

Paper 3 - Fundamentals of Laws and Ethics

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Full Marks :100

Time allowed: 3 hours

I. Choose the correct answer from the given four alternatives: [25 × 1 = 25]

1. A contract consist of
 - (a) **Mutual promises or agreement enforceable by law**
 - (b) Agreement not enforceable by law
 - (c) Involuntary obligations
 - (d) None of the above

2. Who is liable for necessaries supplied to a minor?
 - (a) The guardian of the minor
 - (b) The minor
 - (c) **His property**
 - (d) None of the above

3. An auction sale is complete on the -
 - (a) delivery of goods
 - (b) payment of price
 - (c) **fall of hammer**
 - (d) all of the above

4. Where the sale is not notified to be subject to a right to bid on behalf of seller, and the Auctioneer knowingly takes any bid from the Seller or any such person, the sale shall be treated as _____ by the buyer.
 - (a) unlawful
 - (b) illegal
 - (c) **immoral**
 - (d) fraudulent

5. A bill of exchange contains a/an
 - (a) unconditional undertaking
 - (b) **unconditional order**
 - (c) conditional undertaking
 - (d) conditional order

6. A foreigner
 - (a) **is competent to enter into contract if he fulfils the conditions of section 11.**
 - (b) is not competent to enter into contract
 - (c) can enter into contract with permission of Central Govt.
 - (d) can enter into contract with the permission of court

7. A promised to marry none else than Miss B and in default to pay her a sum of ₹ 1,000. Subsequently A married Miss C and Miss B sued for recovery of ₹ 1,000. The contract is

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- (a) Valid
 - (b) **Void**
 - (c) Voidable
 - (d) Enforceable
8. Conditions are stipulations
- (a) **essential to the main purpose of the contract**
 - (b) collateral to the main purpose of the contract
 - (c) either 'a' or 'b'
 - (d) neither 'a' nor 'b'
9. A promissory note contains a/an
- (a) unconditional undertaking
 - (b) **unconditional order**
 - (c) conditional undertaking
 - (d) conditional order
10. A contract is a contract
- (a) **from the time it is made**
 - (b) from the time its performance is due
 - (c) at the time from its performance
 - (d) none of the above
11. Which of the following contracts are not recognized by Indian Contract Act, 1872?
- (a) Recognizance
 - (b) Court Judgment
 - (c) Contract under seal
 - (d) **All the above**
12. Communication of acceptance is not necessary
- (a) By performance of conditions of the offer by offeree
 - (b) By acceptance of consideration by the offeree
 - (c) By acceptance of benefit/service by the offeree
 - (d) **All the above**
13. Which section, of Indian Contract Act defines "performance of the conditions of a proposal is an acceptance of the proposal"?
- (a) Section 6
 - (b) Section 7
 - (c) **Section 8**
 - (d) Section 9
14. The difference between an advertisement for sale and a proposal is
- (a) No difference at all
 - (b) **That a proposal becomes a promise as soon as the party to whom it is made accepts it but an advertisement does not**

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- (c) Every case will be viewed according to the circumstances
(d) None of these
15. In a sale by sample and description, there is an implied condition
(a) that bulk of the goods correspond with the sample
(b) **that bulk of goods must correspond to the description as well as the sample thereof**
(c) the bulk of goods must correspond either to the description or to the sample
(d) the bulk of goods must correspond to the description only
16. Property in the goods in the Sale of Goods Act means
(a) **ownership of goods**
(b) possession of goods
(c) asset in the goods
(d) custody of goods
17. Who among the following cannot cross a cheque?
(a) Drawer
(b) Holder
(c) Banker
(d) **Foreigner**
18. The term Negotiable instrument is defined in section _____ of the Negotiable Instrument Act, 1881
(a) 2
(b) **13**
(c) 12
(d) 10
19. The grace period for payment of a negotiable instrument other than payable on demand is _____ days/months
(a) 7 days
(b) **3 days**
(c) 1 month
(d) 15 days
20. The maturity of a promissory note or bill of exchange is the date _____
(a) **at which it falls due**
(b) of its presentation
(c) of its acceptance
(d) none of these
21. A Promissory note must be _____
(a) in writing
(b) unconditional
(c) signed by the maker
(d) **all the three**

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22. Acceptance is to offer what a lighted match is to a train of gun powder. This statement indicates
- (a) **Once an offer is accepted it results in binding contract**
 - (b) Communication of acceptance is necessary
 - (c) Acceptance must be absolute & unqualified
 - (d) All the above
23. Appropriation of goods means
- (a) separating the goods sold from other goods
 - (b) putting the quantity of goods sold in suitable receptacles
 - (c) delivering the goods to the carrier or other bailee for the purpose of transmission to the buyer with reserving the right of disposal
 - (d) **all the above**
24. Merchantable quality of goods means
- (a) that the goods are commercially saleable
 - (b) **they are fit for the purpose for which they are generally used**
 - (c) both 'a' and 'b'
 - (d) the quality should be of high standard
25. _____ is not a negotiable instrument as per customs and usage
- (a) Delivery note
 - (b) Railway Receipt
 - (c) **Cheque**
 - (d) Government promissory note

II. Match the following

[5 × 1 =5]

	Column 'A'		Column 'B'
1.	Grace days	A	Express Offer
2.	Condition	B	Three days
3.	Legal Rules Regarding Offer	C	a person to whom an offer to enter into a contract has been made
4.	Offeree	D	The person who makes the proposal
5.	Offeror	E	Essential to the main purpose of the contract

Answer:

	Column 'A'		Column 'B'
1.	Grace days	B	Three days
2.	Condition	E	Essential to the main purpose of the contract
3.	Legal Rules Regarding Offer	A	Express Offer
4.	Offeree	C	a person to whom an offer to enter into a contract has been made
5.	Offeror	D	The person who makes the proposal

III. State whether the following statement is True (or) False.

[12 × 1 = 12]

1. An agreement not enforceable by law is said to be voidable.
False
2. An offer must be expressed.
False
3. An offer need not be made to a ascertained person.
True
4. A mere mental resolve can be a valid acceptance.
False
5. All contracts are agreements.
True
6. Symbolic delivery occurs by doing some act, which has the effect of putting the goods in the possession of the buyer.
True
7. Delivery of goods can be actual and constructive.
False
8. Negotiable Instruments Act, 1881 provides that a negotiable Instrument include promissory note, bill of exchange and cheque, only payable to bearer.
False
9. The 'price' in a contract of sale means the money consideration for sale of goods.
True
10. A, intending to deceive B, falsely represents that five hundred mounds of Indigo are made annually at A's factory and, thereby, induces B to buy the factory. The contract is voidable.
True
11. P renders some service to D at D's desire. After a month D promises to compensate P for the service rendered to him, it is a future consideration
False
12. Caveat Emptor means buyer be aware.
True

VI. Answer any four of the following questions.

[4 × 7 = 28]

1. “No Consideration No Contract” – The following are the exceptions to it.

The general rule is *ex-nudopacto non oritur actio* i.e. an agreement made without consideration is void. The following are the exceptions to it.

(i) Promise made out of natural love and affection:

An agreement made without consideration is valid if it is in writing and registered and is made on account of natural love and affection between parties standing in a near relation to each other. Thus, an agreement without consideration will be valid provided.

- (a) It is expressed in writing.
- (b) It is registered under the law.
- (c) It is made on account of natural love and affection.
- (d) It is between parties standing in near relation to each other.

(ii) Promise to compensate for voluntary services:

Voluntary service means service done without any request. An agreement made without consideration is valid if it is a promise to compensate a person who has already voluntarily done something for the promisor. To apply this rule the following essentials must exist.

- (a) The service should have been done voluntarily.
- (b) The service should have been done for the promisor.
- (c) The promisor must have been in existence at the time when the service was done.
- (d) The intention of promisor must have been to compensate the promisee.
- (e) The service rendered must also be legal.

Example:

A finds B's purse and gives it to him. B promises to give A Rs. 50. This is a contract.

(iii) Promise to pay time-barred debt:

A promise by a debtor to pay a time-barred debt is also enforceable. But the promise must be in writing. It must be signed by the promisor or his authorised agent. The promise may be to pay the whole or part of the debt.

Example:

A owes B ₹1,000 but the debt is barred by the Limitation Act. A signs a written promise to pay ₹ 500 on account of the debt. The promise will be valid and binding without any fresh consideration.

(iv) Creation of Agency:

According to Section 185 of the Contract Act, no consideration is necessary to create an agency. Thus when a person is appointed as an agent, his appointment is valid even if there is no consideration.

(v) Completed Gifts:

Gifts once made cannot be recovered on the ground of absence of consideration. Absence of consideration will not affect the validity of any gift already made. Thus if a

person gives certain properties as gift to another according to the provisions of the Transfer of Property Act, he cannot subsequently demand the property back on the ground there was no consideration.

Example:

A gave a watch as a gift to B on his birthday. Later on A cannot demand the watch back on the ground there was no consideration.

(vi) Contract of guarantee:

Under section 127, no consideration is needed for a contract of guarantee. In other words, contract of guarantee needs no consideration.

(vii) Remission:

Remission means lesser performance of the contract than what is actually to be performed.

2. Discharge of a contract by agreement:

The parties may agree to terminate the existence of the contract by any of the following ways:

(i) Novation:

Substitution of a new contract in place of the existing contract is known as "Novation of Contract". It discharges the original contract. The new contract may be between the same parties or between different parties. Novation can take place only with the consent of all the parties.

Example:

A owes money to B under a contract. It is agreed between A, B and C that B should accept C as his debtor, instead of A. The old debt of A and B is at an end and a new debt from C to B has been contracted. There is novation involving change of parties.

(ii) Alteration:

Alteration means change in one or more of the terms of the contract. In case of novation there may be a change of the parties, while in the case of alteration, the parties remain the same. But there is a change in the terms of the contract.

(iii) Rescission:

Rescission means "cancellation". All or some of the terms of a contract may be cancelled. Rescission results in the discharge of the contract.

(iv) Remission:

Remission means acceptance of a lesser performance than what is actually due under the contract. There is no need of any consideration for remission.

Example:

A has borrowed ₹ 500 from B. A agrees to accept ₹ 250 from B in satisfaction of the whole debt. The whole debt is discharged.

(v) Waiver:

Waiver means giving up or foregoing certain rights. When a party agrees to give up its rights, the contract is discharged.

Example:

A promises to paint a picture of B. B afterwards forbids him to do so. A is no longer bound to perform the promise.

3. Legal Rules Regarding Consideration:

(i) Consideration must move at the desire of the promisor:

It must move at the desire of the promisor. Any act or abstinence at the desire of third party is not consideration.

Example:

X agrees to sell his horse to Y for ₹ 50,000. Here consideration for X selling horse to Y is consideration of ₹ 50,000 from Y and consideration for Y paying ₹ 50,000 to X, is X selling his horse. Here considerations had come at the desire of Promisor. X is a promisor for Y and similarly Y is a promisor for X.

(ii) Consideration may move from the promisee or any other person:

Consideration may be furnished even by a stranger under Indian Law. Consideration can be from any direction, even a stranger to contract can offer consideration. Under English law consideration must move from promisee and no one else.

(iii) Consideration must be something of value:

One of the important thing to note about consideration is that consideration need not be adequate. So long as the consent of the parties is free inadequacy of consideration is immaterial. However inadequacy of consideration may be taken into account by the courts in determining the question whether the consent of the parties is free or not.

(iv) It may be an act, abstinence or forbearance or a return promise:

Promise to not to smoke is a negative act (abstinence),

Promise to not to refer the matter to court (abstinence).

Promise to perform at the wedding anniversary or birthday party (promise to do).

(v) It may be past, present or future which the promisor is already not bound to do:

According to Indian Law Consideration may be past, present or future. But under English Law Consideration may be present or future. Past consideration is no consideration according to English Law.

(vi) It must not be unlawful:

The consideration or object of an agreement is lawful, unless —

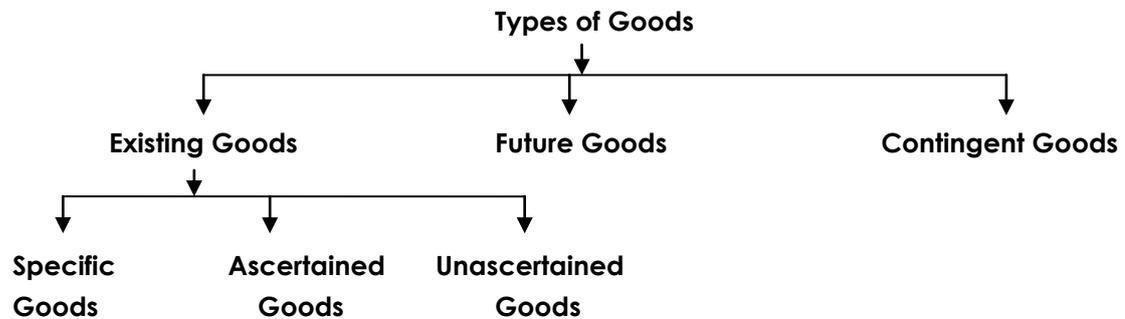
- It is forbidden by law;
- or is of such a nature that, if permitted, it would defeat the provisions of any law;
- or is fraudulent;
- or involves or implies injury to the person or property of another;

- or the Court regards it as immoral, or opposed to public policy

4. Classification of Goods:

Goods which form the subject-matter of a contract of sale may be divided into three types namely:

1. Existing goods.
2. Future goods.
3. Contingent goods.



1. **Existing goods:**

Goods owned and possessed by the seller at the time of the making of the contract of sale are called existing goods. Sometimes the seller may be in possession but may not be the owner of the goods. **Example:** Mercantile Agent.

The existing goods can be further classified as under:

- (a) Specific goods.
- (b) Ascertained goods.
- (c) Unascertained goods.

(a) Specific goods:

"Specific goods" are those goods which are identified and agreed upon at the time of contract of sale is made. It is essential that the goods are identified and separated from the other goods.

Example: In the case of sale of one table out of 25 tables, goods shall be specific if the table is selected before the contract of sale is made.

(b) Ascertained goods:

Ascertained goods are identified after the contract of sale as per the terms decided.

(c) Unascertained goods:

When the goods are not separately identified or ascertained at the time of making a contract of sale, are known as unascertained goods. When the buyer does not select the goods for him from a lot of goods, but are defined or indicated only by description, we call them unascertained goods.

Example: Sale of 25 chairs for an office out of a lot of 200 such chairs of the same design and quality, the goods are *unascertained* till 25 particular chairs are selected. When the required 25 chairs are selected out of the lot, the goods are said to be ascertained goods for the contract of sale.

2. Future Goods:

It means goods to be manufactured or produced or acquired by the seller after making of the contract of sale. A contract to sell oil not yet pressed from seeds in his possession is a contract for the sale of future goods.

Example: X agrees to sell to Y all the apples which will be produced in his garden next year. This is an agreement for the sale of future goods.

3. Contingent Goods:

These are a type of future goods, the acquisition of which by the seller depends upon a contingency which may or may not happen. Goods which might be expected to come into existence, as

(a) goods to arrive (b) future crops (c) the eggs.

Such contracts give no right of action if the contingency does not happen.

5. Doctrine of Caveat Emptor

The term Caveat Emptor is a Latin word which means 'let buyer be aware'. This principle underlines the concept that it is for the buyer to satisfy himself that the goods which he is purchasing are of the quality required by him. It is a fundamental principle of law of sale of goods and implies that the seller is under no obligation to point out the defects in his own goods. The buyer must take care while purchasing the goods and if he makes a wrong selection he cannot blame the seller if the goods turn out to be defective or do not serve his purpose. This principle was applied in the case of *Ward v Hobbs*. However the doctrine of Caveat Emptor does not mean that the buyer must take a chance, it only means he must take care. However this rule is not without any exception. With the passage of time this doctrine has been considered to be too unreasonable to the buyers. Hence the law in section 16 recognized certain exception to the rule. The doctrine is however subject to following exceptions as provided in section 16 of the Act.

- (i) Where the buyer expressly or by implication makes known to the seller the particular purpose for which the goods are required and relied upon the skill and judgment of the seller and the goods are of description which it is the course of the seller's business to supply, there is an implied condition that the goods shall be reasonably fit for such purpose. Accordingly the seller cannot get any immunity on the ground of Caveat Emptor.
- (ii) Implied condition as to Merchantability where the goods are bought by description from the seller in goods of that description.
- (iii) Condition as to Wholesomeness in case of foodstuffs and other goods meant for human consumption.
- (iv) When the seller commits fraud.
- (v) When there is a usage of trade.

6. Different types of Negotiable Instruments.

(i) Bearer and order instruments

A negotiable instrument is said to be payable to bearer when

- (a) It is expressed to be so payable
- (b) Only or last endorsement is a blank endorsement.

A negotiable instrument is said to be payable to order when

- (a) It is expressed to be so payable
- (b) Expressed to be payable to a particular person with restricting its transferability.

(ii) Inland and foreign instruments

A bill, promissory note or cheque if both drawn and payable in India or drawn on a person resident in India is said to be an inland bill.

A bill which is not an inland bill is deemed to be a foreign bill. Foreign bill must be protested for dishonor if such protest is required by the law of the place where it was drawn, this is not case with Inland bills where protest for nonpayment is optional as per section 104 of the Act.

(iii) Demand and time instruments

An instrument is payable on demand when it is expressed to be so payable or when no time is specified on it. A cheque is always payable on demand.

A note or bill if payable after a specified period or happening of a specified event which is certain, it is a time instrument. If a promissory note or bill of exchange bears the expression "at sight" and "on presentation" means on demand (section 21). The words "on demand" are usually found in a promissory note, where the words "at sight" are found in a bill of exchange.

(iv) Genuine, accommodation and fictitious bill

When a bill is drawn, accepted, or endorsed for consideration it is a genuine bill. When it is drawn, accepted, or endorsed without consideration it is accommodation bill. When drawer or payee or both are fictitious the bill is called fictitious bill. If both drawer and payee of a bill are fictitious person, the acceptor is liable to a holder in due course, if the holder in due course can show that the signature of the supposed drawer and that of first payee are in the same handwriting.

(v) Clean and documentary bill

When no documents relating to goods are annexed to the bill, it is clean bill. When documents of title or other documents relating to goods are attached, it is documentary bill.

(vi) Ambiguous instrument

When an instrument due to faulty drafting may be interpreted either as bill or note, it is an ambiguous instrument. It is for holder to decide how he wants the bill to be

treated. Ambiguity may also arise when the amount is stated differently in words and figures. In such case the amount stated in words will be taken into account.

(vii) Inchoate instrument

An instrument incomplete in some respect is known as inchoate instrument. When a person signs and delivers to another a blank or incomplete stamped paper, he authorizes the other person to make or complete upon it a negotiable instrument for any amount not exceeding the amount covered by the stamp. The effect of such signing is that the person signing the instrument is liable upon such instrument in the capacity in which he signed it to holder in due course of the instrument.

(viii) Escrow Instrument

When an instrument is drawn conditionally or for a special purpose as a collateral security and not for the purpose of transferring property therein, it is called Escrow instrument. The liability to pay in case of an Escrow instrument does not arise if the conditions agreed upon are not fulfilled or the purpose for which the instrument was delivered is not achieved.

Section B

I. Choose the correct answer from the given four alternatives:

[12 × 1 = 12]

1. If something is to be improved they have to be improved at
 - (a) Organizational level
 - (b) Government level
 - (c) Society level
 - (d) **All of the above**

2. The issue of fraudulent asset valuation is included in
 - (a) Ethics in compliance
 - (b) **Ethics in finance**
 - (c) Ethics in marketing
 - (d) Ethics in production

3. Business Ethics is _____ in nature
 - (a) Absolute
 - (b) **Not absolute**
 - (c) Permanent
 - (d) None of the above

4. Ethics has become important because of
 - (a) Globalization
 - (b) Communication explosion
 - (c) **Both a & b**

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- (d) None of the above
5. In setting ethical standards, perhaps the most effective step that a company can take is to
- (a) Adopt a code of ethics
 - (b) **Demonstrate top management support of ethical standards**
 - (c) Engage employees in ethics training
 - (d) Take an accommodative stance
6. _____ are beliefs about what is right and wrong or good or bad.
- (a) Mental strength
 - (b) Motivators
 - (c) Cultures
 - (d) **Ethics**
7. Effective ethics management within an organization can:
- (a) **Minimize errors, losses and fraud**
 - (b) Eliminate general e-mail abuses
 - (c) Eliminate all errors, fraud and losses
 - (d) None of the choices are correct
8. Corporate codes of ethics:
- (a) Are always externally audited
 - (b) **Create guidelines for employees to work by**
 - (c) Are always compliance based
 - (d) Are always integrity based
9. It is not UNCOMMON for a business to behave ethically because
- (a) It has to protect its own interest
 - (b) It has to keep its commitment
 - (c) It has to protect the interest of employees
 - (d) **All of the above**
10. If a company has ethics than it gets back from the employees
- (a) Time
 - (b) Skill & energy
 - (c) Return out of money
 - (d) **Both (a) & (b)**
11. Feature that is NOT present in business ethics are
- (a) It has universal application
 - (b) **It is Absolute in nature**
 - (c) It Depends from business to business
 - (d) It Cannot be enforced by law
12. Which of the following is NOT necessary to assess ethical behavior?

- (a) Gather Facts
- (b) Make a judgment based on the rightness or wrongness of the activity or policy
- (c) Consider appropriate moral values
- (d) **Listen to what is the being said in the rumor**

II. True False:

1. In business ethics, the stakeholder theory of business ethics maintains that managers have an ethical responsibility to manage a firm for the benefit of all its stockholders, and for people who have a claim on a company.

False

2. Business ethics is losing importance because of consumer movement.

False

3. Business ethics create a good image for the business and businessmen.

True

4. Business can survive so long it enjoys the patronage of consumer.

True

5. Business ethics is not mandatory for the survival of business.

False

6. There is a difference between normative and practical ethics

True

III. Answer any two of the following questions.

1. Value - free Ethics

It would seem that business is an ethically neutral or value-free activity. In other words, the only value business is concerned with is the monetary value. It is not in the interest of business to mix ethical values. An ancient Arabic wisdom states, 'Live together like brothers and do business like strangers.'

Business should be kept free from other social relationships and obligations. The only successful relationship that exists in business is that of a vendor and a customer. It is also said that 'for the merchant, even honesty is a financial speculation.' Indeed, for a businessman every factor in the business is measured in terms of money. The volatility that we see in the stock market is a clear example of the speculative nature of business, which is directly proportional to the prevailing attitude of the people

2. Difference between Ethics and Morals

	Ethics	Morals
1.	Root word in Greek is 'ethikos' which Means 'Character'.	Root word in Greek is 'mos' which means 'custom'
2.	Deals with right and wrong conduct.	Deals with principles of right and wrong.
3.	Deals with individual character.	Deals with customs set by groups.
4.	Character is personal attribute.	Customs are determined by groups or Some authority like religion or culture.
5.	Ethics is the response of an individual to a specific situation. E.g. whether in that situation, it is ethical to state the truth.	Morals are general principles, e.g. "You should speak truth.

3. Character of Business

'There are two fools in every market: one asks too little, one asks too much,' so says a Russian proverb. Is there a concept called balanced profit? The business in a society reflects its character. Transparency International, in its corruption perception index, gives Finland, Denmark, and New Zealand the first place with 9.4 points. India is way down at 72, with just 3.5 points on a scale of 10. We may gloat over our cultural heritage and religious and ethical glories of the past, but we stand exposed before the world as a corrupt society. Corruption prevails in all walks of life, whether political, social, or economic. If we have to improve our business, we have to improve our business behaviour.