

Paper 3 - Fundamentals of Laws and Ethics

Paper 3 - Fundamentals of Laws and Ethics

Full Marks :100

Time allowed: 3 hours

The figures in the margin on the right side indicate full marks.

This question paper has two sections.

Both the sections are to be answered subject to instructions given against each.

Section A

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

1. A counter offer proposing different terms and conditions amounts to _____
(a) Acceptance of the offer
(b) Rejection of the offer
(c) Making a provisional contract
(d) Either (a) or (c)
2. Which of the following statements is false:
(a) A response to invitation to treat, leads to an agreement
(b) A valid offer must be communicated
(c) Supplying information is not an offer
(d) A request for tender is an invitation to treat
3. Consideration contemplated under Indian Law is
(a) Past consideration only
(b) Present consideration only
(c) Past, present and future consideration
(d) Money consideration only
4. A stranger to a contract
(a) Can file a suit
(b) Can file a suit only with permission of the court
(c) Can file a suit, if contract is in writing
(d) Cannot file a suit
5. A promise to pay a time-barred debt must be _____
(a) Oral
(b) Written and signed
(c) Registered
(d) Written and registered
6. Advertisement for tender is merely an invitation to offer.
(a) True

- (b) False
(c) Cannot say
(d) Insufficient information
7. The principle of estoppel cannot be applied against a minor since _____
(a) He has no sound mind
(b) He has no privilege to cheat persons by making any representation
(c) He may be induced by dishonest traders to declare in writing that he is a major at the time of entering into the contract
(d) He has not attained the age of maturity
8. The onus of proving insanity is on the _____
(a) Prosecutor
(b) State
(c) Accused
(d) Person who alleges it
9. A party who does not suffer any loss in case of breach of contract, is entitled to
(a) Statutory damages
(b) Liquidated damages
(c) Exemplary damages
(d) Nominal damages
10. The Sale of Goods Act, 1930 governs the transfer of property in
(a) movable property
(b) immovable property
(c) both movable and immovable property
(d) all type of properties
11. Future goods
(a) Can be subject matter of sale
(b) Cannot be subject matter of sale
(c) Sometimes may be subject matter of sale
(d) Depends on the circumstances
12. The subject matter of a valid sale are such goods which are
(a) transferred by seller to the buyer for a price
(b) transferred by succession
(c) transferred by a will
(d) transferred by a buyer to the seller
13. Handing over the keys of the warehouse is an example of _____
(a) Actual Delivery
(b) Symbolic Delivery
(c) Constructive delivery
(d) None of the above

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14. In case of appropriation of goods, which are the essential requirements
- (a) The goods should conform to the description and quality stated in the contract
 - (b) The goods must be in a deliverable state
 - (c) The appropriation must be by the seller with the assent of the buyer
 - (d) All of the above**
15. For passing of property in goods, the goods must be in
- (a) deliverable state**
 - (b) manufacturing stage
 - (c) consumable state
 - (d) marketing state
16. Whether a stipulation is a condition or a warranty depends on
- (a) The construction of the contract**
 - (b) The conduct of the parties
 - (c) The trade custom
 - (d) The local law
17. For a valid contract of sale, delivery may be:
- (a) actual delivery
 - (b) symbolic delivery
 - (c) constructive delivery
 - (d) all of these**
18. The maturity of a promissory note or a bill of exchange is the date _____
- (a) At which it falls due**
 - (b) Of its presentation
 - (c) Of its acceptance
 - (d) None of these
19. Performance of conditions of a proposal is an acceptance to the proposal
- (a) True**
 - (b) False
 - (c) Depends on the facts of the case
 - (d) Partially true and partially false
20. If a minor draws, endorses, delivers or negotiates an instrument, such instrument binds
- (a) all parties to the instrument including the minor
 - (b) only the minor and not other parties to the instrument
 - (c) all parties to the instrument except the minor**
 - (d) none of the above
21. The undertaking contained in a promissory note, to pay a certain sum of money is
- (a) Conditional
 - (b) Unconditional**
 - (c) may be conditional or unconditional depending upon the circumstances

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- (d) none of the above
22. Cheque is a
- (a) promissory note
 - (b) bill of exchange**
 - (c) both (a) and (b) above
 - (d) None of the above
23. A bill of exchange does not require _____
- (a) crossing
 - (b) acceptance
 - (c) both**
 - (d) either 'a' or 'b'
24. A contract is formed when the acceptor
- (a) has done something to signify his intention**
 - (b) makes his mind to do so
 - (c) reads the offer
 - (d) all the above
25. An offer stands revoked
- (a) If the fact of the death or insanity is known to offeree
 - (b) By counter offer
 - (c) By rejection of offer
 - (d) All the above**

II. Match the following

[5 × 1 = 5]

	Column 'A'		Column 'B'
1.	Valid Contract	A	Right of lien
2.	Right against the buyer	B	incomplete
3.	Inchoate Instrument	C	Sec 68 to 72 of Contract Act
4.	Right against goods	D	Enforceable by law
5.	Quasi Contract	E	Suit for interest

Answer:

	Column 'A'		Column 'B'
1.	Valid Contract	D	Enforceable by law
2.	Right against the buyer	E	Suit for interest
3.	Inchoate Instrument	B	incomplete
4.	Right against goods	A	Right of lien
5.	Quasi Contract	C	Sec 68 to 72 of Contract Act

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

[12 × 1 = 12]

1. A price list hanging outside the shop is meant for an offer by the owner of the shop.
False
2. A buys an article thinking that it is worth ₹1000, when the fact is it is only worth ₹800. There has been no misrepresentation on the part of the seller. The contract is unenforceable.
False
3. Ordinary damages will be awarded in cases where the loss naturally flows from the breach of contract.
True
4. A person is competent to contract if he is a graduate.
False
5. If consent is not free due to coercion, undue influence, fraud, and misrepresentation then the agreement is void.
True
6. Where the third party, who is in possession of the goods of the seller at the time of sale, acknowledges to the buyer that he holds goods on his behalf, the delivery is constructive delivery.
True
7. Right of stoppage of goods in transit can be exercised subject to fulfillment of some conditions.
True
8. Negotiable Instruments can be transferred ad infinitum.
True
9. An instrument incomplete in some respect is known as inchoate instrument.
True
10. When goods are physically handed over by the seller to the buyer it is called symbolic delivery.
False
11. There can be an acceptance of an offer which has not come to the knowledge of the offeree.
False
12. For an acceptance to be valid, it must be absolute and unqualified.
True

IV. Answer any four of the following questions.

[4 × 7 = 28]

1. **Define conditions and warranties and state the difference between the two.**

7

Answer:

- (a) A stipulation in a contract of sale with reference to goods which are the subject thereof may be a condition or a warranty. [Sec 12 (1)]
- (b) A condition is a stipulation essential to the main purpose of the contract, the breach of which gives rise to right to treat the contract as repudiated. [Sec 12(2)]
- (c) A warranty is a stipulation collateral to the main purpose of the contract, the breach of which gives rise to a claim for damages but not to a right to reject the goods and treat the contract as repudiated. [Sec 12(3)]
- (d) Whether a stipulation in a contract of sale is a condition or a warranty depends in each case on the construction of the contract, a stipulation may be a condition though called warranty in a contract. [Sec 12(4)]

Distinction between a condition and a warranty

	Condition	Warranty
1	A Condition is a stipulation which is essential to the main purpose of the contract.	A Warranty is a stipulation which is collateral to the main purpose of the contract.
2	The aggrieved party can repudiate the contract of sale in case there is a breach of a condition	The aggrieved party can claim damages only in case of breach of a warranty.
3	A breach of condition may be treated as a breach of a warranty. This would happen where the aggrieved party is contented with damages only.	A breach of a warranty cannot be treated as a breach of a condition.

2. What are quasi contracts? What are the different kinds of Quasi contracts.

7

Answer:

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 necessities supplied:

Where necessities 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.

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.

3. How can a contract be discharged by agreement?

7

Answer:

When the rights and obligations created by a contract come to an end, the contract is said to be discharged or terminated.

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)

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.

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.

Rescission:

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

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.

Waiver:

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

4. 'Nemo dat qui non habet'. State the exceptions to it.**7****Answer:**

'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 ascertained.

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

5. Discuss the position of a minor's agreement and its effect thereof.

7

Answer:

MINOR:

As per section 3 of the Indian Majority Act of 1875, every person in India is a minor if he has not attained the age of 18 years of age. However in case of a minor of whose person or property or both a guardian has been appointed under the Guardian and Wards Act, 1890 or whose property is under the superintendence of any court of wards before he attains 18 years of age is 21 years.

The position of Minor's agreement and effect thereof is as under:

1. An agreement with a minor is void ab-initio.
2. The law of estoppels does not apply against a minor. It means a minor can always his plead his minority despite earlier misrepresenting to be a major. In other words he

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cannot be held liable on an agreement on the ground that earlier he had asserted that he had attained majority.

3. Doctrine of Restitution does not apply against a minor. In India the rules of restitution by minor are similar to those found in English laws. The scope of restitution of contract by minor was examined by the privy council in Mohiri Bibi case when it has held that the restitution of money under section 64 of the Indian Contract Act cannot be granted under section 65 because a minor's agreement is not voidable but absolutely void ab-initio. Similarly no relief can be granted under section 65 as this section is applicable where the agreement is discovered to be void or the contract becomes void.
4. No Ratification on Attaining Majority. Ratification means approval or confirmation. A minor cannot confirm an agreement made by him during minority on attaining majority. If he wants to ratify the agreement, a fresh agreement and fresh consideration for the new agreement is required.
5. Contract beneficial to Minor: A minor is entitled to enforce a contract which is of some benefit to him. Minority is a personal privilege and a minor can take advantage of it and bind other parties.
6. Minor as an agent: A minor can be appointed an agent, but he is not personally liable for any of his acts.
7. Minor's liability for necessities. If somebody has supplied a minor or his dependents with necessities, minor's property is liable but a minor cannot be held personally liable
8. A minor cannot be adjudged insolvent as he is incapable of entering into a contract.
9. Where a minor and an adult jointly enter into an agreement with another person the minor is not liable and the contract can be enforced against the major person.

6. State any seven points of difference between a promissory note, bills of exchange and a cheque.

7

Answer:

Promissory Note	Bill of Exchange	Cheque
2 Parties - maker & payee	3 parties - drawer, drawee and Payee	3 parties - drawer, banker and payee
Contains an unconditional promise by maker to pay the payee	Contains an unconditional order to the drawee to pay the payee	Drawn on specified banker to pay on demand.
Acceptance - Not necessary	Acceptance - Necessary if the bill is payable after sight.	Acceptance -Not necessary.
Liability of maker is primary and absolute.	Liability of drawer is conditional and secondary upon non-payment by drawee.	Liability of drawer is conditional and secondary upon non - payment by banker
Notice of Dishonour - Not necessary	Notice of Dishonour - Necessary	Notice of Dishonour - Not necessary
Payable on demand or after a specified time.	Payable on demand or after a specified time.	Payable on demand even to bearer if so made.

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Cannot be made payable to bearer on demand or even after certain period.	Cannot be made payable to bearer on demand.	
Crossing - Not possible	Crossing - Not possible	Can be crossed.
Noting and protesting in case of dishonour - Not required	Noting and protesting in case of dishonour - Required to establish the fact of dishonour.	Noting and protesting in case of dishonour - Not required
Grace period - Available if payable after specified time	Grace period - Available if payable after specified time (usance bill)	Grace period - Not available.
Number, date, place not essential. Must be stamped.	Number, date, place not essential. Must be stamped.	Number, date, place, essential. Need not be stamped.

Section B

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

[12 × 1 = 12]

- Business ethics has a _____ application
(a) Universal
(b) Natural
(c) Practical
(d) Personal
- 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
- _____ is about obeying and adhering to rule and authority
(a) Ethics
(b) Code
(c) Conduct
(d) Compliance
- 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
- Which of the following is unethical business practice _____
(a) Collusion
(b) False communication

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- (c) Insider trading
(d) All 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
(b) Special activities
(c) Specific activities
(d) None of the above
8. The term 'business ethics' came into common use in the year _____.
(a) 1950
(b) 1960
(c) 1970
(d) 1980
9. Study of Ethics is a _____ science
(a) **Systematic**
(b) Programmed
(c) Morale
(d) None of 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. The study of ethics is divided into _____ operational areas
(a) 2
(b) 3
(c) 4
(d) 5

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

[6 × 1 = 6]

1. Morals are concerned with the principles of right or wrong behavior.
True
2. The customers have more trust and confidence in the businessmen who follow ethical rules.
True
3. Compensation, Competency and Character are the three C's of Business Ethics.
True
4. Business ethics concerns itself with adhering to the social principles of the situations in which business takes place.
True
5. Business ethics is also called corporate ethics.
True
6. Business ethics is a pure art.
False

III. Answer any two of the following questions.

[2 × 6 = 12]

1. Differentiate between ethics and morals.

6

Answer:

Difference between Ethics and Morals

Ethics	Morals
Root word in Greek is 'ethikos' which means 'Character'.	Root word in Greek is 'mos' which means 'custom'
Deals with right and wrong conduct.	Deals with principles of right and wrong.
Deals with individual character.	Deals with customs set by groups.
Character is personal attribute.	Customs are determined by groups or some authority like religion or culture.
Ethics is the response of an individual to a specific situation.	Morals are general principles

2. Comment on the relevance of ethics with respect to its application.

6

Answer:

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

3. Write a note on 'Evolution of Ethics'

6

Answer:

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.