



**J.K. SHAH**<sup>®</sup>  
**TEST SERIES**  
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**SUGGESTED SOLUTION**

**CA FOUNDATION N'18EXAM**

**SUBJECT-BUSINESS LAW, BUSINESS  
CORRESPONDENCE AND REPORTING**

**Test Code - CFP 4002**

**(Date :)**

**Head Office :Shraddha, 3<sup>rd</sup> Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

## ANSWER-1

### ANSWER-A

The problem is related with the communication and time of acceptance and its revocation. As per Section 4 of the Indian Contract Act, 1872, the communication of an acceptance is complete as against the acceptor when it comes to the knowledge of the proposer.

An acceptance may be revoked at any time before the communication of the acceptance is complete as against the acceptor, but not afterwards.

Referring to the above provisions:

- (a) Yes, the revocation of acceptance by Ramanathan (the acceptor) is valid.
- (b) If Ramaswami opens the telegram first (and this would be normally so in case of a rational person) and reads it, the acceptance stands revoked. If he opens the letter first and reads it, revocation of acceptance is not possible as the contract has already been concluded.

### ANSWER-B

**Rules of Auction sale:** Section 64 of the Sale of Goods Act, 1930 provides following rules to regulate the sale by auction:

- (a) **Where goods are sold in lots:** Where goods are put up for sale in lots, each lot is *prima facie* deemed to be subject of a separate contract of sale.
- (b) **Completion of the contract of sale:** The sale is complete when the auctioneer announces its completion by the fall of hammer or in any other customary manner and until such announcement is made, any bidder may retract from his bid.
- (c) **Right to bid may be reserved:** Right to bid may be reserved expressly by or on behalf of the seller and where such a right is expressly reserved, but not otherwise, the seller or anyone person on his behalf may bid at the auction.
- (d) **Where the sale is not notified by the seller:** Where the sale is not notified to be subject to a right to bid on behalf of the seller, it shall not be lawful for the seller to bid himself or to employ any person to bid at such sale, or for the auctioneer knowingly to take any bid from the seller or any such person; and any sale contravening this rule may be treated as fraudulent by the buyer.
- (e) **Reserved price:** The sale may be notified to be subject to a reserve or upset price; and
- (f) **Pretended bidding:** If the seller makes use of pretended bidding to raise the price, the sale is voidable at the option of the buyer.

### ANSWER-C

According to the Doctrine of Indoor Management, if an act is authorised by the articles or memorandum, an outsider is entitled to assume that all the detailed formalities for doing that act have been observed. As per the case of *the Royal British Bank vs. Turquand* [1856] 6 E & B 327, the directors of R.B.B. Ltd. gave a bond to T. The articles empowered the directors to issue such bonds under the authority of a proper resolution. In fact, no such resolution was passed. Notwithstanding that, it was held that T could sue on the bonds on

the ground that he was entitled to assume that the resolution had been duly passed. This is the doctrine of indoor management, popularly known as Turquand Rule.

Since, the given question is based on the above facts, accordingly here in this case Mr. X can recover the money from the company considering that all required formalities for the passing of the resolution have been duly complied.

## **ANSWER-2**

### **ANSWER-A**

#### **Compensation for loss or damage caused by breach of contract (Section 73)**

When a contract has been broken, the party who suffers by such a breach is entitled to receive, from the party who has broken the contract, compensation for any loss or damage caused to him thereby, which naturally arose in the usual course of things from such breach, or which the parties knew, when they made the contract, to be likely to result from the breach of it.

Such compensation is not to be given for any remote and indirect loss or damage sustained by reason of the breach.

In view of above, the statement given in the question seems to be incorrect.

### **ANSWER-B**

#### **Settlement of partnership accounts (Section 48)**

In settling the accounts of a firm after dissolution, the following rules shall, subject to agreement by the partners, be observed:

- (i) Losses, including deficiencies of capital, shall be paid first out of profits, next out of capital, and, lastly, if necessary, by the partners individually in the proportions in which they were entitled to share profits.
- (ii) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital, must be applied in the following manner and order:
  - (a) in paying the debts of the firm to third parties;
  - (b) in paying to each partner rateably what is due to him from capital;
  - (c) in paying to each partner rateably what is due to him on account of capital; and
  - (d) the residue, if any, shall be divided among the partners in the proportions in which they were entitled to share profits.

### **ANSWER-C**

As per section 7(7) of the Companies Act, 2013, where a company has been got incorporated by furnishing false or incorrect information or representation or by suppressing any material fact or information in any of the documents or declaration filed or made for incorporating such company or by any fraudulent action, the Tribunal may, on an application made to it, on being satisfied that the situation so warrants, direct that liability of the members shall be unlimited.

Hence, the order of NCLT will be legal.

**Precautions:** Before making any order,—

- (e) the company shall be given a reasonable opportunity of being heard in the matter; and
- (f) the Tribunal shall take into consideration the transactions entered into by the company, including the obligations, if any, contracted or payment of any liability.

### **ANSWER-3**

### **ANSWER-A**

**LLP:** A LLP is a new form of legal business entity with limited liability. It is an alternative corporate business vehicle that not only gives the benefits of limited liability at low compliance cost but allows its partners the flexibility of organising their internal structure as a traditional partnership. The LLP is a separate legal entity and, while the LLP itself will be liable for the full extent of its assets, the liability of the partners will be limited.

LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.

Since LLP contains elements of both 'a corporate structure' as well as 'a partnership firm structure' LLP is called a hybrid between a company and a partnership.

#### **Advantages of LLP form:**

1. LLP is organized and operates on the basis of an agreement.
2. It provides flexibility without imposing detailed legal and procedural requirements.
3. It enables professional/technical expertise and initiative to combine with financial risk taking capacity in an innovative and efficient manner.
4. It is easy to form
5. In LLP form, all partners enjoy limited liability
6. Flexible capital structure is there in this form
7. It is easy to dissolve.

### **ANSWER-B**

**'Caveat Emptor'** means "let the buyer beware", i.e. in sale of goods the seller is under no duty to reveal unflattering truths about the goods sold. Therefore, when a person buys some goods, he must examine them thoroughly. If the goods turn out to be defective or do not suit his purpose, or if he depends upon his skill and judgment and makes a bad selection, he cannot blame anybody excepting himself.

The rule is enunciated in the opening words of section 16 of the Sale of Goods Act, 1930 which runs thus: "Subject to the provisions of this Act and of any other law for the time being in force, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a contract of sale"

The rule of caveat emptor does not apply in the following cases:

- (i) *Fitness for buyer's purpose*: Where the buyer, expressly or by implication, makes known to the seller the particular purpose for which he requires the goods and relies on the seller's skill or judgment and the goods are of a description which it is in the course of the seller's business to supply, the seller must supply the goods which shall be fit for the buyer's purpose. [Section 16(1)].
- (ii) *Sale under a patent or trade name*: In the case of a contract for the sale of a specified article under its patent or other trade name, there is no implied condition that the goods shall be reasonably fit for any particular purpose [Section 16(1)].
- (iii) *Merchantable quality*: Where goods are bought by description from a seller who deals in goods of that description (whether he is the manufacturer or producer or not), there is an implied condition that the goods shall be of merchantable quality. But if the buyer has examined the goods, there is no implied condition as regards defects which such examination ought to have revealed. [Section 16(2)].
- (iv) *Usage of trade*: An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade. [Section 16(3)].
- (v) *Consent by fraud*: Where the consent of the buyer, in a contract of sale, is obtained by the seller by fraud or where the seller knowingly conceals a defect which could not be discovered on a reasonable examination, the doctrine of caveat emptor does not apply.

#### **ANSWER-4**

#### **ANSWER-A**

(i) As per Section 20 of the Indian Contract Act, 1872, an agreement under a mistake of fact is void. In this case, there is a mistake of fact as to the existence of the subject-matter, i.e., with respect to the selling of a horse which was dead at the time of the agreement. It is unknown to both the parties. Therefore, **it is a void agreement.**

(ii) As per Section 27 of the Indian Contract Act, 1872, an agreement in restraint of trade is void. However, a buyer can put such a condition on the seller of goodwill, not to carry on the same business, provided that the conditions must be reasonable regarding the duration and place of the business. Since in the given case, restraint to carry on business was forever and anywhere in India, so the agreement in question is void.

(iii) As per section 2(j) of the Contract Act, "A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable". In the present case, Mr. X agrees to write a book with a publisher. After a few days, X dies in an accident. Here **the contract becomes void** due to the impossibility of performance of the contract.

## ANSWER-B

**One Person Company (OPC) [Section 2(62) of the Companies Act, 2013]:** The Act defines one person company (OPC) as a company which has only one person as a member.

### Rules regarding its membership:

- Only one person as member.
- The memorandum of OPC shall indicate the name of the other person, who shall, in the event of the subscriber's death or his incapacity to contract, become the member of the company.
- The other person whose name is given in the memorandum shall give his prior written consent in prescribed form and the same shall be filed with Registrar of companies at the time of incorporation.
- Such other person may be given the right to withdraw his consent.
- The member of OPC may at any time change the name of such other person by giving notice to the company and the company shall intimate the same to the Registrar.
- Any such change in the name of the person shall not be deemed to be an alteration of the memorandum.
- Only a natural person who is an Indian citizen and resident in India (person who has stayed in India for a period of not less than 182 days during the immediately preceding one calendaryear)-
  - shall be eligible to incorporate a OPC;
  - shall be a nominee for the sole member of a OPC.
- No person shall be eligible to incorporate more than one OPC or become nominee in more than one such company.
- No minor shall become member or nominee of the OPC or can hold share with beneficial interest.

OPC cannot be incorporated or converted into a company under section 8 of the Act. Though it may be converted to private or public companies in certain cases. OPC cannot convert voluntarily into any kind of company unless two years have expired from the date of incorporation, except where the paid up share capital is increased beyond fifty lakh rupees or its average annual turnover during the relevant period exceeds two crore rupees.

## ANSWER-5

### ANSWER-A

**Partnership Deed:** Partnership is the result of an agreement. No particular formalities are required for an agreement of partnership. It may be in writing or formed verbally. But it is desirable to have the partnership agreement in writing to avoid future disputes. The document in writing containing the various terms and conditions as to the relationship of the partners to each other is called the 'partnership deed'. It should be drafted with care and be stamped according to the provisions of the Stamp Act, 1899. Where the partnership

comprises immovable property, the instrument of partnership must be in writing, stamped and registered under the Registration Act.

Partnership deed may contain the following information:

1. Name of the partnership firm.
2. Names of all the partners.
3. Nature and place of the business of the firm.
4. Date of commencement of partnership.
5. Duration of the partnership firm.
6. Capital contribution of each partner.
7. Profit Sharing ratio of the partners.
8. Admission and Retirement of a partner.
9. Rates of interest on Capital, Drawings and loans.
10. Provisions for settlement of accounts in the case of dissolution of the firm.
11. Provisions for Salaries or commissions, payable to the partners, if any.
12. Provisions for expulsion of a partner in case of gross breach of duty or fraud.

A partnership firm may add or delete any provision according to the needs of the firm.

## ANSWER-B

As per the provisions of Section 19 of the Indian Contract Act, 1872, when consent to an agreement is caused by coercion, fraud or misrepresentation, the agreement is a contract voidable at the option of the party whose consent was so caused.

A party to contract, whose consent was caused by fraud or misrepresentation, may, if he thinks fit, insist that the contract shall be performed, and that he shall be put in the position in which he would have been if the representations made had been true.

**Exception-** If such consent was caused by misrepresentation or by silence, fraudulent within the meaning of section 17, the contract, nevertheless, is not voidable if the party whose consent was so caused had the means of discovering the truth with ordinary diligence.

In the situation given in the question, both the fuel meter and the speed meter of the car were working perfectly, Mr. CHHOTU had the means of discovering the truth with ordinary diligence. Therefore, the contract is not voidable. Hence, Mr. CHHOTU cannot rescind the contract on the above ground.

## ANSWER-6

### ANSWER-A

**“Coercion”** is the committing or threatening to commit any act forbidden by the Indian Penal Code 1860, or the unlawful detaining or threatening to detain any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement. (Section 15 of the Indian Contract Act, 1872).

It is also important to note that it is immaterial whether the Indian Penal Code, 1860 is or is not in force at the place where the coercion is employed.

**Effects on validity:** According to section 19 of the Act, when consent to an agreement is caused by coercion, the contract is voidable at the option of the party, whose consent was so caused. The aggrieved party, whose consent was so caused can enforce the agreement or treat it as void and rescind it. It is seen that in all these cases though the agreement amounts to a contract, it is voidable. The injured party might insist on being placed in the same position in which he might have been had the vitiating circumstances not been present.

Where a contract is voidable and the party entitled to avoid it decides to do so by rescinding it, he must restore any benefit which he might have received from the other party. He cannot avoid the contract and at the same time enjoy the benefit under the rescinded/avoided contract. (Section 64)

## ANSWER-B

When a company is registered, it is clothed with a legal personality. It comes to have almost the same rights and powers as a human being. Its existence is distinct and separate from that of its members. A company can own property, have bank account, raise loans, incur liabilities and enter into contracts.

- (a) It is at law, a person different altogether from the subscribers to the memorandum of association. Its personality is distinct and separate from the personality of those who compose it.
- (b) Even members can contract with company, acquire right against it or incur liability to it. For the debts of the company, only its creditors can sue it and not its members.

A company is capable of owning, enjoying and disposing of property in its own name. Although the capital and assets are contributed by the shareholders, the company becomes the owner of its capital and assets. The shareholders are not the private or joint owners of the company's property.

## ANSWER-C

As per the provisions of section 24 of the Sale of Goods Act, 1930, when goods are delivered to the buyer on approval or "on sale or return" or other similar terms, the property therein passes to the buyer-

- (a) when the buyer signifies his approval or acceptance to the seller or does any other act adopting the transaction;
- (b) if he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and, if no time has been fixed, on the expiration of a reasonable time; or
- (c) he does something to the good which is equivalent to accepting the goods e.g. he pledges or sells the goods.

Referring to the above provisions, we can analyse the situation given in the question.



Since, Mr. Joshi, who had taken delivery of the Motor car on Sale or Return basis and pledged the motor car to Mr. Ganesh, has attracted the third condition that he has done something to the good which is equivalent to accepting the goods e.g. he pledges or sells the goods. Therefore, the property therein (Motor car) passes to Mr. Joshi. Now in this situation, Ms. Preeti cannot claim back her Motor Car from Mr. Ganesh, but she can claim the price of the motor car from Mr. Joshi only.

## PART – B

- 1.(a) (1) c  
 (2) b  
 (3) d  
 (4) a  
 (5) a

### 1.(b) (i) Note : Earthquakes – Their Causes and Impact

- (ii) 1. Causes of Earthquakes
- (a) brkng & slipping of rocks along fault in earth.
- (i) defrmtn of outer, brittle portions of tectonic plates – earth's crust
  - (ii) heatg & coolg of rocks below plates due to convection
  - (iii) adjacent overlying plates move & deform
  - (iv) rates of plate movements – 2 to 12 cms /yr
  - (v) tremendous energy build up
  - (vi) rocks break risng nrgy.
- (b) hmn activities
- (i) filling or rsvrsv
  - (ii) injection of fluids into wells for oil recovery
  - (iii) waste disposal
2. Earthquake Zones
- (a) Active faults – major tectonic plates of the recovery
- (i) 90% earthquakes in 10% surface of Earth
  - (ii) 'Ring of Fire' circling the Pacific Ocean, inclg w. coast of Canada
- (b) Hmn activity – a – major reason in :
- (i) United States
  - (ii) China
  - (iii) Japan
  - (iv) India
3. Measurement of Earthquakes
- (a) Richter scale
- (i) dvlpd – Charles Richter
  - (ii) measuring nrgy released by earthquake
  - (iii) seismograph record amplitude of skakg of ground
- (b) Occurrence -
- (i) Each day 1000 very small (magnitude 1 – 2 on the Richter scale) earthquakes
  - (ii) Each year
    - 800 earthquakes capable of damage (magnitude 5 – 5.9),
    - Earthquakes < 7
4. Damage caused by Earthquakes
- (a) shaking of ground
  - (b) depends on

- (i) magnitude of earthquake
  - (ii) distance from earthquake focus
  - (iii) type of faulting
  - (iv) depth & type of material
5. prediction –
- (a) As yet not possible
  - (b) studies being conducted

**Key to Abbreviations**

- 1. earthquakes – earthquakes
- 2. breaking – breaking
- 3. earth – earth
- 4. deformation – deformation
- 5. releasing – releasing
- 6. reserves – reserves
- 7. injecting – injecting
- 8. heating – heating
- 9. cooling – cooling
- 10. year – year
- 11. energy – energy
- 12. human – human
- 13. including – including
- 14. developed – developed
- 15. shaking – shaking
- 16. faulting – faulting

**Answer 2.(a)**

Vertical, circuit, chain, wheel, and star are the five main networks in communication.

The star communication network has all members of the group communicate with each other and exchange information. This network propagates group communication and is essential where teamwork is involved. The members communicate with each other without hesitation.

**Answer 2(b)**

- (i) c
- (ii) a
- (iii) Their new dental equipment is only being marketed by FCS in Europe
- (iv) The shopkeeper says that prices are shooting up

**Answer 2 (c)**

**Interview Mistakes that Must be Avoided**

Since interviews are still the most common method of selecting candidates for jobs, there are some mistakes that you must avoid making during an interview :

- 1. **Being late** : There is no excuse for being late, so plan in a manner that you arrive a few minutes earlier.
- 2. **Not knowing about the organization** : Since it is certain that you will be asked a question regarding what you know about the organization, you must do a basic research before you arrive for the interview.
- 3. **Not knowing why you want the job** : Your interviewer would want to know why you want the job. Have something to tell them apart from the fact that you need to earn money’.

4. **Not knowing yourself** : You need to demonstrate self awareness. Think of strengths and development areas that you will talk about in the interview.
5. **Asking about salary** : When given a chance to ask questions, enquire about things like training and development, instead of enquiring about salary and perks.

### **Answer 3(a)**

**Chain of Command** : The communication pattern that follows the chain of command from the senior to the junior is called the chain network. Communication starts at the top, like from a CEO, and works its way down to the different levels of employees. It involves a lot of organizational hierarchy.

### **Answer : 3 (b) (i) a**

(ii) c

(iii) A cake can be made by us on a stove.

(iv) They informed that they had been living in Assam.

### **Answer :3 (c)Letter**

Manager  
Your Own Office supplies Ltd.  
New Delhi

Date:

Manager  
Name of client company  
New Delhi

### **Sub : Apology for delay in shipment of Order No. 12345**

This with reference to the order placed by your organization for supply of stationery items (Order No. 12345) dated 12<sup>th</sup> Aug., 2018. I sincerely apologize for the delay in the shipment of the same. Due to heavy rains in Mumbai, our dispatch section at the head office (based in Mumbai) could not send any orders for 3 days due to thin staff attendance and slow movement of traffic around the area resulting in inadvertent delay in shipment.

Please accept my sincere apologies for the inconvenience caused. We are a trusted a name in office supplies and we have always delivered your orders in time. We hope that you will give us many more opportunities to deal with you. Looking forward to a long term business relationship.

Thanks for the cooperation.

Regards,

**Manager, Office and food supplies Ltd.**

### **Answer : 4(a)**

#### **Barriers in communication :**

- Physical Barriers
- Cultural Barriers
- Language Barriers
- Technology Barriers
- Emotional Barriers

**Technology Barriers** : Being a technology driven world, all communication is dependent on good and extensive use of technology. However, there might arise technical issues, like

server crash, overload of information etc. which lead to miscommunication or no communication at all.

**Language Barriers :** It's a cosmopolitan set up, where people of different nationalities move from their home to other countries for work. As a result, it is difficult to have a common language for communication. Hence, diversity gives rise to many languages and it acts as a barrier at times.

**Answer : 4 (b)**

- (i) a
- (ii) The school authorities declared the results
- (iii) The teacher praised the girl that she had been working hard.

**Answer : 4(C)**

Answer Hints for Article

- Social media is a good way to connect with friends and relatives
- A convenient platform for sharing ideas, thoughts and opinions
- Facebook, twitter, instagram, whatsapp are useful when used in a healthy way.
- Getting addicted to them is very easy and effects one's productivity.
- With the advent of social media in our lives, every movement gets tracked and reported.
- Technology at its boom, is not safe always. One needs to use it judiciously for good causes.
- The social media shows a person's daily movements, tracks you trips; what you see on your FB pages is influenced by your past searches, which is probably not right.
- A good balance of technology and mind, with less interference of the social media is an appropriate approach.

**Answer Hints for Report**

- Mention a heading, name of the NGO
- Venue, Date
- The purpose of the workshop
- How many members came from the NGO; how did they go ahead with the workshop
- The audience and its reaction
- Pamphlets, information shared during the session.
- Motivational talks to encourage donations to make a difference in the lives of underprivileged
- Felicitations /Valedictory session by the Principal

**Answer : 5(a)**

The main steps in the process of communication are :

1. Having a purpose or reason for the communication.
2. Framing of the content of the message.
3. Deciding the medium to use for conveying the message. (For example, internet, written text, speech, pictures, gestures and so on).
4. Transmitting the formulated message.

5. Factoring in noise sources such as natural forces and human activity (both intentional and accidental) that can influence the quality of communicated message from the sender to one or more receivers.
6. Receiving the message.
7. Decoding of the message

**Answer : 5(b) (i)**

- (1) A far cry – (d) very different
- (2) Hobson's choice – (a) no choice at all

**(ii)** The children requested for no homework that day.

**Answer : 5(C)**

Date : 21<sup>st</sup> July, 2018

Meeting started at 11 : 00 am.

Members in attendance : Head of Sales and Marketing, the Product Head, Product lead, three members of the Sales team

Mr. Raju Murthy, Head of Sales and Marketing informed the agenda of the meeting i.e. the sales decline in the product

Mr. Kishore Sandhu, Product Head expressed concern over the matter; discussed a few flaws noticed in the sales strategy.

Ms. Seema Thakur, Sales Head gave a detailed analysis of the figures observed in the last six months.

Her term including Mr. X, Mr. Y and Mr. Z elaborated on the market trends based on the usage of the particular product

All the participants agreed to the concern and come back with a detailed report.

Conclusion Stated : ATR to be submitted by 24<sup>th</sup> July, 2018 to the Head of Sales and Marketing.

**Resume**

Name : Manish Reddy

Phone : 040 – 123456

Email – [mreddy@gmail.com](mailto:mreddy@gmail.com)

Address : 123, Chennai Road, Chennai

Birthday : 1<sup>st</sup> January

CAREER OBJECTIVE : Seeking a challenging career with a progressive organization that provides an opportunity to utilize my sales and marketing skills & abilities in the FMCG sector.

**PERSONAL SKILLS**

Excellent persuasion skills

Highly sales driven  
Ability to work independently or as part of a team

Proven leadership skills and ability to motivate

### **EDUCATION**

B.com from Hindu College, Delhi University

PGDIM form symbiosis University, Pune

### **ACHIEVEMENTS**

- Awarded the 'Best Sales person' Award in the company
- Awarded a cash prize for two consecutive months for over achieving sales target.

### **PROFESSIONAL EXPERIENCE**

XYZ Pvt. Ltd. Chennai

Worked as a Junior Sales Executive

Responsible for daily sales with a predicted target

Experience : 5 years

Auromatic Brothers

Worked as Senior Sales Executive

Responsible for monthly sales target

Led a team of twenty members

Experience : 5 years.

**REFERENCES** : Will be provided upon request.

**DECLARATION** : I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date : Place :

(Manish Reddy)