

M.K.G CA EDUCATION

9811429230 / 9212011367

WEBSITE : WWW.MKGEDUCATION.COM

EMAIL : MKGCAEDUCATION@GMAIL.COM

Youtube channel : MKG CA EDUCATION

Facebook Page : <https://www.facebook.com/mkgcaeducation/>

Instagram : <https://www.instagram.com/mkguptacaeducation/?hl=en>

TEST-2

CA INTERMEDIATE

CORPORATE & OTHER LAWS

NEGOTIABLE INSTRUMENTS ACT, 1881 AND THE

INDIAN CONTRACT ACT, 1872

(20-02-2022 3:00 P.M. TO 6:00 P.M)

GENERAL INSTRUCTIONS TO CANDIDATES

- 1. The Question Paper comprises two parts, Division A & Division B**
- 2. Division A comprises Multiple choice Questions**
- 3. Division B comprises questions which require descriptive type answers 5 marks each**
- 4. TIME ALLOWED 180 MINUTES**
- 5. MAXIMUM MARKS 100**

DIVISION A

Multiple Choice Questions

25 MARKS

[2 MCQs of 2 Marks each: Total 4 Marks]

- 1. Kirtee Agarwal and Kishan Shaw are two friends studying in the Mumbai City College. They both are pursuing Bachelor of Commerce (Hons) and are in their Semester V. Kirtee Agarwal is also pursuing Chartered Accountancy Course. She has completed her Foundation Level and is presently preparing for the Intermediate Level. On the other hand, Kishan Shaw is interested in Fashion Designing and is preparing to become a fashion designer after completing B.COM (Hons).**

One fine morning over a cup of tea both Kirtee and Kishan heard two persons promising to financially help each other. One person named Mr. P promised the other Mr. Q, that he will pay him a certain sum of money on the 76th Independence Day of India. To this Mr. Q asked Mr. P

to pay this sum to Mr. R (friend of Mr. Q). After a moment's thought Mr. P changed his mind and promised to pay a reduced sum of money to Mr. R along with an I-Pad.

Over hearing this conversation both Kirtee and Kishan started discussing over Promissory Notes. Since Kirtee is a CA Student, she shared her knowledge about Promissory notes and explained Kishan about Section 4 of the Negotiable Instrument Act, 1881.

Having heard the details Kishan was curious in his mind regarding Promissory Notes. He had the following questions for which he needed answers. Considering the above data and assuming you are Kirtee, answer the following questions of Kishan:

- (i) Kishan asks, 'If Mr. P promises Mr. Q that he will pay Rs. 4,00,000. However, he will pay the sum to Mr. Q on the 76th Independence Day of India'. Will this promise constitute a valid Promissory Note?
 - (a) No. This is not a valid promissory note as it is conditional and promissory note should be unconditional.
 - (b) No. This is not a valid promissory note as there is no express of promise. It is a mere statement.
 - (c) Yes. This is a valid promissory note as the event stated in the promise is bound to happen.
 - (d) Yes. This is a valid promissory note as there is a promise to pay irrespective of the promise being conditional or unconditional.
 - (ii) Kishan asked, 'when Mr. P promises to pay a friend of Mr. Q, Rs 2,00,000 along with an I-Pad, on his birthday'. Will that be a valid Promissory Note?
 - (a) No. It is not a valid Promissory note as the order to pay must consist of money only.
 - (b) No. It is not a valid promissory note as there is no clarity on which birthday the payment will be made. It is a promise for an indefinite period.
 - (c) Yes. It is a valid promissory note as the maker and payee are certain, definite and different person.
 - (d) Yes. It is a valid promissory note as there is an express promise to pay Rs 2,00,000 along with I Pad on friend's birthday.
2. As per the Indian Contract Act, 1872, any guarantee which has been obtained by the means of misrepresentation made by the creditor concerning a material part of the transaction, is:
- a) Valid
 - b) Invalid
 - c) outside the ambit of the Indian Contract Act, 1872
 - d) not revocable if the damage sustained is less than 10% of the amount for which the guarantee is given
- (2 Marks)**
3. Vishal lends a horse to Preet. The horse is vicious, which is known to Vishal but he does not disclose the fact to Preet. The horse runs away. Preet is thrown and injured. As per the provisions of the Contract Act, 1872, which is the correct statement:
- a) Preet is responsible for his injury.
 - b) Though the horse belonged to Vishal but he cannot be held responsible
 - c) Vishal is responsible to Preet for damage sustained

- d) No one can be held responsible for the damage sustained as no one can take guarantee for the horse
(2 Marks)
4. A is residing in Delhi and has a house in Mumbai. A appoints B by a power of attorney to take care of his house. State the nature of agency created between A and B:
a) Implied agency
b) Agency by ratification
c) Agency by necessity
d) Express agency
(2 Marks)
5. A guarantee which extend to a series of transactions is called
a) Special Guarantee
b) Continuing Guarantee
c) Specific Guarantee
d) None of the above
(2 Marks)
6. Atul want to wear a new coat for his seminar which is to be held (after 15 days). He bought cloth material from the market to make a new coat. Atul gives material to Babu, a tailor, to make the coat. Babu promised Atul to deliver the coat within the stipulated time of one week. Atul paid 10% advance so that he stitches his coat on priority basis. After one week when Atul went to the tailor he was shocked to see that the coat is still unstitched. The tailor demanded two more days' time from Atul to stitch the coat, but Atul refused and asked the tailor to return his piece of cloth. Tailor retained the cloth and asked Atul to pay the price, as he already did the cutting of the cloth.

Yash, Atul's friend left his car at the company's authorised showroom for servicing. As Yash house is located in the remote area of the city, so he instructed the manager of the showroom to park the vehicle at Atul's residence. So as per Yash's instructions the car was sent to Atul house after servicing. The worker of the showroom parked the car outside Atul's residence and handed over the key to Atul's servant. Next day when Yash went to pick up his car, he found that somebody has hit the car while it was parked there.

Yash found a mobile phone and a branded pen lying on the road outside Atul's residence. Yash tried to enquire about the real owner. He took the phone and pen with him and kept it in the drawer of his study table. Next day, Yash's wife came to the room searching for a pen, she saw the pen and took the pen and went out. Unfortunately, Yash's wife lost the pen. After two days the real owner, approached him (Yash), Yash humbly delivered his phone and apologized for the loss of pen.

[2 MCQs of 2 Marks each: Total 4 Marks]

- (i) According to the provisions of the Indian Contract Act, 1872, do you think the tailor has a right of lien over the cloth?
 (a) Yes, he is entitled to retain the coat until he is paid.
 (b) No, he has not completed the work within the agreed time
 (c) Yes, in case of particular lien he can retain the cloth.
 (d) No, but he is not required to return the advance amount

- (ii) Referring to the provision of the Indian Contract Act, 1872, what are the repercussions, when Yash found goods belonging to another and takes them into his custody? Choose the correct statement.
- (a) He becomes subjected to the same responsibility as of a bailee.
 - (b) merely possession of the goods does not make him a bailee
 - (c) No act is done by owner for placing the goods in the possession of Yash, so he cannot be treated as bailee.
 - (d) In the absence of any express or implied contract, absolves Yash's liabilities as bailee
7. A negotiable instrument drawn in favour of a minor is
- (a) Void ab initio
 - (b) Void but enforceable
 - (c) Valid
 - (d) Quasi contract
- (2 Marks)**
8. The date of maturity of a bill payable hundred days after sight and which is presented for sight on 4th May, 2021, is:
- (a) 13 August, 2021
 - (b) 14 August, 2021
 - (c) 15 August, 2021
 - (d) 16 August, 2021
- (2 Marks)**
9. A bill of exchange is due on 2nd January, 2021. How many days of grace shall be provided to this bill of exchange due at maturity:
- (a) 1 day
 - (b) 2 days
 - (c) 3 days
 - (d) 5 days
- (1 Mark)**
10. Vinod, a transporter was transporting tomatoes of Avinash from his (Avinash's) farm to the market. However, due to heavy rains, Vinod was stuck for three days and thus he sold the tomatoes below the market rate in the nearby market where he was stranded fearing that the tomatoes may perish. Choose the correct option in the light of the provisions of the Indian Contract Act, 1872.
- (a) Avinash will succeed in recovering losses of tomatoes from Vinod
 - (b) Avinash will not succeed in recovering losses of tomatoes from Vinod
 - (c) Vinod can sell the tomatoes only at a price higher than the market rate
 - (d) Avinash is liable to compensate Vinod as his truck was stuck for three days and hence, he (Vinod) could not complete the deliveries of other clients and thus he (Vinod) suffered loss.
- (2 Marks)**
11. Mr. Vishal parks his car at a parking lot, locks it, and keeps the keys with himself. Which of the following statement is correct in this regard:
- (a) This is a case of bailment
 - (b) The parking people has possession of the car of Mr. Vishal
 - (c) The parking people has custody of car of Mr. Vishal
 - (d) This is the case of mortgage
- (2 Marks)**

DIVISON B**Question :1****All parts carry 5 marks each****(a)**

Discuss with reasons, whether the following persons can be called as a 'holder' under the Negotiable Instruments Act, 1881:

- 1) X who obtains a cheque drawn by Y by way of gift.
- 2) A, the payee of the cheque, who is prohibited by a court order from receiving the amount of the cheque.
- 3) M, who finds a cheque payable to bearer, on the road and retains it.
- 4) B, the agent of C, is entrusted with an instrument without endorsement by C, who is the payee.
- 5) B, who steals a blank cheque of A and forges A's signature.

(b)

Calculate the date of maturity of bill of exchange presented for sight on 1.6.2019, payable 120 days after presentment for sight considering the relevant provisions of the Negotiable Instruments Act, 1881.

(c)

'C' advances to 'B', ₹ 2,00,000 on the guarantee of 'A'. 'C' has also taken a further security for the same borrowing by mortgage of B's furniture worth ₹ 2,00,000 without knowledge of 'A'. 'C' cancels the mortgage. After 6 months 'B' becomes insolvent and 'C' 'sues 'A' his guarantee. Decide the liability of 'A' if the market value of furniture is worth ₹80,000, under the Indian Contract Act, 1872.

Question :2**All parts carry 5 marks each****(a)**

Chandra issues a cheque for ₹ 50,000/- in favour of Daye. Chandra has sufficient amount in his account with the Bank. The cheque was not presented within reasonable time to the Bank for payment and the Bank, in the meantime, became bankrupt. Decide under the provisions of the Negotiable Instruments Act, 1881, whether Daye can recover the money from Chandra?

(b)

Rahul drew a cheque in favour of Aman. After having issued the cheque; Rahul requested Aman not to present the cheque for payment and gave a stop payment request to the bank in respect of the cheque issued to Aman. Decide, under the provisions of the Negotiable Instruments Act, 1881 whether the said acts of Rahul constitute an offence?

(c)

State with reasons whether each of the following instruments is an Inland Instrument or a Foreign Instrument as per The Negotiable Instruments Act, 1881:

- 1) Ram draws a Bill of Exchange in Delhi upon Shyam a resident of Jaipur and accepted to be payable in Thailand after 90 days of acceptance.
- 2) Ramesh draws a Bill of Exchange in Mumbai upon Suresh a resident of Australia and accepted to be payable in Chennai after 30 days of sight.
- 3) Ajay draws a Bill of Exchange in California upon Vijay a resident of Jodhpur and accepted to be payable in Kanpur after 6 months of acceptance.
- 4) Mukesh draws a Bill of Exchange in Lucknow upon Dinesh a resident of China and accepted to be payable in China after 45 days of acceptance.

Question :3**All parts carry 5 marks each****(a)**

What are the essential characteristics of Negotiable Instruments.

(b)

Rama executes a promissory note in the following form, 'I promise to pay a sum of ₹10,000 after three months'. Decide whether the promissory note is a valid promissory note.

(c)

Mr. CB was invited to guarantee an employee Mr. BD who was previously dismissed for dishonesty by the same employer. This fact was not told to Mr. CB. Later on, the employee embezzled funds. Whether CB is liable for the financial loss as surety under the provisions of the Indian Contract Act, 1872?

Mr. X agreed to give a loan to Mr. Y on the security of four properties. Mr. A gave guarantee against the loan. Actually Mr. X gave a loan of smaller amount on the security of three properties. Whether Mr. A is liable as surety in case Mr. Y failed to repay the loan?

Question :4**All parts carry 5 marks each****(a)**

What are the parties to a bill of exchange.

(b)

Referring to the provisions of the Negotiable Instruments Act, 1881, examine the validity of the following:

A Bill of Exchange originally drawn by R for a sum of ₹ 10,000 but accepted by S only for **₹ 7,000.**

(c)

Define contract of indemnity and contract of guarantee and state the conditions when guarantee is considered invalid?

Question :5**All parts carry 5 marks each****(a)**

Gireesh, a legal successor of Ripun, the deceased person, signs a Bill of Exchange in his own name admitting a liability of ₹ 50,000 i.e. the extent to which he inherits the assets from the deceased payable to Mukund after 3 months from 1st January, 2019. On maturity, when Mukund presents the bill to Gireesh, he (Gireesh) refuses to pay for the bill on the ground that since the original liability was that of Ripun, the deceased, therefore, he is not liable to pay for the bill.

Referring to the provisions of the Negotiable Instruments Act, 1881 decide whether Mukund can succeed in recovering ₹ 50,000 from Gireesh. Would your answer be still the same in case Gireesh specified the limit of his liability in the bill and the value of his inheritance is more than the liability ?

(b)

Mr. X is the payee of an order cheque. Mr. Y steals the cheque and forges Mr. X signature and endorses the cheque in his own favour. Mr. Y then further endorses the cheque to Mr. Z, who takes the cheque in good faith and for valuable consideration.

Examine the validity of the cheque as per the provisions of the Negotiable Instruments Act, 1881 and also state whether Mr. Z can claim the privileges of holder -in-due course.

(c)

State whether the following alteration is material alteration under the provisions of the Negotiable Instruments Act, 1881.

A promissory note was made without mentioning any time for payment. The holder added the words "on demand" on the face of the instrument.

SPACE FOR ROUGH WORK

