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# **BUSINESS LAW**

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*By: Harish Arora*



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Mob.: 8510009872, 8510009878 E-mail: [info@neerajbooks.com](mailto:info@neerajbooks.com)

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# QUESTION PAPER

June – 2024

(Solved)

**BUSINESS LAW**

**BCOC-133**

**Time: 3 Hours ]**

**[ Maximum Marks: 100**

**Note: Answer any five questions. All questions carry equal marks.**

**Q. 1. Explain the different types of contracts on the basis of (a) creation, (b) execution, and (c) enforceability with example.**

**Ans. Ref.:** See Chapter-1, Page No. 2, 'Classification of Contracts'.

**Q. 2. Explain the following terms with examples:**

**(a) Cross offer.**

**Ans. Ref.:** See Chapter-2, Page No. 15, Q. No. 7(i)

**Also Add: Example:** Party A emails Party B, offering to sell 100 units of a product for \$500. At the same time, without knowing about Party A's email, Party B emails Party A, offering to buy 100 units of that product for \$500. These are cross offers, and no contract is formed because neither offer has been accepted yet.

**(b) Standing offer.**

**Ans. Ref.:** See Chapter-2, Page No. 10, 'Standing Offers'.

**Also Add: Example:** A supplier offers to supply office stationery to a company at a fixed price for one year. The company can place orders at different times during the year as per its needs. The offer remains valid for the entire period, and each order placed constitutes an acceptance of the standing offer.

**(c) General offer.**

**Ans. Ref.:** See Chapter-2, Page No. 15, Q. No. 7 (iii).

**Also Add: Example:** A company advertises a reward of \$500 for anyone who finds and returns its lost dog. This is a general offer made to the public. If someone finds and returns the dog, they have accepted the offer, and the company is legally bound to pay the reward.

**(d) Implied offer.**

**Ans. Ref.:** See Chapter-2, Page No. 15, Q. No. 7 (iv).

**Also Add: Example:** A person boards a bus and takes a seat. By this action, they are making an implied offer to pay the fare, and the bus company is offering transportation in return for payment. Both parties have entered into an implied contract without explicitly stating the terms.

**Q. 3. Define 'coercion' and 'undue influence'. What are their effects on the contracts? Distinguish between coercion and undue influence.**

**Ans. Ref.:** See Chapter-4, Page No. 23, 'Coercion' and Page No. 24, 'Undue Influence' and 'Distinguish between Coercion and Undue Influence'.

**Q. 4. What is doctrine of public policy? Discuss the commonly accepted grounds that are considered opposed to public policy.**

**Ans. Ref.:** See Chapter-5, Page No. 37, Q. No. 8 and Page No. 34, 'Agreements Opposed to Public Policy'.

**Q. 5. What is breach of contract? What are the remedies available to an aggrieved party on the breach of a contract?**

**Ans. Ref.:** See Chapter-8, Page No. 53, 'Meaning of Breach of Contract' and 'Remedies for Breach of Contract'.

**Q. 6. Discuss the essentials of a valid bailment and also explain different kinds of bailment.**

**Ans. Ref.:** See Chapter-10, Page No. 68, 'Meaning of Bailment' and 'Kinds of Bailment'.

**Q. 7. What is dissolution of a partnership firm? Describe the different modes of dissolution of firm.**

**Ans. Ref.:** See Chapter-14, Page No. 99, 'Dissolution of Partnership' and 'Dissolution of Firm', 'Modes of Dissolution of Firm'.

**Q. 8. (a) What is the doctrine of 'caveat emptor'? What are the exceptions to this doctrine?**

**Ans. (i) The Doctrine of Caveat Emptor:** The doctrine of Caveat Emptor is an integral part of the Sale of Goods Act. It translates to "let the buyer beware". This means it lays the responsibility of their choice on the buyer themselves.

It is specifically defined in Section 16 of the act “there is no implied warranty or condition as to the quality or the fitness for any particular purpose of goods supplied under such a contract of sale”.

A seller makes his goods available in the open market. The buyer previews all his options and then accordingly makes his choice. Now let's assume that the product turns out to be defective or of inferior quality.

This doctrine says that the seller will not be responsible for this. The buyer himself is responsible for the choice he made.

So, the doctrine attempts to make the buyer more conscious of his choices. It is the duty of the buyer to check the quality and the usefulness of the product he is purchasing. If the product turns out to be defective or does not live up to its potential the seller will not be responsible for this.

Let us see an example. A bought a horse from B. A wanted to enter the horse in a race. Turns out the horse was not capable of running a race on account of being lame. But A did not inform B of his intentions. So B will not be responsible for the defects of the horse. The Doctrine of Caveat Emptor will apply.

However, the buyer can shift the responsibility to the seller if the three following conditions are fulfilled. If the buyer shares with the seller his purpose for the purchase the buyer relies on the knowledge and/or technical expertise of the seller and the seller sells such goods.

**Also Add Ref.:** See Chapter-17, Page No. 114, ‘Doctrine of Caveat Emptor’.

**(b) What are the rules applicable when a negotiable instrument is lost?**

**Ans. Ref.:** See Chapter-22, Page No. 151, ‘Lost and Stolen Instruments’.

**Also Add:** Here are the general rules applicable when a negotiable instrument is lost:

**1. Notice to the Maker or Drawee:** The person who loses the instrument (i.e., the holder) should give **immediate notice** to the maker, drawee, or other relevant parties involved (like the indorser). This alerts the parties that the instrument may be claimed by someone else fraudulently.

For instance, if a cheque is lost, the drawer (the person who wrote the cheque) or the bank on which it was drawn should be notified.

**2. Proof of Loss and Indemnity:** In many cases, before a replacement instrument is issued or payment is made, the party liable on the instrument (e.g., the drawee, maker, or drawer) may require the claimant (the person who lost the instrument) to:

- Provide **proof of ownership** or entitlement to the instrument.
- Execute an **indemnity bond**, which is a form of guarantee that protects the liable party (e.g., the drawee) against any future claims that might arise if the original instrument is found and wrongfully presented for payment.

### 3. Right to Claim Payment

- If the instrument was lost after it was endorsed to the holder, the **rightful holder** can still demand payment despite the loss, provided they can establish their ownership and meet any conditions such as furnishing indemnity.
- Some statutes require proof that the instrument was not transferred before the loss, meaning it remains unpaid and the claimant is entitled to it.

### 4. Issuance of a Duplicate Instrument

- In the case of a **lost cheque or bill of exchange**, the drawer may issue a **duplicate instrument** after receiving the proper proof of loss and indemnity.
- In some jurisdictions, banking laws allow the issuing of duplicate cheques, especially for lost or stolen cheques, under prescribed rules.

### 5. Court Orders (Injunction)

- In certain cases, the rightful holder may apply to a court for an **injunction** or a **court order** to stop payment on the lost instrument and to declare the original instrument void.
- This is common in cases involving cheques, where a holder may seek a court order preventing the bank from paying if the cheque has been lost or stolen.

### 6. Cancellation of the Lost Instrument

- If a court is involved, it may order the **cancellation of the lost negotiable instrument** and allow the issue of a new one or payment under specific terms, including the execution of indemnity.
- The cancellation legally voids the lost instrument, preventing its further negotiation or use if it is later found.

### 7. Liability for Subsequent Payments

- If the original negotiable instrument is found and wrongfully presented after a replacement

# Sample Preview of The Chapter

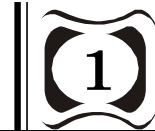
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# BUSINESS LAW



## Essentials of A Contract

### INTRODUCTION

The law of contract is very important for smooth functioning of business transactions and the law is also applicable to our everyday dealings with others. A contract is an agreement which is legally binding and it recognizes and governs the rights and duties of the parties. Law contains rules with regard to human conduct and actions which are enforceable in a court of law. The different branches of law include international law, constitutional law, criminal law, civil law, etc. Business law is an important branch of civil law and it deals with laws relating to business transactions. The chief sources of Indian business laws are English laws, Indian statute laws, past judicial decisions, local customs and usages. Law of contracts is the most important business law dealing with general rules relating to all types of contracts and covers special provisions about some specific contracts. Contract is an agreement which is enforceable by law and its two main elements are an agreement and its legal enforceability. Contracts can be classified according to its creation, execution and enforceability. An agreement not enforceable by law is void agreement. Void contract means an agreement which was valid when it was entered into but become void later on because of some reason. Voidable contract is a contract which can be avoided at the option of an aggrieved party and not the other. In an illegal agreement, the object or the consideration is unlawful; it is also void and not enforceable by law

### CHAPTER AT A GLANCE

#### WHAT IS LAW?

Laws ensure that our rights are not abused by others; it helps in regulating the conduct of people and

in safeguarding rights. Law is a rule of conduct developed by a government or society, applicable within certain geographical boundaries. Law regulates human actions in respect of one another and with society. Laws such as international law, constitutional law, criminal law, civil law, etc. are enacted for controlling and regulating the specific field of activity. Business law deals with customs and practices of local and international business.

#### MEANING AND SOURCES OF BUSINESS LAW

The business laws contain those laws which help in smooth conduct of business, including those concerning contracts, partnerships, companies, negotiable instruments, insurance, carriage of goods, arbitration, etc. Indian business law is based on the English law. The sources of Indian business laws are as under:

- *English Mercantile Laws* were developed by customs and usages of merchants in business dealings with others in England and Indian business laws are based on these laws.
- *Indian Statute Laws* include acts enacted by Indian Legislature and are the main source of Indian business law.
- *Judicial Decisions* are past decisions of courts which have guiding values. These are important source of law which is followed by courts at the time of deciding similar cases.
- *Customs and Usages* in trades also help in regulating dealings between the merchants of the trade. Indian Contract Act also recognizes that nothing contained therein shall affect any usage or custom of trade.

#### THE LAW OF CONTRACT

This law of contract is concerned with making of and enforcing agreements. It determines the circum-



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stances when a promise made by the parties to a contract shall be binding on them and also mentions the remedies available against parties which do not perform his promise. Indian Contract Act, 1872 deals with general principles of law governing contracts and the special provisions relating to bailment, pledge, indemnity, guarantee and agency.

**WHAT IS A CONTRACT?**

A contract is an agreement made between two or more persons to do or to abstain from doing a particular act. It creates a legal obligation giving legal rights to a certain person and the duty for the same is imposed on the other party. So, the elements of a contract are an agreement and its enforceability.

**Agreement:** According to Section 2(e) of the Contract Act an agreement is every promise and every set of promises forming the consideration for each other. A promise is an offer by one party which is accepted by another party.

**Legal Obligation:** It is important that the contract gives rise to a legal obligation. There is no legal obligation in social, moral or religious agreements, these not create a duty enforceable by law and hence, are not contracts. The law of contract is concerned with only those obligations which arise out of agreement. Obligations arising from wrongful acts, judicial decisions or decree of a court, husband and wife relationship do not come under the category of contracts.

**Difference between an Agreement and a Contract**

Agreement	Contract
Offer and its acceptance	Agreement and its enforceability.
May/may not create a legal obligation	Necessary to create a legal obligation
Not a binding contract	Binds all the parties
Every agreement is not a contract	Every contract is an agreement

**CLASSIFICATION OF CONTRACTS**

Contracts can be classified:

**On the Basis of Creation:**

- *Express Contract* is one in which the terms are clearly stated in words or in writing.
- *Implied Contract* is not written/spoken. It arises from acts/conduct of parties. For example, while boarding a train, there is an implied contract that we agree to pay the fare.

**On the Basis of Execution:** On the basis of the extent to which these have been performed, contracts can be classified as:

- *Executed Contracts* is a contract in which both parties have fulfilled their respective obligations under the contract.
- *Executory Contracts* is a contract in which both the parties have still to perform their obligations. Contract may also be partly executed and partly executory, when only one of the parties has performed his obligation.

**On the Basis of Enforceability:** *Valid Contract* is one which satisfies all the conditions prescribed by law. When one or more such elements are missing, the contract is not a valid contract.

*Void Contract* is a contract becomes void at the time when it ceases to be enforceable by law. It subsequently becomes unenforceable due to some reasons and treated void. It can be due to reasons such as impossibility of performance of the contract, change of law or some other reasons. Section 2(g) says that an agreement not enforceable by law is void and in case of void agreement, no contract comes into existence and it does not create any rights/obligation on any person. A void agreement is *void ab initio* (from the very beginning).

*Voidable Contract* is the agreement which is enforceable by law at the option of one or more parties, not at the option of the other and such a contract can be set aside at the option of the aggrieved party. Until the contract is set aside by a party who is entitled to do so, it remains a valid contract. When consent of a party was not free but it was obtained either by coercion, undue influence, misrepresentation or fraud. Such contract is voidable at the option of the party and when he sets the contract aside, other party is also freed from his obligation.

**Difference between Void and Voidable Contract:**

Void Contract	Voidable Contract
In a void contract no obligation or right arises or accrues to parties to the contract from a void contract. Such contracts are not covered by law.	A voidable contract continues at the option of one party; it is the desire of one party either to rescind it or continue; it is enforceable at the option of one party and is covered by law.
A void contract can give rise to no legal liability since transaction is nullity.	A voidable contract remains valid until rescinded.
A void contract cannot confer any right.	A voidable contract confers enforceable right till is not essential.
The contract becomes void when it ceases to be enforceable.	A contract becomes voidable only when consent to agreement is obtained by coercion, undue influence fraud or misrepresentation.

**Illegal or Unlawful Contract:** A contract cannot be illegal but agreement can be illegal or contrary to law. For example, an agreement to marry a minor is void but not illegal because the object is not unlawful.

An illegal agreement is such an agreement which is specifically declared to be unlawful under the Contract Act or is against the provisions of any other law. All illegal agreements are void but all void agreements are not necessarily illegal.

**Difference between Void Agreement and Illegal Agreement:**

Void Agreement	Illegal Agreement
All void agreements are not necessarily illegal.	All illegal agreements are void.
Collateral transactions to a void agreement are not affected i.e., they do not they also become void.	Collateral transactions to an illegal agreements are also affected i.e., they also become void.
If a contract becomes void subsequently, the benefit received has to be restored to the other party.	The money advanced or thing given cannot be claimed back.

**Unenforceable Contract** is one which is valid but cannot be enforced because of technical defect such as non-registration of agreement, non-payment of stamp fee, etc. Also, an agreement which the law requires to be in writing (e.g. agreement for arbitration) is unenforceable if it is oral. But if such defect is removed, the contract becomes enforceable.

**ESSENTIALS OF A VALID CONTRACT**

**According to Section 10:** All agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void. So, following are elements of a valid contract:

**1. Proper Offer and Proper Acceptance:** There must be a maker of offer and its acceptor and other prescribed rules for making/accepting the offer must be satisfied while entering into an agreement. The offer must be unconditional, definite and duly communicated to the other party.

**2. Intention to Create Legal Relationship** has to be there among parties. In social/domestic agreements, such intention is not there. Business transactions presume intention of the parties to create legal relations which may be taken away by any express terms to the contrary.

**3. Free Consent** means that the parties have made the contract by their own free will, without any fear or pressure. Section 14 of the Act states that consent is said to be free when it is not caused by: (i) coercion (ii) undue influence (iii) fraud (iv) misrepresentation or (v) mistake. When the consent is obtained by (i) to (iv) above, the contract would be voidable at the option of aggrieved party. In case there is a material mutual mistake, the agreement becomes void.

**4. Capacity of Parties:** When any party is not competent to contract, the contract is not valid. Section 11 states that every person is competent to contract who is of the age of majority according to the law to which he is subject and who is of sound mind, and is not disqualified from contracting by any law to which

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he is subject. The parties must be major, of sound mind and not disqualified from entering into a contract by any.

**5. Lawful Consideration:** Consideration means a return that may or may not be monetary. For an agreement, there has to be a lawful consideration in an agreement, i.e. the price paid by one party to buy the promise of the other. Consideration may be an act or promise of doing something or for not doing. It may be past, present or future but it must be real and must have some value in the eyes of law, it need not be adequate.

**6. Lawful Object** means that the object of the agreement must be lawful and the act should not be prohibited by law. Both the consideration and the object of the agreement should be lawful.

**7. Agreement not Expressly Declared Void:** It is also required that the agreement must not have been expressly declared void under Sections 24 to 30 of the Contract Act.

**8. Certainty of Meaning:** As per Section 29 of the Contract Act, the agreements, the meaning of which is not certain or capable of being made certain, are void. So, it is important that the terms of a valid agreement must be clear and not vague/uncertain. It may still be valid if meaning of the agreement can be made certain from the prevailing circumstances.

**9. Possibility of Performance:** The act covered in the agreement should not be impossible. An agreement to do an act impossible in itself is void (Section 56).

**10. Legal Formalities:** The Contract Act specifies that certain agreements must be made in writing and some agreements must be registered. A promise to pay a time barred debt must be in writing. If it is not done, the contract is not legally enforceable.

All the above elements must be present in a valid contract. In case, any one is missing or absent, the agreement will not be enforceable by law.

**CHECK YOUR PROGRESS**

**Q. 1. What is Law?**

**Ans.** Law is a rule of conduct developed by a Government or society, applicable within certain geographical boundaries. Law regulates human actions in respect of one another and with society. With the changes in requirements, the laws are also changed. Laws keep us safe and ensure that our rights are not abused by other people. Law helps in the regulating the conduct of people and in safeguarding their property and rights. Therefore, every country has enacted laws

in this regard. Ignorance of law is not any excuse, so it is very important that we know proper laws, which we are subject to. When somebody eats in restaurant and does not pay, he cannot say that he was unaware of the laws pertaining to non-payment. There are different types of laws (international law, constitutional law, criminal law, civil law, etc.) for controlling and regulating one specific field of activity. Business law (or Mercantile or Commercial Law) is a part of civil law, which deals with customs and practices of local and international commerce.

**Q. 2. Define Contract.**

**Ans.** A contract is an agreement made between two or more persons to do or to abstain from doing a particular act. It creates a legal obligation giving legal rights to a certain person and the duty for the same is imposed on the other party. Sir Fredrick Pollock has defined a contract as 'Every agreement and promise enforceable at law is a contract'. The law of contract is contained in the Indian Contract Act which states that an agreement enforceable by law is a contract. So, the elements of a contract are an agreement which is enforceable by law.

**Q. 3. Define an agreement.**

**Ans.** According to Section 2(e) of the Contract Act an agreement is every promise and every set of promises forming the consideration for each other. A promise is an offer by one party which is accepted by another party. An agreement = Offer + Acceptance.

So, there must be at least two parties in a contract, the offerer and the acceptor. Further, it is also important that both the parties must agree on the same thing in the same sense (*Consensus-ad-idem*).

**Q. 4. What do you mean by legal obligation?**

**Ans.** The contract must give rise to a legal obligation. There is no legal obligation in social, moral or religious agreements, these not create a duty enforceable by law and hence, are not contracts. In business agreements, there is a presumption to create a legal relationship. An agreement to buy a particular house for Rs. one lac is a contract which gives rise to a legal obligation enforceable by law. When all the essentials of a valid contract are present in an agreement and if there is default by either party, then an action for breach of contract can be enforced through a court of law. The law of contract is concerned with only those obligations which arise out of agreement and those obligations which arise from sources such as wrongful acts, judicial decisions or decree of a court, husband and wife relationship are not contracts.