

Paper 3 – Fundamentals of Laws and Ethics

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Full Marks: 100

Time allowed: 3 hours

Section – A

1. Answer all questions.

(a) Choose the correct answer out of the given four alternatives: [1×25 = 25]

- (i) Law of contract
(a) is the whole law of obligations.
(b) is the whole law of agreements.
(c) deals with only such legal obligation which arise from agreement.
(d) deals with social agreements.
- (ii) For an acceptance to be valid, it must be
(a) partial and qualified.
(b) absolute and unqualified.
(c) partial and unqualified.
(d) absolute and qualified.
- (iii) If the communication is made by an unauthorised person, it does not result in a/an
(a) Contract
(b) Agreement
(c) Offer
(d) Consideration
- (iv) An offer does not lapse if the
(a) offeror dies before acceptance.
(b) offeree dies before acceptance.
(c) acceptance is made by the offeree in ignorance of the death of the offeror.
(d) acceptance is made by the offeree with knowledge of the death of the offeror.
- (v) An agreement without consideration is void under
(a) Sec. 25(1) of the Contract Act
(b) Sec. 25(3) of the Contract Act
(c) Sec. 25(2) of the Contract Act
(d) None of the above clauses in sec. 25
- (vi) An agreement without consideration is void except in case of compensation for
(a) voluntary services rendered.
(b) voluntary services rendered at the request of the other party to the

agreement.

- (c) voluntary services rendered at the request of third person.
- (d) reimbursement of expenses incurred.

(vii) Which of the following is not competent to contract?

- (a) A minor
- (b) A person of unsound mind
- (c) A person who has been disqualified from contracting by some law.
- (d) All of the above**

(viii) Active concealment of fact' is associated with which one of the following?

- (a) Misrepresentation
- (b) Undue influence
- (c) Fraud**
- (d) Mistake

(ix) The validity of contract is not affected by

- (a) Mistake of fact
- (b) Mistake of Indian law**
- (c) Misrepresentation
- (d) Fraud

(x) A promises B to pay ₹ 100 if it rains on Monday and B promises A to pay ₹100 if it does not rain on Monday. This agreement is

- (a) a valid agreement.
- (b) avoidable agreement.
- (c) a wagering agreement.**
- (d) an illegal agreement.

(xi) 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**

(xii) 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**

(xiii) 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
- (xiv) 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**
(c) Every case will be viewed according to the circumstances
(d) None of these
- (xv) 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
- (xvi) 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
- (xvii) Who among the following cannot cross a cheque?
(a) Drawer
(b) Holder
(c) Banker
(d) **Foreigner**
- (xviii) The term Negotiable instrument is defined in section _____ of the Negotiable Instrument Act, 1881
(a) 2
(b) **13**
(c) 12
(d) 10
- (xix) The grace period for payment of a negotiable instrument other than payable on demand is _____ days/months
(a) 7days
(b) **3 days**
(c) 1 month
(d) 15 days
- (xx) The maturity of a promissory note or bill of exchange is the date _____

Answer to MTP_ Foundation _Syllabus 2016_Jun 2018_Set 1

- (a) **at which it falls due**
- (b) of its presentation
- (c) of its acceptance
- (d) none of these

(xxi) A Promissory note must be _____

- (a) in writing
- (b) unconditional
- (c) signed by the maker
- (d) **all the three**

(xxii) 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

(xxiii) 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**

(xxiv) 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

(xxv) _____ is not a negotiable instrument as per customs and usage

- (a) Delivery note
- (b) Railway Receipt
- (c) **Cheque**
- (d) Government promissory note

(b) Match the following:

[1×5 = 5]

	Column A		Column B
(I)	Offeror	(A)	Agreement to receive less than what is due
(II)	Specific Offer	(B)	Three days
(III)	Remission	(C)	An offer made to a specific person
(IV)	Price	(D)	The person who makes the proposal
(V)	Grace days	(E)	Money Consideration

Answer:

	Column A		Column B
(I)	Offeror	(D)	The person who makes the proposal
(II)	Specific Offer	(C)	An offer made to a specific person
(III)	Remission	(A)	Agreement to receive less than what is due
(IV)	Price	(E)	Money Consideration
(V)	Grace days	(B)	Three days

(c) 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. An officer enters into a contract with his subordinate to sell his (subordinate's) house at a lower price than that of market price. The subordinate may challenge the contract on the ground of mistake.
False
8. Breach of condition give the aggrieved party right to repudiate the contract.
True
9. Seller can sue for price only when property in goods has passed on to the buyer.
True
10. Right of Stoppage of goods in transit can be exercised subject to fulfillment of some conditions.
True

11. Negotiable Instruments can be transferred ad infinitum.

True

12. Share Certificates with Blank Transfer Deeds, Deposit Receipts and Mate's Receipts are Negotiable Instruments.

False

2. Answer any four of the following questions:

[7×4 = 28]

(i) Under what conditions promise to compensate for voluntary services is valid?

(ii) State the Rules regarding contingent contract.

(iii) List out remedies for breach of contract.

(iv) How do we classify goods?

(v) Discuss the doctrine of Caveat Emptor.

(vi) What are the different types of Negotiable Instruments?

Answer:

(i) Promise to Compensate for Voluntary service:

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.

(ii) Rules regarding contingent contract:

Rules regarding contingent contracts are contained in section 32 to 36 of the Indian Contract Act. They are as follows:

(1) Enforcement of contracts contingent on an event happening

(2) Enforcement of contracts contingent on an event not happening

(3) When event on which contract is contingent to be deemed impossible, if it is the future conduct of a living persons

(4) When contracts become void which are contingent on happening of specified event within fixed time

(5) Agreement contingent on impossible events is void

(iii) Remedies for breach of contract:

When there is breach of contract, the aggrieved party has one or more of the following remedies

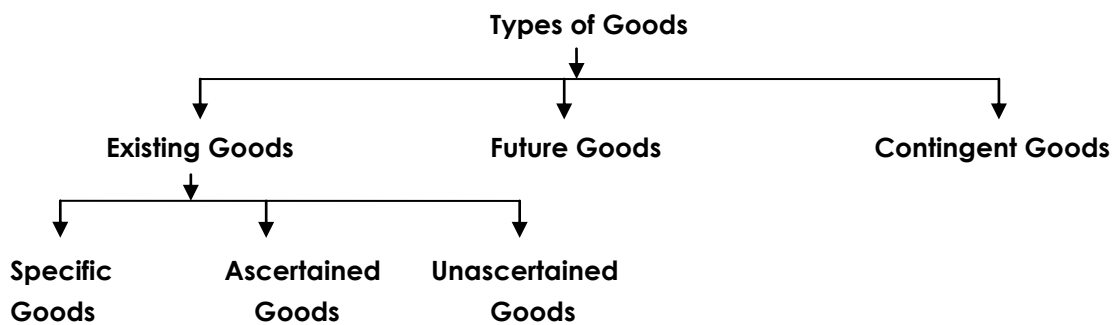
(i) Suit for Rescission of the contract.

- (ii) Suit for damages
- (iii) Suit upon Quantum meruit
- (iv) Suit for specific performance of the contract.
- (v) Suit for Injunction.

(iv) 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.

(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.

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.

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.

(v) 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 grab 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.

(vi) 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.

(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.

(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.

(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.

(vii) Inchoate instrument

An instrument incomplete in some respect is known as inchoate 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.

Section B

1. Answer all questions.

(a) Choose the correct answer out of the given four alternatives:

[1×12 = 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**
 - (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**

(b) State whether the following statement is True or False:

[1×6 = 6]

- (i) Business Ethics has no universal applications.
False
- (ii) Ethics is about obeying and adhering to Rules and Authority.
True
- (iii) Ethics refers to the study of one's ethical standard.
True

(iv) Holder of Public Office is not accountable to the Public.

False

(v) Compliance is about obeying and adhering to Rules and Authority.

True

(vi) The relevance of Ethics is in its application.

True

3. Answer any two of the following questions:

[6×2 = 12]

(i) What is the relationship between Ethics and Law?

6

(ii) What is Professional Ethics?

6

(iii) How Business Ethics can prevent 'business malpractices' and improve customers' confidence?

6

Answer:

(i) Law is essentially an institutionalization or codification of ethics into specific social rules, regulations and prescriptions. Business ethics is primarily concerned with those issues not completely covered by law, or where there is no definite consensus on whether something is right or wrong. Law represents the minimum standards of behaviour expected from people. Merely following the law, does not make one ethical. In one sense, business ethics can be said to begin where law ends.

Ethics is a set of standards, or a value system, worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. If acting agrees with these standards, it is ethical, otherwise unethical. Law is a code of mandatory conduct which the authority in power prescribes for society.

There are many situations in life, where just following the law does not make one ethical. For example, if a wealthy man intends to spend thousands of rupees on the anniversary of his dog while his neighbor has no money to buy food, there is no law to prohibit the wealthy man from doing so. If he decides not to, it is because of the dictates of his conscience, his ethical value system and principles not because of the dictates of the law. Moreover, not all laws have moral choice. There are many laws which do not involve any ethicality questions. For example, the law tells us not to steal, not to kill, but ethics tells us to do good, speak the truth, help others in distress.

One important aspect of the law is that ethics precedes the action, the law follows it. An action can be illegal, but morally right or vice versa. For example: A public officer, who is under the oath of secrecy revealing sensitive information for the good of society - it is illegal, but ethical. If he withholds the secret, it is legal, but unethical. All legal provisions may not be ethical, but debatable. Ethics has a positive aspect, whereas the law is more concerned about negative behaviour.

- (ii) Just as a society functions on the social codes of conduct and a country is governed by its constitution, a business is run on corporate codes. In other words, there is a professional code of conduct for any business. These codes keep evolving as other things around evolve and develop. Therefore, not only should business be defined within the confines of ethics, but it should be practiced strictly under its own professional code of conduct. This distinction helps to orient the general principles of ethics and business to a particular activity.

Professional ethics is defined as the personal and corporate rules, standards that govern behavior within the context of a particular profession. Professional Ethics is the conduct, aims or qualities that characterize or mark a profession or professional person; it implies quality of workmanship or service. One of the earliest examples of professional ethics is the 'Hippocratic Oath' to which medical doctors still adhere to this day.

- (iii) The term 'Business Ethics' refers to the system of moral principles and rules of the conduct applied to business. Business being a social organ shall not be conducted in a way detrimental to the interests of the society and the business sector itself. Its good understanding and adherence can solve two main social issues which are mentioned below:

Stop business malpractices: Some unscrupulous businessmen do business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, false claims or representations about their products etc. These business malpractices are harmful to the consumers. Business ethics help to stop these business malpractices.

Improve customers' confidence: Business ethics are needed to improve the customers' confidence about the quality, quantity, price, etc. of the products. The customers have more trust and confidence in the businessmen who follow ethical rules. They feel that such businessmen will not cheat them. Building customer loyalty is hard, but it is one of the most important things for every business. A customer's ability to trust you is dependent upon showing the customer that your behavior is consistent and persistent over time. They tend to trust individuals who are serious about what they do.