on 3 March. B posts acceptance on 4 March; it reaches A on 6 March.

A can revoke his offer before 4 March (when B posts). B can revoke acceptance before 6 March (by a faster means, e.g. phone). After 6 March, the contract is binding on both.

Electronic contracts are valid under the **IT Act, 2000** (Sec 10A); acceptance by email or click is complete when it enters the offeror's system.

WORKED EXAMPLE **Communication of revocation**

A posts a revocation on 4 April which reaches B on 6 April. Revocation is complete **against A on 4 April** (when put in course of transmission) and **against B on 6 April** (when it comes to his knowledge) – Sec 4.

2.5 Consideration

"Something in return" – *quid pro quo*. Consideration may be past, present or future.

Rules

- Must move at the **desire of the promisor** – *Durga Prasad v. Baldeo* (building a market at the Collector's desire, not the promisor's – no consideration).
- May move from the **promisee or any other person** – *Chinnaya v. Ramayya* (1882): consideration by a third person valid. (Different from English law.)
- Need **not be adequate**, but must be **real** and something of value in the eye of law (Sec 25, Expl. 2).
- Must not be illegal, immoral or opposed to public policy (Sec 23).
- Performance of an existing legal duty is not consideration.

Privity of contract

A stranger to the contract cannot sue (*Dunlop Pneumatic Tyre Co. v. Selfridge*, 1915), but a stranger to consideration can. **Exceptions**: trust beneficiary, marriage settlement/partition provisions, acknowledgement or estoppel, assignment, covenant running with land, agent.

No consideration, no contract – exceptions (Sec 25)

1. Agreement in writing and registered, made out of **natural love and affection** between near relatives.
2. Promise to **compensate a person** who has already voluntarily done something for the promisor (past voluntary service).
3. Written and signed promise to pay a **time-barred debt**.
4. Completed gift (Sec 25 explanation 1).
5. Agency (Sec 185) – no consideration needed to create agency.
6. Bailment without charge (gratuitous bailment).
7. Contribution to charity – where the promisee has acted on the promise (*Kedarnath v. Gorie Mohammed*).

LEGAL PROVISION **Exceptions to privity of contract**

A stranger to a contract cannot sue, **except**: (1) beneficiary under a **trust** or charge; (2) **marriage settlement, partition or family arrangement** providing for a person; (3) **acknowledgement or estoppel** – the promisor by conduct recognises the third party's right; (4) **assignment** of rights under a contract; (5) **covenant running with land** – a buyer of land with notice is bound by the covenant; (6) contracts entered into through an **agent**.

WORKED EXAMPLE **Natural love and affection – Sec 25(1)**

Abeer gives an iPhone to his friend Chhaya on her birthday. A **completed gift** is valid without consideration (Sec 25 Explanation 1). A *promise* to give without consideration is enforceable only if it is **written, registered** and made out of **natural love and affection** between parties standing in a **near relation** (husband–wife, parent–child), not between friends.

2.6 Capacity and free consent

Every person is competent who is of the age of majority, of sound mind, and not disqualified by law.

Minor's agreements

A **minor** (below 18 years; 21 if a guardian appointed by court) – an agreement with a minor is **void ab initio** – *Mohori Bibee v. Dharmodas Ghose* (1903).

- No ratification on attaining majority.
- No estoppel against a minor – he can plead minority even if he lied about age.

- Minor can be a **promisee/beneficiary** (e.g. payee of a cheque).
- Liability for **necessaries** supplied to a minor – from his property, not personally (Sec 68).
- Minor can be admitted to the **benefits of a partnership** (Sec 30 of Partnership Act).
- Minor's parents not liable unless they authorised the agent.
- Restitution – if a minor obtains goods by fraud, court may order return of goods if traceable.

Persons of unsound mind (Sec 12)

A person who is usually of unsound mind but occasionally sound may contract when of sound mind; a usually sound person may not contract when temporarily unsound (drunk, delirious). Agreements are void.

Persons disqualified by law

Alien enemies (during war), foreign sovereigns and diplomats (cannot be sued without consent), convicts during imprisonment, insolvents, companies beyond MOA powers.

Two persons are said to **consent** when they agree upon the same thing in the same sense (*consensus ad idem*). Consent is **free** when not caused by:

Factor	Section	Meaning	Effect
Coercion	15	Committing or threatening any act forbidden by the Indian Penal Code (now Bharatiya Nyaya Sanhita), or unlawfully detaining property, to make a person enter into an agreement	Voidable (Sec 19)
Undue influence	16	One party in a position to dominate the will of the other uses it to obtain unfair advantage (doctor–patient, guardian–ward, teacher–student)	Voidable (Sec 19A); court may set aside on terms
Fraud	17	Intentional false representation or active concealment to deceive	Voidable; can also claim damages
Misrepresentation	18	Innocent false statement believed to be true	Voidable; no damages
Mistake of fact – bilateral	20	Both parties mistaken about an essential fact	**Void**
Mistake of fact – unilateral	22	Only one party mistaken	Not voidable (generally valid)
Mistake of Indian law	21	Ignorance of law is no excuse	Valid
Mistake of foreign law	21	Treated as mistake of fact	Void (if bilateral)

REMEMBER **Mere silence is not fraud, except where there is a duty to speak (e.g. insurance – *uberrimae fidei*), or silence is equivalent to speech.**

WORKED EXAMPLE **Coercion vs undue influence**

(a) A threatens to shoot B unless B sells his house to A for ₹5 lakh. → Coercion; B can avoid the contract.

(b) A spiritual guru persuades his devotee to gift all his property to the guru for "salvation". → Undue influence; contract voidable at devotee's option (*Mannu Singh v. Umadat Pandey*).

LEGAL PROVISION **Undue influence (Sec 16) and coercion (Sec 15)**

A person is deemed to be in a position to **dominate the will** of another where he (a) holds **real or apparent authority** (employer–employee, income-tax officer–assessee), (b) stands in a **fiduciary relation** (doctor–patient, lawyer–client, guardian–ward), or (c) contracts with a person whose mental capacity is affected by **age, illness or distress**. Burden of proof lies on the dominant party (Sec 16(3)) where the transaction appears unconscionable.

A **threat to commit suicide** has been held to amount to **coercion** (*Chikham Amiraju v. Chikham Seshamma*) – it is forbidden by law. Effect of coercion, undue influence, fraud and misrepresentation: contract is **voidable** at the option of the aggrieved party (Sec 19, 19A).

2.7 Void agreements

Section	Void agreement
24	Consideration or object unlawful in part
25	Without consideration (subject to exceptions)
26	In **restraint of marriage** (except of minor)
27	In **restraint of trade** – except sale of goodwill (reasonable local limits), partnership restrictions
28	In **restraint of legal proceedings** – except arbitration agreements
29	Uncertain agreements
30	**Wagering** agreements – except horse race prize contests above ₹500, crossword competitions involving skill, games of skill, insurance
36	Contingent on impossible events
56	Agreement to do an impossible act

Void vs voidable

Basis	Void agreement	Voidable contract
Validity	Void from the beginning	Valid until avoided by aggrieved party
Cause	Lack of essential element (consideration, object, capacity)	Lack of free consent (except mistake)
Enforcement	No one can enforce	Aggrieved party may enforce or rescind
Third party rights	No title passes	Third party in good faith gets title before rescission

⚖ LEGAL PROVISION **Agreements opposed to public policy (Sec 23)**

Trading with an enemy; trafficking in public offices; interference with the course of justice; stifling prosecution; maintenance and champerty (unfair funding of litigation); agreements tending to create interest against duty; marriage brokerage; restraint of parental rights; agreements to defraud creditors or revenue; unreasonable restraint of trade or of personal liberty.

ℹ NOTE **All illegal agreements are void, but not all void agreements are illegal. Illegal agreements cannot be ratified; collateral transactions to an illegal agreement are also void. A contract of insurance is not a wager; a lottery is.**

2.8 Quasi and contingent contracts

A **contingent contract** is a contract to do or not to do something, if some event, **collateral** to the contract, does or does not happen (Sec 31). Contracts of insurance, indemnity and guarantee are contingent contracts.

Section	Rule
32	Contract contingent on the **happening** of an uncertain future event – enforceable only when the event happens; void if it becomes impossible
33	Contingent on the event **not happening** – enforceable when its happening becomes impossible
34	If the event is the **future conduct of a living person**, it is deemed impossible when that person acts so as to make it impossible (A agrees to pay B if B marries C; C marries D – impossible)
35	Event to happen within a **fixed time** – void if not happened by then; event not to happen within a fixed time – enforceable when the time expires
36	Contingent on an **impossible event** – void, whether or not the parties knew of it
Wagering vs contingent	A wager is void (Sec 30) – both parties only interested in winning/losing; a contingent contract is valid and the event is collateral

Obligations imposed by law to prevent unjust enrichment, even though there is no agreement.

Section	Situation	Effect
68	**Necessaries** supplied to a person incapable of contracting (minor, lunatic) or his dependants	Supplier reimbursed from the incapable person's **property** (no personal liability)
69	Payment by an **interested person** of money which another is bound to pay	Entitled to be reimbursed (e.g., paying arrears of land revenue to save one's own interest)
70	Lawfully doing a **non-gratuitous act** whose benefit another enjoys	The other must compensate or return the thing
71	**Finder of goods**	Same responsibility as a bailee
72	Money paid or thing delivered by **mistake or under coercion**	Must be repaid or returned

⚖ LEGAL PROVISION **Quantum meruit**

"As much as is earned". Where a contract is discharged by breach or becomes void after one party has done part of the work, he can claim **reasonable remuneration for the work actually done**. Conditions: the original contract is discharged/void, the claimant was not at fault, and the other party has received the benefit. Example: *Planche v. Colburn* – an author paid for chapters written though the publisher abandoned the series.

2.9 Performance and discharge

Performance

Parties must perform or offer to perform their promises (Sec 37). A valid **tender** (offer to perform) must be unconditional, at proper time and place, of the whole obligation (Sec 38). Joint promisors are jointly and severally liable (Sec 43).

Modes of discharge

Mode	Explanation
By performance	Actual performance or tender
By agreement (Sec 62–63)	**Novation** (new contract replaces old), **alteration**, **rescission**, **remission** (accepting less), **waiver**, merger
By impossibility (Sec 56)	Doctrine of **frustration** – destruction of subject matter (*Taylor v. Caldwell*), death or incapacity, change of law, outbreak of war, non-occurrence of contemplated event (*Krell v. Henry*)
By lapse of time	Limitation Act 1963 – usually 3 years
By operation of law	Death (personal contracts), insolvency, merger, unauthorised material alteration
By breach	Actual breach or anticipatory breach

Anticipatory breach (Sec 39)

When a party refuses to perform **before** the due date, the other party can treat the contract as ended immediately and sue for damages, or wait till the due date (*Hochster v. De la Tour*).

⚖ LEGAL PROVISION **Refusal to perform – Sec 39**

When a party refuses altogether to perform, or disables himself from performing his promise in its entirety, the promisee may **put an end to the contract**, unless he has by words or conduct signified acquiescence in its continuance. Effects: (1) the promisee is excused from his own performance; (2) he can sue for **damages** (Sec 75); (3) if he elects to continue, he cannot later rescind on that ground.

2.10 Breach and remedies

Remedy	Explanation
Rescission	Aggrieved party treats the contract as ended and is freed from his obligations
Damages (Sec 73)	Compensation for loss which naturally arose in the usual course, or which parties knew was likely – *Hadley v. Baxendale* (1854). Remote losses not recoverable

Remedy	Explanation
Liquidated damages / penalty (Sec 74)	Only reasonable compensation up to the named amount
Quantum meruit	"As much as earned" – payment for work done when contract is ended
Specific performance	Court orders actual performance where damages are inadequate (Specific Relief Act 1963 – unique property)
Injunction	Court order restraining a party from doing an act

Kinds of damages

Ordinary (general), special (if known at contract time), exemplary/vindictive (rare – breach of promise to marry, dishonour of cheque), nominal (no actual loss), and damages for inconvenience.

WORKED EXAMPLE Hadley v. Baxendale

A mill's crankshaft broke and was given to a carrier for delivery to the maker. The carrier delayed. The mill stopped for want of the shaft. The carrier was **not** liable for loss of profit, because he was not told that the mill would remain idle – the loss was too remote.

EXAM TIP **In case-based questions, write: (1) the relevant section, (2) the rule in one line, (3) a decided case, (4) your answer. This 4-step format scores full marks.**

LEGAL PROVISION Penalty vs liquidated damages (Sec 74)

1. **Liquidated damages** are a genuine pre-estimate of the loss; a **penalty** is a sum fixed *in terrorem* (to frighten) and is far above the probable loss.
2. Under Indian law the distinction is not strict: the court awards **reasonable compensation not exceeding the amount named**, whether it is called penalty or liquidated damages.
3. A stipulation for **increased interest from the date of default** may be a penalty.
4. Exception: bail bonds/securities given to Government – full amount recoverable.

2.11 Indemnity, guarantee, pledge and agency

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

- **Indemnifier** – the person who promises to make good the loss.
- **Indemnity holder (indemnified)** – the person whose loss is protected.
- Indian definition covers only loss caused by **human agency**; fire and marine insurance (accidents) are covered by general law.

Rights of indemnity holder (Sec 125)

He can recover from the indemnifier: all **damages** he is compelled to pay in a suit, all **costs** of such a suit (if he acted prudently or with authority), and all sums paid under a **compromise** of such a suit (if not contrary to orders and prudent).

NOTE Life insurance and indemnity

A contract of **life insurance** is not a contract of indemnity – the insurer pays a fixed sum on death or maturity irrespective of the actual loss; the loss of life cannot be measured in money. Fire and marine insurance are contracts of indemnity.

A **contract of guarantee** is a contract to perform the promise, or discharge the liability, of a third person in case of his default.

Party	Role
Surety	Gives the guarantee

Party	Role
Principal debtor	Whose default is guaranteed
Creditor	To whom the guarantee is given

Essentials

Three parties and three contracts; primary liability of the principal debtor; consideration (anything done for the benefit of the principal debtor is sufficient – Sec 127); consent not obtained by misrepresentation or concealment; may be oral or written.

Indemnity vs guarantee

Basis	Indemnity	Guarantee
Parties	Two	Three
Contracts	One	Three
Liability	Primary liability of indemnifier	Secondary liability of surety (arises on default)
Object	Protection from loss	Security for creditor
Right to sue third party	Indemnifier can sue only after assignment	Surety gets rights of creditor (subrogation) after paying
Existing debt	Not necessary	Necessary

Kinds of guarantee

- **Specific guarantee** – for a single debt; ends when the debt is paid.
- **Continuing guarantee (Sec 129)** – extends to a series of transactions; can be revoked for future transactions by notice (Sec 130) or by death of surety (Sec 131).

Liability of surety (Sec 128)

Co-extensive with that of the principal debtor, unless otherwise provided. The creditor can sue the surety directly without first suing the principal debtor.

Rights of surety

- **Against creditor** – right to securities held by the creditor (Sec 141); right to claim set-off.
- **Against principal debtor** – right of **subrogation** (Sec 140) and right to **indemnity** (Sec 145).
- **Against co-sureties** – right to contribution equally (Sec 146) or in proportion to amounts guaranteed (Sec 147).

Discharge of surety

By revocation (notice/death), variance in terms without consent (Sec 133), release or discharge of principal debtor (Sec 134), compounding/giving time to principal debtor without consent (Sec 135), act or omission of creditor impairing surety's remedy (Sec 139), loss of security (Sec 141), guarantee obtained by misrepresentation or concealment (Sec 142–143).

WORKED EXAMPLE **Co-sureties**

A, B and C are sureties for D's loan of ₹3,00,000 for ₹50,000, ₹1,00,000 and ₹1,50,000 respectively. D defaults with ₹1,20,000 unpaid.

Under Sec 147, they contribute in proportion 1 : 2 : 3 → A ₹20,000, B ₹40,000, C ₹60,000 (each within his limit).

LEGAL PROVISION **Co-sureties – Sec 146 and 147**

Co-sureties liable for the same debt contribute **equally** (Sec 146) unless otherwise agreed. Where they are bound in **different sums**, each pays an equal share **subject to the maximum of his own limit** (Sec 147).

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Debt ₹4,00,000; limits A ₹1,00,000, B ₹2,00,000, C ₹4,00,000 → equal share 1,33,333: A pays 1,00,000
(limit); balance 3,00,000 shared B 1,50,000 and C 1,50,000.
Debt ₹6,00,000: equal 2,00,000 – A 1,00,000; balance 5,00,000 → B 2,00,000 (limit), C 3,00,000.
```

Pledge (pawn) is the bailment of goods as **security for payment of a debt or performance of a promise**. Bailor = **pawnor/pledgor**; bailee = **pawnee/pledgee**.

Rights of pawnee

- Retain goods for debt, interest and expenses (Sec 173–174).
- Extraordinary expenses (Sec 175).
- On default – sue the pawnor, retain goods as collateral, or **sell after reasonable notice** (Sec 176); shortfall recoverable, surplus to be returned.

Pledge by non-owners

Valid pledge by: mercantile agent in possession with owner's consent (Sec 178), person in possession under voidable contract not yet rescinded (Sec 178A), seller or buyer in possession after sale, co-owner in sole possession, and a person having limited interest (Sec 179).

Bailment vs pledge

Basis	Bailment	Pledge
Purpose	Any purpose (repair, safe custody)	Security for a debt
Use of goods	Bailee may use as agreed	Pawnee cannot use
Right to sell	No (only in specified cases)	Yes, after notice on default
Consideration	May be gratuitous	Always for consideration (the debt)

LEGAL PROVISION **Duties of pawnee**

Take reasonable care of the goods (Sec 151); not to use the goods; return the goods on payment of the debt; deliver any **accretion** (e.g., bonus shares) to the pawnor; on sale after default, account for any **surplus** to the pawnor (Sec 176).

An **agent** is a person employed to do any act for another or to represent another in dealings with third persons. The person represented is the **principal**. The basic rule: *qui facit per alium facit per se* – he who acts through another acts himself.

- Any person of majority and sound mind can appoint an agent; a **minor can be an agent** (but is not personally liable to the principal) (Sec 184).
- No consideration is necessary (Sec 185).

Creation of agency

Mode	Example
Express (oral or written – power of attorney)	Appointing a broker in writing
Implied – by conduct, by estoppel (holding out)	Wife buying household necessaries (agency of necessity of wife)
Agency of necessity	Ship captain selling perishable cargo in emergency
By ratification (Sec 196)	Principal later adopts an act done without authority – must be in existence and competent at the time of act; whole act must be ratified; within reasonable time
By operation of law	Partners are agents of the firm; promoters for the company

Types of agents

General agent, special agent, universal agent, mercantile agents – **factor**, **broker**, **commission agent**, **del credere agent** (guarantees payment by third parties for extra commission), **auctioneer**, **banker**; sub-agent (Sec 191) and substituted agent (Sec 194).

Duties of agent

Follow principal's directions or customs (Sec 211), act with reasonable skill and diligence (Sec 212), render proper accounts (Sec 213), communicate with principal in difficulties (Sec 214), not deal on own account secretly (Sec 215–216), pay sums received (Sec 218), not delegate (*delegatus non potest delegare*), not disclose confidential information.

Rights of agent

Remuneration (Sec 219), retention of sums (Sec 217), **lien** on principal's property (Sec 221), indemnity for lawful acts (Sec 222) and acts done in good faith (Sec 223), compensation for injury caused by principal's neglect (Sec 225).

Termination of agency (Sec 201)

By revocation by principal, renunciation by agent, completion of business, death or insanity of either, insolvency of principal, expiry of time, destruction of subject matter, principal becoming alien enemy. **Irrevocable agency (Sec 202)** – where the agent has an interest in the subject matter (agency coupled with interest).

⚠ COMMON MISTAKE **A minor can be an agent but cannot be a principal (he cannot appoint an agent because he cannot contract).**

⚖ LEGAL PROVISION **Sub-agent vs substituted agent (Sec 191–194)**

A **sub-agent** is employed by and acts under the control of the original agent; no privity with the principal (except fraud/wilful wrong). A **substituted agent** is named by the agent on express/implied authority of the principal and becomes the **principal's own agent**. If A authorises B, who appoints C as substituted agent, and A revokes B's authority, C's authority **continues** – it was derived from A.

Personal liability of agent (Sec 230): an agent cannot personally enforce or be bound by contracts on behalf of the principal, except where (1) he contracts for a **foreign principal** (presumed), (2) the principal is **undisclosed**, (3) the principal **cannot be sued**, (4) he signs/acts personally, (5) **agency coupled with interest**, (6) **breach of warranty of authority**.

2.12 E-contracts and e-signature

- An **e-contract** is a contract formed electronically – by e-mail, web forms, **click-wrap** (clicking "I agree"), **browse-wrap** (terms by using a website) and **shrink-wrap** (accepting licence terms on opening a software package). The essentials of Sec 10 still apply: offer, acceptance, consideration, capacity, free consent, lawful object.
- **Information Technology Act, 2000:** Sec 10A – a contract formed through electronic means **shall not be unenforceable** merely because electronic form was used. Sec 4 – legal recognition of electronic records; Sec 5 – legal recognition of **electronic signatures**; Sec 3A – electronic signature techniques (e.g., Aadhaar e-sign).
- An **electronic signature** serves the same purpose as a handwritten signature. Under **Sec 85C of the Indian Evidence Act, 1872**, the court presumes that the information in an electronic signature certificate is **correct** VERIFY (now carried into the Bharatiya Sakshya Adhiniyam, 2023 VERIFY). **Digital signature** – a type of electronic signature using asymmetric crypto system and hash function; certificates are issued by **Certifying Authorities** licensed by the Controller of Certifying Authorities (CCA).
- Requirements for a valid e-contract: identity of parties, intention, clear offer and acceptance, time and place of dispatch/receipt (Sec 13, IT Act), consent not obtained by fraud.

Module 3: The Sale of Goods Act, 1930

A **contract of sale of goods** is a contract whereby the seller **transfers or agrees to transfer** the property (ownership) in goods to the buyer for a price. It includes both a **sale** (property passes immediately) and an **agreement to sell** (property passes at a future time or on fulfilment of a condition).

Essentials

Two parties (buyer and seller), **goods** (movable property other than actionable claims and money – includes stock, shares, growing crops, grass), **price** (money consideration – barter is not sale), transfer of general property, and all essentials of a valid contract.

Sale vs agreement to sell

Basis	Sale	Agreement to sell
Transfer of property	Immediate	Future / on condition
Nature	Executed contract	Executory contract
Risk	Passes to buyer (risk follows ownership)	Remains with seller
Remedy on breach by buyer	Suit for price	Suit for damages
Insolvency of buyer	Seller must deliver goods (gets only a dividend in insolvency) unless he has a lien	Seller may refuse to deliver until paid
Resale by seller	Not valid (except for unpaid seller)	Valid – buyer can sue for damages only

Types of goods (Sec 6)

Existing (owned or possessed by seller – specific, ascertained, unascertained), **future** (to be produced or acquired after the contract – only an agreement to sell), and **contingent** goods (acquisition depends on an uncertain event).

LEGAL PROVISION **Sale vs hire-purchase**

Under **hire-purchase**, goods are delivered on payment of instalments as hire charges; the hirer has an **option** to buy on paying the last instalment. Differences: (1) **ownership** passes at once in sale, only on last payment in hire-purchase; (2) buyer is owner vs hirer is a **bailee**; (3) buyer **cannot return** goods vs hirer may return and stop paying; (4) risk of loss after sale on buyer; in hire-purchase the hirer is liable only for negligence; (5) buyer can pass good title to a third party; a hirer cannot; (6) sales tax/GST and price structure differ (hire charges include interest).

Basis	Condition (Sec 12(2))	Warranty (Sec 12(3))
Meaning	Stipulation **essential** to the main purpose of the contract	Stipulation **collateral** to the main purpose
Breach effect	Buyer can **reject the goods** and treat the contract as repudiated, and claim damages	Buyer can only claim **damages**; cannot reject
Conversion	Breach of condition can be treated as breach of warranty (Sec 13)	Warranty cannot become a condition

Implied conditions

1. **Title (Sec 14(a))** – seller has the right to sell (*Rowland v. Divall*).
2. **Sale by description (Sec 15)** – goods must correspond with the description.
3. **Sale by sample (Sec 17)** – bulk must correspond with sample; buyer has reasonable opportunity to compare; free from hidden defects.
4. **Sample + description** – must correspond with both.
5. **Quality or fitness for purpose (Sec 16(1))** – where buyer makes known the purpose and relies on seller's skill, goods dealt by seller (*Priest v. Last* – hot water bottle).
6. **Merchantable quality (Sec 16(2))** – where goods bought by description from a dealer.
7. **Wholesomeness** – eatables must be fit for human consumption (*Frost v. Aylesbury Dairy* – typhoid milk).

Implied warranties

Quiet possession (Sec 14(b)), freedom from encumbrances (Sec 14(c)), warranty to disclose dangerous nature of goods, and warranty of quality by trade usage (Sec 16(3)).

> **LEGAL PROVISION When breach of condition is treated as breach of warranty – Sec 13**
>
> (1) The buyer **waives** the condition; (2) the buyer **elects** to treat it as a warranty; (3) the contract is **non-severable** and the buyer has **accepted** the goods or part of them; (4) the fulfilment is excused by law (impossibility). In these cases the buyer can only claim damages and cannot reject the goods.

Caveat emptor means "**let the buyer beware**". The buyer must examine the goods and satisfy himself; the seller is not responsible for their quality or fitness unless there is an implied condition.

Exceptions

- Fitness for buyer's purpose made known and reliance on seller's skill.
- Merchantable quality – goods bought by description from a dealer (unless defects are visible on examination).
- Usage of trade.
- Sale by sample, or by description and sample.
- Consent of buyer obtained by **fraud** or active concealment of defects.

> **NOTE** **Modern consumer law (Consumer Protection Act, 2019) has shifted the balance towards caveat venditor – "let the seller beware" – through product liability and unfair trade practices.**

Property means ownership; **possession** means custody. Rule: **risk passes with property** (Sec 26), whether or not delivery has been made.

Situation	When property passes
Unascertained goods (Sec 18)	Not until goods are ascertained
Specific goods in deliverable state (Sec 20)	When the contract is made – even if payment or delivery is postponed
Specific goods – something to be done to make deliverable (Sec 21)	When it is done and buyer has notice
Specific goods – to be weighed/measured for price (Sec 22)	When done and buyer has notice
Goods on approval / sale or return (Sec 24)	When buyer signifies approval, or retains the goods beyond the time fixed / reasonable time, or does an act adopting the transaction
Unascertained / future goods by description (Sec 23)	When goods are **unconditionally appropriated** to the contract with assent of the other party
Reservation of right of disposal (Sec 25)	When conditions are fulfilled

Transfer of title by non-owners – *nemo dat quod non habet*

"No one can give what he does not have." **Exceptions:** sale by mercantile agent, by one of joint owners, under voidable contract (before rescission), by seller in possession after sale, by buyer in possession, by finder of goods, by pawnee, estoppel.

> **LEGAL PROVISION Reservation of right of disposal – Sec 25**
>
> The seller may reserve the right of disposal of goods until certain conditions (usually payment) are fulfilled; property does not pass until then, even if goods are delivered to the buyer or a carrier. The seller is **presumed** to have reserved it where (1) goods are shipped and the **bill of lading** is made out to the order of the seller or his agent; (2) the seller sends the bill of exchange with the bill of lading and the buyer does not honour the bill – the buyer must return the bill of lading, and if he wrongfully retains it, property does not pass.

LEGAL PROVISION **Sale on approval / "sale or return" – Sec 24**

Property passes to the buyer when he (a) signifies approval or does any act **adopting** the transaction (e.g., pledges the goods), or (b) retains the goods beyond the fixed time (or a reasonable time) without giving notice of rejection.

Section	Rule
31–32	Seller must deliver and buyer must accept and pay; delivery and payment are **concurrent conditions** unless otherwise agreed
33	Delivery may be **actual, symbolic** (keys of godown) or **constructive** (attornment by a person in possession)
34	Part delivery in progress of delivery of the whole has the effect of delivery of the whole
35	Seller is not bound to deliver until the buyer **applies** for delivery
36	Place – where goods are at the time of sale; time – reasonable time; expenses of putting goods in deliverable state – seller
37	**Wrong quantity:** less – buyer may reject or accept and pay pro-rata; more – reject all, accept contract quantity and reject the rest, or accept all at contract rate; **mixed** with goods of a different description – accept contract goods and reject the rest, or reject all
38	Buyer is not bound to accept delivery by **instalments** unless agreed
39	Delivery to a carrier is prima facie delivery to the buyer
41–42	Buyer has a reasonable opportunity to examine; acceptance by intimation, by act inconsistent with seller's ownership, or retention beyond reasonable time
43	Buyer is not bound to return rejected goods – notice of refusal is enough
44	Buyer liable for loss and charges if he neglects to take delivery after request

A seller is **unpaid** when the whole price has not been paid or tendered, or a bill of exchange/cheque received as conditional payment has been dishonoured.

Rights against the goods

Right	When available
Lien (Sec 47–49)	Seller in possession: goods sold without credit, credit expired, or buyer insolvent. Lost by delivery to carrier without reservation, buyer's lawful possession, waiver
Stoppage in transit (Sec 50–52)	Seller has parted with possession, goods in transit, and **buyer becomes insolvent**
Resale (Sec 54)	Goods perishable, right of resale reserved, or after notice to buyer who does not pay within reasonable time

Rights against the buyer personally

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).

Buyer's remedies

Damages for non-delivery (Sec 57), specific performance for specific goods (Sec 58), remedy for breach of warranty (Sec 59), anticipatory breach (Sec 60), interest and special damages (Sec 61).

LEGAL PROVISION **Right of resale – Sec 54**

The unpaid seller in possession may resell when (1) the goods are of a **perishable** nature; (2) he gives **notice of intention** to resell and the buyer does not pay within a reasonable time; (3) he has **expressly reserved** the right of resale in the contract. In (2) and (3) the seller can recover the loss on resale from the original buyer; if the goods are perishable or notice given, he keeps any profit. The new buyer gets a **good title**.

Specific performance (Sec 58): in a suit for breach of contract to deliver **specific or ascertained** goods, the court may direct delivery without giving the seller the option of paying damages – used where goods are unique (a painting, customised machine).

WORKED EXAMPLE **Situations ICMAI likes**

- Goods in a warehouse: delivery is complete when the **warehouse keeper acknowledges** to the buyer that he holds the goods on the buyer's behalf (**attornment**, Sec 36(3)).
- "Hundreds of tons of oil" with nothing to show the kind of oil → agreement **void for uncertainty** (Sec 29, Contract Act).
- Sale or return with a fixed time → property passes when the **time expires** without rejection (Sec 24).
- Buyer from a person with a **voidable title** who buys in good faith before the contract is rescinded gets a **good title** (Sec 29, SoGA).

Module 4: The Negotiable Instruments Act, 1881

Basis	Promissory note (Sec 4)	Bill of exchange (Sec 5)	Cheque (Sec 6)
Nature	Unconditional **promise** to pay	Unconditional **order** to pay	Bill drawn on a specified **banker**, payable **on demand**
Parties	Two – maker, payee	Three – drawer, drawee, payee	Three – drawer, drawee bank, payee
Acceptance	Not required	Required (except on-demand bills)	Not required
Payable to bearer	Cannot be made payable to bearer	Cannot be made payable to bearer on demand	Can be payable to bearer
Liability of maker/drawer	Primary	Secondary (drawee primary after acceptance)	Primary (if bank dishonours)
Grace days	3 days (time instruments)	3 days (time instruments)	No grace
Crossing	Not possible	Not possible	Possible
Stamp	Required	Required (except on-demand bills)	Not required

A cheque includes an **electronic image of a truncated cheque** and a cheque in electronic form. Cheques are valid for **3 months** from the date of issue (RBI direction).

LEGAL PROVISION **Essentials of a valid promissory note**

(1) In **writing**; (2) an express **promise** to pay (mere acknowledgment of debt – "I owe you ₹500" – is not a promissory note); (3) promise **unconditional**; (4) **signed** by the maker; (5) maker must be a **certain** person; (6) payee must be **certain**; (7) sum payable must be **certain**; (8) payable in **money** only; (9) not payable to bearer (Sec 31 RBI Act); (10) duly **stamped**.

Additional features of a cheque that distinguish it from a bill: always drawn on a **specified banker**; always payable **on demand**; no acceptance needed; no grace days; may be crossed; no stamp needed; drawer is not discharged by delay in presentment unless he suffers loss.

Class	Section	Meaning
Inland instrument	11	Drawn or made in India and payable in, or drawn on a person resident in, India
Foreign instrument	12	Any instrument which is not inland
Demand instrument	19, 21	Payable on demand, at sight, on presentment, or where no time is specified
Time instrument	21	Payable after a fixed period, after sight, or on a specified date
Ambiguous instrument	17	Can be construed either as a promissory note or a bill (e.g., drawer and drawee same person) – the **holder may treat it as either**, and once chosen it is treated so thereafter
Inchoate (incomplete) instrument	20	A signed stamped paper delivered blank or incomplete – gives *prima facie* authority to the holder to complete it for any amount up to the stamp's coverage
Bearer / order instrument	13	Payable to bearer (by delivery) or to order (by endorsement + delivery)

- Every time instrument is due on the **third day after** the day on which it is expressed to be payable (3 days of grace) – Sec 22. No grace for demand instruments.
- If the maturity date is a **public holiday**, the instrument is due on the **preceding business day** (Sec 25).
- "**Months after date/sight**" – maturity is the corresponding date of the month (or last day of the month) + 3 days (Sec 23). "**Days after date/sight**" – exclude the day of the instrument/presentment (Sec 24).
- A bill payable "after sight" – time runs from the date of **acceptance** or of noting/protest for non-acceptance.
- **Holder (Sec 8)** – person entitled in his own name to possession and to recover the amount.
- **Holder in due course (Sec 9)** – a holder who obtained the instrument **for consideration**, **before maturity**, and **in good faith** without notice of defect in title. Privileges: gets title free of defects (Sec 53), every prior party is liable to him until paid (Sec 36), no defence of incomplete instrument (Sec 20), estoppel against denying validity (Sec 120–122).

4.5 Negotiation, endorsement and crossing

- **Negotiation (Sec 14):** transfer so as to make the transferee the holder. Bearer instrument – by **delivery** (Sec 47); order instrument – by **endorsement and delivery** (Sec 48). Delivery is essential – an instrument endorsed but not delivered is not negotiated (Sec 46).
- An instrument **cannot be negotiated** where it is (i) restrictively endorsed ("pay A only"), (ii) drawn with words prohibiting transfer, (iii) already **discharged** by payment at or after maturity (Sec 60), or (iv) crossed "not negotiable" – transferable but transferee gets no better title.

Types of endorsement

Blank/general (only signature), special/full (names endorsee), restrictive ("pay A only"), partial (part amount – invalid as negotiation), conditional ("pay A on arrival of ship"), *sans recours* (without recourse to endorser), facultative (waiver of notice).

Crossing of cheques (Sec 123–131)

Crossing	Form	Effect
General	Two parallel transverse lines, with or without "& Co."	Payable only through a bank account
Special	Name of a banker written across	Payable only through that banker
Restrictive ("Account Payee")	"A/c Payee only"	Collecting bank must credit only the payee's account
Not negotiable	Words "not negotiable" with crossing	Transferable, but transferee gets no better title than transferor

REMEMBER Crossing

General crossing (Sec 123) – two parallel transverse lines, with or without "& Co." → paid only through a bank. **Special crossing** (Sec 124) – name of a banker → paid only through that bank. **"Not negotiable"** (Sec 130) – the transferee cannot get a **better title** than the transferor. **Account payee** – credited only to the payee's account. Purpose of crossing: payment through a bank account – safer and traceable.

Rule	Detail
Presentment for acceptance (Sec 61)	Bills payable after sight must be presented to the drawee for acceptance within a reasonable time
Presentment for payment (Sec 64)	Must be presented for payment, otherwise prior parties are discharged
Presentment unnecessary (Sec 76)	Maker/drawer/acceptor intentionally prevents presentment; place of business closed on due date; no person at the place to pay; cannot be found after due search; party has engaged to pay notwithstanding non-presentment; presentment waived; drawer could not suffer damage from non-presentment
Dishonour by non-acceptance / non-payment (Sec 91–92)	Drawee refuses to accept within 48 hours; or maker/acceptor defaults in payment
Notice of dishonour (Sec 93)	Holder must give notice to all prior parties he wants to make liable
Notice unnecessary (Sec 98)	Dispensed with by the party entitled; drawer has countermanded payment; party charged could not suffer damage; party cannot be found; omission due to unavoidable circumstances; acceptor is also the drawer; promissory note is not negotiable; party entitled promises to pay with knowledge of the facts

LEGAL PROVISION **Compensation on dishonour – Sec 117**

The holder can recover from the drawer/endorser: (a) the **amount due** with **expenses** of presentment, noting and protest; (b) where the person charged resides at a different place from where the instrument was payable – the sum at the **current rate of exchange** between the two places; (c) an endorser who has paid can recover the amount paid with **interest at 18% p.a.** from the date of payment until realisation, plus expenses; (d) re-exchange charges where the bill is drawn on a foreign country.

4.7 Dishonour of cheques – Section 138

Dishonour of a cheque for **insufficiency of funds** (or exceeding arrangement) is a **criminal offence**, if:

1. The cheque was issued for discharge of a **legally enforceable debt or liability**.
2. Presented within **3 months** from date (or its validity period).
3. Payee gives a **written notice** demanding payment within **30 days** of receiving information of dishonour.
4. Drawer fails to pay within **15 days** of receipt of the notice.
5. Complaint filed before a Magistrate within **1 month** after the 15 days expire.

Punishment: imprisonment up to **2 years**, or fine up to **twice the cheque amount**, or both. Court may order **interim compensation up to 20%** of the cheque amount (Sec 143A). Offence is compoundable (Sec 147).

WORKED EXAMPLE **Timeline under Sec 138**

Cheque dated 1 June, presented 10 July, dishonoured 12 July; payee informed 13 July.

Notice must be sent by 12 August (30 days). Drawer receives notice 16 August → has till 31 August to pay. If not paid, cause of action arises 1 September; complaint by 30 September.

NOTE **Section 138 requires a legally enforceable debt – a cheque issued as a gift or donation does not attract Sec 138.**

LEGAL PROVISION **Other sections to remember**

Sec 4 promissory note · Sec 5 bill of exchange · Sec 6 cheque · Sec 13 negotiable instrument · Sec 30 **liability of drawer** to compensate the holder on dishonour · Sec 32 liability of maker/acceptor · Sec 108–116 acceptance and payment **for honour** (if the name is not stated, it is deemed for the honour of the **drawer**, Sec 110 VERIFY) · Sec 143A interim compensation (up to 20%) · Sec 147 offences compoundable.

Module 5: Business Communication

5.1 Introduction and features

- **Communication** (Latin *communis* – common) is the process of transmitting information, ideas and feelings so that a common understanding is created. **Business communication** is communication within and outside an organisation to achieve business goals.
- **Features:** two-way process, **continuous**, **goal-oriented**, involves at least two parties, pervasive, dynamic, needs a **flow of message**, an **inter-disciplinary** science, can be verbal or non-verbal.

7 Cs of effective communication	Meaning
Clarity	Simple words, one idea per sentence
Conciseness	No unnecessary words
Concreteness	Specific facts and figures
Correctness	Right facts, grammar and tone
Coherence	Logical flow
Completeness	All needed information
Courtesy	Respect for the receiver

5.2 Process of communication

Sender → encoding → message → channel/medium → receiver → decoding → feedback, with **noise** possible at every stage. **One-way communication** – the message moves from sender to receiver without feedback (notices, broadcasts). **Two-way** – feedback completes the loop (conversation, meetings).

> EXAM TIP **Listening is more important than speaking because it helps you avoid premature evaluation (judging too quickly) and prevents conflicts. Types of listening: active, passive, empathetic, critical.**

5.3 Types of business communication

Basis	Types
Organisational relationship	**Formal** (through official channels – chain of command) vs **informal** (**grapevine** – fast, unofficial; patterns: single strand, gossip, probability, cluster)
Expression	**Verbal – oral** (meetings, calls) and **written** (letters, reports, e-mail); **non-verbal** (body language – **kinesics**, space – **proxemics**, voice quality – **paralanguage**, touch – haptics, time – chronemics, gestures, signs)
Direction	**Downward** (superior → subordinate: orders, policies), **upward** (subordinate → superior: reports, suggestions, grievances), **horizontal/lateral** (between peers of different departments – coordination, mutual co-operation), **diagonal** (across levels and departments)
Scope	**Internal** (within the organisation – staff meetings) and **external** (customers, media, government, public – press meetings)

- **Organisational communication** ensures mutual co-operation and understanding between departments.

5.4 Internet-based business communication

- Tools: **e-mail**, intranet, video conferencing, webinars, instant messaging, collaboration platforms, websites, blogs, podcasts, **social media** (LinkedIn, X, Instagram, Facebook, YouTube).
- **Do's on social media:** have a policy, be authentic and consistent, respond quickly, use a professional tone, protect confidential data, give credit to sources, keep the personal touch with customers (updates on offers, new products).
- **Don'ts:** post confidential or unverified information, argue publicly, spam, use offensive language, mix personal and business accounts, ignore negative feedback.

- **Professional networking:** first **nurture existing relationships**, then build new ones; give value, follow up, be genuine.

5.5 Writing and drafting for business audiences

Document	Key points
Business letter	Parts: heading, date, reference, inside address, salutation, subject, body, complimentary close, signature, enclosures. Layouts: full block, modified block, semi-block
Memorandum (memo)	Internal, brief; To, From, Date, Subject; no salutation or complimentary close
Report	Formal (title page, table of contents, executive summary, introduction, findings, conclusions, recommendations, appendices) or informal (short memo/letter reports). Types: informational, analytical, periodic, special
Business proposal	Solicited or unsolicited; problem statement, proposed solution, method, schedule, cost, qualifications, conclusion
Minutes, notices, agenda, circulars	Records and announcements of meetings

Enhancing writing skills: plan (purpose, audience), use the **active voice**, short sentences, correct grammar, proof-read, KISS (keep it short and simple), visuals where helpful.

5.6 Intercultural and international communication

- Differences in language, values, gestures, time orientation, high-context vs low-context cultures (Edward Hall) and power distance (Hofstede).
- **Bennett's developmental model of intercultural sensitivity: Denial** (unaware that differences exist) → Defence → Minimisation → Acceptance → Adaptation → Integration.

5.7 Barriers to communication

Barrier	Examples
Semantic / language	Jargon, words with different meanings, poor translation
Physical / environmental	Noise, distance, faulty equipment
Psychological / emotional	Premature evaluation, distrust, inattention, emotions, closed mind
Organisational	Rigid hierarchy, too many levels, status differences
Cultural	Different values and gestures

Overcoming: clear and simple language, active listening, feedback, right channel and timing, empathy, consistency between verbal and non-verbal messages.

5.8 Legal aspects and use of graphics

- **Legal aspects:** defamation (libel – written; slander – spoken), copyright and plagiarism, confidentiality and data protection (Digital Personal Data Protection Act, 2023), misrepresentation in advertising, contracts formed by e-mail, records as evidence.
- **Graphics and references:** tables, charts, infographics, flowcharts and **motion graphics** (short animated videos) help to **explain, train and summarise while keeping attention**. Cite references (APA/MLA style) to avoid plagiarism.