

Paper 3- Fundamentals of Laws and Ethics

Paper 3- Fundamentals of Laws and Ethics

Full Marks : 100

Time allowed: 3 hours

**Section – A
Part A**

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

- (i) Threat to commit suicide amounts to -
(a) Undue influence
(b) **Coercion**
(c) Fraud
(d) Misrepresentation
- (ii) An agreement with or by a minor is -
(a) **Void ab initio**
(b) Voidable at the option of the minor
(c) Voidable at the option of the other party
(d) valid
- (iii) when the consent is caused by undue influence, the contract is -
(a) Valid
(b) Void
(c) **Voidable**
(d) Illegal
- (iv) The law of contract is nothing but-
(a) **A child of commercial dealing**
(b) A child of religion
(c) A child of day to day politics
(d) A child of economics
- (v) A invites B for his son's wedding. B accepts the invitation. In case, there is a/an-
(a) **Agreement**
(b) Contract
(c) Acceptance
(d) Offer
- (vi) An offer made to the public at large is called as-
(a) Standing offer
(b) Specific offer
(c) **General offer**
(d) Express offer
- (vii) Which of the following is not correct ?
(a) **Offer must not be conditional**
(b) Acceptance may be given in any manner
(c) Acceptance must be absolute
(d) Communication of offer is an essential element
- (viii) Mistake as to foreign law is treated in the same manner as -
(a) Mistake of Indian law
(b) **Mistake of fact**
(c) Misrepresentation
(d) Fraud

- (ix) Execution of a bond requiring employees leaving the organisation to pay compensation to employer is -
- (a) Voidable agreement
 - (b) Void agreement
 - (c) Unenforceable agreement
 - (d) **Valid agreement**
- (x) _____ contracts are enforceable by future events
- (a) **Contingent contract**
 - (b) Quasi contract
 - (c) Conditional contract
 - (d) Wagering contract
- (xi) The right of joint promises to demand performance is -
- (a) **Joint**
 - (b) Several
 - (c) Joint or several
 - (d) Joint and several
- (xii) Change in some or all terms of the contract is -
- (a) Novation
 - (b) **Alteration**
 - (c) Merger
 - (d) Rescission
- (xiii) Quantum meruit means -
- (a) A non-gratuitous promise
 - (b) As implied promise
 - (c) **As much as is earned**
 - (d) As much as is paid
- (xiv) Quasi contractual liabilities lead to _____
- (a) **Prevention of unjust enrichment**
 - (b) Counter offer
 - (c) Cross offer
 - (d) Specific offer
- (xv) A share certificate is a-
- (a) Document of title to goods
 - (b) Bill of exchange
 - (c) **Document showing title to goods**
 - (d) Instrument of transfer
- (xvi) In an agreement to sell, the property in goods is transferred in-
- (a) Past
 - (b) **Present**
 - (c) Future
 - (d) There is no transfer of property at all.
- (xvii) Prachi sends gold to Lokesh for making an ornament. This is a _____
- (a) Contract of sale
 - (b) **Contract of work and labour**
 - (c) Hire purchase agreement
 - (d) Sale on approval basis

MTP_Foundation_Syllabus 2016_December 2019_Set 2

- (xviii) An agreement made between two parties to pay consideration in future and in execution of sale deed is known as-
- (a) Sale
 - (b) **Agreement to sell**
 - (c) Hire purchase
 - (d) None
- (xix) Goods sold by description but not identified or agreed upon at the time of contract of sale are
- (a) Specific goods
 - (b) Future goods
 - (c) Existing goods
 - (d) **Unascertained goods**
- (xx) Breach of a "warranty" in a contract of sale of goods, gives the right to -
- (a) Reject the goods
 - (b) **Claim for damages**
 - (c) Repudiate the contract
 - (d) All of the above
- (xxi) The keys of warehouse where the goods are stored is handed over to the buyer. It is called _____
- (a) Actual
 - (b) **Symbolic**
 - (c) Constructive
 - (d) Conditional
- (xxii) Crossing of a cheque effects the _____
- (a) Negotiability of the cheque
 - (b) Mode of payment on the cheque
 - (c) **Both (a) & (b)**
 - (d) None of the above
- (xxiii) If an instrument may be construed either as a promissory note or bill of exchange, it is
- (a) A valid instrument
 - (b) **An ambiguous instrument**
 - (c) A returnable instrument
 - (d) None of the above
- (xxiv) When a cheque is payable across the counter of a bank it is called -
- (a) OTC Cheque
 - (b) **Open cheque**
 - (c) Crossed cheque
 - (d) Restricted cheque
- (xxv) In a promissory note, the amount of money payable
- (a) **Must be certain**
 - (b) May be certain or uncertain
 - (c) Is usually uncertain
 - (d) None of the above

(b) Match the following:

[5×1=5]

	Column 'A'		Column 'B'
1.	Executory contract.	A.	Means taking back
2.	Remission.	B.	Bill of exchange
3.	Endorsement and delivery	C.	Sale

MTP_Foundation_Syllabus 2016_December 2019_Set 2

4.	Revocation	D.	Agreement to sell
5.	Executed contract.	E.	Agreement to receive less than what is due.

Answer :

- 1.(D)
- 2.(E)
- 3.(B)
- 4.(A)
- 5.(C)

(c) State whether the following statements are True (or) False.

[12×1=12]

- (i) The time and place of performance of a contract are determined by an agreement between the parties.
- (ii) When a promisee accepts performance of the promise from a third person, he cannot afterwards enforce it against the promisor.
- (iii) Enforcement of contracts contingent on an event happening.
- (iv) The payment made should be bonafide for the protection of one's interest.
- (v) Any breach of duty which brings advantages to the person committing it by misleading the other to his prejudice is a misrepresentation.
- (vi) Every instrument payable, otherwise, than on demand is entitled to four days of grace.
- (vii) Double crossing is permitted to general public.
- (viii) The promissory note may not be signed by the maker.
- (ix) Puffer is a person who is employed by the seller to raise the price by fictitious bids.
- (x) The auctioneer doesn't warrants his authority to sell.
- (xi) An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade.
- (xii) When terms of contract expressly provide for them, they are known as express conditions or warranties.

Answer :

- (i) True.
- (ii) True.
- (iii) True.
- (iv) True.
- (v) True.
- (vi) False.
- (vii) False.
- (viii) False.
- (ix) False.
- (x) False.
- (xi) True.
- (xii) True.

PART B

Answer any four questions out of six questions

[4×7=28]

2. Describe the essential elements of a valid contract.

[7]

Answer :

Essential Elements of a Valid Contract:

- (i) **Agreement:** In order to constitute a contract, there must be an agreement in first place. An agreement in turn is composed of two elements-offer and acceptance. Thus there must be at least two parties-one making the offer

and another accepting it. The terms of offer must be definite and the acceptance must be absolute and unconditional.

- (ii) **Free Consent:** According to Sec 14, 'Consent is said to be free when it is not caused by coercion, undue influence, fraud, misrepresentation or mistake. If consent is not free, then no valid contract comes into existence. This will be discussed in detail subsequently.
- (iii) **Lawful consideration:** The agreement must be supported by a lawful consideration. Consideration means 'something in return'. 'Something in return' may be an act or abstinence. But it must be real and lawful. This will be discussed in detail subsequently.
- (iv) **Parties are competent:** The parties to an agreement must be capable of entering into a contract. A person is considered competent if he is (a) eighteen years of age (b) of sound mind (c) not disqualified from contracting by any law to which he is subject. Existence of free consent implies the consent of the parties must be free and genuine i.e. not induced by coercion, undue influence, fraud or misrepresentation. This will be discussed in detail subsequently.
- (v) **Legality of object:** There must be legality of object and consideration failing which it will not be a valid contract. This will be discussed in detail subsequently.
- (vi) **Legal Relationship:** The parties must intend to create a legal relationship. Agreements of social or domestic nature do not contemplate legal relationship, so they are not contracts.
- (vii) **Agreements not expressly declared to be void:** The agreement not expressly declared void or illegal by law. This will be discussed in detail subsequently.

3. Define acceptance. Explain essentials of a valid acceptance.

[7]

Answer :

Definition of Acceptance:

Section 2(b) defines acceptance as "When the person to whom an offer is made signifies his assent thereto the proposal is said to be accepted, A proposal when accepted becomes a promise."

Essentials of a valid acceptance:

The following are the essentials of a valid acceptance. They are:

1. Acceptance must be absolute and unqualified: [Sec. 7(1)]

In order to be effective, there must be an absolute and unqualified acceptance of all the terms of the offer.

2. Acceptance must be communicated:

For an acceptance to be valid, it must not only be made by the offeree but must also be communicated by or with the authority of the offeree to the offeror. Acceptance must be communicated by the acceptor. In order to result in a contract it must be a 'matter of fact'. Silence cannot be construed as acceptance.

3. Acceptance must be in a prescribed or reasonable mode [Sec. 7(2)]

It should be in a prescribed or reasonable mode. [Sec. 7(2)] If the offer or prescribes no mode of acceptance, the acceptances must be communicated according to some usual and reasonable mode. The usual modes of communication are by words spoken or written or by conduct, it is called an implied acceptance.

4. Acceptance must be given within a reasonable time and before the offer lapses:

Acceptance must be given within the specified time limit, if any and if no time is stipulated, acceptance must be given within a reasonable time because an offer cannot be kept open indefinitely. Again the acceptance must be given before the offer is revoked or lapses by reason of offeree's knowledge of the death or insanity of the offeror.

5. Acceptance cannot precede an offer:

It cannot precede an offer. Acceptance must be given after receiving the offer. It should not precede the offer.

6. Acceptance must be given only by the person to whom the offer is made:

An offer can be accepted only by the person or persons to whom it is made and with whom it imports an intention to contract. It cannot be accepted by another person without the consent of the offer.

7. Rejected offer can be accepted only on renewal:

Rejected offer can be accepted only, on renewal; offer once rejected can't be accepted again unless a fresh offer is made.

4. Define discharge of contract. Explain the modes of discharge. [7]

Answer :

When the rights and obligations created by a contract come to an end, the contract is said to be discharged or terminated. In other words, discharge of contract means termination of contractual relationship between the parties.

Modes of discharge:

The following are the various modes or methods by which a contract is discharged.

i. Discharge by performance: Performance is the usual mode of discharge of a contract. Performance may be:

- (a) actual performance
- (b) attempted performance.

Actual performance is the fulfillment of the obligations arising from a contract by the parties to it, in accordance with the terms of the contract.

Offer of performance is also known as attempted performance or tender of performance. A valid tender of performance is equivalent to performance.

ii. Discharge by agreement: The parties may agree to terminate the existence of the contract by any of the following ways:

- (a) Novation (Sec. 62)
- (b) Alteration (Sec. 62)
- (c) Rescission (Sec. 62)
- (d) Remission (Sec. 63)
- (e) Waiver (Sec. 63)

iii. Discharge by lapse of time: Every contract must be performed within a fixed or reasonable period. Lapse of time discharges the contract. The Indian Limitation Act has prescribed the period within which the existing rights can be enforced in courts of law.

iv. Discharge by operation of law: A contract may be discharged by operation of law in the following cases.

- a. Death
- b. Insolvency
- c. Unauthorized material alteration.
- d. Merger

v. Discharge by breach of contract: Breach means failure of a party to perform his obligations under a contract. Breach brings an end to the obligations created by a contract.

vi. Discharge by impossibility of performance: Impossibility of performance results in the discharge of the contract. An agreement which is impossible is void, because law does not compel to do impossible things.

5. Differentiate between Sale and Agreement to Sell. [7]

Answer :

Differences between Sale and Agreement to Sell

	Sale	Agreement to Sell
1.	In case of sale the property transfers from seller to the buyer immediately.	The ownership of the goods is transferred to the buyer at some future date.
2.	It is an executed contract.	It is an executory contract.

3.	If the seller becomes insolvent after payment of price, the buyer can claim the goods from the official receiver.	The buyer cannot claim the goods. He can only claim rateable dividend for the amount paid by him.
4.	The buyer is responsible for any loss or destruction of the goods even if the goods are in the possession of the seller.	The seller is responsible for any loss or destruction of goods even if the goods are in the possession of the buyer.
5.	The seller cannot resale the goods.	In this case, if the subsequent buyer takes in good faith and for consideration, he gets a good title. The original buyer may only sue the seller for damages.
6.	If goods are destroyed, the loss will be borne by the buyer even though they may be in possession of the seller.	The loss will be borne by the seller even though the goods may be in possession of the buyer.
7.	If the buyer becomes insolvent before payment is made, the seller has to deliver the goods to the official receiver unless he has lien on them.	Seller may refuse to deliver the goods to the official receiver.

6. What are the rules regarding delivery of goods?

[7]

Answer :

Rules regarding delivery of goods:

Sections 31 to 44 provide certain rules with regard to delivery of goods. They are as follows:

1. **Mode of Delivery**
The mode of delivery of goods is provided in section 33 which says that, delivery of goods sold may be made by doing anything which the parties agree shall be treated as delivery or which has the effect of putting the goods in the possession of the buyer or of any person authorised to hold them on his behalf. Delivery as contemplated in the Act may be actual, symbolic or constructive.
2. **Delivery of goods and payment of price**
Delivery of goods and payment of price are concurrent conditions unless otherwise agreed upon. In other words seller must be ready and willing to make delivery and buyer must also be willing to take delivery and willing and ready to pay the price (Sec 32).
3. **Effect of part delivery**
As per section 34, a delivery of part of goods, in progress of the delivery of the whole has the same effect, for the purpose of passing the property in such goods, as a delivery of the whole, but a delivery of part of the goods, with an intention of severing it from the whole, does not operate as a delivery of the remainder.
4. **Buyer to apply for delivery**
Apart from any express contract, the seller of goods is not bound to deliver them until the buyer applies for delivery. (Section 35) It may also happen that the goods are subsequently acquired by the seller, he is to intimate the buyer and the buyer then should apply for delivery. Buyer has no cause of action against the seller if he does not apply for delivery, unless otherwise agreed upon.
5. **Place of delivery**
As per section 36(1), Goods must be delivered at the place and time specified in the contract. Whether it is for the buyer to take possession of the goods or for the seller to send them to the buyer is a question depending in each case on the contract, express or implied, between the parties. Apart from any such contract, goods sold are to be delivered at the place at which they are the time of the sale, and goods agreed to be sold are to be delivered at the place at which they are at the time of the agreement

to sell, if not then in existence, at the place at which they are manufactured or produced.

6. Time of delivery

Where under the contract of sale the seller is bound to send the goods to the buyer, but no time for sending them is fixed, the seller is bound to send them within a reasonable time. If demand or tender of delivery is not at reasonable time tender of delivery may be treated as ineffectual. What is a reasonable hour is a question of fact which has to be decided taking into consideration various factors. [Sec 36(2)]

7. Goods in possession of a third person

Where the goods at the time of sale are in the possession of a third person, there is no delivery by seller to buyer unless and until such third person acknowledge to the buyer that he holds the goods on his behalf. [Sec 36(3)]

7. Explain the requisites of a bill of exchange.

[7]

Answer :

Requisites of a Bill of Exchange:

1. A bill of Exchange must be drawn unconditionally, though the acceptor, or the indorser may make his liability conditional, direction of payment by the drawer must not be made to depend upon a contingency. Therefore, it is the essence of a bill of exchange that it should be payable at all events and it must appear so on its face.
2. The consideration of a bill of exchange should be paid only by way of money only.
3. The amount to be paid should be certain.
4. The time of payment must be indicated in the bill with certainty.
5. Order to pay. Order in this section does not mean a command, but a request or a direction.
6. It is essential that a bill of exchange should point out with certainty the party who enters into the contract imported by its terms. Thus, the signature of the drawer is necessary and there cannot be a bill, even if the instrument is accepted without the signature of the drawer.
7. It must indicate a drawee who should be called on to accept or pay it. The drawee must be named or otherwise indicated in the bill with reasonable certainty.

**Section – B
PART A**

8. Answer all the questions :

(a) Choose the correct answer:

[12×1=12]

(i) The study of ethics is divided into _____ operational areas

- (a)** Six
- (b) Four**
- (c)** Five
- (d)** Nine

(ii) _____ is about obeying and adhering to rule an authority

- (a)** Ethics
- (b)** Code
- (c)** Conduct
- (d) Compliance**

(iii) Business ethics is _____ in nature

- (a)** Absolute
- (b) Not absolute**
- (c)** Permanent
- (d)** None of the above

- (iv) Ethical and unethical behaviours are determined by
- (a) The individual
 - (b) The culture
 - (c) **Both the individual and the culture**
 - (d) Neither the individual nor the culture
- (v) Which of the following is an unethical business practice?
- (a) Collusion
 - (b) False communication
 - (c) Insider trading
 - (d) **All the above**
- (vi) Business ethics is a code of conduct which businessmen should follow while conducting their _____
- (a) **Normal activities**
 - (b) Special activities
 - (c) Specific activities
 - (d) None of the above
- (vii) _____ is a set of principles and expectations that are considered binding on any person who is member of a particular group.
- (a) **Code of conduct**
 - (b) Code of ethics
 - (c) Code of practice
 - (d) Any of the above
- (viii) Ethical executives abide by _____ relating to their business activities.
- (a) Laws
 - (b) Rules
 - (c) **Laws, rules and regulations**
 - (d) None of the above
- (ix) 'It is difficult but not impossible to conduct strictly honest business' is famous quote by :
- (a) **Mahatma Gandhi**
 - (b) Adam smith
 - (c) George bernaud shaw
 - (d) Peter drucker
- (x) The relevance of ethics is in its :
- (a) Context
 - (b) Principles
 - (c) **Application**
 - (d) understanding
- (xi) The idea of business ethics caught the attention of academics, media and business firms by the end of the _____
- (a) First world war
 - (b) Second world war
 - (c) **Cold war**
 - (d) None of the above
- (xii) Top managers demonstrate commitment to ethical business practices with
- (a) **The adoption of written codes of ethics**
 - (b) Employee empowerment
 - (c) Decentralized decision making practices
 - (d) Collusion with other companies

(b) State whether the following statements are True (or) False. [6×1=6]

- (i) The business must use business ethics while dealing with the competitors.
- (ii) Holders of public office should not promote and support these principles by sound leadership and prove to be an example in whatever they perform.
- (iii) The concept of 'value-free' business ethics appears to be quite appealing to businessmen.
- (iv) Ethics refers to the study and development of one's ethical standards.
- (v) Ethics refers to the study and development of one's ethical standards.
- (vi) Business ethics is not a pure science but a professional practice, and society expects businessmen to abide by the principles of a civil society.

Answer :

- (i) **True**
- (ii) **False**
- (iii) **True**
- (iv) **True**
- (v) **True**
- (vi) **True**

PART B

Answer any two questions out of three questions:

[2×6=12]

9. write a note on professional ethics. State its characteristics.

[6]

Answer:

Professional Ethics

The aforementioned discussion may be understood through the following distinctions: ethics and business ethics. We have studied the distinction between normative and practical ethics and have established that business ethics comes under practical ethics and is applied to a particular activity. 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 practised strictly under its own professional code of conduct. This distinction helps to orient the general principles of ethics and business to a particular activity. The principles, however, do not change. For instance, there is a manager who is doing very well in his career because he is both efficient and honest. To his neighbours and friends, he is not only a very successful businessman, but also a very good family man. To a question asked by a journalist on how he divided his time between his family and business despite his busy schedule, he replied, 'Efficiently. 'What is the secret of your success?' asked the journalist. He replied 'Honesty.' The journalist looked inquiringly as if to say, 'Look, business and family are separate.' The businessman said, 'Both efficiency and honesty work equally well at work and at home.' The character of a true professional remains undivided, whether at work or at home. Our roles may change from time to time and from place to place but the integrity of our character should be maintained.

Business ethics, thus, professionally adheres to a code of conduct that is in accordance with the normative principles further, it may be concretely stated that professionals bear the following marked characteristics:

- (i) competency of educational qualification,
- (ii) professional skills, and
- (iii) compensation (salary/remuneration, etc.)

10. Describe the seven principles of public life.

[6]

Answer :

The Seven Principles of Public Life

- 1. Selflessness** Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.
- 2. Integrity** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might influence them in the performance of their official duties.
- 3. Objectivity** In carrying out public business including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- 4. Accountability** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- 5. Openness** Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
- 6. Honesty** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- 7. Leadership** Holders of public office should promote and support these principles by sound leadership and prove to be an example in whatever they perform.

11. Discuss ethics vs morals.

[6]

Answer :

Ethics vs Morals:

Let us first try to analyse the key terms 'ethics' and 'morals'. Note the linguistic use of the terms – they seem as if they are in the plural form, just as 'economics' or 'politics', but we treat them as singular. Generally, ethics and morals are used as synonyms. There is nothing wrong in such a usage, for after all, the meaning of all words depend on their common usage. However, in formal study, we need to understand the meaning of the terms in a qualified way so as to make our subject of study precise and well defined.

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."