

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]

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.

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- (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
- (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

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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**
 - (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) 7days
 - (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 _____

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

(b) Match the following:

[1×5 = 5]

	Column 'A'		Column 'B'
1.	Offer	A	Remission
2.	Implied Condition	B	Substitution of a new contract
3.	Novation	C	Quite possession
4.	Discharge by agreement	D	Adherence to sample and description
5.	Implied Warranty	E	expression of willingness to contract on certain terms

Answer:

	Column 'A'		Column 'B'
1.	Offer	E	expression of willingness to contract on

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			certain terms
2.	Implied Condition	D	Adherence to sample and description
3.	Novation	B	Substitution of a new contract
4.	Discharge by agreement	A	Remission
5.	Implied Warranty	C	Quite possession

(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. 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

2. Answer any four of the following questions:

[7×4 = 28]

- (i) What are the various ways in which revocation can be made?
- (ii) What are quasi contracts? What are the different kinds of Quasi contracts.
- (iii) State the law relating to appropriation of payments.
- (iv) 'Nemo dat qui non habet'. State the exceptions to it.
- (v) What do you mean by auction sale? State the rules regarding it.
- (vi) Discuss the effects of different types of crossing.

Answer:

(i) Section 6 of the Act provides the modes for revocation of an offer or acceptance.

- (1) By the communication of notice of revocation by the proposer to the other party. The offeror may revoke his proposal any time before the letter of acceptance is posted to him and not afterwards. Similarly acceptance can be revoked any time before the letter of acceptance is received by the offeror.
- (2) By the lapse of the time prescribed in such proposal for its acceptance, or, if no time is so prescribed, by the lapse of a reasonable time, without communication of the acceptance; What is a reasonable time is a question of fact in each case.
- (3) By the failure of the acceptor to fulfill a condition precedent to acceptance.
- (4) By the death or insanity of the proposer, if the fact of the death or insanity comes to the knowledge of the acceptor before acceptance. Where an offeree writes his acceptance but dies before posting, the offer lapse and posting of the letter after his death will not create a contract.
- (5) If a counter offer is made to it. Where the offer is accepted with some modification in terms of the offer or with some other condition not forming part of the offer, such qualified acceptance amounts to a counter offer.
- (6) If an offer not accepted according to prescribed or usual mode. However, the offeror gives notice to the offeree within the reasonable time that the acceptance is not according to the prescribed or usual mode of acceptance.
- (7) An offer comes to an end if the law is changed so as to make the contract contemplated by the offer illegal or incapable of performance

(ii) Quasi contract

Under certain circumstances, the law creates and enforces legal rights and obligations although the parties have never entered into a contract. Such obligations imposed or created by law are known as "Quasi-Contracts". In other words, Contracts constituted by law are known as Quasi-Contracts.

Quasi-contracts are based on the principles of equity and justice. The claim based on a quasi-contract is generally for money. The remedy in quasi-contracts is only compensation and not damages.

Types of Quasi Contract

The Indian Contract Act deals with the following quasi-contractual obligations.

1. Claims for necessaries supplied:

Where necessaries are supplied to a person who is incompetent to contract, the supplier is entitled to recover the price from the property of the incompetent person under section 68 of the Indian Contract Act.

Example:

A supplies B, a minor, with necessaries suitable to his condition in life. A is entitled to be reimbursed from B's property.

2. Payment by an interested person:

Section 69 provides that a person who is interested in the payment of money of which another is bound by law to pay, and who therefore, pays it, is entitled to be reimbursed by the other".

In order to apply section 69, the following conditions must be satisfied.

- (a) The payment made should be bonafide for the protection of one's interest.
- (b) The payment should not have been made gratuitously or voluntarily.
- (c) Another person must be bound by law to pay.
- (d) The payment must be made to a third party and not to himself.

3. Benefits of non-gratuitous act:

Section 70 deal with the obligation of a person enjoying benefit of a non-gratuitous act. When a person lawfully does anything for another person or delivers anything to him, not intending to do so gratuitously, such person who enjoys the benefit must reimburse the former or must restore to him the thing so delivered.

For the application of section 70, the following conditions must be fulfilled.

- a. The act must have been done lawfully.
- b. It must have been done by the person not intending to act gratuitously.
- c. The person for whom the act is done must have enjoyed the benefit of that act.

4. Responsibility of finder of goods:

A person who finds goods belonging to another and takes them into his custody is liable as a bailee. The finder of goods must try to find out the real owner of the goods and deliver the goods to him on demand. The obligations are imposed on finder of goods by Section 71 of the Indian Contract Act.

5. Money paid by mistake or under coercion:

According to section 72, a person to whom money has been paid or anything delivered by mistake or under coercion, must repay or return it.

Example: A and B jointly owe ₹100 to C. A alone pays the amount to C, and B, not knowing this fact, later on also pays ₹100 to C. C is bound to repay the amount to B.

(iii) Appropriation of Payments:

(i) Application of Payment where debt to be discharged is indicated (Section 59)

Where a debtor, owing several distinct debts to one person, makes a payment to him, either with 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.

Illustrations

- (a) A owes B, among other debts, ₹1,000 upon a promissory note which falls due on the first June. He owes B no other debt of that amount. On the first June A pays to B ₹1,000. The payment is to be applied to the discharge of the promissory note.
- (b) A owes to B, among other debts, the sum of ₹567. B writes to A and demands payment of this sum. A sends to B ₹567. This payment is to be applied to the discharge of the debt of which B had demanded payment.

(ii) Application of payment where debt to be discharged is not indicated (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, whether its recovery is or is not barred by the law in force for the time being as to the limitation of suits.

(iii) Application of Payment 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 or are not barred by the law in force for the time being as to the limitation of suits. If the debts are of equal standing, the payment shall be applied in discharge of each proportionately.

- (iv) 'Nemo dat qui non habet'** means that no one can give what he himself does not have. It means a non owner cannot make valid transfer of property in goods. Exceptions to this doctrine are as follows:

Sale by mercantile agent (Sec. 27)

Where a mercantile agent is with the consent of the owner, in possession of the goods or of a document of title to the goods, any sale made by him, when acting in the ordinary course of business of a mercantile agent, shall be as valid as if he were expressly authorized by the owner of the goods to make the same, provided that the buyer's act is in good faith and has not at the time of the contract of sale notice that the seller has no authority to sell.

Sale by one of joint owners (Sec. 28)

If one of several joint owners of goods has the sole possession of them by permission of the co-owners, the property in the goods is transferred to any person who buys them of such joint owner in good faith and has not at the time of the contract of sale notice that the seller has no authority to sell. Where there is a contract for the sale of unascertained goods, no property in the goods is transferred to the buyer unless and until the goods are sanctioned.

Sale by person in possession under voidable contract (Sec. 29)

When the seller of goods has obtained possession thereof under a contract voidable under Section 19 or Section 19A of the Indian Contract Act, 1872, but the contract has not rescinded at the time of the sale, the buyer acquires a good title to the goods, provided he buys them in good faith and without notice of the seller's defect of title.

Seller or buyer in possession after sale (Sec. 30)

Explanation (a): Where a person, having sold goods, continues or is in possession of the goods or of the documents of title to the goods, the delivery or transfer by that person or by a mercantile agent acting for him of the goods or documents of title under any sale, pledge or other disposition thereof to any person receiving the same in good faith and without notice of the previous sale shall have the same effect as if the person making the delivery or transfer were expressly authorized by the owner of the goods to make the same.

Explanation (b): Where a person, having bought or agreed to buy goods, obtains with the consent of the seller, possession of the goods or the documents of title to the goods, the delivery or transfer by that person or by a mercantile agent acting for him, of the goods or documents of title under any sale, pledge or other disposition thereof to any person receiving the same in good faith and without notice of any lien or other right of the original seller in respect of the goods shall have effect as if such lien or right did not exist.

Sale by estoppel (Sec. 27)

Where the owner by his conduct or omission, leads the buyer to believe that the seller has authority to sell, he is stopped from denying the fact afterwards. The buyer thus gets a better title than the seller.

Sale by a finder of goods:

Under section 169 of the Contract Act, if a finder of lost goods could not reasonably find the true owner or the true owner refuses to pay the lawful charges of the finder of lost goods, the finder of lost goods can sell the goods when the goods are

(v) Auction Sale

Auction sale is a model of selling property by inviting bids publicly and the property is sold to the highest bidder.

In an Auction sale, the auctioneer warrants the following:

- (a) The auctioneer warrants his authority to sell.
- (b) He warrants that he has no knowledge of any defect in his principal's title.
- (c) He warrants to give quiet possession of the goods to the buyer against payment of price.

Rules regarding an auction. (Sec. 64)

In the case of sale by auction-

- (a) Where goods are put up for sale in lots, each lot is prima facie deemed to be the subject of a separate contract of sale. [Sec 64(1)]
- (b) The sale is complete when the auctioneer announces its completion by the fall of the hammer or in other customary manner, and, until such announcement is made, any bidder may retract his bid. [Sec 64(2)]
- (c) A right to bid may be reserved expressly by or on behalf of the seller and, where such right is expressly so reserved, but not otherwise, the seller or any one person on his behalf may, subject to the provisions hereinafter contained, bid at the auction, [Sec 64(3)]
- (d) Where the sale is not notified to be subject to a right to bid on behalf of the seller, it shall not be lawful for the seller to bid himself or to employ any person to bid at such sale, or for the auctioneer knowingly to take any bid from the seller or any such person, and any such person, and any sale contravening this rule may be treated as fraudulent by the buyer. [Sec 64(4)]
- (e) The sale may be notified to be subject to a reserved or upset price.
- (f) If the seller makes use of pretended bidding to raise the price, the sale is voidable at the option of the buyer.

(vi) Effects of different types of crossing

Effect of General Crossing:

- It gives a direction to the paying banker.
- Sec. 126 of the NI Act, 1881 lays down that when a cheque is crossed generally, the banker on whom it is drawn shall not pay it otherwise than to a banker. Therefore, this type of cheque cannot be paid at counter. The payment should be made through an account only. Thus the General crossing gives protection and avoids fraudulent withdrawals.
- It is the liability of the paying banker to verify proper payment in proper account. The payment does not constitute "Payment in due course". The banker is answerable to his customer, if he pays the money to a third person without the direction of his customer. He should not make any contract with third party concerning the cheque generally crossed.

Effect of Special Crossing:

- It prevents the fraudulent transactions and misappropriation.
- It is direction to the paying banker to pay the amount to the account holder of that bank, but not to others.
- If a cheque specially crossed on a particular bank, and if such cheque is presented in another bank, the paying bank should refuse the payment.
- Special crossing gives more protection than general crossing. In the case of special crossing, the banker's name and payee's name are mentioned, and the banker is well acquainted with the payee's name and signature. If there is any forgery he can easily detect it.

Effect of Account Payee crossing:

- It is merely in the form of direction to the receiving bank that the drawer desires to pay the particular cheque into bank which keeps the account of the payee.
- A/c Payee crossing cheque can also be transferable like other cheques.
- It gives further protection to the payee. The collecting banker should credit the cheque only to the mentioned account of the payee.
- If the banker credits the cheque to another's account and not to the account of the payee, the banker shall be held responsible for his negligence, and shall be held liable to pay the compensation.
- The safest method is to cross the cheque with the terms of 'Not Negotiable' and 'A/c Payee only'.

Effect of Not Negotiable crossing:

- It gives more protection and safe to the holder of the cheque.
- A third person cannot cash it so easily.
- It can be transferred like any other cheque.
- If the banker is negligent and transfers the amount of that cheque to another account, he will be held responsible and he will be liable to make the compensation to the sufferer.

Effect of Double Crossing:

- Double crossing is not permitted to general public. It is practiced only in case of transactions between the bankers. Others are not allowed to use double crossing.
- It is in practice to cross on the face of the cheque at left side. But in case of Double crossing it is the regular practice to cross at the back side of the cheque, where sufficient space is available.
- Sec. 127 lays down that where a cheque is crossed specially to more than one banker except when crossed to an agent for the purpose of collection, the banker on whom it is drawn shall refuse payment thereof.
- According to Sec. 127, it means that it is necessary, in all cases, to specify in the second special crossing that the banker in whose favour it is made is an agent of the first banker for collection.

Section B

1. Answer all questions.

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

[1×12 = 12]

1. Ethical and unethical behaviors are determined by
 - (a) The individual
 - (b) The culture
 - (c) **Both the individual and the culture**
 - (d) Neither the individual nor the culture

2. Behavior that does not confirm to generally social norms will be considered as:
 - (a) Arrogant Behavior
 - (b) Arbitrary Behavior
 - (c) Ethical Behavior
 - (d) **Unethical Behavior**

3. Business ethics relates to
 - (a) Society's decisions
 - (b) **An individual's or work group's decisions**
 - (c) Customers decisions
 - (d) Government decisions

4. The crucial step in understanding business ethics is
 - (a) Establishing codes of ethics
 - (b) **Learning to recognize ethical issues**
 - (c) Having efficient operations
 - (d) Implementing a strategic plan

5. Business ethics has a _____ application
 - (a) **Universal**
 - (b) Natural
 - (c) Practical
 - (d) None of the above

6. Business ethics is based on well accepted _____.
 - (a) **Moral and social values**
 - (b) Social values only
 - (c) Moral values only
 - (d) None of the above

7. Business Ethics is a code of conduct which businessmen should follow while conducting their _____.
 - (a) **Normal activities**

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- (b) Special activities
(c) Specific activities
(d) None of the above
8. Compliance is about obeying and adhering to _____.
(a) **Rules an authority**
(b) Discipline
(c) Laws
(d) All of the above
9. Which of the following is an unethical business practice?
(a) Collusion
(b) False Communication
(c) Insider Trading
(d) **All the above**
10. A business should have which kind of an approach?
(a) Profit earning
(b) Social responsibility
(c) **Both (a) and (b)**
(d) Either (a) and (b)
11. Companies which are responsive to employees' would have _____.
(a) Profits
(b) **Lower turnover in staff**
(c) Staff Dissatisfaction
(d) Strikes
12. Ethics in compliance means _____.
(a) It is about obeying and adhering to rules and authority
(b) It deals with the moral principles behind the operation and regulation of marketing
(c) It deals with the duties of a company to ensure that products and production processes do not cause harm
(d) **None of the above**

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

[6 × 1 = 6]

1. Business ethics are important to develop good and friendly relations between business and society.
True
2. The customers have more trust and confidence in the businessmen who follow ethical rules.
True

3. There is separate business ethics for businessmen, and ethics applies to all the activities of people.

False

4. Business ethics concerns itself with adhering to the social principles of the situations in which business takes place.

True

5. Holders of public office have a duty to declare any private interests relating to their public duties.

True

6. Business ethics is a pure science.

False

2. **Answer any two of the following questions.**

[2 × 6 = 12]

(i) Can ethics be treated as a principle? Comment

(ii) Comment on the relevance of ethics with respect to its application.

(iii) Write a note on 'Evolution of Ethics'

Answer:

(i) Ethics as a Principle

We have established that social evolution has developed definite principles of civic behaviour, which have attained the status of principles. By principle, we understand that something proceeds and depends on it for its cause. For instance, when one kicks a football, force is the principle that propels it into motion and the ball remains in motion till the force lasts. In other words, the physical world functions strictly according to the laws of physics. It is expected that people also submit their behaviour, both in thoughts and in actions, to these principles. An action is valid as long as it reflects the principle, just as the speed of the moving ball depends on the force it receives.

All moral actions are directed towards their object, the good, which is the principle of all happiness. This is not only the sole purpose of our existence but our co-existence with others as well. We cannot be happy alone; we can only be happy together. The universal idea of the good is applied to individual instances. Individuals are good in their own particular way, and are good in so far as they share the essence of goodness. The universal good is a pure or general idea. It is formed through a process of abstraction of the essence from individuals or particulars.

(ii) The relevance of ethics is in its application.

Just as when we study the theory of relativity in physics, we ensure that the laws or principles of relativity are applied to the factors and elements being considered, so too in our study of ethics, the universal principles have to be applied to individual contexts

and situations. We have to abandon the absolutism of universal principles. For instance, killing a man is wrong. But we approve the killing of the enemy in a war and the government honours the act with medals for bravery. This is due to the fact that such an act has served a higher principle, that is, the protection of countrymen. Ethics, in the practical sense, is also known as moral action and is an applied discipline that deals with a particular human action and also assesses to what extent it is compatible with the general principles

(iii) Evolution of ethics

Social conduct has evolved along with the evolution of society over hundreds of years. The codes of conduct have been passed down from generation to generation, and there is a pattern to the evolution of such codes. Acceptable behaviour is promoted and elevated as a social value, and unacceptable behaviour is rejected and condemned. In ancient India, there was no moral problem with the custom of sati-immolating the wife on the funeral pyre or the deceased husband. But society has evolved humanely and has condemned the act as unacceptable and morally reprehensible.

The laws of a country are based on the customs or moral codes of its society. Penalties are prescribed for bad actions - actions that contradict the established laws. The laws are a measure against those people who cross the limits of the code of social conduct, and ensure that good citizens are protected from the negative consequences of the law-breakers. The object of the social codes of conduct is to maintain, promote, and elevate harmonious relationships. 'Honour your parents' is one such code. It maintains a peaceful relationship between parents and children and promotes respect for each other in the family. It is because of its salutary effects, it is considered as one of the fundamental values to be cultivated.