

QUESTION 1 (COMPULSORY - 20 MARKS)**Question 1(a) (7 Marks)**

Green Wave Solutions is a software development firm owned by Mr. Arjun. Its employees were struggling to resolve a complex coding bug. Mr. Arjun sent an e-mail to all employees on 1st May 2026 stating: "My father has agreed to pay Rs. 50,000 as bonus out of his personal savings to any employee who successfully fixes the bug." Meera, a junior developer, saw the mail and began working on the bug after her regular shifts, without informing Mr. Arjun. She spent 10,000 out of her own pocket to pay a consultant for guidance. On 5th May 2026 at 10:00 AM, Mr. Arjun sent a follow-up e-mail stating, "Please disregard the previous offer...". Due to a sudden server crash, this e-mail left Mr. Arjun's mailbox but landed in Meera's inbox only on 7th May at 9:00 AM. Unaware of the revocation, Meera successfully fixed the bug on 6th May at 4:00 PM and submitted her solution. Mr. Arjun refused to pay, claiming: (1) he revoked the offer before she submitted, (2) she never communicated acceptance, (3) fixing the bug was part of her ordinary duties and since the money was promised by his father (a third party), there was no valid legal consideration.

Determine under the Indian Contract Act, 1872:

- (i) Whether Meera was required to communicate her acceptance of the offer to Mr. Arjun.
- (ii) Whether the revocation of offer by Mr. Arjun is legally valid and binding on Meera.
- (iii) Whether the consideration of Rs. 50,000 provided by a third party (the father) is lawful and enforceable.

Suggested Answer**1. As per provisions of the Indian Contract Act, 1872:**

- **General Offer & Acceptance (Section 8):** Under Section 8, performance of the conditions of a proposal is a valid acceptance of the proposal. In the case of a general offer (an offer made to the public or a class of persons at large, as established in *Carlill v. Carbolic Smoke Ball Co.*), no formal communication of acceptance is required. The contract is concluded as soon as any person performs the stipulated condition.
- **Revocation of Offer (Section 5 & 4):** Under Section 5, a proposal may be revoked at any time before the communication of its acceptance is complete as against the proposer, but not afterwards. Section 4 states that the communication of a revocation is complete:
 - (a) as against the person who makes it, when it is put into a course of transmission to the person to whom it is made, so as to be out of the power of the person who makes it; and
 - (b) as against the person to whom it is made, when it comes to his knowledge.

- **Consideration from a Third Party (Section 2(d)):** Section 2(d) defines consideration and explicitly states that consideration may move 'from the promisee or any other person'. Thus, in India, a stranger to consideration can sue, and consideration provided by a third party is legally valid (Chinnayya v. Ramayya).
- **Pre-existing Legal Duty:** Performance of a pre-existing legal duty is generally not valid consideration. However, if a party performs services beyond their ordinary duties or incurs personal out-of-pocket expenses, it constitutes valid consideration.

2. Analysis & Conclusion:

- **Communication:** Mr. Arjun's email on 1st May was a general offer to all employees. Meera accepted this offer by performing the condition of fixing the bug. Therefore, **Meera was not required to communicate her acceptance** of the offer before starting or completing the work to Mr. Arjun, as performing the task under a general offer constitutes valid acceptance under Section 8.
- **Revocation:** Mr. Arjun sent the revocation email on 5th May. Under Section 4, the revocation is complete against Meera only when it comes to her knowledge (7th May at 9:00 AM). However, Meera had already accepted the offer by successfully fixing and submitting the solution on 6th May at 4:00 PM. Since the acceptance was complete before the revocation came to her knowledge, the **revocation is invalid as against Meera**.
- **Third-Party Consideration:** The promise of Rs. 50,000 by Arjun's father is lawful and valid under Section 2(d). Furthermore, Meera worked after her regular shifts and spent 10,000 of her own money. This clearly exceeds her ordinary contractual duties, making her performance a **valid and lawful consideration**.

Question 1(b) (7 Marks)

The Articles of Association (AOA) of High-Tech Innovations Limited authorized the Board of Directors to borrow money on behalf of the Company up to a certain limit, provided that a Board Resolution was passed to approve the loan amount. The directors approached Global Bank for a loan of Rs. 50 Lakhs (within the limit) for business expansion. The Bank Manager reviewed the AOA and MOA and confirmed the directors had the power to borrow. The directors then submitted a formal confirmation letter stating that the required board resolution had been passed, though in reality, no such board meeting was ever held. Global Bank, relying on

this, disbursed the loan. The company later defaulted, and the directors contended that the loan was unauthorized and void due to the absence of the board resolution.

Answer the following under the Companies Act, 2013:

- (i) Does Global Bank have a legal right to recover the loan amount from the Company despite the absence of a board resolution?
- (ii) If the Company proves that the Bank Manager had attended a private lunch (before the loan was sanctioned) where the Directors admitted that they skipped the board meeting due to lack of the required number of directors to pass the resolution, would the Bank be protected?
- (iii) If the formal letter confirming that the required board resolution was passed was found to have been forged with the wrong signature of the Company Secretary, can the Bank recover the loan from the Company?

Suggested Answer

1. Provisions of the Companies Act, 2013:

- **Doctrine of Indoor Management (Turquand's Rule):** First laid down in Royal British Bank v. Turquand, this doctrine states that while outsiders dealing with a company are deemed to have constructive notice of the company's public documents (Memorandum and Articles of Association), they are not bound to inquire into the regularity of internal proceedings. They are entitled to assume that the internal procedures have been complied with in accordance with the articles.
- **Exceptions to the Doctrine:**
 - **Knowledge of Irregularity:** If the outsider had actual or constructive knowledge of the internal irregularity before entering into the transaction, they cannot seek the protection of this doctrine (Howard v. Patent Ivory Manufacturing Co.).
 - **Forgery:** The doctrine does not apply to transactions involving forgery, which are void ab initio. A company cannot be held bound by a document containing forged signatures of its officers (Ruben v. Great Fingall Consolidated).

2. Analysis & Conclusion:

- **Right to Recover:** The limit of borrowing was in line with the AOA. The requirement of a board resolution was an internal matter of the company. Since the directors provided a formal confirmation letter, the Bank was entitled to rely on it. **Thus, the Global bank is protected by the Doctrine of Indoor Management and has a legal right to recover the loan from the company.**

- **Private Lunch Admission:** If the Bank Manager had been informed at a private lunch that no board meeting was held due to lack of a quorum, the bank had actual knowledge of the irregularity. **Therefore, it cannot claim the protection of indoor management.**
- **Forgery:** If the confirmation letter was forged with the wrong signature of the Company Secretary, the document is a complete nullity from the beginning. Since forgery is an exception to the Doctrine of Indoor Management,

Question 1(c) (6 Marks)

Referring to the provisions of The Indian Partnership Act, 1932, answer the following:

- "The sharing of profits or gross returns arising from property by persons holding a joint or common interest in that property does not of itself make such persons' partners." Discuss the correctness of the statement and state any four types of sharing of receipts which would not make a person a partner.
- "'Joint stock', 'common stock' or 'joint estate', denotes all property, rights and interests to which the firm, that is, all partners collectively, may be entitled." Discuss the validity of the statement emphasizing on items which can be termed as partnership property and discuss how to determine whether a particular property is or is not 'property' of the firm.

Suggested Answer

(i) Sharing of Profits and its Exceptions:

The statement is correct. As per Section 6 of the Indian Partnership Act, 1932, while the sharing of profits is essential, it is only prima facie (first-sight) evidence of a partnership, and not conclusive evidence. **The conclusive test of partnership is Mutual Agency** (i.e., whether the business is carried on by all or any of them acting for all, as established in Cox v. Hickman).

Four Types of Sharing of Receipts which do NOT create a Partnership:

1. By a lender of money to persons engaged or about to engage in any business.
2. By a servant or agent as his remuneration.
3. By a widow or child of a deceased partner as annuity.
4. By a previous owner or part-owner of the business as consideration for the sale of the goodwill.

(ii) Partnership Property (Section 14):

The statement is valid. Under Section 14 of the Indian Partnership Act, 1932, the property of the firm includes:

- All property, rights, and interests originally brought into the common stock of the firm by the partners.
- Property acquired by purchase or otherwise, by or for the firm, or for the purposes and in the course of the business of the firm.
- The goodwill of the business of the firm.

How to Determine whether a property belongs to the Firm:

- **Source of Funds:** Unless a contrary intention appears, property deemed to be purchased with money belonging to the firm is firm's property.
- **Real Intention of Partners:** The ultimate test is the real intention of the partners, which can be gathered from the partnership agreement (deed) and the treatment of the property in the books of accounts of the firm.
- **Mere Usage:** The mere use of a partner's personal property for the firm's business does not automatically make it firm's property, unless there is an express or implied agreement to make it common stock.

QUESTION 2 (20 MARKS)

Question 2(a) (7 Marks)

Mohan and Bibhuti are friends. Mohan owns an electronic durable showroom. Bibhuti's daughter was getting married in July. Due to hot weather, Bibhuti wanted a portable AC. Mohan offered to deliver a portable AC on a "sale or return basis" with the condition that Bibhuti could use it for the wedding and return it within 10 days if he did not like it. Bibhuti brought the AC. While the 10-day period was running, Bibhuti's daughter took the AC to her in-law's house without intending to return it. Bibhuti was aware of this but remained silent. Referring to the Sale of Goods Act, 1930, decide:

- Whether Mohan can treat the transaction as approved by Bibhuti in this situation, when the 10-day period had not elapsed.
- Whether Mohan can recover the price of the portable AC from Bibhuti's daughter.

Suggested Answer

1. Provisions of the Sale of Goods Act, 1930:

- **Section 24 (Goods sent on approval or 'on sale or return'):** When goods are delivered to the buyer on approval or 'on sale or return' or other similar terms, the property (ownership) therein passes to

the buyer:

- when he signifies his approval or acceptance to the seller or does any other act adopting the transaction;
- if he does not signify approval but retains the goods without notice of rejection, then, on expiration of the fixed time (or reasonable time if no time is fixed).
- **Act Adopting the Transaction:** Any act which is inconsistent with the seller's ownership is treated as an adoption of the transaction, such as selling, gifting, or permanently pledging the goods.
- **Privity of Contract:** A contract can only be enforced by the parties to it. A stranger to a contract cannot be sued under it, as there is no privity of contract between them.

2. Analysis:

- **Transfer of Ownership to Bibhuti:** Bibhuti took the AC on a sale or return basis for 10 days. Before the 10 days elapsed, his daughter took the AC permanently to her in-law's house. Bibhuti was aware of this and remained silent. Allowing the goods to be permanently taken away and gifted to a third party is an act inconsistent with Mohan's (the seller's) ownership. This constitutes an 'act adopting the transaction' under Section 24(a). Therefore, the **ownership of the AC passed to Bibhuti** immediately, and Mohan can treat the transaction as approved.
- **Action against Daughter:** The contract of sale was executed solely between Mohan and Bibhuti. There is **no privity of contract between Mohan and Bibhuti's daughter**. Mohan cannot sue her for the price. **His only legal remedy is to sue Bibhuti for the recovery** of the price.

Question 2(b) (7 Marks)

"The company is treated as a legal entity distinct and separate from its shareholders or members."

Discuss the situations where the above principle of corporate personality is disregarded by law. Your answer should be based on the Companies Act, 2013.

Suggested Answer

1. Principle of Separate Legal Entity:

Under the Companies Act, 2013, a company is a separate legal entity distinct from its members (Salomon v. Salomon & Co. Ltd.). However, when the corporate structure is used for dishonest, fraudulent, or tax-

evasive purposes, courts will look behind the corporate facade to identify the real persons in control. This is known as Lifting or Piercing the Corporate Veil.

2. Situations where Corporate Veil is Disregarded (Judicial & Statutory):

- **To Determine the Enemy Character of the Company:** If the persons in de facto control of the company are residents or citizens of an enemy country, the company will be treated as an enemy company (*Daimler Co. Ltd. v. Continental Tyre & Rubber Co.*).
- **To Prevent Evasion of Taxes:** If a company is formed solely as a sham or device to evade taxes or reduce tax liabilities, the corporate veil will be lifted to assess the true income of the individuals (*In re Dinshaw Maneckjee Petit*).
- **To Prevent Avoidance of Welfare/Legal Obligations:** Where a company is formed or transactions are structured to reduce workers' bonus or evade statutory welfare payments, courts will disregard the separate entity (*Workmen of Associated Rubber Industries Ltd. v. Associated Rubber Industries Ltd.*).
- **To Avoid Contractual/Legal Obligations (Sham Companies):** If a company is formed as a mere sham to circumvent a non-compete clause or another legal restriction, the court will grant an injunction against the individuals behind it (*Gilford Motor Co. v. Horne*).
- **Where Company is used as an Agent/Trustee of members:** If a company is carrying on no business of its own but is merely an agent of its shareholders, the shareholders will be held personally liable for its acts.
- **Statutory Provisions under Companies Act, 2013:** The Act itself provides for personal liability in cases of misstatement in prospectus (Sections 34 & 35), fraudulent conduct of business during winding up (Section 339), and active fraud/misrepresentation.

Question 2(c) (6 Marks)

Referring to the provisions of The Limited Liability Partnership Act, 2008, answer the following:

- Enumerate the conditions to be fulfilled by a Limited Liability Partnership to be qualified as a Small LLP under the LLP (Amendment) Act, 2021.
- Discuss the details to be stated in the Incorporation Document of a Limited Liability Partnership.

Suggested Answer

(i) Conditions for a Small LLP (Section 2(ta) of LLP Act, 2008 as amended in 2021):

A "Small Limited Liability Partnership" must fulfill the following dual criteria:

- **Contribution:** The contribution of the LLP does **not exceed Rs. 25 Lakhs** (or such higher amount, not exceeding 5 Crores, as may be prescribed); AND
- **Turnover:** The turnover of the LLP for the preceding financial year does **not exceed Rs. 40 Lakhs** (or such higher amount, not exceeding Rs. 50 Crores, as may be prescribed).

(ii) Details in the Incorporation Document (Section 11(2) of LLP Act, 2008):

The incorporation document of an LLP must be filed in the prescribed form with the Registrar and must state:

- The name of the Limited Liability Partnership.
- The proposed business of the LLP.
- The address of the registered office of the LLP.
- The name and address of each of the persons who are to be partners of the LLP on incorporation.
- The name and address of the persons who are to be designated partners of the LLP on incorporation.
- Such other information concerning the proposed LLP as may be prescribed.

QUESTION 3 (20 MARKS)**Question 3(a) (7 Marks)**

Neel, Dhruv and Alex were partners in M/s Fabrics Textile Agency, sharing profits/losses in the ratio of 4:3:3 (capitals in same ratio). The firm provided continuing guarantee to a manufacturer on behalf of Asif since 1st April 2022 for 5 years. On 31st October 2024, Alex sought retirement. The firm was reconstituted, and Neel and Dhruv continued with profit sharing ratio of 4:3. The value of partnership property stood at Rs. 30 Crores as on the date of retirement of Alex. No final settlement was made, and the partnership deed was silent on the distribution of dues of a retiring partner. Neel and Dhruv continued. Alex passed away on 30th November 2024. His son Tom (only legal heir) asked for settlement. The firm made a profit of Rs. 2 Crores from 31st October to 30th November 2024. Referring to the Indian Partnership Act, 1932:

1. Calculate the maximum amount of share that Tom is entitled to.
2. What will be Tom's maximum claim if he approached for settlement on 31st December 2024, if the firm

earned an additional profit of Rs. 50 Lakhs from 1st December to 31st December 2024 (total Rs. 2.5 Crores subsequent profits)?

3. Neel and Dhruv decided to revoke the continuing guarantee with effect from 1st November 2024. Asif contended that since the firm was not dissolved, the continuing guarantee can be revoked only upon mutual understanding. Decide if Asif's contention is tenable.

Suggested Answer

1. Provisions of the Indian Partnership Act, 1932:

- Section 37 (Right of outgoing partner to share subsequent profits):** If a partner retires or dies, and the remaining partners continue the business with the capital/assets of the firm without a final settlement of accounts, then, in the absence of a contract to the contrary, the outgoing partner or his estate is entitled at his option to:
 - Profit Share:** Such share of the profits made since he ceased to be a partner as may be attributable to the use of his share of the property of the firm (which corresponds to his capital ratio: 30% or 3/10); **OR**
 - Interest:** Interest at the rate of 6% per annum on the amount of his share in the property of the firm.
- Section 38 (Revocation of Continuing Guarantee):** A continuing guarantee given to a firm, or to a third party in respect of transactions of a firm, is, in the absence of agreement to the contrary, revoked as to future transactions by any change in the constitution of the firm (e.g., retirement of a partner).

2. Calculations & Analysis:

Alex's Share of Property on Retirement: 30% of Rs. 30 Crores = 9 Crores.

Claim Scenario	Option A (Profit Share @ 30%)	Option B (Interest @ 6% pa.)	Maximum Entitlement (Tom's Choice)
Scenario 1: As of 30 th Nov' 2024 (1 Month)	30% of 2 Cr = 60 Lakhs	$9 \text{ Cr} * 6\% * 1/12 = 4.5$ Lakhs	9 Crores + 60 Lakhs = 9.60 Crores
Scenario 2: As of 31 st Dec' 2024 (2 Months)	30% of 2.5 Cr = 75 Lakhs	$9 \text{ Cr} * 6\% * 2/12 = 9.0$ Lakhs	9 Crores + 75 Lakhs = 9.75 Crores

3. Conclusion:

- Scenario1 (Tom's share on 30th Nov' 2024):** Tom will choose Option A (Profit Share of Rs. 60 Lakhs)

as it is higher than Option B (Interest of Rs. 4.5 Lakhs). **The maximum amount Tom is entitled to is Rs. 9.60 Crores.**

- **Scenario 2 (Tom's claim on 31st December 2024):** Since the final settlement was not done, Section 37 continues to apply. Profit share for 2 months is Rs. 75 Lakhs, which is higher than the 6% interest (Rs. 9 Lakhs). **Thus, Tom's maximum claim is 9.75 Crores.**
- **Scenario 3 (Asif's Contention): Asif's contention is not tenable.** Under Section 38, the retirement of Alex reconstituted the firm, which automatically revoked the continuing guarantee for future transactions with effect from 1st November 2024. No mutual consent was required.

Question 3(b) (7 Marks)

Smooth Panels Private Limited (Capital Rs. 50 Crores) is planning to alter its Articles of Association by passing a special resolution to include an entrenchment clause regarding the power of directors to invest funds in excess of sixty per cent of paid-up capital only after passing a prior unanimous resolution of all members of the Company. One Director, Mr. Yogesh objected, saying an ordinary resolution is enough. Another Director, Mr. Zitesh contended that it can be included only if agreed to by all the members.

Decide under the Companies Act, 2013:

- Whether the Company can include the above entrenchment clause in the Articles of Association at all.
- Whether the entrenchment clause can be included in the Articles by passing a special resolution as planned, and whose contention is tenable in this regard.

Suggested Answer

1. Provisions of the Companies Act, 2013:

- **Section 5(3):** The Articles of Association (AOA) may contain provisions for entrenchment to the effect that specified provisions of the articles may be altered only if conditions or procedures that are more restrictive than those applicable in the case of a special resolution, are met or complied with.
- **Section 5(4):** An entrenchment clause can be introduced either on formation of the company, or by an amendment to the articles. Section 5(4) specifies that an amendment to include an entrenchment clause must be agreed to:
 - In the case of a private company, by all the members of the company (unanimous agreement);
 - In the case of a public company, by passing a special resolution.

2. Analysis & Conclusion:

- Smooth Panels Private Limited is a private company (denoted by 'Private Limited' in its name).
- The company wants to alter its articles to include an entrenchment clause. Since it is a private company, Section 5(4) applies, requiring the unanimous consent of all members of the company. So, the Company **can include the entrenchment clause** in its Articles of Association, as permitted by Section 5(3).
- **Mr. Yogesh's contention** that an ordinary resolution is enough is **completely incorrect**. **Mr. Zitesh's contention** that it requires the agreement of all members is **correct**.
- Consequently, the contention of Mr. Zitesh is tenable, and the contention of Mr. Yogesh is not tenable.

Question 3(c) (6 Marks)

"Where a debtor owes several distinct debts to one person and makes a payment which is insufficient to satisfy the whole amount, the question arises as to which debt the payment should be applied." In light of this, explain the rules regarding appropriation of payments under the Indian Contract Act, 1872 when:

- The debtor expressly intimates or implies which debt should be discharged.
- The debtor fails to indicate any preference at the time of payment.
- Neither the debtor nor the creditor makes any specific appropriation.

Suggested Answer

Rules regarding Appropriation of Payments (Sections 59 to 61 of the Indian Contract Act, 1872):

These rules apply when a debtor owes multiple distinct debts to the same creditor and makes a partial payment:

- Appropriation where debtor intimates (Section 59):** Where a debtor owing several distinct debts to one person makes a payment to him, either with an express intimation, or under circumstances implying that the payment is to be applied to the discharge of some particular debt, the payment, if accepted, must be applied accordingly, (e.g., if a debtor owes Rs. 10,000 and Rs. 5,000, and pays Rs. 5,000 specifically stating it is for the second debt, the creditor must apply it to that debt).
- Appropriation where debtor fails to intimate (Section 60):** Where the debtor has omitted to intimate, and there are no other circumstances indicating to which debt the payment is to be applied, the creditor may apply it at his discretion to any lawful debt actually due and payable to him from the

debtor, including a time-barred debt (a debt barred by the law of limitation). However, the creditor cannot apply the payment to a disputed or unlawful debt.

- (iii) **Appropriation where neither party appropriates (Section 61):** Where neither party makes any appropriation, the payment shall be applied in discharge of the debts in order of time, whether they are time-barred or not. If the debts are of equal standing, the payment shall be applied in discharge of each of them proportionately.

QUESTION 4 (20 MARKS)

Question 4(a) (7 Marks)

Mr. Samrat (garment manufacturer of Surat) entered into a contract with Vogue Fabrics Limited on 1st September 2025 for 1,000 meters of premium silk at 2,000 per meter, with delivery on 1st December 2025. Mr. Samrat explicitly informed Vogue Fabrics that he required this silk to fulfill an export order worth 30 Lakhs, and shared the pricing details. On 15th October 2025, Vogue Fabrics sent an email stating: "Due to a sudden surge in global silk prices and a strike in our factory, we will be unable to supply the silk..." On 20th October 2025, the market price was 2,500/meter. Samrat did not wait and sued them on 25th October 2025 when the price was stable at 2,500/meter. By 1st December, the price rose to 3,000/meter. Samrat could not fulfill his export order and had to pay 30 Lakhs to the foreign buyer as damages.

Answer under the Indian Contract Act, 1872:

- (i) Identify the type of breach on 15th October 2025. Does Mr. Samrat have the legal right to sue before 1st December 2025?
- (ii) Analyze the remedies and damages he can recover from Vogue Fabrics, considering he sued on 25th October 2025. Provide calculation.

Suggested Answer

1. Provisions of the Indian Contract Act, 1872:

- **Anticipatory Breach of Contract (Section 39):** Anticipatory breach occurs when a party to a contract refuse or disables themselves from performing their promise in its entirety before the stipulated date of performance. The promisee has two options:
 - Rescind the contract immediately and sue for damages for the breach, without waiting for the performance date;
 - Treat the contract as operative, wait until the performance date, and then sue for non-performance.

- **Measure of Damages (Section 73):** Under Section 73, damages are recoverable for loss which naturally arose in the usual course (ordinary damages) or which the parties knew, at the time of contracting, to be likely to result from the breach (special damages).
- **Damages in Anticipatory Breach:** If the promisee elects to sue immediately, the ordinary damages are measured by the difference between the contract price and the market price on the date the contract is rescinded.
- **Duty to Mitigate Losses:** The injured party is under a legal obligation to take all reasonable steps to mitigate the loss caused by the breach. If they fail to do so, they cannot recover damages for losses which could have been avoided.

2. Analysis and Application:

- **Right to Sue:** Vogue Fabrics' email on 15th October was an express repudiation of the contract before the delivery date. This is an **Anticipatory Breach of Contract**. Mr. Samrat has the legal right to sue immediately under Section 39. Yes, Mr. Samrat has the legal right to sue before 1st December 2025.
- **Ordinary Damages:** Mr. Samrat rescinded and sued on 25th October 2025. The market price on that day was 2,500/meter. Contract price was 2,000/meter. Quantity is 1,000 meters. Hence, **ordinary damages are: $(2,500 - 2,000) * 1,000 = \text{Rs. 5 Lakhs}$.**
- **Special Damages & Mitigation:** Samrat informed Vogue of the export order of 30 Lakhs, which makes special damages (the 30 Lakhs paid to the foreign buyer) theoretically recoverable. However, because Mr. Samrat terminated the contract on 25th October, he was required to mitigate his loss by buying silk from alternative suppliers. On 20th/25th October, alternative silk was available in the market for 2,500/meter. If he had purchased it, he could have fulfilled his export order and avoided the 30 Lakhs liability. Since he failed to mitigate, **he cannot claim the 30 Lakhs as special damages.**

3. Calculation Summary Table:

Damages Category	Calculation Formula	Amount	Status
Ordinary Damages	(Market Price on 25th Oct – Contract Price) * Qty (2,500 - 2,000) * 1,000	5,00,000	RECOVERABLE

Special Damages	Loss of 30,00,000 paid to foreign buyer	30,00,000	NOT RECOVERABLE (due to failure to mitigate)
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Question 4(b) (7 Marks)

Referring to the provisions of the Negotiable Instruments Act, 1881, answer the following:

- (i) State the meaning of an 'inchoate instrument'. Also elaborate the provisions regarding liability of drawing such an instrument on the holder as well as the holder in due course.
- (ii) "All cheques are bills, while not all bills are cheques." Discuss under the Negotiable Instruments Act, 1881.

Suggested Answer

(i) Inchoate Stamped Instrument (Section 20):

- **Meaning:** An inchoate instrument is an incomplete signed and stamped paper delivered by one person to another. The signature on the stamped paper gives a prima facie authority to the holder to complete it as a negotiable instrument for **any amount not exceeding the amount covered by the stamp**.
- **Liability on the Holder:** The person who receives the incomplete instrument (**holder**) **can only recover the amount which was actually authorized by the person who signed and delivered it**. If they fill in an amount greater than the authorized limit, they cannot recover the excess.
- **Liability on Holder in Due Course (HiDC):** If an inchoate instrument, after completion, is transferred to a Holder in Due Course (who takes it in good faith, for value, before maturity), the **HiDC is entitled to recover the entire amount filled in, provided it is within the limits of the stamp**. The original drawer cannot plead that the amount filled exceeded the authority given.

(ii) "All cheques are bills, while not all bills are cheques":

- **Bill of Exchange (Section 5):** A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer.
- **Cheque (Section 6):** A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.
- **Comparison & Discussion:**

- Every cheque is a bill of exchange because it satisfies all the essential elements of a bill of exchange.
- However, a bill of exchange has a wider scope. A bill of exchange can be drawn on any person (including a banker) and can be payable either on demand or after a specified period of time (time bill). A cheque, conversely, must always be drawn on a banker and must always be payable on demand.
- **Hence, the statement is completely accurate:** All cheques are bills, but not all bills are cheques.

Question 4(c) (6 Marks)

The Ministry of Home Affairs (Gruha Mantralaya) is a premier ministry of the Government of India. State the major responsibilities of the Ministry and enlist various departments which are covered under this Ministry.

Suggested Answer

1. Major Responsibilities of the Ministry of Home Affairs (MHA):

The MHA is responsible for a wide range of critical governance and administrative functions in India, including:

- **Internal Security:** Maintaining domestic peace, public order, and law and enforcement across the country.
- **Border Management:** Managing national borders, including international land borders, maritime boundaries, and border infrastructure.
- **Centre-State Relations:** Monitoring constitutional provisions, administrative coordination with States and Union Territories.
- **Central Armed Police Forces (CAPFs):** Exercising administrative control over forces like BSF, CRPF, CISF, ITBP, SSB, and NSG.
- **Disaster Management:** Overseeing disaster relief, rescue coordination, and national-level rehabilitation policies.
- **Citizenship and Census:** Administering matters related to citizenship, naturalization, visa services, and conducting the Census of India.

2. Departments under the Ministry of Home Affairs:

The Ministry comprises the following six core departments:

1. **Department of Internal Security:** Handles police, law and order, rehabilitation, and anti-terror activities.
2. **Department of States:** Handles Centre-State relations, Union Territories, and State legislative matters.
3. **Department of Home:** Oversees the notification of assumption of office by high dignitaries (President, Governors) and census.
4. **Department of Official Language:** Implements constitutional provisions and policies regarding official languages.
5. **Department of Border Management:** Dedicated to securing, constructing, and maintaining borders.
6. **Department of Jammu, Kashmir and Ladakh Affairs:** Manages constitutional and administrative affairs of these Union Territories.

QUESTION 5 (20 MARKS)

Question 5(a) (7 Marks)

M/s. Kashmir Apples and Juice Limited sold 1400 Kg of raw apples (at 200/Kg) and 10,000 cans of apple juice (at 100/can) on credit to Fresh Tropical Limited. Payment was due by 31.07.2025. Right of lien and possession remained with the seller until full payment (no notice clause was in the contract). Till 01.06.2025, no payment was made. On 05.06.2025, the seller's representative inspected the cold storage and saw the apples rotting, and sold them immediately in the local market without notice. On 21.07.2025, the buyer paid for and took 7,000 cans of juice. On 28.07.2025, the seller gave notice that the remaining 3,000 cans would be resold if payment was not made by 31.07.2025. The buyer failed to pay. The seller resold 1,200 cans at 75/can (loss of 25/can) and the rest 1,800 cans at 0105/can (profit of 5/can). The seller sued for the loss on 1,200 cans, which the buyer refused.

Referring to the Sale of Goods Act, 1930, answer:

- (i) Whether the act of selling raw apples without any notice to the buyer was valid.
- (ii) Whether the seller can recover the sustained loss of 25/can on 1,200 cans and how would the profit of 5/can earned from the sale of the rest of 1,800 cans be treated.
- (iii) In case no notice of resale was given by the seller, what would be the outcome of the suit?

Suggested Answer

1. Provisions of the Sale of Goods Act, 1930:

- **Unpaid Seller's Right of Resale (Section 54):** Section 54(2) states that where the goods are of a

perishable nature, the unpaid seller may resell the goods immediately without notice. The buyer remains liable for any deficiency, and the seller can retain any profit on resale.

- **Notice of Resale for Non-Perishable Goods:** For non-perishable goods, the unpaid seller must give a reasonable notice of their intention to resell to the buyer. After notice:
 - If the buyer fails to pay within a reasonable time, the seller can resell, recover any loss from the buyer, and retain any profit on resale.
- **Resale without Notice (Non-Perishable Goods):** If the unpaid seller resells non-perishable goods without giving notice:
 - The seller cannot recover damages/loss from the buyer.
 - The seller must pay any profit earned on resale to the original buyer.

2. Analysis and Conclusion:

- **Raw Apples (Perishable):** Raw apples are highly perishable. Since they were rotting, the seller was legally entitled under Section 54(2) to sell them immediately in the local market without any prior notice. **The sale is valid.**
- **Cans of Juice with Notice:** Apple juice cans are non-perishable. The seller gave a proper notice on 28.07.2025 demanding payment by 31.07.2025. Since the buyer failed to pay, the seller resold them. Because notice was given:
- **Loss on 1,200 Cans:** Calculated as $(100 - 75) * 1,200 = 30,000$. This loss is **fully recoverable** from Fresh Tropical Limited.
- **Profit on 1,800 Cans:** Calculated as $(105 - 100) * 1,800 = 9,000$. As notice was given, the buyer has no right to this profit. The **seller is entitled to retain 9,000.**
- **Cans of Juice without Notice:** If the seller had resold the cans without giving notice, the legal outcomes would reverse:
 - The seller would be unable to recover the loss of 30,000 from the buyer.
 - The seller would have to hand over the profit of 9,000 on the 1,800 cans to the buyer.

3. Conclusion Summary Table:

Goods Type	Notice Given?	Resale Result	Legal Outcome (Recovery/Retention)
Raw Apples (Perishable)	No (Not required)	Rotting / Immediate sale	Sale is Valid. Seller can recover any loss (if any).
Juice Cans (1200 cans)	Yes (on 28.07.25)	Loss of 25 per can	Seller can recover Rs. 30,000 loss from buyer.
Juice Cans (1800 cans)	Yes (on 28.07.25)	Profit of 5 per can	Seller retains Rs. 9,000 profits. Buyer gets nothing.
Juice Cans (If No Notice)	No	Mixed Loss/Profit	Loss cannot be recovered; Profit must be returned to buyer.

Question 5(b) (7 Marks)

P and Q are running a partnership firm of manufacturing and trading of industrial chemicals. They invited R to join the firm as a partner. R has sought your opinion as to what would be the limits of his implied authority as a partner, and since the business is prone to hazards, he wants to know his authority in the case of an emergency. Explain to R by referring to the provisions of the Indian Partnership Act, 1932.

Suggested Answer

1. Implied Authority of a Partner (Sections 19 & 22):

Under Section 19(1), the act of a partner which is done to carry on, in the usual way, business of the kind carried on by the firm, binds the firm. This is called the partner's 'implied authority'. Since the firm is a trading and manufacturing entity, R's implied authority allows him to:

- Buy and sell chemical raw materials and finished products of the firm in the ordinary course of business.
- Receive payments on behalf of the firm and issue valid receipts.
- Engage employees, chemists, or laborers necessary for the chemical business.
- Draw, accept, endorse, and negotiate bills of exchange, cheques, or promissory notes in the name of the firm.
- Borrow money on behalf of the firm and pledge the firm's chemical stocks/assets as security.

2. Statutory Restrictions on Implied Authority (Section 19(2)):

R must be advised that, in the absence of any usage or custom of trade to the contrary, he does not have implied authority to:

- Submit a dispute relating to the business of the firm to arbitration.
- Open a banking account on behalf of the firm in his own name.
- Compromise or relinquish any claim or portion of a claim by the firm.
- Withdraw a suit or proceeding filed on behalf of the firm.
- Admit any liability in a suit or proceeding against the firm.
- Acquire or transfer immovable property on behalf of the firm.
- Enter into partnership with any third party on behalf of the firm.

3. Partner's Authority in an Emergency (Section 21):

Since chemical manufacturing is hazard-prone, Section 21 is highly relevant. It states that:

- In an emergency, a partner has the authority to do all such acts for the purpose of protecting the firm from loss as would be done by a person of ordinary prudence, in their own case, acting under similar circumstances.
- All such **emergency actions** bind the firm, provided they were **done in good faith and to mitigate loss**, (e.g., in case of a chemical leak, R has the full authority to hire emergency containment services, purchase safety equipment, or evacuate the site at the firm's expense).

Question 5(c) (6 Marks)

What is a Wagering agreement? State the transactions resembling a wagering transaction, but are not void. Your answer should be based on the applicable provisions of the Indian Contract Act, 1872.

Suggested Answer

1. Definition of a Wagering Agreement (Section 30):

A wagering agreement is an agreement to pay money or money's worth upon the determination of an uncertain future event, where both parties stand to win or lose depending on the outcome, and neither party has any interest in the event other than the stake to be won or lost (Carlill v. Carbolic Smoke Ball Co.).

Under Section 30 of the Indian Contract Act, 1872, agreements by way of wager are void, and no suit can be brought to recover anything won on a wager.

2. Transactions Resembling Wagers which are NOT Void (Exceptions):

- **Horse Race Contributions:** Section 30 provides an exception for subscriptions or contributions (or agreements to subscribe/contribute) of the value of Rs. 500 or upwards to be awarded to the winner of any horse race.
- **Games of Skill (Athletic and Literary Competitions):** Competitions where the winner is determined based on skill and effort rather than sheer chance are valid. Examples include crossword puzzles based on skill and sports tournaments. (Subject to the Prize Competitions Act, 1955, which limits prize amounts for certain competitions).
- **Contracts of Insurance:** Insurance contracts are valid and enforceable. Though they depend on an uncertain future event, they differ from wagers because:
 - The insured has an insurable interest in the subject matter.
 - They are contracts of indemnity (except life insurance) aimed at protecting against actual loss rather than gambling.
- **Commercial Share Market Transactions:** Transactions where there is a genuine intention to take and give delivery of shares are valid commercial contracts. However, pure speculation on price differences without any delivery intent may be treated as wagers.
- **Chit Funds:** Chit funds are savings schemes where members contribute regularly and receive the pool via lots. Since the contributions are saved and returned, they do not constitute wagers.

QUESTION 6 (20 MARKS)

Question 6(a) (7 Marks)

Mr. Shah, a diamond merchant in Mumbai, draws a Bill of Exchange on May 1, 2026, for 50,000 British Pounds upon Mr. Smith, a resident of London. The bill is payable in London "60 days after sight." Mr. Shah endorses the bill to Mr. Binod in Mumbai for value received. Due to a sudden grounding of all international flights caused by a volcanic eruption, Mr. Binod is unable to send the bill to London for presentment until May 19, 2026. He dispatches it on 20th May, and it is presented to Mr. Smith on May 24th, who accepts it on May 25, 2026, but dishonours it at maturity. Mr. Binod incurs noting charges and exchange rate losses. Mr. Shah refuses to pay the extra costs, claiming the delay discharged him and he is only liable for the face value.

Referring to the Negotiable Instruments Act, 1881, answer with reasons:

- (i) Whether the instrument will be treated as an inland bill or foreign bill.
- (ii) Whether the delay in presentment for acceptance in this case is excusable under the Act.

(iii) Determine what components of compensation Mr. Binod can claim from Mr. Shah.

Suggested Answer

1. Provisions of the Negotiable Instruments Act, 1881:

- **Inland and Foreign Bills (Sections 11 & 12):** Under Section 11, a bill of exchange drawn in India and made payable in India, or drawn upon a resident in India, is an inland instrument. Under Section 12, any instrument that is not an inland instrument is a foreign instrument.
- **Excuse for Delay in Presentment (Section 75A):** Delay in presentment for acceptance or payment is excused if the delay is caused by circumstances beyond the control of the holder, and not imputable to his default, misconduct, or negligence. When the cause of delay ceases to operate, presentment must be made within a reasonable time.
- **Rules of Compensation on Dishonour (Section 117):** The compensation payable to a holder upon dishonour of a bill by an endorser includes the principal amount, interest from the date of maturity, and all proper expenses incurred in noting and protesting. If the bill is in foreign currency, the holder is also entitled to compensation for losses due to fluctuations in the exchange rate (re-exchange).

2. Analysis and Conclusion:

- **Instrument Type:** The bill was drawn in Mumbai (India) by Mr. Shah, but was drawn on Mr. Smith (resident of London) and made payable in London. Since it is neither drawn on a resident in India nor payable in India, it is a **Foreign Bill** under Section 12.
- **Delay in Presentment:** Presentment was delayed from 1st May to 19th May due to a volcanic eruption grounding all flights. This is an Act of God and a circumstance completely beyond Mr. Binod's control. He dispatched the bill on 20th May, immediately after flights resumed. Therefore, the **delay is fully excusable under Section 75A, and Mr. Shah is not discharged from his liability.**
- **Compensation Components:** Since Mr. Shah is not discharged, Mr. Binod can claim full compensation under Section 117. This includes: (a) the principal sum of 50,000 GBP, (b) noting and protesting charges, and (c) the losses suffered due to exchange rate fluctuations between London and Mumbai.

Question 6(b) (6 Marks)

As per the Indian Contract Act, 1872, a general rule is, "Stranger to a contract cannot file a suit in case of breach of contract." Provide the exceptions to the above rule.

OR

Describe any six legal rules regarding 'consideration' in terms of the provisions of the Indian Contract Act, 1872.

Suggested Answer

Option 1: Exceptions to the Doctrine of Privity of Contract (Stranger to Contract):

The Doctrine of Privity of Contract states that only the parties to a contract can sue or be sued on it. A stranger to a contract cannot maintain a suit (*Dunlop Pneumatic Tyre Co. Ltd. v. Selfridge & Co. Ltd.*). The exceptions to this rule where a third party can sue are:

1. **In the case of a Trust or Charge:** A beneficiary of a trust or a person in whose favor a charge is created on specific property can sue to enforce their rights, even if they are not a party to the contract (*Khwaja Muhammad Khan v. Husaini Begum*).
2. **Marriage Contracts, Partition, or Family Arrangements:** Where provision is made in an agreement for the marriage expenses or maintenance of a female member or minor under a family settlement or partition, such beneficiary can sue to enforce it (*Shuppu Ammal v. Subramaniam*).
3. **Acknowledgement or Estoppel:** Where the promisor, by their conduct or admission, acknowledges their liability to a third party, they are estopped from denying it, and the third party can sue (*Devraj Urs v. Ramakrishniah*).
4. **Covenants Running with Land:** A purchaser of land who takes it with notice of certain covenants or obligations bound to the land can be sued by the person entitled to enforce those covenants (*Tulk v. Moxhay*).
5. **Assignment of a Contract:** An assignee of a contract (such as a beneficiary under an insurance policy or an assignee of a debt) can sue to enforce the benefits of the contract.

OR (Alternative Option)

Option 2: Six Legal Rules regarding 'Consideration' (Section 2(d)):

1. **Consideration must move at the desire of the promisor:** The act or abstinence must be done at the express request of the promisor, and not voluntarily or at the behest of a third party (*Durga Prasad v. Balded*).
2. **Consideration may move from the promisee or any other person:** In India, a stranger to consideration can sue. Consideration can be provided by a third party on behalf of the promisee (*Chinnayya v. Ramayya*).

3. **Consideration may be Past, Present, or Future:** Under Section 2(d), consideration can be an act already done (past), being done simultaneously (present/executed), or promised to be done in the future (executory).
4. **Consideration need not be adequate:** The law does not require the consideration to be of equal value to the promise. It only requires that it must be real and have some value in the eyes of the law. Inadequacy of consideration does not affect the validity of a contract.
5. **Consideration must be real and not illusory:** It must not be physically impossible, legally impossible, or highly uncertain.
6. **Consideration must not be something the promisor is already legally bound to do:** Performance of a pre-existing legal or public duty is not valid consideration for a new promise.
7. **Consideration must be lawful:** It must not be forbidden by law, fraudulent, immoral, or opposed to public policy (Section 23).

Question 6(c) (7 Marks)

Answer the following in terms of the provisions of the Sale of Goods Act, 1930:

- Who is an unpaid seller?
- State the remedies available to an unpaid seller against the buyer.

Suggested Answer

1. Definition of an Unpaid Seller (Section 45 of the Sale of Goods Act, 1930):

A seller of goods is deemed to be an "unpaid seller" when:

- The whole of the price has not been paid or tendered;
- A bill of exchange or other negotiable instrument has been received as conditional payment, and the condition on which it was received has been broken by reason of the dishonour of the instrument or otherwise.

The term 'seller' here includes any person who is in the position of a seller, such as an agent of the seller to whom the bill of lading has been endorsed.

2. Remedies of an Unpaid Seller against the Buyer personally (Suit for Breach - Sections 55 to 61):

While the seller has remedies against the goods (lien, stoppage, resale), they also possess the following personal remedies against the buyer:

- **Suit for Price (Section 55):**
 - Where the property in the goods has passed to the buyer and the buyer wrongfully neglects or refuses to pay, the seller may sue them for the price.
 - Where the price is payable on a day certain irrespective of delivery, and the buyer wrongfully refuses to pay, the seller may sue for the price even if the property in the goods has not passed.
- **Suit for Damages for Non-acceptance (Section 56):** Where the buyer wrongfully neglects or refuses to accept and pay for the goods, the seller may sue them for damages for non-acceptance. The measure of damages is the difference between the contract price and market price on the date of breach.
- **Suit for Damages for Repudiation of Contract (Section 60 - Anticipatory Breach):** If the buyer repudiates the contract before the delivery date, the seller may either treat the contract as rescinded and sue for damages immediately, or wait until the date of delivery.
- **Suit for Interest (Section 61):** The seller may sue the buyer for interest on the unpaid price from the date on which the price was payable or became due, at such rate as the court thinks fit, or as agreed between the parties.