



CA FOUNDATION • PAPER 2 • BUSINESS LAWS

Student Notes

Topic by Topic • October 2026 Edition



7 Chapters • 20 Units • 143 Topics • 595 Classified Questions

ICAI Study Material 2026 July + Scanner Business Laws 2026 October V1

How this book works

For each topic, first read the Study Material paragraphs named in the “Read first” line. Then work down the skill bands — each band names the skill the examiner has actually used on that topic, and lists the exact Scanner questions to practise at it.

The section that follows the Contents — **How to Use These Notes** — explains the question lines, ICAI’s Manner of Assessment, and what the skill mix should change about your preparation. Read it once before you begin.

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BEFORE YOU START

How to Use These Notes

Every question in the Scanner has been read and classified — **595 of them in this paper** — against the skill framework ICAI itself publishes. These notes are built around that classification rather than around the syllabus order. Ten minutes spent on this page will change how you use the rest of the book.

1. How a topic is laid out

	Read it like this
Read first	The exact Study Material paragraphs the topic rests on. Open the Study Material and read them before the notes — the notes assume you have.
Notes	What the topic actually turns on, written for the examination rather than for coverage. Short, and meant to be re-read the night before.
Skill bands	One band for each skill the examiner has actually used on that topic, each with a few lines of guidance and the exact Scanner questions to practise. Work down the bands in the order printed: they run from the least demanding skill to the most.
Concept base	A topic the examiner has not yet reached. It is not optional — it has simply not been asked, and it is examinable. This paper carries 21 of them .

2. Reading a question line

PQ 5.24 · PYQ 2026-Sep [2] (b) · 10M · Pg 173

LEVEL II
Application

Hard

Part of the line	What it tells you
PQ 5.24	The Scanner's own question number. PQ is a practical question, TQ a theory question.
PYQ 2026-Sep [2] (b)	Where it was asked — PYQ past examination, MTP mock test paper, RTP revision test paper — then the sitting, and its number in that paper.
{C}	A case-scenario question.
DESC · TF · SN · DB	The kind of theory question: descriptive, true/false, short note, distinguish between. Practical questions carry no such tag.
10M	Marks, as printed in the Scanner. Blank where the source does not print them — RTPs often do not.

Part of the line	What it tells you
Pg 173	The page of the Scanner where the question and its answer are printed.
LEVEL II Application	ICAI's skill level, and the skill within it. Section 3 explains these.
asked 8×	The same question has been set that many times across past papers, mock tests and revision tests. Treat these as the highest priority.
Hard	How demanding the question is — judged on the marks it carries and the number of separate things it asks for.

3. The Manner of Assessment — what each skill asks of you

ICAI publishes a **Skill Assessment Specification Grid**. It states three skill levels, and in its **Manner of Assessment of Skills** column it describes each level as two distinct skills. Those six skills are the band headings that run through this book.

Skill	Rolls up to	What the examiner is asking you to do	Directive verbs to watch for
Remembering	Level I	Reproduce what you have learnt, as you learnt it.	Define · List · State · Name · Enumerate · Recognise
Understanding	Level I	Explain it, and place it in context — show you have grasped why the rule is what it is.	Describe · Explain · Distinguish · Identify · Illustrate · Outline
Application	Level II	Use or demonstrate the knowledge, concept or technique. Work the problem.	Apply · Calculate · Determine · Prepare · Reconcile · Record · Perform · Use · Conduct · Demonstrate
Analysis	Level II	Examine the interrelationships between distinct areas to identify root causes and find evidence that supports a judgement.	Analyse · Discuss · Compare and Contrast · Examine · Develop · Monitor · Prioritise · Align · Communicate
Evaluation	Level III	Assess the problem and use judgement to reach a conclusion.	Advise · Evaluate · Recommend · Review · Select · Assess
Synthesis	Level III	Integrate data and information, separating the relevant facts from the irrelevant.	ICAI lists no verb for synthesis.

ICAI prints the verbs for **Application** and **Analysis** as two separate lists, so that division is the Institute's own. For Level I and for Level III it prints one combined list each — so the line between **Remembering** and **Understanding**, and between **Evaluation** and **Synthesis**, follows ICAI's description of the manner of assessment rather than a published list of verbs.

CA Foundation is assessed at Levels I and II only — the Prospectus prints no Level III column for this course, which is why the last two rows above are greyed. Evaluation and Synthesis begin at Final.

4. What the skill mix should change about your preparation

ICAI grades this paper **Level I 5–20%** and **Level II 80–95%** of marks. Two things follow that are easy to miss.

- **Reading is not preparing.** Four marks in five are for working a problem, not for describing one. A topic you can explain but have never worked through is a topic you have not prepared.
- **The paper's balance is not each chapter's balance.** Every chapter opens with its own **ICAI Skill Profile** panel, showing how that chapter's marks actually divide and what that means for preparing it. Some chapters are almost all theory; others carry almost none. Read the panel before you start the chapter.

5. Two guides at the front of the book

	What it is for
Topic Ranking	Every examined topic ranked by its share of the classified Scanner questions, and graded A , B or C on cumulative coverage. Category A carries the first 60% of all questions — secure those to full command first.
Importance grade	The A–D grade printed against each chapter and unit in the Contents. This is ICAI's syllabus weightage signal as the Scanner publishes it, and it is separate from the question-frequency ranking. Where the two disagree, prepare to the higher of the two.

STUDY PRIORITY GUIDE

Topic Ranking — Exam Weightage

Read first: Every topic in this booklet that the examiner has actually asked is ranked below by its share of the 595 classified Scanner questions, aggregated across all 20 Units — and graded A, B or C on cumulative coverage. **Category A (ranks 1–33)** covers the first 60% of all classified questions. **Category B (ranks 34–52)** adds the next 15%, taking coverage to about 75%. **Category C** is the remaining 25%: a long tail that is slower to mine for marks, much of which gets covered automatically while preparing A and B. The **Pg.** column cross-references the page on which that topic's study notes begin.

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
1	A	The Companies Act, 2013	Classes of Companies Under the Act	6.6%	6.6%	190
2	A	The Sale of Goods Act, 1930	Express and Implied Conditions and Warranties (Section 14--17)	4.4%	10.9%	122
3	A	The Indian Contract Act, 1872	Elements Vitiating Free Consent	3.7%	14.6%	44
4	A	The Sale of Goods Act, 1930	Passing of Property (Sections 18 -- 26)	2.7%	17.3%	127
5	A	The Indian Partnership Act, 1932	Legal Consequences of Partner Coming in And Going Out (Section 31 -- 35)	2.5%	19.8%	167
6	A	The Indian Partnership Act, 1932	Dissolution of Firm (Sections 39 -- 47)	2.0%	21.8%	174
7	A	The Limited Liability Partnership Act, 2008	Limited Liability Partnership -- Meaning and Concept	2.0%	23.9%	179
8	A	The Limited Liability Partnership Act, 2008	Incorporation of LLP	2.0%	25.9%	183
9	A	The Indian Contract Act, 1872	Void Agreements	1.8%	27.7%	50
10	A	The Companies Act, 2013	Corporate Veil Theory	1.8%	29.6%	189
11	A	The Indian Contract Act, 1872	Validity of an Agreement without Consideration	1.7%	31.3%	39

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
12	A	The Indian Contract Act, 1872	Capacity to Contract	1.7%	32.9%	41
13	A	The Indian Contract Act, 1872	Discharge of A Surety	1.7%	34.6%	80
14	A	The Sale of Goods Act, 1930	Right of Unpaid Seller Against the Goods	1.7%	36.3%	136
15	A	The Indian Contract Act, 1872	Types of Contracts	1.5%	37.8%	27
16	A	The Indian Partnership Act, 1932	True Test of Partnership	1.5%	39.3%	147
17	A	The Indian Partnership Act, 1932	Relation of Partners to Third Parties	1.5%	40.8%	160
18	A	The Negotiable Instruments Act, 1881	Dishonour of Cheques for Insufficiency of Funds in the Accounts (Section 138 to 142)	1.5%	42.4%	213
19	A	The Indian Contract Act, 1872	Legality of Object and Consideration	1.3%	43.7%	48
20	A	The Indian Contract Act, 1872	Quasi Contracts	1.3%	45.0%	72
21	A	The Companies Act, 2013	Doctrine of Indoor Management	1.3%	46.4%	201
22	A	The Indian Contract Act, 1872	Suit for Damages	1.2%	47.6%	66
23	A	The Sale of Goods Act, 1930	Transfer of Title by Non-Owners (Sections 27 -- 30)	1.2%	48.7%	131
24	A	The Sale of Goods Act, 1930	Performance of the Contract of Sale (Sections 31 -- 44)	1.2%	49.9%	133
25	A	The Indian Partnership Act, 1932	Relation of Partners to One Another	1.2%	51.1%	155
26	A	The Companies Act, 2013	Company Meanings & its Features	1.2%	52.3%	187
27	A	The Negotiable Instruments Act, 1881	Bills of Exchange	1.2%	53.4%	206
28	A	The Negotiable	Classification of Negotiable	1.2%	54.6%	209

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
		Instruments Act, 1881	Instruments			
29	A	The Negotiable Instruments Act, 1881	Presentment of Instruments	1.2%	55.8%	215
30	A	The Indian Partnership Act, 1932	Kinds of Partnerships	1.0%	56.8%	151
31	A	The Indian Partnership Act, 1932	Rights of Transferee of a Partner's Interest (Section 29)	1.0%	57.8%	164
32	A	The Companies Act, 2013	Articles of Association	1.0%	58.8%	199
33	A	The Negotiable Instruments Act, 1881	Cheque	1.0%	59.8%	208
34	B	The Negotiable Instruments Act, 1881	Negotiation (Transfer) of Negotiable Instruments	1.0%	60.8%	211
35	B	The Indian Contract Act, 1872	Essentials of Valid Contract	0.8%	61.7%	25
36	B	The Indian Contract Act, 1872	Proposal/Offer [Section 2(a) of the Indian Contract Act, 1872]	0.8%	62.5%	29
37	B	The Indian Contract Act, 1872	Communication of Offer and Acceptance	0.8%	63.4%	32
38	B	The Indian Contract Act, 1872	Suit by a Third Party to a Contract	0.8%	64.2%	38
39	B	The Indian Contract Act, 1872	Liability of Joint Promisor & Promisee	0.8%	65.0%	56
40	B	The Indian Contract Act, 1872	Discharge of a Contract	0.8%	65.9%	62
41	B	The Indian Contract Act, 1872	Anticipatory Breach of Contract	0.8%	66.7%	64
42	B	The Indian Contract Act, 1872	Rights of A Surety	0.8%	67.6%	82
43	B	The Sale of Goods Act, 1930	Ascertainment of Price (Section 9 & 10)	0.8%	68.4%	118
44	B	The Sale of Goods Act, 1930	Auction Sale (Section 64)	0.8%	69.2%	142
45	B	The Companies Act, 2013	Doctrine of Ultra Vires	0.8%	70.1%	198

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
46	B	Indian Regulatory Framework	The Process of Making A Law	0.7%	70.8%	19
47	B	Indian Regulatory Framework	Enforcing The Law	0.7%	71.4%	20
48	B	The Indian Contract Act, 1872	Revocation of Offer and Acceptance	0.7%	72.1%	34
49	B	The Indian Contract Act, 1872	By Whom a Contract May Be Performed (Section 40, 41 And 42)	0.7%	72.8%	54
50	B	The Indian Contract Act, 1872	Performance of Reciprocal Promise	0.7%	73.4%	58
51	B	The Indian Contract Act, 1872	Appropriation of Payments	0.7%	74.1%	60
52	B	The Indian Contract Act, 1872	Penalty and Liquidated Damages (Section 74)	0.7%	74.8%	68
53	C	The Indian Contract Act, 1872	Revocation of Authority	0.7%	75.5%	108
54	C	The Sale of Goods Act, 1930	Sale and Agreement to Sell (Section 4)	0.7%	76.1%	112
55	C	The Sale of Goods Act, 1930	Caveat Emptor	0.7%	76.8%	126
56	C	The Indian Partnership Act, 1932	Elements of Partnership	0.7%	77.5%	146
57	C	The Indian Partnership Act, 1932	Types of Partners	0.7%	78.2%	153
58	C	The Indian Partnership Act, 1932	Partnership Property (Section 14)	0.7%	78.8%	157
59	C	The Indian Partnership Act, 1932	Liability to Third Parties (Section 25 to 27)	0.7%	79.5%	163
60	C	The Indian Partnership Act, 1932	Minors Admitted to the Benefits of Partnership (Section 30)	0.7%	80.2%	165
61	C	The Indian Partnership Act, 1932	Consequences of Non-Registration (Section 69)	0.7%	80.8%	173

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
62	C	The Indian Partnership Act, 1932	Consequences of Dissolution (Sections 45 -- 55)	0.7%	81.5%	177
63	C	The Limited Liability Partnership Act, 2008	Characteristics of LLP	0.7%	82.2%	181
64	C	The Indian Contract Act, 1872	Legal Rules Regarding Consideration	0.5%	82.7%	37
65	C	The Indian Contract Act, 1872	Performance of Contract	0.5%	83.2%	52
66	C	The Indian Contract Act, 1872	Contingent Contracts	0.5%	83.7%	70
67	C	The Indian Contract Act, 1872	Contract of Guarantee	0.5%	84.2%	75
68	C	The Indian Contract Act, 1872	What is Bailment?	0.5%	84.7%	84
69	C	The Indian Contract Act, 1872	Duties of A Bailee	0.5%	85.2%	86
70	C	The Indian Contract Act, 1872	Pledge by Non-Owner	0.5%	85.7%	94
71	C	The Indian Contract Act, 1872	Creation of Agency	0.5%	86.2%	98
72	C	The Indian Contract Act, 1872	Extent of Agent's Authority	0.5%	86.7%	99
73	C	The Sale of Goods Act, 1930	Definitions	0.5%	87.2%	110
74	C	The Sale of Goods Act, 1930	Subject Matter of Contract of Sale	0.5%	87.7%	117
75	C	The Sale of Goods Act, 1930	When Condition is to Be Treated as Warranty (Section 13)	0.5%	88.2%	121
76	C	The Sale of Goods Act, 1930	Rights of Unpaid Seller Against the Buyer (Sections 55--61)	0.5%	88.7%	139
77	C	The Indian Partnership Act, 1932	Partnership Distinguished from Other Forms of Organisation	0.5%	89.2%	149
78	C	The Indian Partnership	Right of Outgoing Partner in	0.5%	89.7%	170

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
		Act, 1932	Certain Cases to Share Subsequent Profits (Section 37)			
79	C	Indian Regulatory Framework	Structure of the Indian Judicial System	0.3%	90.1%	22
80	C	The Indian Contract Act, 1872	Acceptance	0.3%	90.4%	31
81	C	The Indian Contract Act, 1872	Free Consent	0.3%	90.8%	43
82	C	The Indian Contract Act, 1872	Contracts, Which Need not be Performed -- with the consent of both the parties	0.3%	91.1%	61
83	C	The Indian Contract Act, 1872	Contract of Indemnity	0.3%	91.4%	74
84	C	The Indian Contract Act, 1872	Distinction Between a Contract of Indemnity and A Contract of Guarantee	0.3%	91.8%	77
85	C	The Indian Contract Act, 1872	Termination of Bailment	0.3%	92.1%	90
86	C	The Indian Contract Act, 1872	Finder of Lost Goods	0.3%	92.4%	91
87	C	The Indian Contract Act, 1872	Pledge	0.3%	92.8%	93
88	C	The Sale of Goods Act, 1930	Introduction - Conditions and Warranties	0.3%	93.1%	120
89	C	The Indian Partnership Act, 1932	Personal Profit Earned by Partners (Section 16)	0.3%	93.4%	158
90	C	The Indian Partnership Act, 1932	Rights of Outgoing Partner to Carry on Competing Business (Section 36)	0.3%	93.8%	169
91	C	The Indian Partnership Act, 1932	Revocation of Continuing Guarantee by Change in Firm (Section 38)	0.3%	94.1%	171
92	C	The Limited Liability Partnership Act, 2008	Differences With Other Forms of Organisation	0.3%	94.5%	185

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
93	C	The Companies Act, 2013	Mode of Registration/Incorporation of Company	0.3%	94.8%	194
94	C	The Companies Act, 2013	Classification of Capital	0.3%	95.1%	195
95	C	The Companies Act, 2013	Shares	0.3%	95.5%	196
96	C	The Negotiable Instruments Act, 1881	Promissory Note	0.3%	95.8%	205
97	C	Indian Regulatory Framework	Sources of Law	0.2%	96.0%	18
98	C	The Indian Contract Act, 1872	What is Contract?	0.2%	96.1%	24
99	C	The Indian Contract Act, 1872	What is Consideration?	0.2%	96.3%	36
100	C	The Indian Contract Act, 1872	Rules Relating to Enforcement	0.2%	96.5%	71
101	C	The Indian Contract Act, 1872	Nature and Extent of Surety's Liability [Section 128]	0.2%	96.6%	79
102	C	The Indian Contract Act, 1872	Duties of A Bailor	0.2%	96.8%	85
103	C	The Indian Contract Act, 1872	Rights of A Bailor	0.2%	97.0%	88
104	C	The Indian Contract Act, 1872	Rights of Bailor and Bailee Against Any Wrong Doer (Third Party)	0.2%	97.1%	89
105	C	The Indian Contract Act, 1872	Right of Lien	0.2%	97.3%	92
106	C	The Indian Contract Act, 1872	Distinction Between Bailment and Pledge	0.2%	97.5%	95
107	C	The Indian Contract Act, 1872	Sub-Agents	0.2%	97.6%	101
108	C	The Indian Contract Act, 1872	Substituted Agent	0.2%	97.8%	102
109	C	The Indian Contract Act, 1872	Difference Between a Sub-Agent and A Substituted Agent	0.2%	98.0%	102

#	CAT.	CHAPTER	TOPIC	SHARE	CUM.	PG.
110	C	The Indian Contract Act, 1872	Duties and Obligations of An Agent	0.2%	98.2%	104
111	C	The Indian Contract Act, 1872	Principal's Liability to Third Parties	0.2%	98.3%	106
112	C	The Indian Contract Act, 1872	Personal Liability of Agent to Third Parties	0.2%	98.5%	107
113	C	The Sale of Goods Act, 1930	Distinction Between Sale and an Agreement to Sell	0.2%	98.7%	114
114	C	The Sale of Goods Act, 1930	Sale Distinguished from Other Similar Contracts	0.2%	98.8%	115
115	C	The Sale of Goods Act, 1930	Risk Prima Facie Passes with Property (Section 26)	0.2%	99.0%	130
116	C	The Sale of Goods Act, 1930	Remedies of Buyer Against the Seller	0.2%	99.2%	141
117	C	The Indian Partnership Act, 1932	Effect of Notice to Acting Partner (Section 24)	0.2%	99.3%	162
118	C	The Indian Partnership Act, 1932	Registration of Firms	0.2%	99.5%	172
119	C	The Companies Act, 2013	Memorandum of Association	0.2%	99.7%	197
120	C	The Negotiable Instruments Act, 1881	Meaning of Negotiable Instruments	0.2%	99.8%	204
121	C	The Negotiable Instruments Act, 1881	Rules of Compensation	0.2%	100.0%	216

Share % is a question-frequency signal drawn from the Scanner — what has actually been asked. The **Importance grade (A-D)** printed against each Chapter and Unit is ICAI's own weightage signal as published in the Scanner's front matter. The two measure different things, and where they diverge, prepare to the higher of the two standards. A further **21 topics** are declared in the Scanner's frequency tables but carry no question yet; they are badged **CONCEPT BASE** in the notes and are not ranked here.

CHAPTER 1

Indian Regulatory Framework

6 Topics • 11 Classified Questions • Importance: C

ICAI SKILL PROFILE Level I 5–20% • Level II 80–95% — this chapter reads **theory-heavy**

Level I — Remembering & Understanding **100.0%** 57 of 57 marks

Level II — Application & Analysis **0.0%** 0 of 57 marks

Topic 1: Introduction

P2-C1-U1-T01

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §1 ('Introduction') of Chapter 1: why a Chartered Accountant needs legal awareness, the purpose of a regulatory framework, and the two ancient codes the Study Material cites.

NOTES

Why a CA studies law: awareness of law is essential to become a full-fledged Chartered Accountant — a CA is the first level of contact on many legal matters, and must be able to advise management and clients on legal matters at a basic or threshold level.

Purpose of a regulatory framework: to provide a set of uniform rules and regulations that govern the conduct of people interacting with each other in personal as well as business relationships; as mankind evolved from a hunter-gatherer society through the agricultural and industrial revolutions to a complex social framework, laws were always needed both to guide the right course of conduct and to identify violations and punish them.

Ancient codes: the “Code of Hammurabi” is known as the oldest law in written form — King Hammurabi ruled Babylon from 1792 BC to 1758 BC, carved the code on bulky stone slabs placed all over the city so that the public might know it, and appointed judges to check whether the public was following the laws; in 450 BC a set of laws was engraved on 12 bronze tablets in Rome, the Twelve Tables, considered the first most detailed code of any civilisation, meant to protect the rights of the public and provide remedy for wrongs, and every citizen of Rome was supposed to know them.

Topic 2: What Is Law?

P2-C1-U1-T02

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §2 ('What Is Law?') of Chapter 1: the Study Material's one-line definition of law and what India's legal framework reflects.

NOTES

Definition (SM): "Law is a set of obligations and duties imposed by the government for securing welfare and providing justice to society." — learn this wording verbatim; it is the opening line the examiner expects in any 'Define Law' answer.

Indian context: India's legal framework reflects the social, political, economic and cultural aspects of our vast and diversified country.

Where it is examined: the Scanner records no question against this topic on its own, but the definition is the first half of TQ 3.1 under Topic 3 (Sources of Law) — 'Define Law and explain various sources of Law', PYQ 2025-Sep, 6 marks.

Topic 3: Sources of Law

P2-C1-U1-T03

Read first Read paras 2 ('What is Law?') and 3 ('Sources of Law') of Ch. 1, Indian Regulatory Framework: definition of law, the four main sources, the Government of India Act, 1935 as precursor to the Constitution, and the three legislative lists.

NOTES

Law (SM): "Law is a set of obligations and duties imposed by the government for securing welfare and providing justice to society" — India's legal framework reflects the social, political, economic and cultural aspects of a vast, diversified country.

Four main sources: (1) the Constitution, (2) statutes made by Parliament and State Assemblies, (3) precedents/judicial decisions of courts, (4) established customs and usages; Parliament is the ultimate law-making body — its laws may apply to all or part of India, State laws only within the state concerned.

Constitution of India, 1950: the foremost law, basis and source for all laws; lays down the framework of the democratic system, provides and protects Fundamental Rights, lays down Fundamental Duties and the powers/duties of Central and State Governments — Indian laws are interconnected, forming a hybrid legal system.

Govt Act, 1935 (UK Parliament): precursor of the Constitution; changed the character of Government from “unitary” to “federal”, distributing powers between Centre and States; the Federal Court (1937 — appellate, original and advisory jurisdiction; ~151 cases in 12 years) was supplanted by the Supreme Court of India.

Three legislative lists: Central, State and Joint List decide who legislates — Income Tax is a Central subject (one law for all India, implemented by the Ministry of Finance); levy of stamp duty is a Joint-List example — both Central and State Governments have laws on it.

Understanding explain with reasons · 1 question

- Open every answer with the definition: law is a set of obligations and duties imposed by the government for securing welfare and providing justice to society.
- Explain the four main sources: the Constitution (foremost law; fundamental rights and duties), statutes made by Parliament/State Assemblies (Parliament is the ultimate law-making body), judicial precedents, and established customs and usages.
- Link the federal scheme: Central, State and Joint (Concurrent) Lists decide who legislates -- Income Tax is a Central subject; stamp duty can be levied by both Centre and States.
- Be ready to add background: Govt Act, 1935 shifted the set-up from unitary to federal; the Federal Court (1937) was replaced by the Supreme Court.

TQ 3.1 · PYQ 2025-Sep [4] (c) · Descriptive · 6M · Pg 2

LEVEL I
Understanding

Medium

Topic 4: The Process of Making A Law

P2-C1-U1-T04

Read first Read para 4 of Ch. 1: the Bill-to-Act procedure and 'Types of laws in the Indian Legal System' (Criminal, Civil, Common Law, Principles of Natural Justice).

NOTES

Bill to Act: law proposed in Parliament is a Bill → after discussion and debate passed in Lok Sabha → passed in Rajya Sabha → assent of the President of India → notified in the Official Gazette of India → applicable from the effective date in the notification → once notified and effective it is an Act of Parliament.

Criminal law: deals with violations of the rule of law/public wrongs and their punishment; IPC, 1860 defines the crime, its nature and punishments; CrPC, 1973 gives the exhaustive procedure for executing punishments; examples — murder, rape, theft, fraud, cheating, assault.

Civil law: disputes between individuals/organisations enforced through a civil suit; focuses on dispute resolution rather than punishment; procedure governed by CPC, 1908; classified into Law

of Contract, Family Law, Property Law and Law of Tort; examples — breach of contract, non-delivery of goods, non-payment of dues, defamation, landlord-tenant disputes.

Common law: judicial precedent or case law; a Supreme Court judgment binds all courts within India under Art. 141; supported by the doctrine of stare decisis — “to stand by that which is decided” — courts follow earlier decisions where the facts are similar/“on all four legs”.

Natural justice (Jus Natural): fundamental principles of justice beyond written law — nemo iudex in causa sua (no one a judge in his own cause; rule against prejudice), audi alteram partem (hear the other party/fair hearing) and reasoned decision; a judgment can override or alter common law but cannot override or change the statute.

Understanding explain with reasons · 4 questions

- Reproduce the chain in order: Bill proposed in Parliament → passed in Lok Sabha → passed in Rajya Sabha → President's assent → notification in the Official Gazette → effective from the notified date → becomes an Act of Parliament; questions often add 'who enforces it' -- the executive through Central/State ministries.
- Explain the four types of law with examples: Criminal (IPC, 1860 defines crimes and punishments; CrPC, 1973 gives procedure) and Civil (CPC, 1908; contract, family, property, tort -- dispute resolution, not punishment).
- Common Law = judicial precedent; Supreme Court judgments bind all courts under Art. 141; doctrine of stare decisis -- 'to stand by that which is decided'.
- Natural Justice (Jus Natural): nemo iudex in causa sua (rule against prejudice), audi alteram partem (fair hearing) and reasoned decision; a judgment can alter common law but never override a statute.

TQ 4.1 · PYQ 2024-Sep [4] (c) · Descriptive · 6M · Pg 3 asked 3×	LEVEL I Understanding	Medium
TQ 4.2 · MTP 2024-Dec S1 [4] (c) · Descriptive · 6M · Pg 5 asked 3×	LEVEL I Understanding	Medium
TQ 4.3 · MTP 2025-Aug S1 [4] (c) · Descriptive · 6M · Pg 5 asked 2×	LEVEL I Understanding	Medium
TQ 4.4 · PYQ 2026-May [4] (c) · Descriptive · 6M · Pg 6	LEVEL I Understanding	Medium

Topic 5: Enforcing The Law

P2-C1-U1-T05

Read first Read para 5 of Ch. 1: enforcement by the executive through Ministries (Finance, Corporate Affairs, Home Affairs, Law and Justice) and the regulators SEBI, RBI and IBBI.

NOTES

Who enforces: after a law is passed the executive enforces it — Central or State Government depending on the law — through Ministries composed of civil servants, politically accountable through a minister (Cabinet Minister aided by Ministers of State); e.g. the Income Tax Act is enforced by the Ministry of Finance through the CBDT (Department of Revenue), administered by Indian Revenue Service officers.

Ministry of Finance (Vitta Mantralaya): Treasury of India — concerns taxation, financial legislation, financial institutions, capital markets, centre and state finances and presentation of the Union Budget; six departments: Economic Affairs, Expenditure, Revenue, Financial Services, Investment and Public Asset Management, Public Enterprises; apex controlling authority of four Central Civil Services (Indian Revenue, Indian Audit & Accounts, Indian Economic, Indian Civil Accounts) plus the Indian Cost and Management Accounts Service.

MCA: administers the Companies Act, 2013/1956, LLP Act, 2008 and IBC, 2016; regulates Indian enterprises in the industrial and services sector; run by ICLS cadre officers (selected via UPSC Civil Services Examination); highest post — Director General of Corporate Affairs (DGCoA) at Apex Scale. **Ministry of Home Affairs (Gṛha Mantralaya):** interior ministry responsible for internal security and domestic policy, headed by the Union Minister of Home Affairs; departments — Internal Security, Border Management, Home, States, Official Language, J&K and Ladakh Affairs.

Ministry of Law and Justice: Cabinet Ministry with three departments — Department of Legal Affairs (advises the various Ministries of the Central Government), Legislative Department (drafts principal legislation for the Central Government), Department of Justice (administration of justice in India).

Regulators: SEBI — regulatory body for securities and commodity market, owned by Ministry of Finance, established 12.4.1988 as executive body, statutory powers 30.1.1992 via SEBI Act, 1992; RBI — India's Central Bank regulating the banking system, controls/issues/maintains supply of the rupee, manages main payment systems; divisions — BRBNM (currency presses at Nashik and Dewas), NPCI (payment and settlement systems), DICGC (deposit insurance and credit guarantee); IBBI — regulator overseeing insolvency proceedings and IPAs, IPs and IUs, established 1.10.2016 with statutory powers under the Insolvency and Bankruptcy Code (passed by Lok Sabha 5.5.2016), covers individuals, companies, LLPs and partnership firms, handles cases through NCLT and Debt Recovery Tribunal.

Remembering memorise · 2 questions

- Ministry of Home Affairs: interior ministry responsible for internal security and domestic policy; headed by the Union Home Minister; departments include Internal Security, Border Management, Home, States, Official Language, and J&K and Ladakh Affairs.
- Ministry of Finance: six departments -- Economic Affairs, Expenditure, Revenue, Financial Services, DIPAM, Public Enterprises; apex authority over IRS, Indian Audit & Accounts, Indian Economic and Indian Civil Accounts Services.
- Regulator facts to memorise: SEBI -- securities/commodity market regulator, formed 12.4.1988, statutory powers 30.1.1992 via SEBI Act, 1992; RBI -- central bank, issues/controls the rupee, divisions

include NPCI, DICGC and BRBNM presses (Nashik, Dewas); IBBI -- est. 1.10.2016 under the Insolvency and Bankruptcy Code, regulates IPAs, IPs and IUs, works through NCLT and DRT.

TQ 5.1 • MTP 2024-Jun [4] (c) (ii) • Descriptive • 3M • Pg 7

LEVEL I
Remembering

Easy

TQ 5.3 • PYQ 2026-Jan [4] (c) • Descriptive • 6M • Pg 9 asked 2×

LEVEL I
Remembering

Medium

Understanding explain with reasons • 2 questions

- Explain Ministry of Finance functions: taxation, financial legislation, financial institutions, capital markets, centre-state finances and presentation of the Union Budget.
- MCA: administers the Companies Act, 2013/1956, LLP Act, 2008 and IBC, 2016; regulates enterprises in industrial/services sector; run by ICLS officers, top post DGC&A.
- Ministry of Law and Justice: three departments -- Legal Affairs (advises Central Ministries), Legislative (drafts principal legislation), Justice (administration of justice).
- Frame answers as: law passed -> executive enforces -> ministry-wise functions (a 6-mark question typically asks three ministries together).

TQ 5.2 • PYQ 2025-May [4] (c) • Descriptive • 6M • Pg 7 asked 3×

LEVEL I
Understanding

Medium

TQ 5.4 • PYQ 2026-Sep [4] (c) • Descriptive • 6M • Pg 10

LEVEL I
Understanding

Medium

Topic 6: Structure of the Indian Judicial System

P2-C1-U1-T06

Read first Read para 6 of Ch. 1: functions of the judiciary and the hierarchy -- Supreme Court, High Courts, District Courts and Metropolitan Courts, with the relevant Articles of the Constitution.

NOTES

Three functions of the judiciary: (1) regulation of the interpretation of the Acts and Codes, (2) dispute resolution, (3) promotion of fairness among the citizens of the land.

Hierarchy: Supreme Court at the top, then High Courts and District Courts; a High Court's decisions bind its own state and are only persuasive in other states; Supreme Court decisions bind all High Courts under Art. 141 — the final word on the matter.

Supreme Court: apex body of the judiciary, established 26.1.1950; Chief Justice of India is the highest authority, appointed under Art. 126; principal bench of seven including CJI, presently increased to 34 judges due to rising caseload; relief by writ petition under Art. 32.

High Courts: highest court of appeal in each state/UT; Art. 214 mandates a High Court in each state; has appellate, original and supervisory jurisdiction — supervisory power limited by Art. 227;

twenty-five High Courts, six states share a single High Court; writs against violation of fundamental rights under Art. 226; oldest — Calcutta High Court (2.7.1862).

District and Metropolitan courts: Courts of District Judge deal with civil matters (contractual disputes, claims for damages); Courts of Sessions deal with criminal matters; pecuniary jurisdiction — a civil judge tries suits valuing not more than ₹2 crore; territorial jurisdiction from local limits where parties reside or disputed property is situated; Metropolitan courts set up in cities with population of ten lakh or more in consultation with the High Court — Chief Metropolitan Magistrate has powers of Chief Judicial Magistrate, Metropolitan Magistrate of a first-class Magistrate.

Understanding explain with reasons · 2 questions

- State the three functions of the judiciary: regulation of interpretation of Acts and Codes, dispute resolution, and promotion of fairness among citizens.
- Hierarchy with key facts: Supreme Court -- apex, est. 26.1.1950, CJI appointed under Art. 126, now 34 judges, writs under Art. 32, decisions bind all courts (Art. 141); High Courts -- Art. 214, 25 High Courts (six states share one), writs under Art. 226, supervisory power limited by Art. 227; oldest is Calcutta HC (2.7.1862).
- District level: Courts of District Judge (civil -- contractual disputes, damages; pecuniary limit Rs. 2 crore) and Courts of Sessions (criminal); Metropolitan Courts in cities with population of ten lakh or more.
- Explain jurisdiction: territorial (where parties reside or property is situated) and pecuniary; HC decisions bind only its own state, persuasive elsewhere.

TQ 6.1 · RTP 2024-Jun [1] · Descriptive · --- · Pg 11

LEVEL I
Understanding

Medium

TQ 6.2 · PYQ 2025-Jan [4] (c) · Descriptive · 6M · Pg 12 asked 5x

LEVEL I
Understanding

Medium

CHAPTER 2

The Indian Contract Act, 1872

66 Topics · 217 Classified Questions · Importance: B

ICAI SKILL PROFILE Level I 5–20% · Level II 80–95% — this chapter reads **theory-heavy**

Level I — Remembering & Understanding **50.9%** 382 of 751 marks

Level II — Application & Analysis **49.1%** 369 of 751 marks

Unit 2.1: Nature of Contract

P2-C2-U2.1 · Importance B · Rank 2 in chapter · Category A · 14.3% of chapter questions · 31 questions

Topic 1: What is Contract?

P2-C2-U2.1-T01

Read first Read para 1.1 of Unit 1 (Nature of Contracts), Indian Contract Act, 1872: Sec. 2(h) contract, Sec. 2(e) agreement, Sec. 2(b) promise, and the agreement vs contract difference table.

NOTES

Sec 2(h) contract (SM): “an agreement enforceable by law” — two essential elements: (i) an agreement and (ii) its enforceability by law; Contract = Agreement + Enforceability by law.

Sec 2(e) agreement (SM): “every promise and every set of promises, forming the consideration for each other”; **Sec 2(b) promise (SM):** “when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. Proposal when accepted, becomes a promise”; hence Agreement = Offer/Proposal + Acceptance + Consideration.

All contracts are agreements but all agreements are not contracts: social/domestic agreements lack intention to create legal relations — father’s promise of ₹500 monthly pocket allowance not recoverable; wife could not recover husband’s promised maintenance (Balfour v. Balfour); status obligations (maintaining wife and children, court orders) are outside the Contract Act.

Agreement vs Contract: four-point distinction; an agreement ripens into a contract only on satisfying Sec 10 — free consent, competent parties, lawful consideration and object, not expressly declared void.

Agreement	Contract

Promise/set of promises forming consideration for each other (Promise + Consideration)	Agreement enforceable by law (Agreement + Legal enforceability)
Wider term — includes both legal and social agreements	Narrow sense — only legally enforceable agreements
May not create legal obligation; does not always grant rights	Necessarily creates legal obligation; always grants rights to every party
All agreements are not contracts	All contracts are agreements

Understanding explain with reasons · 1 question

- 'All contracts are agreements but all agreements are not contracts': Contract = Agreement + Enforceability by law [Sec. 2(h)]; Agreement = Offer + Acceptance + Consideration [Secs. 2(a), 2(b), 2(e)].
- Give the reason: social/domestic agreements (father's pocket-money promise; Balfour v. Balfour) lack intention to create legal relations, so they never ripen into contracts.
- Reproduce the 4-point distinction table -- meaning, scope (agreement wider), legal obligation, nature -- and close with Sec. 10 conditions that convert agreements into contracts.

TQ 1.1 · MTP 2022-Jun [2] (i) · Descriptive · 4M · Pg 18 asked 2x

LEVEL I
Understanding

Easy

Topic 2: Essentials of Valid Contract

P2-C2-U2.1-T02

Read first Read para 1.2: Sec. 10 essentials (free consent, competency u/s 11, lawful consideration and object u/s 23, not expressly void u/ss 24-30, 56) plus the non-Sec. 10 essentials -- two parties, intention to create legal relations, certainty, possibility of performance, legal formalities.

NOTES

Sec 10 (SM): "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 expressly declared to be void".

Sec 10 essentials: (1) agreement — offer + acceptance for consideration [Secs 2(e), 2(b)]; (2) free consent — consensus ad idem (red car/black car: no contract), consent not caused by coercion, undue influence, fraud, misrepresentation or mistake (loan agreed at gun-point = coercion, not valid); (3) capacity [Sec 11] — of age of majority (18), of sound mind, not otherwise disqualified (minor, lunatic, idiot, drunken person, alien enemy, foreign sovereign, convict incompetent); (4) consideration — quid pro quo, 'something in return'; (5) lawful consideration and object [Sec 23] — not prohibited by law, not defeating any law, not fraudulent, no injury to person/property, not

immoral or opposed to public policy (house against 100 kg cocaine = illegal; dropping robbery prosecution = void); (6) not expressly declared void [Secs 24–30, 56] — e.g. agreements in restraint of trade, marriage, legal proceedings.

Essentials outside Sec 10: two parties — one cannot contract with himself (State of Gujarat v. Ramanlal S & Co.: division of firm assets among partners is no sale); intention to create legal obligations — social agreements fail (Balfour v. Balfour; father's ₹5 lakh promise for passing CA exams not enforceable, but credit sale with 30-day term is a contract); legal formalities — insurance must be written, immovable property needs registration; certainty of meaning — “a hundred tons of oil” or lease for indefinite years is void for vagueness; possibility of performance — agreement to discover treasure by magic cannot be enforced.

Application apply provision to facts · 4 questions

- Practise the format: quote Sec. 10 -> pinpoint the missing essential on the facts -> conclude valid/void/voidable.
- Husband-wife/family promise scenarios (money for birthday, remittance to wife) recur: even a written and registered domestic promise fails for want of intention to create legal relations (Balfour v. Balfour).
- Social invitations (birthday party at a restaurant) create no contract -- expenses incurred are not recoverable.
- Spot the failing essential quickly: vague terms ('100 tons of oil') = no certainty; 'discover treasure by magic' = impossibility; incompetent party u/s 11 = void.

CSQ 2.1 · PYQ 2018-Nov [3] (b) (i) · Case Scenario · 3M · Pg 19	asked 2x	LEVEL II Application	Easy
CSQ 2.5 · PYQ 2025-Sep [4] (a) (ii) · Case Scenario · 3M · Pg 23		LEVEL II Application	Easy
CSQ 2.3 · PYQ 2023-Jun [1] (a) {C} · Case Scenario · 4M · Pg 21		LEVEL II Application	Medium
CSQ 2.4 · MTP 2023-Nov [1] (a) {C} · Case Scenario · 4M · Pg 22		LEVEL II Application	Medium

Analysis untangle multi-issue scenarios · 1 question

- Multi-limb validity questions test one different essential per limb: threat to shoot -> coercion, contract voidable; house for 100 kg cocaine -> unlawful consideration u/s 23, void/illegal -- deal with consent first, then legality.
- For each limb state the resulting status (valid / void / voidable / illegal) AND the aggrieved party's rights, since marks are limb-wise.

CSQ 2.2 · RTP 2023-Jun [1] · Case Scenario · --- · Pg 20	LEVEL II Analysis	Medium
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Topic 3: Types of Contracts

P2-C2-U2.1-T03

Read first Read para 1.3: classification by validity (valid; void Sec. 2(j); voidable Sec. 2(i); illegal; unenforceable), by formation (express/implied Sec. 9, tacit, quasi, e-contracts) and by performance (executed, executory, unilateral, bilateral).

NOTES

Three bases of classification: validity/enforceability — valid, void [Sec 2(j)], voidable [Sec 2(i)], illegal, unenforceable; formation — express, implied (incl. tacit), quasi, e-contracts; performance — executed, executory (unilateral and bilateral being kinds of executory).

Validity kinds: void contract (SM) [Sec 2(j)] — “A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable” (author dies before writing book; factory burnt before supply of 10 tons of sugar); voidable (SM) [Sec 2(i)] — “an agreement which is enforceable by law at the option of one or more parties thereto, but not at the option of the other or others” — arises when consent not free (scooter sold at gun point), when one party prevents performance, or when work is not done within the agreed time (house not built by 31-3-2022 — voidable at B’s option); illegal — forbidden by law, void ab initio, even collateral agreements void, all illegal agreements are void but all void agreements are not illegal (brown sugar purchase); unenforceable — good in substance but technical defect, e.g. debt unpaid for over three years barred by the Limitation Act, or unwritten transfer of immovable property.

Void vs voidable — standard distinction:

Void contract [Sec 2(j)]	Voidable contract [Sec 2(i)]
Ceases to be enforceable by law	Enforceable at the option of one or more parties, not of the other(s)
Cannot be enforced at all	Enforceable only at the option of the aggrieved party
Cause: change in law or in circumstances beyond parties’ contemplation	Cause: consent of a party was not free
Cannot be performed	If not avoided in reasonable time, any party can sue for performance
Grants no legal remedy to any party	Aggrieved party may rescind in reasonable time; if not, it becomes valid

Formation kinds: express — terms in words spoken or written [Sec 9] (house offered and accepted on telephone); implied — by act/conduct or course of dealings (coolie in uniform picking up

luggage; drinking coffee in a restaurant); tacit — inferred from conduct without words, within implied contracts (cash withdrawal from ATM; sale at fall of hammer in auction); quasi — created and imposed by law with no real contract, neither offer nor consent (finder of lost goods must return them; C must pay for tradesman's goods left by mistake and treated as his own); e-contracts — entered by electronic means/EDI networks, also called EDI, cyber or mouse-click contracts.

Performance kinds: executed — both sides have done what they were to do (grocer's cash sale of sugar); executory — consideration is a reciprocal promise to be performed in future (G to give tuition from next month, H to pay ₹1,000 per month); unilateral — one-sided: one party has performed, the other's obligation outstanding (₹50,000 reward advertised, B traces the missing boy); bilateral — obligation outstanding on both parties (plot sold for ₹10 lacs, ₹2,50,000 earnest paid, possession given, sale deed and balance pending).

Understanding explain with reasons · 2 questions

- Master the void vs voidable table [Secs. 2(j)/2(i)]: meaning, enforceability, cause (change of law/circumstances vs consent not free), performance, rights -- a standard 5-mark distinguish question.
- Formation-based kinds with SM examples: express (words, Sec. 9), implied (coolie, coffee), tacit (ATM withdrawal, fall of hammer), quasi (imposed by law -- finder of goods), e-contracts (EDI/cyber/mouse-click).
- Void vs illegal: every illegal agreement is void, not vice versa; agreements collateral to illegal agreements are also void.

TQ 3.1 · PYQ 2023-Jun [6] (a) · Distinguish Between · 5M · Pg 24

LEVEL I
Understanding

Easy

TQ 3.3 · MTP 2025-Aug S2 [3] (c) · Descriptive · 6M · Pg 26

LEVEL I
Understanding

Medium

Application apply provision to facts · 5 questions

- Classify facts with reason: factory burnt before supply -> contract becomes void (impossibility); goods of 2015 unpaid till 2019 -> unenforceable (Limitation Act); tuition from next month -> executory/bilateral.
- Elephant dead unknown to both -> void (mistake/impossibility); work not done by the agreed date -> voidable at the promisee's option.

CSQ 3.1 · RTP 2021-May [1] (ii) · Case Scenario · --- · Pg 27

LEVEL II
Application

Easy

CSQ 3.2 · RTP 2021-May [1] (iii) · Case Scenario · --- · Pg 27

LEVEL II
Application

Easy

TQ 3.2 · RTP 2024-Sep [2] · Descriptive · --- · Pg 25 asked 4x

LEVEL II
Application

Medium

CSQ 3.3 · RTP 2022-Nov [1] · Case Scenario · --- · Pg 28

LEVEL II
Application

Medium

CSQ 3.6 · RTP 2025-Sep [3] · Case Scenario · --- · Pg 30

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios · 2 questions

- Mixed sets need a different rule per limb: impossible promise (bring the dead to life) -> void; goods perishing in transit; marriage-bureau payment -- first fix the classification basis asked, then apply limb-wise.
- Watch overlaps: one fact pattern may be implied, executed and unilateral at once -- answer only the classification asked.

CSQ 3.4 · RTP 2024-Sep [5] · Case Scenario · --- · Pg 28 asked 3×

LEVEL II
Analysis

Medium

CSQ 3.5 · PYQ 2025-Jan [1] (a) {C} · Case Scenario · 7M · Pg 29 asked 3×

LEVEL II
Analysis

Hard

Topic 4: Proposal/Offer [Section 2(a) of the Indian Contract Act, 1872]

P2-C2-U2.1-T04

Read first Read para 1.4: Sec. 2(a) definition, essentials of a valid offer, kinds of offer (general, specific, cross, counter, standing) and offer vs invitation to offer, with Carlill v. Carbolic Smoke Ball Co., Lalman Shukla v. Gauri Dutt, Harvey v. Facey and Harris v. Nickerson.

NOTES

Sec 2(a) (SM): “when one person signifies to another his willingness to do or to abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal” — maker is the promisor/offeror, addressee the offeree, acceptor the promisee; offer can be positive (doing) or negative (abstinence — paying repair charges if B does not go to court), express or implied (boy cleaning car at traffic signal).

Essentials of a valid offer: (1) capable of creating legal relations — a social invitation even if accepted creates none (birthday-party guest cannot recover travelling expenses); (2) certain, definite, not vague — “100 quintals of oil” incapable of acceptance, unless A deals only in mustard oil; (3) communicated to the offeree — acceptance in ignorance of the offer confers no right (Lalman Shukla v. Gauri Dutt: servant traced the nephew without knowing of the reward, not entitled); (4) made with a view to obtaining assent, not a mere statement of intention (father’s letter of his wish; scholarship announcement) ; (5) may be conditional (payment by RTGS/NEFT); (6) must not contain a term whose non-compliance amounts to acceptance — “if no reply in a week, offer deemed accepted” creates no contract.

Five kinds of offer: general — to public at large, anyone performing its conditions accepts [Sec 8] (Carlill v. Carbolic Smoke Ball Co.: Mrs Carlill using smoke balls as directed could recover the £100 reward); specific — to an ascertained person, acceptable only by him (Boulton v. Jones); cross — identical offers exchanged in ignorance of each other, no binding contract; counter — qualified

acceptance with modifications, amounts to rejection/termination of the original offer (₹10 lakh plot answered at ₹8 lakh — A may later refuse even ₹10 lakh); standing/continuing/open — kept open for acceptance over a period, e.g. tenders for supply of goods.

Offer vs invitation to offer: test is the intention — one who intends to be bound as soon as the other accepts makes an offer; one who proposes terms to negotiate/receive offers makes only an invitation; invitations include (i) company prospectus, (ii) display of goods in shop windows, (iii) advertisement of auction sales — auctioneer contracts with no attendee, no recovery of travel costs on cancellation (Harris v. Nickerson), (iv) price quotations — “lowest price for Bumper Hall Pen £900” answered only the price question, no offer (Harvey v. Facey; followed in Mac Pherson v. Appanna); acceptance of an invitation only produces an offer, not a contract.

Understanding explain with reasons · 1 question

- Define offer u/s 2(a) and list the essentials: capable of creating legal relations, certain and definite, communicated to the offeree, made to obtain assent, may be conditional, and must not make silence/non-reply amount to acceptance.
- Offer vs invitation to offer: the test is intention to be bound on acceptance; invitations include a company prospectus, display of goods in shop windows, advertisement of auction, and price quotations (Harvey v. Facey -- 'lowest price' telegram was no offer).
- Know the five kinds of offer with one-line meanings; counter offer kills the original offer, cross offers make no contract.

TQ 4.1 · RTP 2019-Nov [1] · Descriptive · --- · Pg 31

LEVEL I
Understanding

Medium

Application apply provision to facts · 4 questions

- Reward-advertisement scenarios: general offer (Carlill); performing its conditions with knowledge of the offer is acceptance (Sec. 8), but a person acting in ignorance cannot claim the reward (Lalman Shukla v. Gauri Dutt).
- Price tag/self-service mall display = invitation to offer; the customer makes the offer at the counter and the shopkeeper may refuse -- conclude no contract at the tagged price.
- Cancelled auction: the advertisement was only an invitation, so an attendee cannot recover travel expenses (Harris v. Nickerson).

CSQ 4.1 · RTP 2022-May [4] · Case Scenario · --- · Pg 32

LEVEL II
Application

Medium

CSQ 4.2 · PYQ 2023-Dec [3] (b) (i) · Case Scenario · 3M · Pg 32 asked 7x

LEVEL II
Application

Medium

CSQ 4.3 · PYQ 2025-Sep [4] (a) (I) · Case Scenario · 4M · Pg 33

LEVEL II
Application

Medium

CSQ 4.4 · RTP 2026-Jan [2] · Case Scenario · --- · Pg 34

LEVEL II
Application

Medium

Topic 5: Acceptance

P2-C2-U2.1-T05

Read first Read para 1.5: Sec. 2(b) definition, the seven legal rules of a valid acceptance (Secs. 7 and 8) and Anson's gunpowder analogy; cases Boulton v. Jones, Neale v. Merret, Brogden v. Metropolitan Rly. and Felthouse v. Bindley.

NOTES

Sec 2(b) (SM): "When the person to whom the proposal is made signifies his assent thereto, proposal is said to be accepted. The proposal, when accepted, becomes a promise".

Anson (SM): "Acceptance is to offer what a lighted match is to a train of gun powder" — the offer by itself is inert and can be withdrawn before acceptance (the train can be removed before the match is applied); acceptance creates the legal relationship, and once an offer is accepted it becomes a promise that cannot be recalled or revoked.

Legal rules of valid acceptance: (1) only by the person to whom the offer is made — specific offer (Boulton v. Jones: order placed on Brocklehurst could not be accepted by Boulton, no contract), general offer acceptable by anyone with knowledge of it (Carlill); (2) absolute and unqualified [Sec 7] — cheque of £80 with promise of instalments against £280 offer was no acceptance (Neale v. Merret); "₹24 lakh for a ₹30 lakh house" is a counter offer, and even later agreement at ₹30 lakh is a fresh counter offer (Union of India v. Bahulal); (3) communicated in some perceptible form — "Approved" written on the draft but left in the drawer made no contract (Brogden v. Metropolitan Rly. Co.); acceptance told to A's sister, not A, is no acceptance; (4) in the prescribed mode — else the offeror may object; if he does not, he is presumed to have consented; (5) within the specified or a reasonable time — four days too long for perishable bananas, reasonable for sale of a house; (6) mere silence is not acceptance (Felthouse v. Bindley: "If I hear no more I shall consider the horse mine" — nephew's non-reply bound nobody), unless previous conduct makes silence evidence of assent (continued use of magazine after subscription expiry); (7) acceptance by conduct [Sec 8] — performance of the conditions of a proposal is acceptance (tradesman executing a customer's order by sending goods).

Understanding explain with reasons · 1 question

- Define acceptance u/s 2(b) and list the rules: only by the person to whom the offer is made (Boulton v. Jones); absolute and unqualified [Sec. 7]; communicated (Brogden); in the prescribed mode; within specified/reasonable time; mere silence is not acceptance (Felthouse v. Bindley); acceptance by conduct [Sec. 8].
- Explain Anson: 'Acceptance is to offer what a lighted match is to a train of gun powder' -- offer is revocable till acceptance; once accepted it becomes a promise and cannot be recalled.
- Partial/qualified acceptance (cheque for part price -- Neale v. Merret) is a counter offer, not acceptance.

TQ 5.1 · PYQ 2021-Jan [2] (a) · Descriptive · 7M · Pg 35 asked 2×

LEVEL I
Understanding

Medium

Application apply provision to facts · 1 question

- 'If you do not reply within a week I shall treat the offer as accepted' -- invalid: the offeror cannot impose silence as acceptance; and acceptance after the stipulated time is no acceptance (offer lapses).
- Answer structure: rule (Sec. 2(b)/7 + case) -> facts -> whether a binding contract arose.

CSQ 5.1 · RTP 2019-Nov [3] · Case Scenario · ---- · Pg 39

LEVEL II
Application

Medium

Topic 6: Communication of Offer and Acceptance

P2-C2-U2.1-T06

Read first Read paras 1.6 and 1.7: Sec. 4 (when communication of offer/acceptance is complete), Sec. 3 modes, acceptance over telephone/telex (Entores case), and communication of special conditions (Mukul Datta v. Indian Airlines, Lilly White v. Mannuswamy).

NOTES

Sec 4 — offer (SM): “the communication of offer is complete when it comes to the knowledge of the person to whom it is made” — letter posted 10th March, received 12th but read 15th: offer communicated on 15th; **modes [Sec 3]:** by act (written or oral words — letters, telegrams, faxes, emails, telephone), by omission (forbearance, but never silence — B staying away from court for ₹50,000), and by conduct (boarding a bus, dropping a coin in a weighing machine).

Sec 4 — acceptance: complete as against the proposer when put in a course of transmission to him so as to be out of the power of the acceptor (letter posted); as against the acceptor when it comes to the knowledge of the proposer (letter reaches him) — so each timeline must be answered separately for proposer and acceptor.

Postal/golden rule: the proposer is bound the moment the acceptance letter is posted — correctly addressed, adequately stamped and duly posted — even if delayed, lost or wrongly delivered; but a mere mental unilateral assent is no communication: a bank resolution to sell land that stayed uncommunicated made no contract (Central Bank Yeotmal v. Vyankatesh; Brogden).

Instantaneous modes: telephone/telex/fax/e-mail — contract complete only when the acceptance is received, and made at the place where acceptance is received (Entores Ltd. v. Miles Far East Corporation); on call drops/line disturbance the acceptor must confirm the offeror heard the words, else no contract.

Special conditions and standard forms: printed conditions on tickets/receipts bind by tacit acceptance if reasonably notified — fine-print conditions on an air ticket held communicated (Mukul Datta v. Indian Airlines) — but unreasonable terms fail: laundry receipt limiting claim to 15% of value; customer recovered full price of the saree (Lilly White v. Mannuswamy); conditions

issued after the contract do not bind (Raipur Transport Co. v. Ghanshyam); **Carlill principles:** (i) offer must contain a definite promise to be bound, (ii) offer may be to a particular person or the public at large, (iii) where an offer is a promise in return for an act, performing the act is acceptance without any separate communication.

Understanding explain with reasons · 1 question

- Sec. 4: communication of offer complete when it comes to the knowledge of the offeree (letter received AND read); of acceptance -- against the proposer when posted (out of acceptor's power), against the acceptor when it reaches the proposer.
- Postal rule: proposer is bound the moment the correctly addressed, stamped and posted acceptance letter is dispatched, even if delayed or lost; but a mere mental assent or an uncommunicated 'Approved' noting is no acceptance (Brogden; Central Bank Yeotmal v. Vyankatesh).
- Instantaneous modes (telephone/telex/e-mail): contract complete only when acceptance is actually received, at the place of receipt (Entores).

TQ 6.1 · RTP 2020-Nov [3] · Descriptive · --- · Pg 40

LEVEL I
Understanding

Medium

Application apply provision to facts · 4 questions

- Appointment scenarios (principal/school selection lists): information from an unauthorized person or a list never displayed is no communication of acceptance -- no concluded contract.
- Timeline problems: fix each date -- if acceptance is posted before the revocation letter reaches the acceptor, the proposer is bound; work the answer separately 'as against proposer' and 'as against acceptor'.
- Special conditions (tickets, laundry receipts) bind tacitly if reasonable notice was given, but unreasonable terms fail (Lilly White v. Mannuswamy).

CSQ 6.1 · RTP 2024-Jun [2] · Case Scenario · --- · Pg 41 asked 2×

LEVEL II
Application

Medium

CSQ 6.2 · PYQ 2026-Jan [1] (a) {C} · Case Scenario · 7M · Pg 42

LEVEL II
Application

Medium

CSQ 6.3 · RTP 2026-May [2] · Case Scenario · --- · Pg 44

LEVEL II
Application

Medium

CSQ 6.4 · PYQ 2026-Sep [1] (a) {C} · Case Scenario · 7M · Pg 45

LEVEL II
Application

Medium

Topic 7: Communication of Performance

P2-C2-U2.1-T07

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §1.7 ('Communication of Performance') of Unit 2.1: when communication of acceptance is complete for proposer and acceptor, and the three principles laid down in *Carlill v. Carbolic Smoke Ball Co.*

NOTES

Two viewpoints: communication of a proposal is complete when it comes to the knowledge of the person it is meant for (Section 4); communication of acceptance is complete **as against the proposer** when the acceptance is put into a course of transmission so as to be out of the acceptor's power, and **as against the acceptor** when it comes to the knowledge of the proposer.

Performance as acceptance: where the offeree is required to communicate performance (an act) by way of acceptance, it is not enough merely to perform the act — he must also communicate that performance, **unless** the offer itself includes a term that mere performance will constitute acceptance.

Carlill v. Carbolic & Smokeball Co.: the company advertised a reward of \$100 to anyone who contracted influenza after using its carbolic smoke ball; Mrs. Carlill used it as directed, contracted influenza, and was held entitled to the reward — since the advertisement did not require communication of compliance, none was necessary. The three principles laid down: (i) an offer, to be capable of acceptance, must contain a definite promise by the offeror that he would be bound if his terms are accepted; (ii) an offer may be made to the world at large; (iii) performance of the condition amounts to acceptance where the offer dispenses with communication.

Topic 8: Revocation of Offer and Acceptance

P2-C2-U2.1-T08

Read first Read para 1.8: Sec. 4 (when communication of revocation is complete), Sec. 5 (time limits), Sec. 6 modes of revocation, and the India-England difference on revoking a posted acceptance.

NOTES

Sec 4 — revocation: complete as against the person who makes it when put into a course of transmission so as to be out of his power (telegram dispatched); as against the person to whom it is made, when it comes to his knowledge (telegram received).

Sec 5: a proposal may be revoked at any time before the communication of its acceptance is complete as against the proposer — i.e. before or at the moment the acceptance letter is posted, not afterwards; an acceptance may be revoked before its communication is complete as against the acceptor — i.e. before or at the moment the letter reaches the proposer.

Modes of revocation of offer [Sec 6]: (1) notice of revocation (A telephones B before B accepts and sells to C); (2) lapse of time — specified or reasonable (*Ramsgate Victoria Hotel v. Montefiore*):

June share applicant not bound by November allotment); (3) non-fulfilment of a condition precedent (B refuses to lease his land as required — A's offer stands revoked); (4) death or insanity of the proposer, if it comes to the acceptor's knowledge before acceptance; (5) counter offer; (6) non-acceptance in the prescribed or usual mode; (7) subsequent illegality.

Offer held open: an offer may be revoked before acceptance even though the offeror agreed to keep it open for a definite time — X promised to hold his 50 cotton bales open till 6 pm but sold to Z first; Y's acceptance before 6 pm but after revocation failed; a bidder at auction may withdraw his bid before the fall of the hammer; the offeree, however, is bound by revocation only when it comes to his knowledge.

India vs England on posted acceptance: in English law acceptance once expressed/posted concludes the contract and is irrevocable; in Indian law the acceptor can revoke any time before the acceptance letter reaches the offeror — if the revocation telegram arrives before or at the same time as the letter of acceptance, the revocation is absolute.

Remembering memorise • 1 question

- Modes of revocation of offer [Sec. 6]: notice of revocation; lapse of time (Ramsgate Victoria Hotel v. Montefiore); non-fulfilment of condition precedent; death or insanity of proposer if known to acceptor before acceptance; counter offer; non-acceptance in prescribed/usual mode; subsequent illegality.
- Sec. 5: a proposal may be revoked any time before communication of its acceptance is complete as against the proposer; an acceptance, before its communication is complete as against the acceptor.
- Sec. 4: revocation is complete against its maker when dispatched, against the other party when it comes to his knowledge.

TQ 8.1 • PYQ 2018-Nov [6] (a) • Descriptive • 5M • Pg 46

LEVEL I
Remembering

Medium

Application apply provision to facts • 2 questions

- Withdrawing a posted acceptance by telegram: valid in India if it reaches before or with the acceptance letter (English law differs -- posting concludes the contract).
- A promise to keep an offer open (without consideration) does not bar revocation before acceptance; but revocation binds the offeree only when it comes to his knowledge.

CSQ 8.3 • PYQ 2024-Sep [1] (a) (ii) {C} • Case Scenario • 2M • Pg 49

LEVEL II
Application

Easy

CSQ 8.1 • RTP 2018-Nov [1] (i) • Case Scenario • --- • Pg 47

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios • 1 question

- Date-line problems: tag each date to a Sec. 4 event (offer complete when letter read; acceptance complete against proposer on posting, against acceptor on receipt), then find the last moment each party could revoke.

- When revocation and acceptance cross in transit, priority goes to the communication that first became complete against the relevant party.

CSQ 8.2 · PYQ 2021-Jan [3] (c) · Case Scenario · 6M · Pg 48

LEVEL II
Analysis

Hard

Unit 2.2: Consideration

P2-C2-U2.2 · Importance D · Rank 6 in chapter · Category B · 8.8% of chapter questions · 19 questions

Topic 1: What is Consideration?

P2-C2-U2.2-T01

Read first Read para 2.1 of Unit 2 (Consideration): Sec. 2(d) definition, the Misa v. Currie description and the benefit-detriment double aspect of consideration.

NOTES

Sec 2(d) (SM): “When at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing or promises to do or abstain from doing something, such an act or abstinence or promise is called consideration for the promise”.

Misa v. Currie (SM): “A valuable consideration in the sense of law may consist either in some right, interest, profit or benefit accruing to one party (i.e. promisor) or forbearance, detriment, loss or responsibility given, suffered or undertaken by the other (i.e. the promisee)” — the double aspect: benefit to promisor and detriment to promisee.

Elements: quid pro quo — ‘something in return’, the price agreed to be paid by the promisee for the promisor’s obligation; may be an act (selling goods on credit against a guarantee), an abstinence (not filing a suit for ₹1,00,000; shifting a rival electric shop 1 km away for ₹2,00,000) or a promise; need not be monetary (promise of an MNC job for scoring above 95%); must be at the desire of the promisor; may move from the promisee or any other person; may be past, present or future — Consideration = promise/performance the parties exchange; form = some benefit/right/profit to one party or some detriment/loss/forbearance to the other.

Understanding explain with reasons · 1 question

- Quote Sec. 2(d): ‘when at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or abstain from doing something, such act or abstinence or promise is called a consideration for the promise’.
- Explain the elements: quid pro quo (‘something in return’); may be an act, abstinence or promise; benefit to promisor or detriment to promisee (Misa v. Currie); need not be monetary.
- The 7-mark question pairs the definition with the eight legal rules of para 2.2 -- prepare them together.

TQ 1.1 · PYQ 2019-Nov [2] (a) · Descriptive · 7M · Pg 54 asked 7x

LEVEL I
Understanding

Medium

Topic 2: Legal Rules Regarding Consideration

P2-C2-U2.2-T02

Read first Read para 2.2: the eight legal rules regarding consideration, with Durga Prasad v. Baldeo, Chinnayya v. Ramayya and Explanation 2 to Sec. 25.

NOTES

Eight rules: (1) must move at the desire of the promisor — an act done at the desire of a third party is no consideration (Durga Prasad v. Baldeo: market built at the Collector's desire, promise of commission void; R voluntarily saving S's goods from fire can claim no reward); (2) may move from the promisee or any other person — a stranger to consideration is valid in India; (3) may be executed (performance of an act) or executory (a promise) — A pays ₹5,000 now, B promises wheat in a month; (4) may be past, present or future — "has done or abstained" in Sec 2(d) recognises past consideration, which must have moved by a previous request/desire of the promisor; cash sale = present consideration; (5) need not be adequate; (6) must not be performance of an existing legal obligation — promise to pay money to a witness, or ₹2,000 to a doctor over his fees, is void; doing more than one is legally bound to do is good consideration if not opposed to public policy; (7) must be real, not illusory — discovering treasure by magic or bringing the dead to life is void; (8) must be lawful, not immoral or opposed to public policy — ₹50,000 for a Government bank job is void.

Adequacy (Explanation 2 to Sec 25): an agreement to which the consent of the promisor is freely given is not void merely because the consideration is inadequate — a house worth ₹60 lacs sold for ₹10 lacs stands; but shockingly inadequate consideration may be taken as evidence in support of an allegation that consent was not free (coercion, undue influence, fraud); so "consideration must be adequate" is false — it must only be real, lawful and of some value.

Chinnayya v. Ramayya (1882): old lady gifted her property to her daughter with a direction to pay an annuity to the maternal uncle; the daughter executed a writing agreeing to pay but defaulted — held there was sufficient consideration (moving from the mother, not the promisee-uncle) and the uncle could recover; answer format: Sec 2(d) rule → who furnished consideration and at whose desire → enforceability.

Understanding explain with reasons · 2 questions

- 'Consideration must be adequate' is FALSE: it need not be adequate but must be real, lawful and of some value; per Explanation 2 to Sec. 25 an agreement with free consent is not void merely for inadequacy -- inadequacy is only evidence on whether consent was free.

- Know all eight rules: at the desire of the promisor (*Durga Prasad v. Baldeo* -- act done at a third party's desire is no consideration); may move from promisee or any other person; executed or executory; past, present or future; need not be adequate; must not be what one is already legally bound to do; must be real, not illusory; must be lawful.

TQ 2.1 • MTP 2022-Nov S1 [2] (ii) • Descriptive • 3M • Pg 56 **asked 4x****LEVEL I**
Understanding**Easy**

TQ 2.2 • PYQ 2026-Sep [6] (Or) (b) • Descriptive • 6M • Pg 56

LEVEL I
Understanding**Medium****Application** apply provision to facts • 1 question

- Gift deed with annuity condition (*Balwant/Reema* type = *Chinnayya v. Ramayya*): consideration may move from a person other than the promisee, so the promise to pay the annuity is enforceable.
- Answer format: rule from Sec. 2(d) -> identify who furnished consideration and at whose desire -> conclusion on enforceability.

CSQ 2.1 • RTP 2018-Nov [2] (i) • Case Scenario • --- • Pg 57

LEVEL II
Application**Medium**

Topic 3: Suit by a Third Party to a Contract

P2-C2-U2.2-T03

Read first Read para 2.3: the doctrine of privity of contract ('stranger to a contract cannot sue') and its seven exceptions.

NOTES

Doctrine of privity of contract: though consideration may proceed from a third party in India, only a person who is party to the contract can sue on it — stranger to consideration (valid) is different from stranger to contract (cannot sue): P indebted to Q sells property to R who promises to pay off Q; on R's default Q cannot sue, being a stranger to the contract.

Seven exceptions (stranger may sue): (1) trust — beneficiary can enforce his right though not party to the settlor-trustee contract; (2) family settlement reduced into writing — mother can enforce sons' promise of ₹20,000 allowance on partition; (3) marriage contracts/arrangements — deserted wife can sue on husband's promise to her father to treat her properly or pay monthly allowance; (4) assignment of a contract not involving personal skill — son can claim under the insurance policy assigned to him; (5) acknowledgement or estoppel — promisor's conduct makes him agent of the third party (M told N he holds ₹20,000 for him; N can recover from M); (6) covenant running with the land — purchaser with notice of duties affecting the land is bound; restrictive covenants bind all successors; (7) contracts through an agent — principal can enforce contracts made by his agent within authority and in his name.

Land-condition problems (Sohanlal-Chotelal type): land sold with a condition that 1 acre remain available to the seller's son — combine Sec 2(d) (consideration may legitimately move from a third party, Chinnayya v. Ramayya; sale deed and promise executed simultaneously form one transaction) with the covenant-running-with-the-land exception — the son, though a stranger to the contract, can file a suit against the purchaser for execution of the promise.

Understanding explain with reasons · 3 questions

- State the rule: only a party to a contract can sue on it (doctrine of privity); but a stranger to CONSIDERATION is different -- consideration may flow from a third party in India, yet a stranger to the CONTRACT cannot sue.
- Memorise the seven exceptions with one example each: (1) trust -- beneficiary can sue; (2) family settlement reduced to writing; (3) marriage contracts/arrangements; (4) assignment of contract (not involving personal skill); (5) acknowledgement or estoppel (promisor conducts himself as agent of the third party); (6) covenant running with the land; (7) contracts through an agent -- principal can enforce.

TQ 3.1 · PYQ 2023-Jun [2] (a) · Descriptive · 7M · Pg 58 asked 2x	LEVEL I Understanding	Medium
TQ 3.2 · PYQ 2026-May [5] (c) · Descriptive · 6M · Pg 59	LEVEL I Understanding	Medium
TQ 3.3 · PYQ 2026-Sep [6] (b) · Descriptive · 6M · Pg 60	LEVEL I Understanding	Medium

Application apply provision to facts · 2 questions

- Land sold with a condition reserving use for the seller's son/annuity to an uncle (Sohanlal-Chotelal; Das-Geeta-Gopal): combine Sec. 2(d) (consideration from a third party is valid, Chinnayya v. Ramayya) with the trust/covenant-running-with- land exception -- the beneficiary CAN sue despite privity.
- Structure: general rule -> exception attracted on facts -> conclusion that the third party's suit is maintainable (or not).

CSQ 3.1 · PYQ 2019-Jun [1] (a) · Case Scenario · 4M · Pg 61 asked 2x	LEVEL II Application	Medium
CSQ 3.2 · RTP 2026-May [3] · Case Scenario · --- · Pg 62	LEVEL II Application	Medium

Topic 4: Validity of an Agreement without Consideration

P2-C2-U2.2-T04

Read first Read para 2.4: Sec. 25 rule 'no consideration, no contract' and its exceptions -- Sec. 25(1) natural love and affection, 25(2) past voluntary services, 25(3) time-barred debt, agency (Sec. 185), completed gift (Expl. 1 to Sec. 25), bailment (Sec. 148) and charity (Kedarnath v. Gorie Mohammad).

NOTES

Sec 25 rule: the general rule is that an agreement made without consideration is void — “no consideration, no contract”; **exceptions:** 25(1) natural love and affection; 25(2) compensation for past voluntary services; 25(3) promise to pay a time-barred debt; agency (Sec 185); completed gift (Explanation 1 to Sec 25); bailment (Sec 148); charity (Kedarnath v. Gorie Mohammad).

Sec 25(1) — four conditions: (i) made out of natural love and affection, (ii) parties standing in near relation to each other, (iii) in writing, (iv) registered — husband’s registered promise of his earnings to his wife valid; written, signed and registered promise of a ₹5,00,000 gold necklace to a newly-wed daughter-in-law valid; a mere promise of a gift to a friend fails — friends are not near relations.

Sec 25(2) — past voluntary services: a promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor is enforceable if (i) services were rendered voluntarily, (ii) for the promisor, (iii) the promisor existed when they were rendered, (iv) the promisor intended to compensate — P returns R’s lost wallet, R’s promise of ₹10,000 binds; nephew’s promise of ₹10,000 after uncle helped him win a case is valid.

Sec 25(3) — time-barred debt: a promise in writing, signed by the person making it or his authorised agent, to pay a debt barred by limitation is valid without consideration — but enforceable only for the amount promised: written signed promise of ₹50,000 against a barred debt of ₹60,000 is enforceable for ₹50,000 only.

Remaining exceptions: agency — no consideration necessary to create an agency (Sec 185); completed gift — Explanation 1 to Sec 25: nothing affects the validity, as between donor and donee, of any gift actually made (delivered gift valid; only a bare promise to gift needs Sec 25(1) conditions); bailment (Sec 148) — delivery of goods for a purpose, to be returned or disposed of per directions after the purpose is accomplished, needs no consideration (godown keys handed over for deposited goods); charity — promise enforceable where the promisee incurred liability on the faith of it (Kedarnath v. Gorie Mohammad; temple secretary who spent on renovation can claim the promised ₹1,00,000 — nothing spent, no claim).

Remembering memorise · 1 question

- Sec. 25(1) four conditions: (i) natural love and affection, (ii) parties in near relation, (iii) in writing, (iv) registered.
- Sec. 25(3): promise to pay a time-barred debt must be written and signed by the debtor or his authorised agent; enforceable only for the amount promised.
- Exception list: 25(1); 25(2); 25(3); agency (Sec. 185); completed gifts; bailment (Sec. 148); charity.

TQ 4.2 · PYQ 2024-Sep [3] (c) (ii) · Descriptive · 3M · Pg 65 **asked 7x**

LEVEL I
Remembering

Easy

Understanding explain with reasons · 1 question

- Explain why each exception overrides Sec. 25, with one SM example per head.

- Trap: a COMPLETED gift needs no consideration, but a mere PROMISE to gift is enforceable only if all Sec. 25(1) conditions are met -- friends are not 'near relations'.

TQ 4.1 · PYQ 2021-Jan [6] (a) · Descriptive · 5M · Pg 63 asked 4×

LEVEL I
Understanding

Medium

Application apply provision to facts · 8 questions

- Time-barred debt: written, signed promise -> binding, only for the promised sum (Rs. 50,000 out of Rs. 60,000).
- Charity: enforceable only where the promisee incurred liability on the faith of the promise (Kedarnath); nothing spent, no claim.
- Gifts: delivered birthday iPhone = valid completed gift; promise of a gold ring to a friend = unenforceable; answer flips if near relatives + written + registered.
- Past voluntary service (returning lost documents): later promise to compensate binds u/s 25(2) -- verify the four essential factors.

CSQ 4.3 · PYQ 2024-Sep [1] (a) (iii) {C} · Case Scenario · 2M · Pg 68
asked 3×LEVEL II
Application

Easy

CSQ 4.6 · PYQ 2026-Jan [4] (a) (i) · Case Scenario · 2M · Pg 71

LEVEL II
Application

Easy

CSQ 4.7 · PYQ 2026-Jan [4] (a) (ii) · Case Scenario · 2M · Pg 71

LEVEL II
Application

Easy

CSQ 4.8 · PYQ 2026-Jan [4] (a) (iii) · Case Scenario · 3M · Pg 72

LEVEL II
Application

Easy

CSQ 4.1 · PYQ 2020-Nov [3] (c) (ii) · Case Scenario · 6M · Pg 67 asked 3×

LEVEL II
Application

Medium

CSQ 4.2 · MTP 2024-Jul [4] (a) (i) · Case Scenario · 4M · Pg 67 asked 5×

LEVEL II
Application

Medium

CSQ 4.4 · RTP 2025-May [2] · Case Scenario · --- · Pg 69

LEVEL II
Application

Medium

CSQ 4.5 · RTP 2026-Jan [3] · Case Scenario · --- · Pg 70

LEVEL II
Application

Medium

Unit 2.3: Other Essential Elements of Valid Contract

P2-C2-U2.3 · Importance C · Rank 1 in chapter · Category A · 24.4% of chapter questions · 53 questions

Topic 1: Capacity to Contract

P2-C2-U2.3-T01

Read first Study Section 3.1 'Capacity to Contract' of Unit 3: Sec. 11 (who is competent), the rules on a minor's agreement (Mohori Bibi vs. Dharmo Das Ghose), Sec. 12 (sound mind), Sec. 68 (necessaries) and disqualified persons.

NOTES

Sec 11 — who is competent: every person who (a) has attained majority (completion of 18 years — Indian Majority Act, 1875), (b) is of sound mind, and (c) is not disqualified from contracting by any law to which he is subject.

Minor's agreement — void ab-initio: Mohori Bibi vs. Dharmo Das Ghose (1903) — minor's mortgage held void, minor not liable to repay lender; no ratification on attaining majority (fresh note for old one is void for want of consideration); but minor CAN be a beneficiary — promissory note or mortgage executed in his favour is enforceable by him; may be admitted to benefits of partnership with all partners' consent (Sec 30, Partnership Act) but cannot be a partner.

No estoppel: minor can always plead minority even after falsely representing majority — not liable to repay a loan so obtained; may be asked to restore money only if still unspent, never liable for amounts already spent.

Necessaries (Sec 68): only the minor's PROPERTY is liable — no personal liability, and never for more than the value; two conditions: goods reasonably necessary for his support in his station in life, and no sufficient existing supply; education and funeral expenses included, luxuries excluded — utility, not ornament, is the criterion (Shruti's ₹70,000 laptop — recovery only up to her assets of ₹20,000).

Other rules: minor can be an agent but incurs no liability to his principal; cannot bind parents unless acting as their agent; in a joint contract with an adult only the adult is liable (Sain Das vs. Ram Chand); adult surety for a minor IS liable — direct contract between surety and third party; no specific performance, no insolvency, no shareholding (except transfer/transmission of fully paid shares via guardian); minor is liable in torts. **Sec 12 sound mind (SM):** “a person is said to be of sound mind for the purposes of making a contract if, at the time when he makes it is capable of understanding it and of forming a rational judgement as to its effect upon his interests” — contract by a person of unsound mind is VOID; usually unsound but occasionally sound may contract when sound (lucid-interval rule; delirious/drunken person cannot); disqualified persons: foreign sovereigns and ambassadors, alien enemy, corporations, convicts, insolvents.

Understanding explain with reasons · 3 questions

- Explain why a minor's agreement is void ab-initio (Sec. 11, Mohori Bibi) yet a minor can be a beneficiary --- a promissory note/mortgage in his favour is enforceable by him.
- Necessaries (Sec. 68): only the minor's PROPERTY is liable, never the minor personally, and only for necessities suited to his station in life --- so 'minor is liable to pay' is incorrect as worded.

TQ 1.1 · PYQ 2018-May [2] (c) (ii) · Descriptive · 2M · Pg 74

LEVEL I
Understanding

Easy

TQ 1.2 · RTP 2022-Nov [5] · Descriptive · --- · Pg 75

LEVEL I
Understanding

Medium

CSQ 1.2 · PYQ 2021-Jul [1] (c) {C} · Case Scenario · 4M · Pg 76

LEVEL I
Understanding

Medium

Application apply provision to facts · 4 questions

- Structure: Sec. 11 + void ab-initio rule → facts (loan for fees/books = necessities → estate liable; personal loan → no ratification even after majority) → conclusion.
- Minor as agent: his acts bind the principal, but he incurs no personal liability to the principal (Parth selling Mukund's car below instructed price).
- Unsound mind (Sec. 12): the contract is void --- apply to the ₹2,00,000 property sold for ₹25,000 scenario.

CSQ 1.1 · RTP 2020-May [9] · Case Scenario · --- · Pg 75

LEVEL II
Application

Medium

CSQ 1.4 · PYQ 2021-Dec [3] (b) (i) · Case Scenario · 6M · Pg 77 asked 3×

LEVEL II
Application

Medium

CSQ 1.6 · RTP 2023-Jun [4] · Case Scenario · --- · Pg 79 asked 2×

LEVEL II
Application

Medium

CSQ 1.8 · PYQ 2025-Jan [1] (a) (iv) {C} · Case Scenario · 7M · Pg 80
asked 3×LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios · 3 questions

- Surety-for-minor: the adult surety IS liable to the third party (direct surety-- creditor contract) even though the minor's own contract is void --- untangle the two contracts.
- False representation of age: minor still pleads minority (no estoppel), may be asked to restore unspent money, never liable for amounts spent.
- Multi-issue questions combine necessities test (mobile/laptop for classes), parents not liable unless minor acted as their agent, and estate-only liability --- take each in order.

CSQ 1.7 · MTP 2023-Nov [3] (b) · Case Scenario · 6M · Pg 80

LEVEL II
Analysis

Medium

CSQ 1.3 · RTP 2021-Nov [2] · Case Scenario · --- · Pg 76

LEVEL II
Analysis

Hard

CSQ 1.5 · PYQ 2022-May [3] (b) · Case Scenario · 6M · Pg 78 asked 3×

LEVEL II
Analysis

Hard

Topic 2: Free Consent

P2-C2-U2.3-T02

Read first Read Section 3.2 'Free Consent': definition of consent under Sec. 13 (consensus ad idem --- same thing in the same sense), free consent under Sec. 14, and the effect of absence of consent versus consent not freely given.

NOTES

Consent (Sec 13, SM): “two or more persons are said to consent when they agree upon the same thing in the same sense” — consensus ad idem; a fundamental error as to the nature of the transaction, the person dealt with or the subject-matter means the parties never agreed in the same sense, so no contract arises (two ships/persons of the same name — parties not ad idem).

Free consent (Sec 14): consent is free when not caused by (1) coercion — Sec 15, (2) undue influence — Sec 16, (3) fraud — Sec 17, (4) misrepresentation — Sec 18, (5) mistake — subject to Secs 20-22.

Effect: consent caused by coercion, undue influence, fraud or misrepresentation → contract VOIDABLE at the option of the party whose consent was so caused; consent vitiated by (bilateral) mistake → agreement VOID; total absence of consensus ad idem → no contract at all — outcome word is void, not voidable.

Application apply provision to facts · 2 questions

- Structure for identity-of-subject-matter scenarios: quote Sec. 13 (agreement on same thing in same sense) and Sec. 20 (bilateral mistake of essential fact makes agreement void) → show the parties meant different flats/cars → conclude no contract/void.
- Distinguish: where BOTH parties are mistaken about the subject-matter (flat 101 vs 102, red car vs black car) the agreement is void; a merely unilateral mistake (Sec. 22) does not avoid the contract.
- Remember the outcome word: absence of consensus ad idem = void agreement, not voidable.

CSQ 2.2 · RTP 2023-Jun [1] (a) · Case Scenario · --- · Pg 82

LEVEL II
Application

Easy

CSQ 2.1 · MTP 2022-Jun [1] (i) {C} · Case Scenario · 4M · Pg 81

LEVEL II
Application

Medium

Topic 3: Elements Vitiating Free Consent

P2-C2-U2.3-T03

Read first Master Section 3.3: Coercion (Sec. 15, effects Secs. 19/72), Undue Influence (Sec. 16, effect Sec. 19A), Fraud (Sec. 17), Misrepresentation (Sec. 18), Mistake (Secs. 20-22), plus both distinction tables.

NOTES

Coercion (Sec 15, SM): “the committing, or threatening to commit, any act forbidden by the Indian Penal Code or the unlawful detaining, or threatening to detain any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement” — need not proceed from a party nor be directed at the other party; threat to commit suicide IS coercion (suicide forbidden by IPC though not punishable); agent detaining principal's account

books for a release = coercion; effects — voidable (Sec 19) and money/thing received must be repaid or returned (Sec 72).

Undue influence (Sec 16, SM): “A contract is said to be induced by ‘undue influence’ where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and he uses that position to obtain an unfair advantage over the other”; four positions to dominate: (a) real/apparent authority (master-servant, father-son), (b) fiduciary relationship (solicitor-client, guru-devotee, trustee-beneficiary), (c) mental distress (doctor over patient enfeebled by illness or old age), (d) unconscionable bargains (village money-lender's fresh loan; but bank's high market-rate interest is ordinary business, not undue influence); effect (Sec 19A) — voidable; court may set aside absolutely or on just terms (₹2,00,000 bond for ₹1,00,000 advanced set aside); aggrieved must prove domination + use of position + unfair transaction, then burden shifts.

Fraud (Sec 17): five acts done with intent to deceive or induce: (1) false suggestion of fact by one who does not believe it true, (2) active concealment of a fact, (3) promise made without any intention of performing it, (4) any other act fitted to deceive, (5) any act/omission specially declared fraudulent by law; mere silence is NOT fraud — Exceptions: (1) duty to speak (unsound horse sold by auction — no fraud; but buyer is seller's daughter — duty to speak, fraud), (2) silence equivalent to speech (“If you do not deny it, I shall assume the horse is sound”); effects — voidable, aggrieved may rescind, sue for damages, or insist on performance as if representation were true; NOT voidable where the deceived party had means of discovering the truth with ordinary diligence, or the fraud did not cause the consent.

Misrepresentation (Sec 18): (1) false statement which the maker believes true but is not justified by his information (motorcycle told to be “in excellent condition” unchecked), (2) breach of duty without intent to deceive bringing advantage, (3) innocently causing the other party to make a mistake as to subject-matter — effect: voidable, rescission/restitution but NO damages. **Mistake (Secs 20-22):** bilateral mistake of a matter of fact essential to the agreement → VOID (Sec 20 — quality, existence, identity, title, price, quantity of subject-matter); unilateral mistake → contract not voidable (Sec 22); mistake of Indian law — no relief (Sec 21); mistake of foreign law = mistake of fact, agreement void.

Coercion (Sec 15)	Undue influence (Sec 16)
Physical force or threat compels consent	Moral or mental pressure
Act forbidden by IPC or unlawful detention of property	No illegal act or criminal threat involved
No relationship between parties necessary	Some relationship between parties absolutely necessary

May proceed even from a stranger to the contract	Always exercised between parties to the contract
Voidable; benefit received must be restored (Secs 64, 72)	Voidable or set aside/enforced in modified form; refund at court's discretion
Fraud (Sec 17)	Misrepresentation (Sec 18)
Intention to deceive by hiding the truth	No intention to deceive
Maker believes the statement to be untrue	Maker believes the statement to be true
Injured party may repudiate AND claim damages	Repudiation/restitution only — NO damages
No defence that injured party had means to discover truth	Can plead injured party had means to discover the truth

Remembering memorise · 1 question

- Memorise the four 'position to dominate the will' circumstances (Sec. 16): real/apparent authority, fiduciary relationship, mental distress, unconscionable bargains.
- Section map: coercion 15, undue influence 16, fraud 17, misrepresentation 18, effect 19/19A, mistake 20-22, refund under coercion 72.

TQ 3.6 · RTP 2020-May [3] · Descriptive · --- · Pg 86

LEVEL I
Remembering

Easy

Understanding explain with reasons · 9 questions

- Fraud (Sec. 17): five acts --- false suggestion, active concealment, promise without intention to perform, act fitted to deceive, act/omission declared fraudulent; effect --- voidable, plus damages.
- 'Mere silence is not fraud' --- exceptions: duty to speak, and silence equivalent to speech; not voidable if the deceived party could discover the truth with ordinary diligence.
- Master both tables: fraud vs misrepresentation (intention, knowledge, damages) and coercion vs undue influence (physical vs moral pressure, relationship).
- Coercion (Sec. 15): act forbidden by IPC or unlawful detention of property; threat to commit suicide IS coercion; effects --- voidable (Sec. 19), money returnable (Sec. 72).

TQ 3.2 · RTP 2019-May [2] (i) (a) · Descriptive · --- · Pg 83

LEVEL I
Understanding

Easy

TQ 3.10 · PYQ 2025-May [5] (c) (ii) · Descriptive · 2M · Pg 90 **asked 2×**

LEVEL I
Understanding

Easy

TQ 3.1 · PYQ 2018-May [6] (a) · Descriptive · 5M · Pg 82	LEVEL I Understanding	Medium
TQ 3.3 · PYQ 2019-Jun [2] (a) · Descriptive · 7M · Pg 83	LEVEL I Understanding	Medium
TQ 3.4 · PYQ 2019-Jun [6] (a) · Descriptive · 5M · Pg 84	LEVEL I Understanding	Medium
TQ 3.5 · PYQ 2019-Nov [6] (a) · Descriptive · 5M · Pg 86 asked 2×	LEVEL I Understanding	Medium
TQ 3.7 · PYQ 2020-Nov [2] (a) · Descriptive · 7M · Pg 87 asked 3×	LEVEL I Understanding	Medium
TQ 3.9 · PYQ 2023-Dec [6] (a) · Descriptive · 5M · Pg 89 asked 3×	LEVEL I Understanding	Medium
TQ 3.11 · PYQ 2025-Sep [6] (b) · Descriptive · 6M · Pg 90	LEVEL I Understanding	Medium

Application apply provision to facts · 10 questions

- Structure: identify the vitiating element → section and definition → effect (voidable at aggrieved party's option; Sec. 19A for undue influence) → conclude.
- Fact-patterns: teacher/employer inducing sale for marks/promotion = undue influence; doctor's ₹5,000 note from patient in pain = unconscionable; gun- point/threat of false criminal case = coercion.
- Misrepresentation (working meters, motorcycle 'in good condition'): voidable, rescission but NO damages; buyer who examined the goods himself (broken table leg) cannot avoid.

TQ 3.8 · RTP 2021-May [1] (I) · Descriptive · --- · Pg 89	LEVEL II Application	Easy
CSQ 3.4 · RTP 2022-Nov [2] (i) · Case Scenario · --- · Pg 94 asked 2×	LEVEL II Application	Easy
CSQ 3.6 · MTP 2023-May [3] (c) · Case Scenario · 3M · Pg 96 asked 4×	LEVEL II Application	Easy
CSQ 3.7 · PYQ 2023-Jun [3] (b) (i) · Case Scenario · 2M · Pg 97 asked 4×	LEVEL II Application	Easy
CSQ 3.1 · RTP 2021-May [3] · Case Scenario · --- · Pg 91 asked 2×	LEVEL II Application	Medium
CSQ 3.2 · MTP 2022-Mar [3] (b) · Case Scenario · 6M · Pg 92	LEVEL II Application	Medium
CSQ 3.3 · RTP 2022-May [3] · Case Scenario · --- · Pg 93	LEVEL II Application	Medium
CSQ 3.5 · RTP 2022-Nov [3] · Case Scenario · --- · Pg 95 asked 2×	LEVEL II Application	Medium
CSQ 3.9 · RTP 2025-Jan [6] (ii) · Case Scenario · --- · Pg 98 asked 2×	LEVEL II Application	Medium
CSQ 3.11 · RTP 2026-May [4] · Descriptive · --- · Pg 100	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios · 2 questions

- Auction/silence (unsound horse): mere silence = no fraud; duty to speak (buyer is daughter) = fraud; 'if you don't deny I'll assume soundness' = silence equal to speech = fraud.
- Chain-of-sale: a seller himself deceived who innocently repeats the statement commits misrepresentation, not fraud --- identify who rescinds against whom and whether damages lie.

CSQ 3.8 · MTP 2024-Jul [1] (a) (ii) {C} · Case Scenario · 3M · Pg 97	asked	LEVEL II Analysis	Medium
CSQ 3.10 · RTP 2025-May [3] · Case Scenario · --- · Pg 98		LEVEL II Analysis	Medium

Topic 4: Legality of Object and Consideration

P2-C2-U2.3-T04

Read first Study Section 3.4: the six heads of unlawful consideration/object under Sec. 23, the agreements opposed to public policy, and Sec. 24 (consideration unlawful in part).

NOTES

Sec 23 — six heads of unlawful consideration/object: (1) forbidden by law (dowry, marriage of 17-year-old boy); (2) of such a nature that, if permitted, it would defeat the provisions of any law (revenue-defaulter repurchasing his estate through B); (3) fraudulent (sharing gains acquired by fraud); (4) involves injury to the person or property of another (printing a book in violation of copyright; repaying debt by daily manual labour = slavery); (5) immoral (money advanced for divorce with promise of marriage — irrecoverable); (6) opposed to public policy — in every case the agreement is VOID.

Agreements opposed to public policy: (1) trading with enemy; (2) stifling prosecution — dropping proceedings for consideration void, but compromise of compoundable offences per CrPC is permitted, uncompoundable is not; (3) maintenance (supporting a suit with no interest) and champerty (funding litigation for a share of proceeds) — valid only if reasonable and bona fide, not malicious; (4) trafficking in public offices and titles — money to induce a public servant to retire so another gets the post, or to procure a title like Padma Vibhushan, void, as it interferes with merit appointment; (5) agreements creating monopolies; (6) marriage brokerage (negotiating marriage for reward; marriage bureau merely supplying information not covered); (7) interference with the course of justice — inducing a judicial officer to act partially/corruptly, paying a witness to absent himself; (8) interest against obligation — agent taking secret compensation, manager passing a contract for private payment.

Sec 24 — unlawful in part: if any part of a single consideration for one or more objects, or any one of several considerations for a single object, is unlawful, the agreement is void; where the legal part CAN be severed from the illegal, the good part is retained; if inseverable, wholly void.

Application: identify the Sec 23 head → apply → conclude void and money paid irrecoverable (Harish's ₹15,000 to an officer for his son's job could not be recovered — trafficking in public office).

Remembering memorise · 2 questions

- List the six Sec. 23 heads verbatim: forbidden by law; would defeat provisions of law; fraudulent; involves injury to person or property; immoral; opposed to public policy.
- Memorise the public-policy list: trading with enemy, stifling prosecution, maintenance & champerty, trafficking in public offices/titles, monopolies, marriage brokerage, interference with course of justice, interest against obligation.

TQ 4.2 · PYQ 2026-Jan [6] (b) · Descriptive · 6M · Pg 101 asked 2×	LEVEL I Remembering	Medium
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TQ 4.3 · PYQ 2026-Jan [6] (Or) (b) · Descriptive · 6M · Pg 103	LEVEL I Remembering	Medium
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Understanding explain with reasons · 1 question

- Trafficking in public offices: money for appointment to/retirement from public office, or procuring titles like Padma Vibhushan, is void --- public interest requires merit appointments.
- Stifling prosecution: dropping criminal proceedings for consideration is void for uncompoundable offences; compromise of compoundable offences per CrPC is permitted.

TQ 4.1 · PYQ 2023-Dec [2] (a) · Descriptive · 7M · Pg 101 asked 2×	LEVEL I Understanding	Medium
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Application apply provision to facts · 4 questions

- Structure: identify the Sec. 23 head → apply to facts → conclude void, money paid irrecoverable.
- Stock scenarios: ₹10 lakh for voluntary retirement so another gets the post = trafficking in public office; paying a judicial officer = interference with justice; smuggling = forbidden by law.
- Goodwill-sale restraint within reasonable local limits is the valid EXCEPTION to Sec. 27 --- check reasonableness before concluding (Rishabh--Omkar scenario).

CSQ 4.5 · RTP 2026-Jan [4] · Case Scenario · --- · Pg 107	LEVEL II Application	Easy
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CSQ 4.1 · PYQ 2020-Nov [1] (a) {C} · Case Scenario · 4M · Pg 104 asked 3×	LEVEL II Application	Medium
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CSQ 4.2 · PYQ 2021-Jan [1] (a) {C} · Case Scenario · 4M · Pg 105 asked 3×	LEVEL II Application	Medium
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CSQ 4.4 · PYQ 2025-Jan [1] (a) (iii) {C} · Case Scenario · 7M · Pg 106 asked 3×	LEVEL II Application	Medium
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Analysis untangle multi-issue scenarios · 1 question

- Main vs collateral contract: agreement to kill Z is void; the loan from W who KNEW the purpose is equally tainted and irrecoverable --- analyse each relationship separately.
- Sec. 24 in mixed cases: if any part of a single consideration is unlawful and cannot be severed, the whole agreement is void.

CSQ 4.3 · PYQ 2022-Nov [1] (a) [C] · Case Scenario · 4M · Pg 106 **asked**
2x**LEVEL II**
Analysis**Medium****Topic 5: Void Agreements**

P2-C2-U2.3-T05

Read first Study Section 3.5 'Void Agreements': restraint of marriage (Sec. 26), restraint of trade (Sec. 27) with the goodwill exception, restraint of legal proceedings (Sec. 28), uncertain agreements (Sec. 29), wagers (Sec. 30), and reciprocal legal/illegal promises (Sec. 57).

NOTES

Expressly void: restraint of marriage of any person other than a minor (Sec 26); restraint of legal proceedings (Sec 28) — absolutely barring enforcement of rights through courts or abridging the limitation period is void, but agreeing to refer disputes (present or future, in writing) to arbitration is valid; uncertain agreements (Sec 29) — void unless capable of being made certain ("a hundred tons of oil" void, valid if the seller deals only in coconut oil).

Restraint of trade (Sec 27): agreement restraining anyone from exercising a lawful profession, trade or business is void TO THAT EXTENT; Exceptions: (1) sale of goodwill — seller may agree not to carry on a similar business within specified reasonable local limits so long as the buyer carries on a like business; (2) outgoing partner's reasonable restraint (Sec 36, Partnership Act) and partners' non-compete during partnership (Sec 11); (3) employee's covenant not to compete DURING the term of service (surgeon's assistant restrained for the 3-year term); selling entire production to one wholesaler or minimum-price agreements among sellers are not restraints.

Wager (Sec 30): agreement to pay money or money's worth on the determination of an uncertain event; essentials — (1) promise to pay money/money's worth, (2) uncertain event, (3) mutual chances of win or lose, (4) no control over the event, (5) no interest other than the stake; effect — void, no suit to recover any amount won; wagers include: lotteries (even Government-sanctioned — Sec 294A IPC, collateral transactions also tainted), crossword prizes matching the editor's kept solution (State of Bombay vs. R.M.D. Chamarbaugwala), speculative difference-settlement deals in shares/goods, horse-race bets where the prize is below ₹500.

Not wagers: (1) chit funds; (2) commercial/share transactions where delivery is intended; (3) games of skill — crossword, picture and athletic competitions decided by skill, prize not exceeding ₹1,000 (Prize Competition Act, 1955); (4) contribution to a plate/prize of ₹500 or above for the

winner of a horse race; (5) contracts of insurance (contingent contracts).

Contract of insurance	Wagering agreement
Contract to indemnify the loss	Promise to pay on happening/non-happening of an uncertain event
Mutual consideration — premium and compensation	No consideration — mere gambling for money
Insured has insurable interest in the life/property	No interest — betting on another's life or property
Indemnifies the insured (except life insurance)	Loser pays the fixed sum on the uncertain event
Premium on scientific/actuarial calculation of risk	No logical calculation
Valid, enforceable, beneficial to society	Void, unenforceable, against public welfare

Secs 57-58: reciprocal promises partly legal and partly illegal — the first (legal) set is a valid contract, the second is a void agreement (sale of house for ₹50,00,000 valid; further ₹75,00,000 if used as a gambling house void — enforce only the legal set); alternative promise with one legal branch — the legal branch alone enforceable (deliver rice valid, smuggled opium void).

Understanding explain with reasons · 4 questions

- Wager essentials (Sec. 30): promise to pay money on an uncertain event, mutual chances of win/lose, no control and no other interest --- void, no suit to recover amount won.
- Master the Wager vs Insurance table: insurable interest, mutual consideration, indemnity, actuarial premium, public welfare.
- Sec. 29: uncertain agreement void, but valid if capable of being made certain ('hundred tons of oil' void, unless seller deals only in coconut oil).
- Not wagers: chit funds, share deals with intended delivery, games of skill (prize ≤ ₹1,000), horse-race prize ≥ ₹500, insurance.

TQ 5.1 · PYQ 2020-Nov [6] (a) · Distinguish Between · 5M · Pg 108	LEVEL I Understanding	Easy
TQ 5.2 · RTP 2021-Nov [6] · Descriptive · --- · Pg 109	LEVEL I Understanding	Easy
TQ 5.3 · PYQ 2024-Jun [6] (b) · Descriptive · 6M · Pg 109 asked 4x	LEVEL I Understanding	Medium
TQ 5.4 · PYQ 2026-Sep [5] (c) · Descriptive · 6M · Pg 110	LEVEL I Understanding	Medium

Application apply provision to facts · 5 questions

- Restraint of trade (Sec. 27): void to that extent, EXCEPT sale of goodwill with reasonable local limits --- test whether restraint exceeds the goodwill sold (real diamond jewellery beyond artificial-jewellery goodwill = void).
- Sec. 57: sale of house valid; the further promise to pay if used for gambling is a separate void agreement --- enforce the legal set only.
- Judicial-officer payment scenarios: void as opposed to public policy; money paid cannot be recovered.

CSQ 5.2 · RTP 2022-May [1] · Case Scenario · --- · Pg 112	LEVEL II Application	Medium
CSQ 5.3 · RTP 2023-Jun [5] · Case Scenario · --- · Pg 113 asked 3×	LEVEL II Application	Medium
CSQ 5.4 · RTP 2023-Dec [6] · Case Scenario · --- · Pg 114	LEVEL II Application	Medium
CSQ 5.5 · MTP 2024-Apr [1] (a) {C} · Case Scenario · 7M · Pg 114 asked 2×	LEVEL II Application	Medium
CSQ 5.7 · MTP 2025-Aug S2 [1] (a) (i) · Case Scenario · 4M · Pg 116	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios · 2 questions

- Multi-part valid-or-void questions: marriage-dissolution-for-loan = restraint of marriage/immoral; dead subject-matter = bilateral mistake (Sec. 20); classify each limb under its own section.
- Sec. 28 nuance: choosing ONE of two courts that both have jurisdiction is valid; absolute bar on suits or curtailing limitation period is void --- separate the two before answering.

CSQ 5.1 · MTP 2019-Oct [1] (a) {C} · Case Scenario · 4M · Pg 111 asked 2×	LEVEL II Analysis	Medium
CSQ 5.6 · RTP 2025-Jan [6] · Case Scenario · --- · Pg 115 asked 2×	LEVEL II Analysis	Medium

Unit 2.4: Performance of Contract

P2-C2-U2.4 · Importance C · Rank 3 in chapter · Category A · 12.4% of chapter questions · 27 questions

Topic 1: Performance of Contract

P2-C2-U2.4-T01

Read first Read Sections 4.1 and 4.2 of Unit 4 (Performance of Contract): Sec. 37 obligation to perform or offer to perform, actual vs attempted performance (tender), and the four conditions of a valid tender (Sec. 38).

NOTES

Sec 37: the parties must either perform, or offer to perform, their respective promises, unless such performance is dispensed with or excused under the Contract Act or any other law; performance is (a) actual — party has done what he undertook, within the time and in the manner prescribed, or (b) attempted/tender — promisor offers to perform but the promisee refuses to accept (goods brought to the appointed place in business hours, delivery refused).

Valid tender (Sec 38) — four conditions: (1) unconditional (offering principal without interest is invalid); (2) at proper time and place (delivery at 2 a.m. invalid unless so agreed); (3) promisee must get reasonable opportunity to examine the goods (see the wheat is of contracted quality and quantity); (4) for the WHOLE obligation (80 bales offered against 100 promised = invalid tender).

Effect of refused tender: the promisor is not responsible for non-performance and does not lose his rights under the contract — a valid tender discharges him from liability while preserving his remedies.

Understanding explain with reasons · 1 question

- Sec. 37: parties must perform or offer to perform their promises unless performance is dispensed with/excused; the promisor must perform EXACTLY what he promised.
- Distinguish actual performance (obligation fulfilled) from attempted performance/tender (promisor offers, promisee refuses) --- a valid tender discharges the promisor from liability for non-performance without losing his rights.
- Conditions of a valid tender: unconditional; at proper time and place; reasonable opportunity to examine goods; for the WHOLE obligation (80 bales offered against 100 = invalid tender).

TQ 1.1 · RTP 2020-May [5] · Descriptive · --- · Pg 122

LEVEL I
Understanding

Medium

Application apply provision to facts · 2 questions

- Structure: state Sec. 37/38 → test the tender against the four conditions on the facts → conclude whether refusal by promisee excuses the promisor.
- Part delivery (5,000 bricks against 10,000) is not a tender of the whole obligation --- promisee may refuse; late delivery where time was stipulated as essential (jute before 25.06) entitles the promisee to reject and treat the contract as voidable (Sec. 55).

CSQ 1.1 · MTP 2024-Apr [4] (a) (i) · Case Scenario · 4M · Pg 124

LEVEL II
Application

Medium

CSQ 1.2 · MTP 2025-Aug S2 [4] (a) (i) · Case Scenario · 4M · Pg 125
asked 2×

LEVEL II
Application

Medium

Topic 2: Conditions to Be Satisfied for A Valid Tender or Attempted Performance

P2-C2-U2.4-T02

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §4.2 of Unit 2.4: what attempted performance (tender) means and the four conditions that make a tender valid, with the Study Material's examples against each.

NOTES

What a tender is: where performance falls due, the promisor offers to perform his obligation but the promisee refuses to accept it — the promisor has then done what the contract required of him. **Example:** A takes the goods to the appointed place during business hours but B refuses delivery; this is an attempted performance.

Four conditions for a valid tender: (i) **unconditional** — offering to repay only the principal when principal and interest are both due is not a valid tender; (ii) **at proper time and place** — offering delivery at 2 a.m. is not valid unless so agreed; (iii) **reasonable opportunity to examine the goods** — 1,000 kg of wheat must be brought to the warehouse on the appointed day in circumstances letting the buyer satisfy himself as to quality and quantity; (iv) **for the whole obligation** — offering 80 bales when 100 were promised is not a valid tender.

Effect: a valid tender refused discharges the promisor from liability for non-performance without depriving him of his rights under the contract; a partial or conditional tender does not.

Topic 3: By Whom a Contract May Be Performed (Section 40, 41 And 42)

P2-C2-U2.4-T03

Read first Study Section 4.3: performance by promisor himself (personal skill contracts), agent, legal representatives (liability limited to property inherited), third persons (Sec. 41), and joint promisors (Sec. 42).

NOTES

Who may perform: (1) promisor himself — where the contract involves personal skill, diligence or confidence (painting a picture, singing); (2) agent — a competent person may be employed where personal consideration is not the foundation; (3) legal representatives — on the promisor's death they must perform non-personal contracts, but liability is limited to the value of property inherited from the deceased; a personal-skill contract simply ends on death — neither the representative nor the promisee can enforce it; (4) third person (Sec 41); (5) joint promisors (Sec 42).

Sec 41: when a promisee ACCEPTS performance from a third person, he cannot afterwards enforce it against the promisor, even though the promisor neither authorised nor ratified it — C pays

₹60,000 of A's ₹1,00,000 debt to B; B can sue A only for the balance ₹40,000.

Sec 42: joint promisors must fulfil the promise jointly during their joint lives; on the death of any one, his legal representatives jointly with the survivors; on the death of all, the representatives of all jointly.

Personal-skill contract becoming void: where the artist is incapacitated (paralysis), his son/representative cannot be compelled to complete the work, but the advance received must be refunded under Sec 65 — any advantage received under a contract that becomes void must be restored.

Understanding explain with reasons · 1 question

- List the persons who may perform: promisor himself (contracts involving personal skill/confidence, e.g. painting a picture); agent (where no personal consideration); legal representatives on death (except personal-skill contracts); third person (Sec. 41); joint promisors (Sec. 42).
- Legal representatives' liability is limited to the value of property inherited from the deceased promisor.

TQ 3.1 · MTP 2025-Aug S1 [3] (c) · Descriptive · 6M · Pg 126

LEVEL I
Understanding

Medium

Application apply provision to facts · 3 questions

- Sec. 41: once the promisee ACCEPTS performance from a third person, he cannot afterwards enforce it against the promisor --- so Y who accepted ₹40,000 from Z can sue X only for the balance ₹20,000.
- Personal-skill contracts (singing, painting a portrait) end on the promisor's death or incapacity --- legal representatives cannot be compelled to perform; but advance money received is refundable under Sec. 65 as the contract becomes void.
- Answer structure: classify the contract (personal skill or not) → identify who can/must perform → apply death/third-party-payment facts → conclude.

CSQ 3.1 · RTP 2019-May [2] (ii) · Case Scenario · --- · Pg 127

LEVEL II
Application

Medium

CSQ 3.2 · RTP 2022-May [5] · Case Scenario · --- · Pg 127

LEVEL II
Application

Medium

CSQ 3.3 · PYQ 2023-Jun [3] (b) (ii) · Case Scenario · 4M · Pg 128 **asked**
3x

LEVEL II
Application

Medium

Topic 4: Distinction Between Succession and Assignment

P2-C2-U2.4-T04

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §4.4 of Unit 2.4: how benefits and burdens travel under succession as against

assignment, and why liabilities cannot be assigned.

NOTES

Succession: where the benefits of a contract are succeeded to by process of law, **both burden and benefits** may devolve on the legal heir — a son succeeding to his father's estate is liable for the father's debts, but only to the extent of the property inherited; he is not called upon to pay any excess.

Assignment: only the **benefit** of a contract can be assigned, never the liabilities — a debtor cannot relieve himself of his obligation to his creditor by assigning the duty to repay to someone else, because that would drag a third party into the liability.

Limit on assigning a benefit: a creditor who assigns the benefit of a promise entitles the assignee to realise the debt from the debtor; but where the benefit is coupled with a liability, or where personal consideration entered into the making of the contract, the benefit cannot be assigned.

Topic 5: Liability of Joint Promisor & Promisee

P2-C2-U2.4-T05

Read first Master Sections 42-45: devolution of joint liabilities (Sec. 42), joint and several liability with contribution (Sec. 43), release of one joint promisor (Sec. 44), and rights of joint promisees (Sec. 45).

NOTES

Sec 42 — devolution of joint liabilities: all joint promisors must jointly fulfil the promise during their life-time; after the death of any one, his legal representative performs jointly with the survivors (liability limited to the estate inherited); after the death of the last survivor, the representatives of all must perform jointly — unless the contract shows a contrary intention.

Sec 43 — joint AND several: the promisee may compel any one or more joint promisors to perform the whole promise; the promisor who performs may compel every other to contribute EQUALLY; if one defaults in contribution, the remaining joint promisors bear that loss in equal shares; Explanation — a surety who pays may recover from his principal, but the principal recovers nothing from the surety.

Arithmetic (SM): X, Y, Z jointly owe A ₹6,000; Z is compelled to pay the whole; X is insolvent but his assets can pay one-half of his debts — Z receives ₹1,000 from X's estate and ₹2,500 from Y (X's ₹1,000 shortfall shared equally by Y and Z).

Sec 44 — release of one joint promisor: does NOT discharge the other joint promisors, nor does it free the released promisor from responsibility (contribution) to his co-promisors — D releasing A

still leaves B and C liable for the whole ₹9,00,000 and A liable to contribute to B and C.

Sec 45 — rights of joint promisees: the right to claim performance rests with all of them jointly during their joint lives; after the death of any one, with his representative jointly with the survivors; after the death of the last survivor, with the representatives of all jointly (B and C jointly lent ₹5,00,000; on B's death, B's representatives claim jointly with C).

Understanding explain with reasons · 1 question

- Sec. 42: joint promisors perform jointly during their lives; on death of one, his legal representatives perform jointly with survivors (liability limited to estate inherited); on death of all, representatives of all perform jointly.
- Sec. 43 makes liability joint and several: promisee may compel ANY one promisor to perform the whole; that promisor may then claim equal contribution, and loss from a defaulter's inability is shared equally by the rest.

TQ 5.1 · PYQ 2025-May [5] (c) (i) · Descriptive · 4M · Pg 129

LEVEL I
Understanding

Medium

Application apply provision to facts · 2 questions

- Practise the arithmetic: insolvent promisor's estate pays only its realisable fraction of his share; the shortfall is borne EQUALLY by the solvent promisors --- show each recovery figure.
- Sec. 44: release of one joint promisor does NOT discharge the others, nor does it free the released promisor from contribution to co-promisors.
- Structure: quote Secs. 42/43 (joint and several) → compute shares and contributions on the facts → conclude who pays whom and how much.

CSQ 5.1 · MTP 2020-Oct [1] (i) {C} · Case Scenario · 4M · Pg 130 **asked**
2×

LEVEL II
Application

Medium

CSQ 5.3 · PYQ 2021-Dec [1] (a) {C} · Case Scenario · 4M · Pg 132 **asked**
5×

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios · 2 questions

- Multi-limb questions: can the creditor compel one promisor alone (yes, Sec. 43)? sue only a deceased promisor's legal representatives (only jointly with survivors, to extent of estate --- Sec. 42)? contribution after compelled payment (Sec. 43)? Answer each limb with its own section.
- Untangle insolvency limbs first (what the estate can actually pay), then apply equal sharing of the default among remaining promisors before concluding net recoveries.

CSQ 5.2 · PYQ 2021-Jul [3] (b) · Case Scenario · 6M · Pg 131

LEVEL II
Analysis

Medium

CSQ 5.4 · PYQ 2025-Jan [4] (a) · Case Scenario · 7M · Pg 133 **asked 2×**

LEVEL II

Medium

Topic 6: Time and Place for Performance of the Promise

P2-C2-U2.4-T06

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §4.6 of Unit 2.4: Sections 46 to 50 on when and where a promise must be performed.

NOTES

Section 46 — no application, no time specified: where the promisor is to perform without application by the promisee and no time is fixed, the engagement must be performed within a **reasonable time**; the Explanation makes 'reasonable time' a question of the facts and circumstances of each case.

Section 47 — time specified, no application: where a promise is to be performed on a certain day without application by the promisee, the promisor may perform it **at any time during the usual hours of business** on that day and at the place where the promise ought to be performed.

Example: delivery offered after 8.30 p.m. may be refused, the usual business hours being over.

Section 48 — application on a certain day: where the promisor has not undertaken to perform without application, it is the **promisee's duty** to apply for performance at a proper place and within the usual hours of business; what is a proper time and place is in each case a question of fact.

Sections 49 and 50: where no place is fixed and no application is to be made, the promisor must apply to the promisee to appoint a reasonable place and perform there; and performance in any manner or at any time which the promisee prescribes or sanctions is good performance.

Topic 7: Performance of Reciprocal Promise

P2-C2-U2.4-T07

Read first Study Section 4.7 (Secs. 51-58): mutual & concurrent promises (Sec. 51), order of performance (Sec. 52), party preventing performance (Sec. 53), default in dependent promises (Sec. 54), time as essence (Sec. 55), impossibility (Sec. 56) and legal/illegal sets (Secs. 57-58).

NOTES

Sec 51 — mutual and concurrent: where reciprocal promises are to be simultaneously performed, no promisor need perform unless the promisee is ready and willing to perform his reciprocal promise (A need not deliver goods unless B is ready and willing to pay on delivery); **Sec 52 —**

order: promises are performed in the order expressly fixed, else in the order the nature of the transaction requires (house must be built before payment).

Sec 53 — party preventing performance: contract becomes voidable at the option of the party prevented, who may also recover compensation for loss from non-performance; **Sec 54 — mutual and dependent:** the promisor who must perform FIRST and fails cannot claim the other's performance and must compensate the other for loss (charterer providing no cargo; hirer failing to supply materials for the shoe rack).

Sec 55 — time as essence: failure to perform at the fixed time makes the contract (or the unperformed part) voidable at the promisee's option IF time was intended to be of the essence; if not essential — contract not voidable, promisee entitled to compensation only; if the promisee ACCEPTS late performance, he cannot claim compensation unless he gives notice of that intention at the time of acceptance.

Secs 56-58: agreement to do an impossible act is void — initial impossibility whether known (swimming the Indian Ocean) or unknown (horse already dead) makes it void, and where the promisor alone knew/should have known, he must compensate the promisee; supervening impossibility/illegality makes the contract void; **Sec 57** — of legal and illegal sets of reciprocal promises, the legal set is a valid contract, the illegal set void; **Sec 58** — of an alternative promise, the legal branch alone is enforceable (rice enforceable, smuggled opium void).

Application apply provision to facts · 4 questions

- Sec. 51: in simultaneous reciprocal promises (delivery against payment), no promisor need perform unless the other is ready and willing --- seller may refuse delivery where buyer won't pay on delivery.
- Sec. 54 (mutual and dependent): the party who must perform first (e.g. supply materials, make advance payment) and fails cannot claim the other's performance and must compensate the other for the loss.
- Sec. 55: if time is of the essence and performance is late, contract is voidable at promisee's option; if not essential, only compensation lies; if late performance is ACCEPTED, compensation is lost unless notice is given at acceptance.
- Structure: classify the promises (concurrent/dependent/independent) → cite Secs. 51-55 → apply readiness/prevention/delay facts → conclude remedy.

CSQ 7.1 · PYQ 2019-Jun [3] (c) · Case Scenario · 6M · Pg 134	LEVEL II Application	Medium
CSQ 7.2 · PYQ 2020-Nov [3] (c) (i) · Case Scenario · 6M · Pg 135 asked 3x	LEVEL II Application	Medium
CSQ 7.3 · PYQ 2024-Sep [4] (a) (ii) · Case Scenario · 3M · Pg 136	LEVEL II Application	Medium
CSQ 7.4 · RTP 2026-Jan [5] · Case Scenario · --- · Pg 138	LEVEL II Application	Medium

Topic 8: Appropriation of Payments

P2-C2-U2.4-T08

Read first Read Section 4.8 on appropriation of payments (Secs. 59-61): appropriation by debtor, by creditor, and by law where neither appropriates.

NOTES

Sec 59 — by debtor: where the debtor owing several distinct debts pays with express intimation, or in circumstances implying, that payment is to be applied to a particular debt, the payment, if accepted, must be applied accordingly (a cheque exactly equal to one bill is impliedly appropriated to that bill).

Sec 60 — by creditor: where the debtor gives no intimation and circumstances indicate nothing, the creditor may apply the payment at his discretion to ANY lawful debt actually due and payable, even one time-barred by limitation — but NOT to a disputed debt.

Sec 61 — by law: where neither party appropriates, the payment is applied in discharge of the debts in ORDER OF TIME (time-barred included); if the debts are of equal standing, proportionately.

Computation (SM — Murari/Girdhari): bills of ₹12,120 (2018, time-barred), ₹5,650 and ₹9,680; cheque of ₹9,680 matches one bill → appropriated to it (Sec 59); cheque of ₹15,000 → creditor may appropriate to the time-barred ₹12,120 and the balance to ₹5,650 (Sec 60); a creditor holding one guaranteed and one unguaranteed loan may likewise apply an undirected payment to the unguaranteed loan.

Understanding explain with reasons • 1 question

TQ 8.1 • PYQ 2026-Sep [3] (c) • Descriptive • 6M • Pg 139

LEVEL I
Understanding

Medium

Application apply provision to facts • 3 questions

- Apply the three rules in order: Sec. 59 --- debtor's express/implied intimation binds if payment accepted (a cheque exactly equal to one bill implies appropriation to that bill); Sec. 60 --- absent intimation, creditor may apply to ANY lawful debt, even time-barred, but not a disputed debt; Sec. 61 --- neither appropriates: debts discharged in order of time, proportionately if of equal standing.
- Practise the multi-debt computation: match exact-amount cheques first, then let the creditor appropriate the balance to the oldest/time-barred debts.
- Guaranteed-loan trap: where one of two loans is guaranteed and the debtor gives no direction, the creditor (bank) may appropriate the payment to the UNguaranteed loan --- the surety cannot object.

CSQ 8.1 • RTP 2023-Jun [2] • Case Scenario • --- • Pg 140 **asked 2x**

LEVEL II
Application

Medium

CSQ 8.3 · MTP 2025-Apr S1 [1] (a) (ii) · Case Scenario · 3M · Pg 143

LEVEL II
Application

Medium

CSQ 8.2 · PYQ 2023-Dec [1] (a) {C} · Case Scenario · 4M · Pg 141 **asked**
4xLEVEL II
Application

Hard

Topic 9: Contracts, Which Need not be Performed -- with the consent of both the parties

P2-C2-U2.4-T09

Read first Study Section 4.9 (Secs. 62-67): novation, rescission and alteration (Sec. 62), remission/waiver (Sec. 63), restoration of benefit under voidable contract (Sec. 64), advantage under void agreement (Sec. 65), communication of rescission (Sec. 66) and promisee's neglect (Sec. 67).

NOTES

Sec 62: if the parties agree to substitute a new contract for the original, or to rescind or alter it, the original contract need not be performed — novation: substitution of a new contract (between the same or different parties; consideration = mutual discharge of the old contract; C replacing A as B's debtor); rescission: old contract cancelled, no new one substituted; alteration: terms changed by mutual agreement.

Novation vs alteration: novation may change terms OR parties and there is always substitution of a new contract; in alteration the parties remain the SAME and no new contract need be substituted — only some terms of the original are changed.

Sec 63 — remission: every promisee may dispense with or remit, wholly or in part, the performance of the promise, extend the time for performance, or accept instead any satisfaction he thinks fit — no consideration needed in India: B accepting ₹2,00,000 at the time and place ₹5,00,000 was payable discharges the whole debt; C's part-payment accepted in satisfaction of A's debt discharges the whole claim.

Secs 64-67: Sec 64 — party rescinding a voidable contract must restore any benefit received under it (insurer rescinding a policy repays premium less expenses); Sec 65 — advantage received under an agreement discovered void or a contract becoming void must be restored or compensated (₹1,00,000 paid for B's promise to marry C, already dead — repayable; but a security deposit is not a "benefit received under the contract" and may be retained on the buyer's default); Sec 66 — rescission must be communicated (and may be revoked) like a proposal; Sec 67 — promisee neglecting/refusing reasonable facilities excuses the promisor (apprentice refusing to learn; B not pointing out where his house needs repair).

Understanding explain with reasons · 2 questions

- Be ready to explain any five circumstances: novation, rescission, alteration (Sec. 62); remission --- promisee may dispense with/remit performance wholly or partly, extend time or accept other

satisfaction (Sec. 63); rescission of voidable contract (Sec. 64); promisee's neglect to afford facilities (Sec. 67).

- Novation vs alteration: novation substitutes a NEW contract (terms or parties may change; old contract discharged); alteration changes terms by mutual consent but the parties remain the SAME and no new contract need be substituted.
- Remission needs no consideration in India --- acceptance of ₹2,00,000 in full satisfaction of ₹5,00,000 discharges the whole debt (Sec. 63).

TQ 9.2 · PYQ 2022-Nov [6] (a) · Distinguish Between · 5M · Pg 145
asked 2x

LEVEL I
Understanding

Easy

TQ 9.1 · PYQ 2021-Dec [2] (a) · Descriptive · 7M · Pg 144 asked 5x

LEVEL I
Understanding

Medium

Topic 10: Discharge of a Contract

P2-C2-U2.4-T10

Read first Study Section 4.10 listing modes of discharge: performance, mutual agreement (Sec. 62-63), impossibility including supervening impossibility (Sec. 56), lapse of time (Limitation Act, 1963), operation of law, breach, remission and merger; plus Sec. 65 restitution when a contract becomes void.

NOTES

Modes of discharge: (1) performance — actual or attempted (tender); (2) mutual agreement — novation, rescission, alteration, remission (Secs 62-63); (3) impossibility of performance — ab initio or supervening (Sec 56); (4) lapse of time — Limitation Act, 1963 (price not sued for within 3 years becomes time-barred and irrecoverable); (5) operation of law — death of promisor, insolvency; (6) breach — actual or anticipatory, injured party gets damages and is discharged from his part; (7) remission/waiver (Sec 63); (8) promisee's neglect to afford facilities (Sec 67); (9) merger of rights — inferior right merges into superior (lessee purchasing the leased land — lease terminates).

Supervening impossibility (Sec 56): where performance becomes impossible or unlawful after formation by an unexpected event or change of circumstances beyond the parties' contemplation, the contract becomes VOID and both parties are discharged; grounds: (a) unforeseen change in law, (b) destruction of the subject-matter, (c) non-occurrence of a contemplated state of things/personal incapacity (party goes mad before the marriage; actor too ill to act on given occasions), (d) declaration of war (import contract with a country turned enemy dissolved/suspended).

Sec 65 restitution: when the contract becomes void, any advantage received (advance, token/security money) must be restored or compensated — where the motor car (subject-matter) is destroyed within the agreement period, the security amount must be refunded; contrast: on the buyer's own default the seller may rescind and retain the security.

Stock applications: horse dying in an accident before sale — destruction of subject-matter, contract void; ban on imports — subsequent illegality, discharged; rotten apples delivered late where time was essential — discharge/rejection; late delivery accepted where time was essence — compensation claimable only if notice given at the time of acceptance (Sec 55).

Understanding explain with reasons · 2 questions

- Supervening impossibility (Sec. 56): performance becoming impossible/unlawful after formation by an event beyond the parties' contemplation makes the contract VOID and discharges both parties --- e.g. party goes mad before marriage, actor too ill to act.
- Memorise its grounds: unforeseen change in law, destruction of subject-matter, non-occurrence of contemplated state of things/personal incapacity, declaration of war.
- List all modes of discharge with one line each: performance (actual/attempted), mutual agreement (novation/rescission/alteration/remission), impossibility, lapse of time, operation of law (death, insolvency), breach, merger of rights.

TQ 10.1 · PYQ 2021-Jul [6] (a) · Descriptive · 5M · Pg 146 asked 4x	LEVEL I Understanding	Medium
TQ 10.2 · MTP 2024-Jul [5] (c) · Descriptive · 6M · Pg 146 asked 3x	LEVEL I Understanding	Medium

Application apply provision to facts · 3 questions

- Structure: identify the discharging event → cite Sec. 56 (or 62/63) → state effect (contract void, parties discharged) → apply Sec. 65: advantage received (advance/token money) must be restored.
- Stock scenarios: war declared against the port country = trading with enemy, contract discharged; house demolished before sale = destruction of subject-matter, ₹50,000 token refundable under Sec. 65; delayed sugar delivery accepted where time was essence --- claim compensation only if notice given at acceptance (Sec. 55).

CSQ 10.1 · PYQ 2018-Nov [1] (a) {C} · Case Scenario · 4M · Pg 148 asked 5x	LEVEL II Application	Medium
CSQ 10.2 · PYQ 2021-Dec [3] (b) (ii) · Case Scenario · 6M · Pg 149 asked 2x	LEVEL II Application	Medium
CSQ 10.3 · PYQ 2024-Jun [4] (a) (i) · Case Scenario · 4M · Pg 150 asked 3x	LEVEL II Application	Medium

Unit 2.5: Breach of Contract and its Remedies

P2-C2-U2.5 · Importance C · Rank 7 in chapter · Category C · 7.4% of chapter questions · 16 questions

Topic 1: Anticipatory Breach of Contract

P2-C2-U2.5-T01

Read first Study Section 5.1 of Unit 5 (Breach of Contract and its Remedies): Sec. 39 --- refusal to perform or disabling oneself before the due date, express (words) or implied (conduct) repudiation, and the two options open to the promisee.

NOTES

Meaning: breach occurring BEFORE the time fixed for performance has arrived — the promisor refuses altogether to perform and signifies his unwillingness in advance; it may be (a) express, by words spoken or written (on 30 July A informs B he will not supply the cotton due 14 August), or (b) implied, by conduct (A sells the promised white horse to C before the due date).

Sec 39 (SM): “When a party to a contract has refused to perform or disable himself from performing, his promise in its entirety, the promisee may put an end to the contract, unless he has signified, but words or conduct, his acquiescence in its continuance.”

Effect — promisee's two options: (1) treat the contract as rescinded and sue for damages IMMEDIATELY, without waiting for the due date; or (2) elect not to rescind — treat the contract as still operative and hold the guilty party liable on the due date; but then the contract stays alive for the benefit of BOTH parties: the guilty party may on reconsideration still perform, and may take advantage of any supervening impossibility which discharges the contract.

Limits: acquiescence trap — a promisee who has signified, by words or conduct, acquiescence in the contract's continuance cannot put an end to it for that refusal; and the refusal/disablement must be of the promise “in its entirety” before the whole contract can be rescinded (leading cases noted in SM: Frost v. Knight, Hochster v. DelaTour).

Understanding explain with reasons · 2 questions

- Define anticipatory breach: repudiation before the time fixed for performance --- expressly by words spoken/written, or impliedly by conduct (e.g. selling the promised horse to a third party before the due date).
- Sec. 39: when a party refuses to perform, or disables himself from performing, his promise in its ENTIRETY, the promisee may put an end to the contract unless he has signified acquiescence in its continuance.
- Effect --- promisee's two options: (1) rescind at once and sue for damages immediately, or (2) keep the contract alive till the due date; but then the contract stays alive for BOTH parties and the guilty party may still perform or take advantage of supervening impossibility.

TQ 1.1 · PYQ 2024-Jun [5] (c) · Descriptive · 6M · Pg 154 asked 3×

LEVEL I
Understanding

Medium

TQ 1.2 · MTP 2024-Aug [3] (c) · Descriptive · 6M · Pg 155 asked 10×

LEVEL I
Understanding

Medium

Application apply provision to facts · 3 questions

- Structure: identify repudiation (refusal 'in its entirety', e.g. dancer absenting herself, supplier's advance notice of non-supply) → cite Sec. 39 → state the aggrieved party's election and damages consequence.
- Watch the acquiescence trap: if the promisee lets performance continue (signifies continuance), he loses the right to put an end to the contract for that refusal.
- Partial refusal (one size/category of shirts out of several) --- test whether it is refusal of the promise 'in its entirety' before allowing rescission of the whole contract.

CSQ 1.1 · PYQ 2022-May [1] (a) {C} · Case Scenario · 4M · Pg 156 asked 4x	LEVEL II Application	Medium
CSQ 1.2 · PYQ 2023-Dec [3] (b) (ii) · Case Scenario · 3M · Pg 157	LEVEL II Application	Medium
CSQ 1.3 · PYQ 2026-Sep [4](a) · Case Scenario · 7M · Pg 158	LEVEL II Application	Medium

Topic 2: Actual Breach of Contract

P2-C2-U2.5-T02

Read first Read Section 5.2: actual breach at the time performance falls due or during performance, and the chart of remedies available to the aggrieved party.

NOTES

Meaning: refusal or failure to perform on the scheduled date — committed either (a) at the time performance is due (A fails to deliver 100 bags of sugar on 1 February), or (b) during the performance of the contract, by express or implied refusal/failure midway; the other party obtains a right of action.

Five remedies for breach: (1) suit for damages — monetary compensation under Sec 73; (2) rescission of contract — aggrieved party absolved of his obligations and entitled to compensation (A fails to deliver cement, B is discharged from paying the price); (3) suit for specific performance — where damages are not an adequate remedy, court directs the party in breach to carry out his promise; (4) suit for injunction — court restrains a party from doing what he promised not to do; (5) suit upon quantum meruit — reasonable remuneration for work already done.

Sec 75: a person who RIGHTFULLY rescinds a contract is entitled to compensation for any damage sustained through non-fulfilment — singer wilfully absent on the sixth night; the manager rescinds and claims compensation.

Remembering memorise — no question in this edition

- Memorise the five remedies for breach: (1) suit for damages (Sec. 73), (2) rescission of contract, (3) suit for specific performance, (4) suit for injunction, (5) suit upon quantum meruit --- with one line on when each is available.

- Actual breach occurs either at the time performance is due (failure to deliver on the agreed date) or during performance (express/implied refusal midway).
- Add Sec. 75: a party rightfully rescinding a contract is entitled to compensation for any damage sustained through non-fulfilment of the contract.

Topic 3: Suit for Damages

P2-C2-U2.5-T03

Read first Master Section 5.3 on Sec. 73 and Hadley vs. Baxendale: ordinary, special, vindictive/exemplary, nominal and deterioration-by-delay damages, the duty to mitigate, and the bar on remote/indirect loss.

NOTES

Sec 73 rule: the party suffering breach is entitled to compensation for loss or damage (1) arising naturally in the usual course of things from the breach, OR (2) which the parties knew, when they made the contract, to be likely to result from its breach — special damage only on PREVIOUS notice; NO compensation for remote or indirect loss; the aggrieved party must take reasonable steps to mitigate the loss.

Hadley vs. Baxendale: carrier delayed delivering the broken mill crankshaft; the mill stayed idle 5 extra days, but the carrier was told only that the article was a broken shaft, not that delay would stop the mill — held, ordinary damages only, loss of profits NOT recoverable as the special circumstances were not communicated.

Kinds of damages: ordinary — natural and direct loss, standard measure = difference between contract price and market price on the date of breach (rice contracted at ₹5,000 rising to ₹5,500 — ₹500 per bag); special — recoverable only where notice of the special circumstances was given (carrier told the mill was stopped pays average profits for the delay, but not the loss of an unnotified Government contract); vindictive/exemplary — awarded in only TWO cases: breach of promise to marry (injury to feelings) and wrongful dishonour by a banker of a trader-customer's cheque, where credit and reputation suffer even without pecuniary loss (Gibbons v West Minster Bank); nominal — breach proved but no real loss: token sum (a rupee, even 10 paise) merely to establish the right; deterioration by delay — recoverable from a carrier even WITHOUT notice, 'deterioration' covering physical damage and loss of a special opportunity for sale.

Notice computation (SM — water bottles): Z, who knew the 1,000 bottles were for X's resale to Y at ₹5.00 against purchase at ₹4.50, pays the lost resale profit ₹500 ($1,000 \times ₹0.50$); had Z not been told, damages = market-price difference on the date of default, ₹750 ($1,000 \times ₹0.75$ with market at ₹5.25).

Remoteness (SM — bus breakdown): passengers made to walk to a hotel on a cold night — personal inconvenience and hotel charges recoverable as loss arising naturally; the wife's medical treatment is remote/indirect and NOT recoverable — test every claimed head against the twin Sec

73 limbs before totalling.

Remembering memorise — no question in this edition

- Vindictive/exemplary damages are awarded in only TWO cases: breach of promise to marry (injury to feelings) and wrongful dishonour of a trader- customer's cheque by a banker (Gibbons v Westminster Bank).
- Nominal damages: awarded where breach is proved but no real loss suffered --- a token sum merely to establish the right.

Understanding explain with reasons · 2 questions

- Sec. 73 rule: compensation for loss arising naturally in the usual course of things, OR which the parties knew when contracting as likely to result; never for remote/indirect loss; aggrieved party must mitigate.
- Hadley vs. Baxendale: carrier not told delay would stop the mill --- loss of profits not recoverable; special damages require PREVIOUS notice of the special circumstances.

TQ 3.1 · RTP 2019-Nov [7] · Descriptive · --- · Pg 160

LEVEL I
Understanding

Medium

TQ 3.2 · PYQ 2026-May [3] (c) · Descriptive · 6M · Pg 161

LEVEL I
Understanding

Medium

Application apply provision to facts · 4 questions

- Standard measure: contract price vs market price on the date of breach (rice/water-bottle examples) --- compute the figure in your answer.
- Notice cases: supplier who KNEW goods were for a resale contract pays the lost resale profit; without notice, only market-price difference --- always check what was communicated.
- Inconvenience scenarios (bus breakdown, exhibition consignment): naturally- arising inconvenience/hotel charges recoverable; medical treatment or lost exhibition profits without notice are remote.

CSQ 3.2 · RTP 2020-Nov [1] · Case Scenario · --- · Pg 163

LEVEL II
Application

Medium

CSQ 3.3 · MTP 2022-Mar [1] (a) {C} · Case Scenario · 4M · Pg 164

LEVEL II
Application

Medium

CSQ 3.4 · RTP 2024-Sep [6] · Case Scenario · --- · Pg 165 asked 6x

LEVEL II
Application

Medium

CSQ 3.5 · RTP 2026-May [5] · Descriptive · --- · Pg 166

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios · 1 question

- Two-stage scenarios (M Ltd. machinery case): extra price of substitute machinery = ordinary damage, recoverable; compensation the buyer paid its OWN customer = special damage, recoverable only if notified at contracting.

- Test each claimed head against the twin Sec. 73 limbs (natural loss vs notified special loss) and the remoteness bar before totalling the award.

CSQ 3.1 · PYQ 2018-May [3] (c) · Case Scenario · 6M · Pg 162 asked 4×

LEVEL II
Analysis

Medium

Topic 4: Penalty and Liquidated Damages (Section 74)

P2-C2-U2.5-T04

Read first Study Section 5.4: Sec. 74 --- reasonable compensation not exceeding the sum named, the English vs Indian law position, the government-bond exception, plus the other remedies (rescission, specific performance, injunction, quantum meruit and Sec. 75).

NOTES

Concepts: liquidated damages = a genuine pre-estimate by the parties of the loss from a future breach; penalty = an extravagant, unconscionable sum stipulated in terrorem of the offending party, with no comparison to the actual loss; the parties' label is NOT final — the court looks at substance, and an exorbitant sum is a penalty even if termed liquidated damages; a stipulation for increased interest from the date of default may be a penalty, but a clause merely making the whole balance due on default of an instalment is NOT a penalty.

Sec 74 — Indian law: makes no distinction between penalty and liquidated damages — whether or not actual damage is proved, the aggrieved party gets only REASONABLE compensation not exceeding the sum named (court may allow less, never more) — Sri Chunni Lal vs. Mehta & Sons Ltd (SC): claimant cannot recover more than the sum specified, and the court may reduce it; English law by contrast enforces liquidated damages but disregards penalties; Exception — a bond to the Central/State Government for the performance of a public duty is enforceable for the WHOLE sum named on breach.

Quantum meruit — “as much as earned”: restitutory (damages are compensatory) claim for the value of work already done; two conditions — the original contract has been discharged, and the claim is by the party NOT in default; cases: (a) agreement discovered void/contract becomes void, (b) non-gratuitous act (2 extra brandy bottles accepted must be paid for), (c) services rendered with no agreed remuneration, (d) other party abandons or refuses to perform (agent whose authority was wrongfully revoked recovers for work done and expenses), (e) divisible contract part-performed and benefit enjoyed (50 of 100 cotton bales delivered — B must pay for 50), (f) indivisible lump-sum contract fully but badly performed — lump sum recoverable less deduction for bad work.

Specific performance and injunction: where damages are not an adequate remedy (unique subject-matter, no market substitute), the court may in its discretion direct the party in breach to carry out his promise per the contract's terms; where a party persists in doing what he promised NOT to do, the court restrains him by injunction — film star who agreed to act exclusively for one

producer restrained from acting for another; singer engaged for two months restrained from performing elsewhere; structure: remedy hierarchy → damages inadequate on facts → specific performance/injunction.

Understanding explain with reasons · 3 questions

- Liquidated damages = genuine pre-estimate of loss; penalty = extravagant, unconscionable sum stipulated in terrorem; the label used by parties is not final --- courts look at substance.
- Sec. 74 (Indian law): no distinction between penalty and liquidated damages --- court awards only REASONABLE compensation not exceeding the sum named, whether or not actual loss is proved (Sri Chinni Lal vs. Mehta & Sons); exception --- bonds to Central/State Government for public duty are enforceable for the whole sum.
- Quantum meruit ('as much as earned'): restitutory claim for work already done; conditions --- original contract discharged, claim by party NOT in default; cases: contract discovered void, non-gratuitous act, no agreed remuneration, other party abandons/refuses, divisible contract part-performed, lump-sum work done badly.
- Increased interest from date of default may be penalty; a clause merely accelerating the whole due amount on default is NOT a penalty.

TQ 4.2 · PYQ 2024-Sep [3] (c) (i) · Descriptive · 3M · Pg 168 asked 2×	LEVEL I Understanding	Easy
TQ 4.1 · PYQ 2022-May [6] (a) · Descriptive · 5M · Pg 167 asked 2×	LEVEL I Understanding	Medium
TQ 4.3 · PYQ 2025-Sep [6] (Or) (b) · Descriptive · 6M · Pg 170 asked 4×	LEVEL I Understanding	Medium

Application apply provision to facts · 1 question

- Unique-goods scenarios: damages are inadequate when the item has no market substitute --- court may decree specific performance directing delivery per the contract; if the party persists in doing what he promised not to do, add an injunction (film-star/singer exclusivity cases).
- Answer structure: state the remedy hierarchy → show why damages fail on the facts (uniqueness/no measure of loss) → conclude with specific performance/injunction.

CSQ 4.1 · PYQ 2020-Nov [3] (c) (iii) · Case Scenario · 7M · Pg 171 asked 3×	LEVEL II Application	Medium
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Unit 2.6: Contingent and Quasi Contracts

P2-C2-U2.6 · Importance D · Rank 9 in chapter · Category C · 5.5% of chapter questions · 12 questions

Topic 1: Contingent Contracts

P2-C2-U2.6-T01

Read first Study Section 6.1 'Contingent Contracts' of Unit 6 (Contingent and Quasi Contracts), Indian Contract Act, 1872 --- the Sec. 31 definition, meaning of 'collateral event' (Pollock & Mulla) and the four essentials of a contingent contract.

NOTES

Sec 31 (SM): "A contract to do or not to do something, if some event, collateral to such contract, does or does not happen" — contracts of insurance, indemnity and guarantee fall under this category; e.g. A contracts to pay B ₹10,00,000 if B's house is burnt (contrast an absolute contract, performed in any event without condition).

Collateral event (Pollock & Mulla): "an event which is neither a performance directly promised as part of the contract, nor the whole of the consideration for a promise" — A's liability arises only on the happening of the collateral event.

Four essentials: (a) performance depends on happening/non-happening of some event or condition (precedent or subsequent); (b) event is collateral — not part of the contract, neither performance promised nor consideration; (c) event should not be the mere will of the promisor — within his will but not merely his will may still be contingent (pay if it rains AND A leaves Delhi); (d) event must be uncertain — if certain or bound to happen (collector's permission granted as a matter of course), not contingent.

Not contingent (traps): pay for 100 bags of wheat only after delivery, or pay ₹20,00,000 on completion of a swimming pool — event is part of the promise itself, hence a conditional (not contingent) contract; "pay ₹1,00,000 if he so chooses" is no contract at all.

Understanding explain with reasons · 2 questions

- Explain the Sec. 31 definition --- 'a contract to do or not to do something, if some event, collateral to such contract, does or does not happen' --- with examples (insurance, indemnity, guarantee).
- Master the four essentials with reasons: (i) performance depends on happening/non-happening of an event, (ii) event is collateral (neither the promised performance nor consideration), (iii) event must not be the mere will of the promisor, (iv) event must be uncertain.
- Be ready to add the enforcement rules of Secs. 32--36 when asked for 'essentials plus any three rules' (a frequent 6--7 mark PYQ combination).
- Trap: payment conditional on completing the work itself (e.g. pay on completion of a swimming pool) is a conditional, NOT contingent, contract --- the event is not collateral.

TQ 1.1 · PYQ 2018-Nov [2] (a) · Descriptive · 7M · Pg 174 asked 7x

LEVEL I
Understanding

Medium

TQ 1.2 · PYQ 2024-Jun [6] Or (b) · Descriptive · 6M · Pg 175 asked 8x

LEVEL I

Medium

Application apply provision to facts · 1 question

- Practise identifying a contingent contract in facts: promise to pay a lump sum if an uncertain collateral event occurs (e.g. hospital promising Dr. A ₹1,00,000 if he tests Covid-positive) --- structure as Sec. 31 definition → essentials satisfied on facts → conclusion valid contingent contract.
- Check each essential against the facts, especially collateral-ness and uncertainty, before concluding.

CSQ 1.1 · RTP 2021-Nov [5] · Case Scenario · ---- · Pg 177

LEVEL II
Application

Medium

Topic 2: Rules Relating to Enforcement

P2-C2-U2.6-T02

Read first Study Section 6.2 'Rules Relating to Enforcement' --- Secs. 32 to 36 --- and especially the tabular 'Difference between a contingent contract and a wagering contract' given at the end of that section.

NOTES

Secs 32–36 enforcement rules: Sec 32 — contingent on an event happening: cannot be enforced unless and until the event has happened; void if event becomes impossible (pay when B marries C; C dies — void); Sec 33 — contingent on event NOT happening: enforceable only when its happening becomes impossible (ship sinks), void if ship returns; Sec 34 — contingent on conduct of a living person: event becomes impossible when that person does anything rendering it impossible within any definite time (C marries D; Frost v. Knight — promise to marry on father's death, married another while father alive, breach); Sec 35 — event happening within fixed time: void if time expires without the event or event becomes impossible earlier; event NOT happening within fixed time: enforceable when time expires without the event, or earlier if it becomes certain it will not happen; Sec 36 — contingent on an impossible event: void, whether impossibility known to the parties or not (sun rises in the west; two straight lines enclosing a space).

Contingent vs. wagering: distinction table per SM — a wager is essentially contingent, but a contingent contract is valid while a wagering agreement is void; in insurance the parties have insurable interest in the subject matter, in a wager none.

Contingent contract	Wagering contract
Contract to do/not do something with reference to a collateral event happening or not	Promise to give money or money's worth with reference to an uncertain event happening or not
May not contain reciprocal promises	Consists of reciprocal promises

Uncertain event is collateral	Uncertain event is the core factor
May not be wagering in nature	Essentially contingent in nature
Parties have interest in the subject matter	Parties have no interest in the subject matter
Not based on doctrine of mutuality of loss and gain	A game — losing and gaining alone matters
Valid	Void

Understanding explain with reasons • 1 question

- Master the distinction table contingent vs. wagering contract on six bases: meaning, reciprocal promises, role of the uncertain event (collateral vs. core), nature, interest of parties in subject matter, and validity (contingent valid; wager void).
- For 'wagering agreement vs. contract of insurance' answers, use the same logic: in insurance parties have insurable interest in the subject matter and it is a valid contingent contract; in a wager there is no interest --- only mutual chance of gain/loss --- and it is void.
- Also keep the enforcement rules ready: Sec. 32 (contingent on event happening), Sec. 33 (event not happening), Sec. 34 (conduct of a living person), Sec. 35 (event within fixed time), Sec. 36 (impossible event --- void ab initio).

TQ 2.1 • PYQ 2018-May [2] (c) (i) • Distinguish Between • 2M • Pg 177

LEVEL I
Understanding

Easy

Topic 3: Quasi Contracts

P2-C2-U2.6-T03

Read first Study Section 6.3 'Quasi Contracts' --- meaning, salient features, and the five cases deemed quasi-contracts under Secs. 68 to 72.

NOTES

Meaning: obligations resembling those created by contract, imposed by law although there is no offer, acceptance, consent, or agreement — based on equity, justice and good conscience; rests on the maxim “No man must grow rich out of another person's loss” (doctrine of unjust enrichment); in India called ‘certain relations resembling those created by contracts’.

Salient features: (i) right is always a right to money, generally (not always) a liquidated sum; (ii) not from agreement — imposed by law; duty, not promise, is its basis; (iii) available against a particular person(s) only, not the whole world; a suit for breach lies as for a complete contract.

Five cases deemed quasi-contracts: Sec 68 necessities supplied to incapables; Sec 69 payment by

an interested person; Sec 70 benefit of a non-gratuitous act; Sec 71 finder of goods; Sec 72 money paid by mistake or under coercion.

Sec 68: necessities suited to his condition in life supplied to a person incapable of contracting (minor/lunatic) or to anyone he is legally bound to support — supplier reimbursed only from the PROPERTY of the incapable person, never personally; supplier must prove goods were suited to actual requirements at the time of sale and delivery. **Sec 69:** a person interested in the payment of money which another is bound by law to pay, and who therefore pays it, is entitled to be reimbursed (lessee B pays zamindar A's revenue arrears to save his lease; P pays D's rent to release his seized carriage).

Sec 70: person lawfully doing/delivering anything for another, not intending gratuity, where the other enjoys the benefit — that other must compensate or restore (tradesman's goods left by mistake and used; Shyam Lal v. State of U.P. — salary refunded); plaintiff proves (i) lawful act/delivery (ii) non-gratuitous intent (iii) benefit enjoyed. **Sec 71:** finder of goods is subject to the same responsibility as a bailee — care of a man of ordinary prudence, no right to appropriate, restore if owner found; may retain against everybody except the true owner (Hollins v. Howler — shopkeeper had to return the diamond to the finder). **Sec 72:** money paid or thing delivered by mistake or under coercion must be repaid or returned (Sales Tax Officer v. Kanhaiyalal; wheat delivered to the wrong person); 'coercion' read widely — oppression, extortion (tram-penalty case, Trikamdass v. Bombay Municipal Corpn.).

Remembering memorise · 1 question

- Definition: obligations resembling contracts, imposed by law based on equity, justice and good conscience --- 'no man must grow rich out of another's loss'.
- Salient features: (i) right to money, generally a liquidated sum; (ii) imposed by law, not agreement; (iii) available against a particular person only; duty, not promise, is its basis.
- The five cases: Sec. 68 necessities, Sec. 69 payment by interested person, Sec. 70 non-gratuitous act, Sec. 71 finder of goods, Sec. 72 mistake/coercion.

TQ 3.1 · PYQ 2002-May [5] (c) · Descriptive · 5M · Pg 179 asked 4x

LEVEL I
Remembering

Easy

Understanding explain with reasons · 1 question

- Explain why a finder of goods is at par with a bailee (Sec. 71): ordinary prudent man's care, no right to appropriate, must restore to owner; may retain against everyone except the true owner (Hollins v. Howler).

TQ 3.2 · PYQ 2025-May [6] (b) · Descriptive · 6M · Pg 180 asked 7x

LEVEL I
Understanding

Medium

Application apply provision to facts · 6 questions

- Sec. 68: necessities to a minor/lunatic or dependant --- reimbursement only from the incapable person's PROPERTY, never personally (Aarthi/Naresh, lunatic-wife cases; a ₹15-lakh diamond set is not 'necessaries').
- Sec. 69: interested person paying what another is legally bound to pay recovers it (P pays D's rent to release his seized carriage).
- Sec. 70/72: benefit of a non-gratuitous act, or goods delivered by mistake (wheat to the wrong neighbour), must be paid for or returned --- answer as section → conditions → facts → conclusion.

CSQ 3.1 · RTP 2025-Jan [4] · Case Scenario · --- · Pg 181 asked 3×	LEVEL II Application	Medium
CSQ 3.2 · PYQ 2022-Nov [3] (b) · Case Scenario · 6M · Pg 182	LEVEL II Application	Medium
CSQ 3.3 · RTP 2023-Jun [6] · Case Scenario · --- · Pg 183	LEVEL II Application	Medium
CSQ 3.4 · PYQ 2024-Sep [1] (a) (i) {C} · Case Scenario · 3M · Pg 184 asked 3×	LEVEL II Application	Medium
CSQ 3.5 · MTP 2025-Aug S2 [4] (a) (ii) · Case Scenario · 3M · Pg 184	LEVEL II Application	Medium
CSQ 3.6 · RTP 2025-Sep [5] · Case Scenario · --- · Pg 185	LEVEL II Application	Medium

Unit 2.7: Contract of Indemnity and Guarantee

P2-C2-U2.7 · Importance C · Rank 4 in chapter · Category A · 10.6% of chapter questions · 23 questions

Topic 1: Contract of Indemnity

P2-C2-U2.7-T01

Read first Study Section 7.1 'Contract of Indemnity' of Unit 7 --- Sec. 124 definition, parties (indemnifier/indemnity-holder), rights of indemnity-holder when sued under Sec. 125, and the note on commencement of indemnifier's liability (Gajanan Moreshwar case).

NOTES

Sec 124 (SM): "a contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself, or by the conduct of any other person" — 'indemnity' literally means security against loss/to make good the loss; parties: **indemnifier** (promisor) and **indemnified/indemnity-holder**; may be express or implied and must satisfy all essentials of a valid contract (promise to indemnify for beating C is unenforceable — unlawful object).

Scope restricted to human conduct: Sec 124 covers only loss caused by conduct of the promisor or of any other person — loss by accident not caused by any person or by act of God/natural event is

NOT covered; contrast English law (Gajanan Moreshwar v. Moreshwar Madan, 1942) where indemnity covers every loss whether by promisee's negligence, natural calamity or accident.

Sec 125 rights of indemnity-holder when sued (acting within scope of his authority) — recover from the indemnifier: (a) all damages he may be compelled to pay in any suit, (b) all costs compelled to pay in bringing/defending the suit, (c) all sums paid under the terms of any compromise of the suit; rights not exhaustive — if his liability is absolute he may call on the indemnifier to pay it off.

Commencement of liability: Act is silent, but per judicial pronouncements the indemnifier's liability commences as soon as the liability of the indemnity-holder becomes absolute and certain.

Insurance: fire and marine insurance are always contracts of indemnity, but there is NO contract of indemnity in life insurance (insurer pays a fixed sum, does not merely make good a loss).

Remembering memorise · 1 question

- Sec. 125 rights of indemnity-holder when sued (acting within scope of authority): recover (a) all DAMAGES compelled to pay in any suit, (b) all COSTS of bringing/defending the suit, (c) all SUMS paid under any compromise of the suit --- memorise the three heads verbatim.
- Sec. 124 definition: contract by which one party promises to save the other from loss caused by the conduct of the promisor himself or of any other person.

TQ 1.1 · PYQ 2024-Sep [6] (b) (ii) · Descriptive · 2M · Pg 190 **asked 3x**

LEVEL I
Remembering

Easy

Understanding explain with reasons · 1 question

- True/False reasoning: Sec. 124 covers only loss caused by human conduct --- loss by accident or act of God is excluded (contrast English law / Gajanan Moreshwar v. Moreshwar Madan).
- Fire and marine insurance ARE contracts of indemnity, but LIFE insurance is NOT fully one --- the insurer pays a fixed sum on death (a certain event), it does not merely make good a loss; justify the 'True' answer this way.
- Note the judicial rule that indemnifier's liability commences as soon as the indemnity-holder's liability becomes absolute and certain.

TQ 1.2 · PYQ 2025-Sep [5] (c) (iii) · True/False · 2M · Pg 191

LEVEL I
Understanding

Easy

Topic 2: Contract of Guarantee

P2-C2-U2.7-T02

Read first Study Section 7.2 --- Sec. 126 definitions, the tripartite structure of three contracts, six essential features (Sec. 127 consideration, Secs. 142--144), and Section 7.3 on specific vs. continuing guarantee (Sec. 129).

NOTES

Sec 126 (SM): “A contract to perform the promise made or discharge the liability, of a third person in case of his default”; may be oral or written; three parties — **surety** (gives the guarantee), **principal debtor** (in respect of whose default it is given), **creditor** (to whom it is given).

Tripartite — three contracts: (i) principal contract between principal debtor and creditor, (ii) secondary contract between creditor and surety, (iii) implied contract between surety and principal debtor to indemnify the surety if made to pay; surety's right unaffected by creditor's refusal to sue or failure to demand from the principal debtor.

Six essential features: (1) purpose — a recoverable principal debt must exist, no principal debt no valid guarantee; (2) consideration — Sec 127: consideration received by the principal debtor suffices for the surety, no direct consideration needed, but past consideration is no consideration (C agreeing without consideration to pay for goods already delivered — void); (3) existing legally enforceable liability, not time-barred; (4) no misrepresentation (Sec 142) or concealment of material circumstances (Sec 143) by the creditor; (5) writing not necessary — oral or written; (6) Sec 144 — if conditioned on a co-surety joining, guarantee invalid if that person does not join.

Competency: even if the principal debtor is incompetent (minor) the guarantee is VALID; but if the surety is incompetent, the guarantee is void (creditor a minor — void too).

Types (Sec 129): specific guarantee — extends to a single debt/specific transaction, liability ends when the guaranteed debt is discharged (Kay v. Groves); continuing guarantee — extends to a series of transactions, surety liable for the unpaid balance until revocation (tea-dealer example: guarantee up to ₹10,000 for tea supplied from time to time — surety liable to ₹10,000 on later default of ₹20,000).

Understanding explain with reasons · 1 question

- Define per Sec. 126: a contract to perform the promise, or discharge the liability, of a third person in case of his default; oral or written; three parties --- surety, principal debtor, creditor --- and three contracts (principal, secondary, implied indemnity).
- Essential features: existence of a recoverable principal debt; consideration (Sec. 127 --- benefit to principal debtor suffices, past consideration is none); enforceable liability; no misrepresentation/concealment (Secs. 142--143); co- surety must join if so conditioned (Sec. 144).

TQ 2.1 · MTP 2025-Aug S2 [5] (c) · Descriptive · 6M · Pg 192 **asked 2x**

LEVEL I
Understanding

Medium

Application apply provision to facts — no question in this edition

- Minor as principal debtor: guarantee remains VALID (surety liable as if primarily liable), but if the SURETY is incompetent the guarantee is void --- apply to scenarios like Manish (minor) with Sohel and a guarantor (2022 PYQ pattern).

Analysis untangle multi-issue scenarios • 2 questions

- Multi-issue scenarios mix guarantee validity with surety's liability and creditor's securities (e.g. credit sale guaranteed + defect issues; bank loan with mortgage + guarantee): first classify the arrangement (guarantee vs. indemnity), then test essentials, then fix extent of surety's liability under Sec. 128 and effect on securities under Sec. 141.
- Untangle in order: is there a principal debt? → is the guarantee validly formed (Secs. 127, 142--144)? → has any act of the creditor discharged or reduced the surety's liability?

CSQ 2.1 • PYQ 2024-Jun [1] (a) {C} • Case Scenario • 7M • Pg 193 **asked**
4x**LEVEL II**
Analysis**Medium**

CSQ 2.2 • PYQ 2026-May [4] (a) • Case Scenario • 7M • Pg 195

LEVEL II
Analysis**Hard****Topic 3: Types of Guarantees**

P2-C2-U2.7-T03

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §7.3 of Unit 2.7: the two classes of guarantee — specific and continuing — and when the surety's liability comes to an end under each.

NOTES

Specific Guarantee: a guarantee which extends to a **single debt or specific transaction**; the surety's liability comes to an end when the guaranteed debt is duly discharged or the promise duly performed. **Example:** A guarantees payment of the price of five bags of rice delivered by B to C; once C pays, the guarantee is exhausted [Kay v. Groves].

Continuing Guarantee [Section 129]: a guarantee which extends to a **series of transactions**; the surety's liability continues until the guarantee is revoked. Its essence is that it applies not to a fixed number of transactions but to any number, making the surety liable for the **unpaid balance** at the end of the guarantee.

Example of a continuing guarantee: A guarantees payment to B, a tea dealer, up to ₹10,000 for tea supplied to C from time to time; B supplies tea above ₹10,000 which C pays for, then supplies a further ₹20,000 worth which C fails to pay — A remains liable to the extent of ₹10,000, the guarantee being continuing.

Topic 4: Distinction Between a Contract of Indemnity and A Contract of Guarantee

P2-C2-U2.7-T04

Read first Study Section 7.4 --- the tabular distinction between contract of indemnity (Sec. 124) and

contract of guarantee (Sec. 126) on seven points.

NOTES

Intro: both are modes of compensation (Secs 124–147) based on similar principles, but differ considerably — indemnity (Sec 124, two parties) vs. guarantee (Sec 126, three parties, tripartite).

Contract of Indemnity	Contract of Guarantee
Two parties — indemnifier (promisor) and indemnified (promisee)	Three parties — creditor, principal debtor and surety
Indemnifier's liability is primary and unconditional	Surety's liability is secondary and conditional; primary liability is the debtor's
Liability arises only on happening of a contingency	Liability arises on non-performance of an existing promise/non-payment of an existing debt
Indemnifier need not act at the request of the indemnity-holder	Surety acts at the request of the principal debtor
Cannot sue a third party in his own name — no privity (unless assignment)	Surety can proceed in his own right — gets all rights of the creditor after paying
Purpose: reimbursement of loss	Purpose: security of the creditor
All parties must be competent to contract	Valid even where the principal debtor is a minor

Understanding explain with reasons · 2 questions

- Master at least four bases: (i) parties --- two (indemnifier, indemnified) vs. three (creditor, principal debtor, surety); (ii) liability --- indemnifier's is primary and unconditional vs. surety's secondary and conditional; (iii) trigger --- happening of a contingency vs. default of an existing debt/promise; (iv) right to sue third party --- indemnifier cannot sue in own name (no privity) vs. surety steps into creditor's shoes after payment.
- Extra bases if 'any four' asked from a wider set: purpose (reimbursement of loss vs. security of creditor), request (indemnifier need not act at request vs. surety acts at principal debtor's request), competency (all parties competent vs. minor principal debtor still valid).
- Present as a two-column table with headed rows --- standard 4-mark format.

TQ 4.1 · PYQ 2024-Sep [6] (Or) (b) (I) · Distinguish Between · 4M · Pg 197 asked 3x

LEVEL I
Understanding

Easy

TQ 4.2 · MTP 2026-Apr S1 [5] (c) · Descriptive · 6M · Pg 198

LEVEL I
Understanding

Medium

Topic 5: Nature and Extent of Surety's Liability [Section 128]

P2-C2-U2.7-T05

Read first Study Section 7.5 'Nature and Extent of Surety's Liability [Section 128]' and the related Sec. 132 rule on two persons primarily liable inter se.

NOTES

Sec 128: the liability of the surety is CO-EXTENSIVE with that of the principal debtor unless otherwise provided by the contract — A guaranteeing C's bill of exchange is liable not only for the amount of the bill but also for interest and charges due on it.

Four facets: (i) liability is secondary — arises only on default of the principal debtor; (ii) where the debtor cannot be held liable on account of any defect in the document, the surety's liability also ceases; (iii) the creditor may choose to proceed against the surety FIRST, unless agreed otherwise; (iv) the contract may limit the surety's liability.

Surety liable though debtor is not (SM summary): (1) principal debtor incompetent to contract, (2) principal debtor adjudged insolvent, (3) debt has become time-barred.

Sec 132: where two persons contract with a third to undertake a liability, and inter se agree that one shall be liable only on the other's default, the third person (not party to that arrangement) is unaffected even if aware of it — joint and several promissory note: A, surety in fact for B to C's knowledge, is still liable to C on the note.

Understanding explain with reasons • 1 question

- State Sec. 128: the surety's liability is CO-EXTENSIVE with that of the principal debtor unless otherwise provided by the contract --- he is liable for the debt plus interest and charges (bill of exchange example).
- Explain its four facets: liability is secondary (arises on default); it ceases if the debtor cannot be held liable due to defect in the document; the creditor may sue the surety FIRST without exhausting remedies against the debtor; the contract may limit the surety's liability.
- Remember the summary exceptions where surety is liable though debtor is not: debtor incompetent (minor), debtor adjudged insolvent, debt time-barred.

TQ 5.1 • PYQ 2025-May [3] (c) (I) • Descriptive • 6M • Pg 199

LEVEL I
Understanding

Medium

Topic 6: Liability of Two Persons, Primarily Liable, Not Affected by Arrangement Between Them That One Shall Be Surety on Other's Default

P2-C2-U2.7-T06

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §7.6 of Unit 2.7: Section 132, and why a private suretyship arrangement between two co-promisors does not bind the third person they contracted with.

NOTES

Section 132: where two persons contract with a third person to undertake a certain liability, and also contract **between themselves** that one shall be liable only on the other's default, the liability of each to the third person under the first contract is **not affected** by the second contract — and this holds **even if the third person was aware of it**, the third person not being a party to it.

Example: A and B make a joint and several promissory note to C; A in fact makes it as surety for B, and C knows this when the note is made. That fact is no answer to a suit by C against A upon the note.

Why it matters: the arrangement governs the rights of A and B between themselves only; as against the creditor both remain primarily liable, so the 'I was only the surety' defence fails.

Topic 7: Discharge of A Surety

P2-C2-U2.7-T07

Read first Study Section 7.7 'Discharge of a Surety' --- three modes: revocation (Secs. 130, 131, 62), conduct of the creditor (Secs. 133--137, 139), invalidation (Secs. 142--144); the unit's most tested topic.

NOTES

Three modes: (i) by revocation of the contract of guarantee, (ii) by conduct of the creditor, (iii) by invalidation of the contract of guarantee.

Revocation head: Sec 130 — a continuing guarantee may at any time be revoked by NOTICE to the creditor as to FUTURE transactions; surety stays liable for transactions before notice (Arun liable for ₹2,000 pre-notice groceries, not ₹1,000 after; Manoj liable for ₹40,000 supplied before revocation); a specific guarantee is revocable only if liability has not accrued; Sec 131 — surety's death revokes a continuing guarantee for future transactions (no notice needed), estate remains liable for past ones; Sec 62 — novation: fresh contract with mutual discharge of the old one discharges the surety under the original.

Conduct-of-creditor head: Sec 133 — variance in terms between debtor and creditor without surety's consent discharges the surety for all SUBSEQUENT transactions (cashier's salary raised/reduced without surety's consent — surety liable only for pre-variance misappropriations, e.g. Chetan/Pawan first six months); Sec 134 — release/discharge of the principal debtor by fresh contract or by the creditor's act/omission (B omits to supply timber — surety C discharged); Sec 135 — creditor's composition with, promise to give time to, or promise not to sue the principal debtor discharges the surety UNLESS the surety assents; Sec 139 — creditor's act inconsistent with

the surety's rights, or omission of a duty owed to him, impairing the surety's eventual remedy, discharges him (State Bank of Saurashtra v. Chitranjan Rangnath Raja — godown stock lost by bank's negligence, surety discharged to its value; employer failing to check apprentice's cash monthly).

Non-discharge traps: Sec 136 — contract to give time made with a THIRD person, not the principal debtor: surety NOT discharged; Sec 137 — mere forbearance to sue or to enforce any other remedy: surety NOT discharged (C not suing B for a year — A still liable).

Invalidation head: Sec 142 — guarantee obtained by the creditor's misrepresentation (or with his knowledge and assent) as to a material part of the transaction is invalid; Sec 143 — guarantee obtained by keeping silence as to material circumstances is invalid (clerk's previous defaults concealed from the surety; secret ₹5-per-ton overprice agreement); Sec 144 — guarantee conditioned on a co-surety joining is invalid if he does not join.

Understanding explain with reasons • 3 questions

- Revocation head: Sec. 130 --- notice revokes a continuing guarantee for FUTURE transactions only; Sec. 131 --- surety's death revokes it for future transactions, estate liable for past ones; Sec. 62 novation.
- Conduct-of-creditor head: Sec. 133 variance without surety's consent; Sec. 134 release of principal debtor; Sec. 135 composition/giving time/promise not to sue; Sec. 139 impairing surety's eventual remedy (State Bank of Saurashtra case).
- Invalidation head: Sec. 142 misrepresentation, Sec. 143 concealment, Sec. 144 co-surety not joining.
- Non-discharge traps: Sec. 136 (time given via a THIRD person) and Sec. 137 (mere forbearance to sue) --- surety NOT discharged.

TQ 7.1 • MTP 2025-Apr S1 [6] (b) • Descriptive • 6M • Pg 200	LEVEL I Understanding	Medium
TQ 7.2 • PYQ 2025-May [3] (c) (ii) • Descriptive • 6M • Pg 201 asked 2×	LEVEL I Understanding	Medium
TQ 7.3 • PYQ 2026-Jan [5] (c) • Descriptive • 6M • Pg 201	LEVEL I Understanding	Medium

Application apply provision to facts • 3 questions

- Sec. 130 numericals (Ramesh/Suresh, Manoj/Sharma): liability = transactions before notice, capped at guaranteed maximum; nil after notice.
- Sec. 131 (Sooraj death case): estate liable only for supplies before death; no notice needed.
- Sec. 133 (Amit rent, Kishore interest cases): variation without consent --- higher rent, changed interest, extended time --- discharges the surety for subsequent transactions.

CSQ 7.3 • PYQ 2021-Jan [5] (c) (ii) • Case Scenario • 4M • Pg 205	LEVEL II Application	Medium
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CSQ 7.6 · RTP 2024-Sep [8] · Case Scenario · --- · Pg 208	LEVEL II Application	Medium
CSQ 7.7 · RTP 2025-May [7] · Case Scenario · --- · Pg 209	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios · 4 questions

- Employment guarantees (Chetan, Sarthak cashier): salary variation without surety's consent → Sec. 133 discharge for future conduct; separate pre- and post- variance liability.
- Mixed scenarios: pick the right section per sub-issue --- dismissed-employee concealment → Sec. 143 invalid guarantee; hire-purchase reschedule/giving time → Secs. 133/135; if the surety assented, Sec. 135 does not discharge him.

CSQ 7.1 · PYQ 2018-Nov [1] (d) {C} · Case Scenario · 4M · Pg 203	LEVEL II Analysis	Medium
CSQ 7.2 · PYQ 2020-Nov [2] (d) · Case Scenario · 4M · Pg 204	LEVEL II Analysis	Medium
CSQ 7.4 · PYQ 2021-Dec [5] (c) · Case Scenario · 4M · Pg 206	LEVEL II Analysis	Medium
CSQ 7.5 · RTP 2024-Jun [3] · Case Scenario · --- · Pg 207	LEVEL II Analysis	Medium

Topic 8: Rights of A Surety

P2-C2-U2.7-T08

Read first Study Section 7.8 'Rights of a Surety' --- rights against the principal debtor (Secs. 140, 145), against the creditor (Sec. 141, set-off, share in reduction), and against co-sureties (Secs. 146, 147).

NOTES

Against principal debtor: Sec 140 subrogation — on payment/performance of all he is liable for, the surety is invested with all the rights the creditor had against the principal debtor (steps into the creditor's shoes — e.g. surety repaying Raju's housing loan may auction the mortgaged house on 15 days' notice); Sec 145 implied indemnity — in every guarantee there is an implied promise by the principal debtor to indemnify the surety; surety recovers sums RIGHTFULLY paid (including costs of defending on reasonable grounds), not sums wrongfully paid.

Against creditor: Sec 141 — surety entitled to the benefit of every security the creditor has against the principal debtor at the time the suretyship contract is made, whether the surety knows of it or not; if the creditor loses or without the surety's consent parts with the security, the surety is discharged to the extent of its value (C cancels mortgage of B's furniture worth ₹80,000 — A discharged to ₹80,000, liable for balance ₹1,20,000); plus right to SET-OFF the debtor's counter-claim (loan ₹50,000, set-off ₹10,000 → surety pays ₹40,000) and right to proportionate reduction where the debtor becomes insolvent (25% realised → surety pays ₹37,500).

Against co-sureties: co-sureties = two or more persons guaranteeing the same debt or duty; Sec 146 — unless otherwise agreed, each contributes EQUALLY to the unpaid debt, whether joint or several, same or different contracts, with or without knowledge of each other (A, B, C sureties for ₹3,00,000 — ₹1,00,000 each; B cannot refuse); Sec 147 — co-sureties bound in different sums pay equally as far as the limits of their respective obligations permit.

Sec 147 arithmetic (bonds ₹1L/₹2L/₹4L): default ₹3,00,000 → each pays ₹1,00,000; default ₹4,00,000 → A ₹1,00,000 (cap hit), B and C ₹1,50,000 each; default ₹7,00,000 → each pays the full penalty of his bond.

Understanding explain with reasons · 2 questions

- Against principal debtor: Sec. 140 subrogation --- on payment the surety steps into the creditor's shoes; Sec. 145 implied indemnity --- recover sums rightfully paid (incl. costs of a reasonable defence), not sums wrongfully paid.
- Against creditor: Sec. 141 benefit of every security held when the guarantee was made (known to surety or not) --- if creditor loses/parts with it, surety discharged to its value; plus set-off and proportionate reduction on insolvency.
- Against co-sureties: Sec. 146 equal contribution unless agreed; Sec. 147 sureties bound in different sums pay equally within their limits.

TQ 8.1 · PYQ 2024-Jun [3] (c) · Descriptive · 6M · Pg 210 asked 6×

LEVEL I
Understanding

Medium

CSQ 8.2 · PYQ 2021-Dec [1] (c) {C} · Case Scenario · 4M · Pg 212 asked 3×

LEVEL I
Understanding

Medium

Application apply provision to facts · 2 questions

- Sec. 141 (C/B furniture mortgage): creditor cancelling a ₹2,00,000 mortgage without surety's knowledge → surety discharged to that value.
- Sec. 146 (Pawan--Suraj/Tarun/Usha): co-sureties share equally even with no contract among themselves.
- Sec. 147 (A/B/C limits ₹1L/₹2L/₹3L, ₹4,00,000 default): pay equally up to each limit --- practise the stepwise arithmetic.

CSQ 8.1 · PYQ 2019-Nov [5] (c) · Case Scenario · 4M · Pg 211

LEVEL II
Application

Medium

CSQ 8.4 · PYQ 2025-Sep [3] (c) · Case Scenario · 6M · Pg 213

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios · 1 question

- Different-penalty-bond problems (X ₹10,000, Y ₹20,000, Z ₹40,000): equal shares until a surety's cap is hit, then redistribute the excess among the rest; state Sec. 147 first, then show the allocation for the given default figure.

CSQ 8.3 · MTP 2024-Dec S1 [4] (a) (i) · Case Scenario · 4M · Pg 213

LEVEL II
Analysis

Hard

Unit 2.8: Bailment and Pledge

P2-C2-U2.8 · Importance D · Rank 5 in chapter · Category B · 9.2% of chapter questions · 20 questions

Topic 1: What is Bailment?

P2-C2-U2.8-T01

Read first Study Section 8.1 'What is Bailment?' of Unit 8 --- Sec. 148 definition, parties (bailor/bailee), the five essential elements, kinds of delivery (actual/constructive), and types of bailment (gratuitous/non-gratuitous; benefit of bailor/bailee/both).

NOTES

Sec 148 (SM): bailment is “the delivery of goods by one person to another for some purpose, upon a contract, that the goods shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them” — from French ‘ballier’ = to deliver; parties: **bailor** (delivers) and **bailee** (receives) — car for repair, cloth to a tailor, goods to a carrier.

Five essentials: (1) contract — express or implied, no consideration necessary; (2) delivery of MOVABLE goods only (never immovables or money) — actual (car handed to workshop) or constructive (Sec 149 — any act putting the goods in the possession of the bailee or a person authorised to hold for him, e.g. handing over the car key); (3) some purpose, express or implied; (4) change of POSSESSION, not ownership — bailor remains owner; custody without possession is no bailment (servant with master's goods); (5) return of the SAME goods (or disposal per bailor's directions) — no exchange, even for goods of higher value.

Not bailments: deposit of money in a bank (identical notes not returned; money not ‘goods’); ornaments in a bank locker with key retained by owner (no transfer of possession); car locked in a parking lot with keys kept by the owner — no delivery, Sec 148 inapplicable; BUT customs seizure = possession transferred → bailment exists.

Types: by benefit — for exclusive benefit of bailor (valuables to neighbour free), of bailee (bicycle lent free), or of both (watch for repair); by reward — gratuitous (free of charge) vs. non-gratuitous (both parties benefit); in hire bailments remember Sec 150 (bailor liable for damage from faults whether known to him or not) and Sec 158 (ordinary expenses like petrol/toll on the bailee, extraordinary like ₹5,000 engine repair on the bailor).

Remembering memorise • 1 question

- Sec. 148: delivery of goods by one person to another for some purpose, upon a contract, that when the purpose is accomplished they shall be returned or disposed of per the deliverer's directions.
- Essentials: (i) contract (express/implied, no consideration needed), (ii) delivery of movable goods --- actual or constructive, (iii) purpose, (iv) change of POSSESSION not ownership, (v) return of the SAME goods.
- Non-bailments to quote: bank deposit of money, locker with keys retained, servant's custody of master's goods.

TQ 1.1 • MTP 2024-Jun [5] (c) • Descriptive • 6M • Pg 218 asked 3x

LEVEL I
Remembering

Easy

Application apply provision to facts • 1 question

- Test the possession element: car locked in a parking lot with keys kept by owner → no delivery → NO bailment; customs seizure → bailment implied by law.
- Constructive delivery (pledged goods left with pledgor 'in trust' for the bank): any act putting goods in bailee's possession suffices --- answer as Sec. 148 → facts → conclusion.

CSQ 1.1 • RTP 2024-Jun [5] • Case Scenario • --- • Pg 219

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios • 1 question

- Car-hire multi-issue problems (Honda City case): combine Sec. 148 essentials with Sec. 150 (hire bailor liable even for unknown faults) and Sec. 158 expense split (ordinary on bailee, extraordinary on bailor); resolve each sub-question separately.

CSQ 1.2 • PYQ 2025-May [4] (a) • Case Scenario • 7M • Pg 220 asked 2x

LEVEL II
Analysis

Medium

Topic 2: Duties of A Bailor

P2-C2-U2.8-T02

Read first Study Section 8.2 'Duties of a Bailor' --- disclose known faults (Sec. 150), bear necessary/extraordinary expenses (Sec. 158), indemnify bailee for premature termination (Sec. 159), and receive back goods (Sec. 164).

NOTES

Four duties (Secs 150, 158, 159, 164): disclose known faults; bear necessary/extraordinary expenses; indemnify bailee; receive back the goods.

Sec 150 disclose faults: gratuitous bailment — bailor must disclose known faults that materially interfere with use or expose the bailee to extraordinary risks, else liable for resulting damage

(vicious horse lent undisclosed); non-gratuitous/hire — bailor liable for such damage WHETHER OR NOT he was aware of the fault (unsafe carriage; Hyman v. Nye — carriage bolt broke, bailor liable to supply a carriage fit for the purpose); dangerous goods (explosives) — nature must be disclosed (Great Northern Ry case).

Sec 158 expenses: gratuitous — bailor repays necessary AND extraordinary expenses; non-gratuitous — bailor bears only extraordinary expenses, ordinary/usual ones fall on the bailee.

Sec 159 premature termination: goods lent gratuitously may be demanded back any time, but if the bailee's loss from premature return exceeds the benefit derived, the bailor must compensate the excess — where goods are HIRED for a fixed term, the bailor cannot demand them back early against the bailee's will; **Sec 164:** indemnify the bailee for loss from bailor's defective title, and receive the goods back on expiry/fulfilment — on refusal the bailee claims all necessary expenses of safe custody (car left uncollected for a month).

Application apply provision to facts · 1 question

- Premature demand of gratuitously-lent vs. hired goods: under Sec. 159 only GRATUITOUS bailment can be terminated any time (with compensation if bailee's loss exceeds benefit); where goods are hired for a fixed term (Kushwah Travels car for 15 days), the bailor cannot demand them back early against the bailee's will --- apply Secs. 153/159 → facts → conclusion.
- Also keep Sec. 150 handy: for hire bailments the bailor is liable for damage from faults whether or not he knew of them (Hyman v. Nye).

CSQ 2.1 · RTP 2025-Sep [6] · Case Scenario · --- · Pg 221

LEVEL II
Application

Medium

Topic 3: Duties of A Bailee

P2-C2-U2.8-T03

Read first Study Section 8.3 'Duties of a Bailee' --- reasonable care (Secs. 151-- 152), no unauthorised/inconsistent use (Secs. 153--154), no mixing (Secs. 155-- 157), return of goods (Secs. 160--161), return of accretion (Sec. 163).

NOTES

Six duties: reasonable care (Secs 151–152); no unauthorised/inconsistent use (Secs 153–154); no mixing (Secs 155–157); return the goods (Secs 160–161); return accretion (Sec 163 — calf delivered with the cow); not to set up a title adverse to the bailor.

Secs 151–152 care: bailee bound to take “as much care of the goods bailed to him as a man of ordinary prudence would, under similar circumstances, take of his own goods of the same bulk, quality and value”; Sec 152 — absent special contract, not liable for loss/destruction/deterioration if that care was taken (ornaments kept with bailee's own lost in a riot — not liable; flood-damaged

warehouse goods — Shanti Lal v. Takechand); but breach of a special instruction (jewellery to be kept in bank locker kept at home instead) makes him liable.

Sec 154: bailee making use of the goods not according to the conditions of bailment is liable to compensate the bailor for ANY loss or destruction — even accidental and without negligence (horse lent for own riding given to a family member; horse hired for Varanasi marched to Cuttack); under Sec 153 such inconsistent use also makes the bailment voidable at the bailor's option.

Mixing: Sec 155 — with bailor's consent: both have proportionate interest in the mixture; Sec 156 — without consent but separable: property remains with each, bailee bears expenses of separation and any damage (100 marked cotton bales; Amar's sugar if separable); Sec 157 — without consent and inseparable: bailor entitled to compensation for LOSS of the goods (Cape flour mixed with country flour; Srijith's employee mixing and packing Amar's sugar — Srijith must compensate).

Secs 160–161 return: bailee must return/deliver per directions without demand once the time expires or the purpose is accomplished; on default he bears ANY loss, destruction or deterioration from that time even with reasonable care (books kept beyond reasonable time burnt in accidental fire; umbrella kept a week instead of two days — M bears the loss).

Remembering memorise — no question in this edition

- Sec. 154 verbatim: a bailee making use of goods inconsistent with the conditions of bailment is liable to compensate the bailor for ANY loss/destruction --- even without negligence.
- Sec. 151 care standard: as much care as a man of ordinary prudence would take of his own goods of the same bulk, quality and value; Sec. 152: no liability if that care was taken, absent special contract.

Application apply provision to facts · 3 questions

- Theft/fire after reasonable care (jeweller Arun locking ornaments in locker): Secs. 151--152 → bailee not liable; contrast Sec. 161 --- if goods are retained after the bailment period or after demand (Kartik's AC, R's umbrella kept a week), bailee bears ANY loss thereafter even by accident/fire.
- Mixing cases: with consent → proportionate interest (Sec. 155); without consent but separable (Amar's sugar) → bailee bears separation costs and damage (Sec. 156); delivery-boy leaving goods with a neighbour = unauthorised act making bailee liable. Answer pattern: duty breached → section → facts → who bears the loss.

CSQ 3.1 · MTP 2024-Aug [4] (a) (ii) · Case Scenario · 3M · Pg 222 asked 2×	LEVEL II Application	Medium
CSQ 3.2 · PYQ 2025-Sep [1] (a) (ii) {C} · Case Scenario · 4M · Pg 223	LEVEL II Application	Medium
CSQ 3.3 · RTP 2026-Jan [6] · Case Scenario · --- · Pg 224 asked 2×	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios — no question in this edition

- Inseparable mixing with consent then CONSUMPTION (Mr. Truth's groundnut): work through Sec. 155 (consented mixing) versus conversion of goods --- mixing was consented but consuming them was unauthorised use (Sec. 154), so compensation is payable; separate the two issues before concluding.

Topic 4: Rights of A Bailor

P2-C2-U2.8-T04

Read first Study Section 8.4 'Rights of a Bailor' --- right to terminate (Sec. 153), demand back gratuitous goods (Sec. 159), sue wrongdoers (Secs. 180--181), sue the bailee, and claim compensation.

NOTES

Five rights: terminate the bailment (Sec 153); demand back gratuitously-lent goods at any time (Sec 159); sue any wrongdoer/third party (Secs 180--181); sue the bailee to enforce his duties and liabilities; claim compensation for damage from unauthorised use or unauthorised mixing.

Sec 153 trap: inconsistent use makes the contract of bailment VOIDABLE at the option of the bailor — not automatically void (A lends horse to B for his own riding, B gives it to C — voidable at A's option); coupled with Sec 154 the bailor may also claim compensation for any loss from the unauthorised use.

Sec 159: gratuitous goods returnable on demand even before the fixed time/purpose (ornaments left for a month demanded after a week), subject to compensating the bailee where his loss exceeds the benefit derived.

Understanding explain with reasons · 1 question

- Validity-statement trap: under Sec. 153 use of goods inconsistent with the conditions of bailment makes the contract VOIDABLE at the bailor's option --- not automatically void; so the statement 'the contract of bailment becomes void' is INCORRECT, and you must justify with the void/voidable distinction.
- Link Sec. 153 with Sec. 154: besides avoiding the contract, the bailor may claim compensation for any loss caused by the unauthorised use of the goods.
- Keep the full rights list ready for descriptive answers: terminate bailment (Sec. 153), demand back gratuitously-lent goods any time (Sec. 159), sue a wrongdoing third party (Secs. 180--181), sue the bailee for enforcing his duties, and claim compensation for unauthorised use/mixing.

TQ 4.1 · PYQ 2022-May [2] (c) (iv) · Descriptive · 1M · Pg 225

LEVEL I
Understanding

Easy

Topic 5: Rights of A Bailee

P2-C2-U2.8-T05

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §8.5 of Unit 2.8: the seven rights of a bailee with their section numbers.

NOTES

Section 165 — deliver to any one joint bailor: where several joint owners bail the goods, the bailee may return them to any one of the joint owners, unless there is a contract to the contrary.

Example: A, B and C jointly hire out a harvesting combine to D; on expiry D may return it to any one of them.

Section 166 — right to indemnity: the bailee is entitled to be indemnified by the bailor for any loss arising because the bailor was not entitled to make the bailment, to receive the goods back, or to give directions about them; and where the bailor has no title and the bailee in good faith redelivers per the bailor's directions, the bailee is not responsible to the true owner for that delivery.

Section 150 — compensation for faulty goods: the bailee may recover from the bailor any loss caused by the bailor's failure to disclose faults known to him — and where the bailment is **for hire**, the bailor is liable even if he was not aware of the fault.

Section 158 — necessary expenses: in a gratuitous bailment the bailor must repay the bailee the necessary expenses, and any extraordinary expenses, incurred for the purpose of the bailment.

Section 167 — apply to court on title: if the goods bailed are claimed by someone other than the bailor, the bailee may apply to the court to stop delivery and decide the title. **Sections 170 and 171:** the bailee also has a particular lien for payment of services and, in the specified callings, a general lien.

Topic 6: Rights of Bailor and Bailee Against Any Wrong Doer (Third Party)

P2-C2-U2.8-T06

Read first Study Section 8.6 --- suits against wrongdoers under Sec. 180 and apportionment of relief under Sec. 181.

NOTES

Sec 180 (SM): if a third person wrongfully deprives the bailee of the use or possession of the goods bailed, or does them any injury, the bailee is entitled to use such remedies as the owner might have used in the like case if no bailment had been made — and EITHER the bailor or the bailee may bring a suit against the third person for such deprivation or injury.

Sec 181: whatever is obtained by way of relief or compensation in any such suit shall, as between the bailor and the bailee, be dealt with according to their RESPECTIVE INTERESTS.

Remembering memorise · 1 question

- Sec. 180: if a third person wrongfully deprives the bailee of the use or possession of the goods bailed, or does them any injury, the bailee is entitled to use the same remedies as the owner might have used if no bailment had been made; EITHER the bailor or the bailee may bring a suit against the wrongdoer.
- Sec. 181: whatever is obtained by way of relief or compensation in such a suit is dealt with, as between bailor and bailee, according to their RESPECTIVE INTERESTS.
- In the 6-mark answer quote both section numbers and reproduce the Sec. 180 language closely --- the question asks specifically for the bailor's rights against a wrongdoer, so lead with the bailor's right to sue.

TQ 6.1 · PYQ 2024-Sep [5] (c) (I) · Descriptive · 6M · Pg 225

LEVEL I
Remembering**Medium****Topic 7: Termination of Bailment**

P2-C2-U2.8-T07

Read first Study Section 8.7 'Termination of Bailment' --- the five circumstances (expiry of period, fulfilment of purpose, notice, death, destruction of subject matter).

NOTES

Five modes: (1) expiry of the stipulated period (motorcycle lent for a month); (2) fulfilment of the specific purpose (tents and crockery hired for a marriage); (3) by notice — where the bailee acts inconsistently with the terms of bailment, or bailor ends a gratuitous bailment at any time; (4) death of either bailor or bailee terminates a GRATUITOUS bailment; (5) destruction of the subject matter or change in the nature of goods making the purpose impossible (cycle damaged beyond repair).

Qualifiers: death terminates only gratuitous bailment; premature termination of a gratuitous bailment must not cause the bailee loss exceeding the benefit derived — if it does, the bailor must compensate the excess (Sec 159).

Understanding explain with reasons · 2 questions

- Explain all five modes: (i) expiry of stipulated period; (ii) fulfilment of the purpose; (iii) by notice --- where bailee acts inconsistently with the terms, or bailor ends a gratuitous bailment any time (subject to Sec. 159 compensation); (iv) death of bailor or bailee ends a GRATUITOUS bailment; (v) destruction/change of nature of subject matter.
- Note the qualifiers examiners check: death terminates only gratuitous bailment; premature termination of gratuitous bailment requires compensating bailee's excess loss.
- This part often pairs with an unrelated sub-question (e.g. remedies of a defrauded party) --- allocate marks evenly and answer each limb separately.

TQ 7.1 · MTP 2025-May S2 [6] (b) · Descriptive · 6M · Pg 226

LEVEL I
Understanding

Medium

TQ 7.2 · PYQ 2026-May [6] (Or) (b) · Descriptive · 6M · Pg 227

LEVEL I
Understanding

Medium

Topic 8: Finder of Lost Goods

P2-C2-U2.8-T08

Read first Study Section 8.8 'Finder of Lost Goods' --- rights under Sec. 168 (retain goods, sue for specific reward) and Sec. 169 (when the finder may sell), read with Sec. 71 (finder as bailee).

NOTES

Sec 168: finder has NO right to sue the owner for compensation for trouble and expense voluntarily incurred in finding the owner and preserving the goods, but may RETAIN the goods against the owner until such compensation is received; where the owner has offered a specific reward, the finder may SUE for that reward and retain the goods until he receives it.

Sec 169 right to sell (thing commonly the subject of sale): if the owner cannot with reasonable diligence be found, or refuses on demand to pay the finder's lawful charges, the finder may sell — (1) when the thing is in danger of perishing or of losing the greater part of its value, or (2) when the finder's lawful charges amount to two-thirds of its value.

Duties (Sec 71, finder = bailee): take care as a man of ordinary prudence, no right to appropriate, restore the goods when the owner is found; may retain against everybody except the true owner — so a watch found, advertised and handed over must be returned to the finder, not kept by a third party.

Remembering memorise · 1 question

- Sec. 168: finder cannot SUE the owner for compensation for trouble/expense voluntarily incurred, but may RETAIN the goods until such compensation is received; where the owner has offered a specific reward, the finder may sue for that reward and retain the goods till paid.
- Sec. 169: finder may sell a thing commonly on sale if the owner cannot with reasonable diligence be found or refuses to pay lawful charges, and (1) the thing is in danger of perishing or losing the greater part of its value, or (2) the finder's lawful charges reach two-thirds of its value.
- Duties (Sec. 71): care of an ordinary prudent man, no appropriation, restore to true owner.

TQ 8.1 · PYQ 2026-May [6] (b) · Descriptive · 6M · Pg 228

LEVEL I
Remembering

Medium

Application apply provision to facts · 1 question

- Raghav's wristwatch scenario: he advertised and waited → may retain against everyone except the true owner; he can sell only within the Sec. 169 limits (watch not perishing; charges below two-thirds of ₹1,00,000) --- apply each condition to facts before concluding.

CSQ 8.1 · PYQ 2024-Sep [4] (a) (I) · Case Scenario · 4M · Pg 230

LEVEL II
Application

Medium

Topic 9: Right of Lien

P2-C2-U2.8-T09

Read first Study Section 8.9 'Right of Lien' --- particular lien (Sec. 170), general lien of bankers, factors, wharfingers, policy brokers and attorneys (Sec. 171), and the difference table.

NOTES

Lien: right of a person to retain goods belonging to another until his claim is satisfied or a debt due to him is repaid; two types — particular (Sec 170) and general (Sec 171); the right can be waived/excluded by contract.

Sec 170 particular lien: where the bailee has, per the purpose of the bailment, rendered a service involving LABOUR or SKILL on the goods, he may (absent contrary contract) retain those particular goods until paid due remuneration (tailor retains the coat; jeweller retains the cut and polished diamond); it is automatic and arises only after the work is done.

Sec 171 general lien: right to retain goods for a GENERAL balance of account, available only to bankers, factors, wharfingers, policy brokers and attorneys of law (absent contrary contract) — banker may retain jewellery given as security for a repaid second loan against an unpaid earlier loan; goods under general lien may be retained but NOT sold; if the contract confines the bank to a particular lien on pledged goods, it cannot retain them for a separate loan.

General lien (Sec 171)	Particular lien (Sec 170)
Retain goods of another against a general balance of account	Retain the specific goods bailed for non-payment of the amount due on them
Not automatic — recognised through agreement	Automatic
Exercisable even without labour or skill on the goods	Arises only where labour/skill expended increases the goods' value
Only named classes — bankers, factors, wharfingers, policy brokers, attorneys	Bailee, finder of goods, pledgee, unpaid seller, agent, partner etc.

Application apply provision to facts · 1 question

- Banker's lien scenario (Radheshyam's gold): where the agreement confines the bank to a PARTICULAR lien on the pledged gold, the bank cannot retain it for a separate unsecured loan; absent such contract, a banker's Sec. 171 general lien would cover the general balance --- read the contract clause first, then apply Sec. 170 vs. 171 → conclusion.

- Remember for reasoning: particular lien is automatic and needs labour/skill on the goods; general lien is available only to the named classes and can be excluded/created by contract; goods under general lien may be retained but not sold.

CSQ 9.1 · PYQ 2021-Jan [1] (c) {C} · Case Scenario · 4M · Pg 232

LEVEL II
Application

Medium

Topic 10: Pledge

P2-C2-U2.8-T10

Read first Study Section 8.10 'Pledge' --- Sec. 172 definitions (pledge, pawnor, pawnee), essentials, rights of pawnee (Secs. 173--176), pawnor's right to redeem (Sec. 177), and the listed duties of pawnee and pawnor.

NOTES

Sec 172 (SM): "The bailment of goods as security for payment of a debt or performance of a promise is called 'pledge'" — bailor = **pawnor**, bailee = **pawnee** (Secs 172–182); essentials = all essentials of bailment PLUS bailment as security for payment/performance, subject matter is goods, goods in existence, and delivery from pledger to pledgee.

Rights of pawnee: Sec 173 — retain the pledged goods for the debt, the INTEREST on it, and all necessary expenses of possession or preservation; Sec 174 — retention for subsequent debts only if contracted for; Sec 175 — extraordinary preservation expenses recoverable by SUIT, no right of retention for them; Sec 176 on pawnor's default — (i) sue on the debt/promise retaining the goods as collateral security, OR (ii) sell after giving the pawnor reasonable NOTICE of sale; deficit on sale still payable by the pawnor, surplus must be paid over to him — a sale without reasonable notice is not per Sec 176.

Sec 177 pawnor's right to redeem: even after default at the stipulated time, the pawnor may redeem the goods at any subsequent time BEFORE their actual sale, paying in addition any expenses arising from his default (redemption = recovering the goods by paying the debt/performing the promise).

Duties of pawnee (six): reasonable care of the pledged goods; no unauthorised use; return the goods on repayment/performance; not mix his own goods with the pledged goods; do no act inconsistent with the terms of the pledge; return any accretion. **Duties of pawnor:** pay the debt/perform; compensate extraordinary preservation expenses; disclose faults exposing pawnee to extraordinary risks; indemnify pawnee for defect in title; pay the deficit on sale after default.

Remembering memorise · 1 question

- Sec. 173: pawnee may retain the goods pledged for the debt, the INTEREST on it, and all necessary expenses of possession/preservation; Sec. 174: retention for subsequent debts only if contracted; Sec. 175: extraordinary expenses recoverable by suit (no retention right).

- Sec. 176 rights on default: sue on the debt retaining goods as collateral security, OR sell after reasonable NOTICE --- deficit recoverable from pawnor, surplus payable to him.
- Duties of pawnee (list of six): reasonable care, no unauthorised use, return on repayment, no mixing, no act inconsistent with pledge terms, return accretion.

TQ 10.1 • PYQ 2024-Sep [5] (c) (ii) • Descriptive • 6M • Pg 233 asked 3x

LEVEL I
Remembering

Medium

Application apply provision to facts • 1 question

- Sale-without-notice scenarios (Stefen/Flemming type): a sale under Sec. 176 without reasonable notice to the pawnor is invalid against him; pawnor also retains Sec. 177 right to redeem any time before actual sale, paying expenses of default --- apply definition (Sec. 172) → relevant right/duty → conclusion.

CSQ 10.1 • RTP 2024-Sep [9] • Case Scenario • --- • Pg 234

LEVEL II
Application

Medium

Topic 11: Pledge by Non-Owner

P2-C2-U2.8-T11

Read first Study Section 8.11 'Pledge by Non-Owners' --- mercantile agent (Sec. 178), person in possession under voidable contract (Sec. 178A), limited interest (Sec. 179), co-owner in possession, and seller/buyer in possession.

NOTES

Rule: ordinarily only the owner (or a person authorised by him) can pledge; exceptions exist for bona fide pledges by non-owners left in possession of the goods.

Sec 178 mercantile agent: an agent in possession of goods or documents of title WITH the consent of the owner, pledging while acting in the ordinary course of business, makes a pledge as valid as if made with the owner's authority — provided the pawnee acted in good faith and had no notice that the pawnor lacked authority.

Sec 178A voidable contract: where the pawnor obtained possession under a contract voidable under Sec 19/19A (consent by fraud, coercion, misrepresentation, undue influence) but the contract has NOT been rescinded at the time of pledge, the pawnee acquires a good title if he acts in good faith and without notice of the defect of title — Srushti's diamond pledged to Mr. VK is a valid pledge.

Sec 179 limited interest: pledge by a person with only a limited interest is valid to the extent of that interest (finder repairs phone for ₹5,000, pledges it for ₹2,000 — owner recovers only on paying ₹5,000; jewellery pledged for ₹70,000 re-pledged for ₹90,000 — valid up to ₹70,000 plus interest).

Other exceptions: co-owner in possession with the other owners' consent may pledge validly; seller left in possession after sale, or buyer in possession with the seller's consent before sale, can make a valid pledge if the pawnee acts in good faith without knowledge of the defect in title (cycle left with seller B, pledged to C in good faith — valid); a mere possessor with NO right to dispose falls in no exception — the true owner recovers.

Understanding explain with reasons • 2 questions

- Sec. 178: a mercantile agent in possession of goods/documents of title WITH the owner's consent, pledging in the ordinary course of business, makes a valid pledge --- provided the pawnee acts in good faith without notice of lack of authority; so the True/False statement calling such a pledge 'invalid' is FALSE.
- Sec. 178A: pledge by a person holding goods under a contract voidable under Sec. 19/19A (fraud, misrepresentation, coercion, undue influence) is valid if the contract was NOT rescinded at the time of pledge and the pawnee acted in good faith without notice of the defect.
- Also know Sec. 179 (limited interest --- pledge valid to that extent) and pledges by co-owner and seller/buyer in possession.

TQ 11.2 • PYQ 2025-Sep [5] (c) (I) • True/False • 2M • Pg 236

LEVEL I
Understanding

Easy

TQ 11.1 • PYQ 2025-May [6] (Or) (b) • Descriptive • 6M • Pg 235

LEVEL I
Understanding

Medium

Application apply provision to facts • 1 question

- Srushti's diamond case: voidable contract not rescinded + pledge to VK in good faith → valid pledge under Sec. 178A --- write condition-by-condition application.
- Sale/pledge for a possessor with NO right to dispose (Shyam--Govind--Manohar): none of the exceptions applies, the true owner can recover; distinguish mere possession from possession with the owner's consent as mercantile agent.

CSQ 11.1 • PYQ 2021-Dec [2] (c) • Case Scenario • 4M • Pg 236

LEVEL II
Application

Medium

Topic 12: Distinction Between Bailment and Pledge

P2-C2-U2.8-T12

Read first Study Section 8.12 --- the tabular distinction between bailment (Sec. 148) and pledge (Sec. 172) on meaning, parties, purpose, consideration, right to sell and right to use.

NOTES

Intro: pledge (Sec 172) is a special kind of bailment (Sec 148) made as security for payment of a

debt or performance of a promise — capsule line: all pledges are bailments, but all bailments are not pledges.

Bailment (Sec 148)	Pledge (Sec 172)
Transfer of goods for some specific purpose	Transfer of goods as security for repayment of a debt/performance of a promise
Parties: bailor and bailee	Parties: pawnor and pawnee
Any purpose — safe custody, repairs, processing	Only as security for a debt or promise
May be with or without consideration	Always for consideration
Bailee cannot sell — may only retain (lien) or sue for dues	Pawnee may sell on pawnor's default after due notice (Sec 176)
Bailee may use the goods for the purpose specified in the contract	Pawnee cannot use the pledged goods

Understanding explain with reasons • 1 question

- Master four differences: (i) purpose --- any purpose (safe custody, repair) vs. security for a debt/promise; (ii) parties --- bailor/bailee vs. pawnor/pawnee; (iii) right to sell --- bailee has none (only lien/suit) vs. pawnee may sell on default after notice (Sec. 176); (iv) use of goods --- bailee may use per contract vs. pawnee cannot use at all.
- Add if needed: consideration --- bailment may be gratuitous, pledge is always for consideration; and the capsule line 'all pledges are bailments, but all bailments are not pledges'.
- Write as a labelled two-column table for the 4-mark format.

TQ 12.1 • PYQ 2018-May [5] (c) • Distinguish Between • 4M • Pg 237

LEVEL I
Understanding

Easy

Unit 2.9: Agency

P2-C2-U2.9 • Importance C • Rank 8 in chapter • Category C • 7.4% of chapter questions • 16 questions

Topic 1: What is Agency?

P2-C2-U2.9-T01

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §9.1 of Unit 2.9: that the Act does not define 'agency', the Section 182 definitions of

agent and principal, and the two-part test of agency.

NOTES

Not defined: the Indian Contract Act, 1872 does not define the word 'Agency'. **Section 182** defines the parties instead — an **agent** is “a person employed to do any act for another or to represent another in dealing with the third persons”, and the **principal** is “a person for whom such act is done or who is so represented”.

Test of Agency: (a) whether the person has the capacity to **bind the principal** and make him answerable to the third party; and (b) whether he can establish **privity of contract** between the principal and third parties. If both answers are yes, a relationship of agency exists.

Underlying maxim: the rule of agency rests on “Qui facit per alium, facit per se” — he who acts through an agent is himself acting; agency is thus the relationship by which the first person brings the second into legal relation with others.

Topic 2: Appointment and Authority of Agents

P2-C2-U2.9-T02

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §9.2 of Unit 2.9: who may employ an agent, who may be an agent, and why no consideration is needed to create an agency.

NOTES

Who may employ an agent [Section 183]: “any person who has attained majority according to the law to which he is subject, and who is of sound mind, may employ an agent” — so a minor or a person of unsound mind **cannot appoint** an agent.

Who may be an agent [Section 184]: any person may become an agent, even a minor or a person of unsound mind, and the principal is bound by his acts. As a rule of caution such a person should not be appointed, because being incompetent to contract he cannot be proceeded against for misconduct or negligence. **Example:** P appoints Q, a minor, to sell his car for not less than ₹2,50,000; Q sells for ₹2,00,000 — P is bound, and has no claim against Q.

Consideration not necessary [Section 185]: no consideration is needed to create an agency; acceptance of the office of agent is itself regarded as sufficient consideration for the appointment.

Topic 3: Creation of Agency

P2-C2-U2.9-T03

Read first Read Para 9.3 'Creation of Agency' of Unit 9 (Agency), Indian Contract Act, 1872 --- express/implied authority (Sec. 186-187), agency by estoppel (Sec. 237), agency by necessity, and especially ratification (Sec. 196) with its seven essentials (Sec. 197-200).

NOTES

Four modes of creation: (1) express agreement (Sec 186-187 — authority given by words spoken or written, e.g. power of attorney over a house); (2) implied agreement — inferred from circumstances of the case, conduct of parties or ordinary course of dealing, covering agency by estoppel (Sec 237) and agency by necessity (emergency confers special authority to save the principal from loss, e.g. caretaker fighting the farm fire); (3) operation of law (a partner is agent of the firm); (4) ratification (Sec 196).

Estoppel (Sec 237) essentials: (1) principal made a representation, (2) express or implied, (3) stating the agent has authority though really he has none, (4) third person induced by it, and (5) third person believed it and contracted on that belief — principal is then estopped from denying the agency (A bound though B sold below the reserved price to ignorant C; Piyal who paid for Sunil's earlier credit purchases cannot refuse Prasad).

Ratification (Sec 196, SM): "Where acts are done by one person on behalf of another, but without his knowledge or authority, he may elect to ratify or to disown such acts. If he ratifies them, the same effects will follow as if they had been performed by his authority" — doctrine of relation back; approval of a previous act, express or implied by conduct.

Seven essentials of valid ratification: (a) express or implied in conduct (Sec 197 — B selling goods bought for him without authority, or accepting interest on money lent, ratifies); (b) full knowledge — no valid ratification by one whose knowledge of the facts is materially defective (Sec 198 — purchase above market rate not binding once P learns the goods belonged to agent A himself); (c) whole transaction ratified in entirety, not only the beneficial part (Sec 199); (d) ratification cannot injure third persons (Sec 200 — unauthorised demand of a chattel, or notice of termination of lease by unauthorised C, cannot be ratified so as to bind the third party); (e) within reasonable time; (f) communicated to the other party; (g) act ratified must be valid — not void or illegal (dividend out of capital, forgery, criminal offence).

Understanding explain with reasons · 1 question

- Explain ratification (Sec. 196): acts done for a person without his knowledge or authority may be ratified or disowned; on ratification the same effects follow as if the acts were done with prior authority (doctrine of relation back).
- Master the essentials of valid ratification: express or implied (Sec. 197); full knowledge of material facts (Sec. 198); whole transaction ratified (Sec. 199); cannot injure third persons (Sec. 200); within reasonable time; communicated; act ratified must be lawful.

- Be ready to write 'rights of a person as to acts done for him without authority' straight from the Sec. 196 language plus effect of ratification.

TQ 3.1 · MTP 2025-Aug S2 [6] (b) · Descriptive · 6M · Pg 242

LEVEL I
Understanding

Medium

Application apply provision to facts · 2 questions

- Practise Sec. 200 scenarios: an unauthorised notice to quit (son serving notice on tenant) cannot be ratified so as to bind the third party --- ratification must not put a third person to damage.
- Practise Sec. 198 scenarios: acceptance of a purchase at above-market rate, where principal later learns the goods belonged to the agent himself --- ratification with materially defective knowledge is not binding.
- Structure answers as provision (section + rule) → application to facts → conclusion on validity of ratification.

CSQ 3.2 · PYQ 2022-May [1] (c) (i) {C} · Case Scenario · 2M · Pg 244

LEVEL II
Application

Easy

CSQ 3.1 · PYQ 2021-Jul [5] (c) · Case Scenario · 4M · Pg 244

LEVEL II
Application

Medium

Topic 4: Extent of Agent's Authority

P2-C2-U2.9-T04

Read first Read Para 9.4 --- agent's authority in normal circumstances (Sec. 188) and in an emergency (Sec. 189). The five conditions for valid agency in emergency are a repeat exam favourite.

NOTES

Sec 188 (normal circumstances): an agent having authority to do an act has authority to do every lawful thing necessary in order to do such act; an agent authorised to carry on a business may do every lawful thing necessary for the purpose, or usually done in the course, of conducting such business (shipbuilder's agent may purchase timber and hire workmen; agent recovering a debt may adopt any legal process and give a valid discharge).

Sec 189 (emergency): an agent has authority, in an emergency, to do all such acts for the purpose of protecting his principal from loss as would be done by a person of ordinary prudence, in his own case, under similar circumstances (agent for sale may repair the goods; consignee may sell perishables that begin to perish before reaching destination).

Five conditions for valid agency in emergency: (i) agent not in a position, and no opportunity, to communicate with the principal within the time available; (ii) actual and definite commercial necessity to act promptly; (iii) agent acted bona fide and for the benefit of the principal; (iv) most reasonable and practicable course adopted in the circumstances; (v) agent in possession of the

principal's goods which are the subject of contract.

Perishable-goods pattern (Rahul/tomatoes): transporter stranded over two days by heavy rains sells the tomatoes below market rate in the nearby market fearing they may perish — Sec 189 satisfied, he acted as a man of ordinary prudence to protect Aswin from loss, so the principal cannot recover the loss; always test each of the five conditions against the facts before concluding, and where the agent seems to exceed authority also weigh Sec 227/228 (separable or not) and estoppel under Sec 237.

Remembering memorise • 1 question

- Memorise the five conditions of Sec. 189 verbatim: (i) no opportunity to communicate with principal in time available; (ii) actual and definite commercial necessity to act promptly; (iii) agent acted bona fide for the principal's benefit; (iv) most reasonable and practicable course adopted; (v) agent in possession of the principal's goods which are the subject of contract.
- Also memorise Sec. 188: an agent authorised to do an act may do every lawful thing necessary for it; authority to carry on business covers every lawful thing usually done in the course of such business.

TQ 4.1 • PYQ 2025-Jan [6] (b) • Descriptive • 6M • Pg 245

LEVEL I
Remembering

Medium

Application apply provision to facts • 1 question

- Practise the perishable-goods pattern (tomatoes/apples stranded by heavy rain, agent sells below market locally): apply Sec. 189, check the five conditions, conclude the agent acted as a person of ordinary prudence so the principal cannot recover the loss.
- Always test each of the five conditions against the facts before concluding --- examiners give marks for the checklist.

CSQ 4.1 • MTP 2025-Apr S1 [4] (a) • Case Scenario • 7M • Pg 246

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios • 1 question

- For hard broker/used-car type scenarios, first fix the source and scope of authority (express, implied under Sec. 188, or emergency under Sec. 189), then decide whether the disputed act falls inside it.
- Where the agent appears to exceed authority, weigh Sec. 227/228 (separable vs non-separable excess) and estoppel under Sec. 237 before concluding who is bound.

CSQ 4.2 • PYQ 2026-May [1] (a) {C} • Case Scenario • 7M • Pg 247

LEVEL II
Analysis

Hard

Topic 5: Sub-Agents

P2-C2-U2.9-T05

Read first Read Para 9.5 --- 'delegatus non potest delegare' (Sec. 190), definition of sub-agent (Sec. 191), effects of proper appointment (Sec. 192) and unauthorised appointment (Sec. 193); link with Sec. 210 (termination of agent's authority terminates sub-agents' authority).

NOTES

Sec 190: an agent cannot lawfully employ another to perform acts he has expressly or impliedly undertaken to perform personally — “delegatus non potest delegare”, agency being fiduciary;

Exceptions: (1) terms of appointment originally contemplated it, (2) ordinary custom of the trade, (3) nature of the agency requires it, (4) unforeseen emergency in the course of employment.

Sub-agent (Sec 191, SM): “A ‘Sub-agent’ is a person employed by, and acting under the control of, the original agent in the business of the agency.”

Proper appointment (Sec 192): principal is liable to third parties for the acts of the sub-agent; agent is responsible to the principal for the sub-agent's acts; sub-agent is responsible for his acts to the agent, not to the principal, except in case of fraud or wilful wrong.

Appointment without authority (Sec 193): agent is responsible for the sub-agent's acts both to the principal and to third persons; principal is not responsible; sub-agent is answerable only to the agent (carrier A held liable for cotton damaged in transit though carried by B whom he engaged).

Sec 210 link: termination of the agent's authority terminates the authority of all sub-agents appointed by him — so when A revokes agent B's authority, sub-agent C's authority ends automatically; structure answers: was delegation permitted (exception to Sec 190)? then Sec 192 or Sec 193, then conclusion.

Application apply provision to facts · 1 question

- Practise the termination pattern: A revokes the agent B's authority after B (with authority) appointed sub-agent C --- under Sec. 210, termination of the agent's authority automatically terminates the sub-agent's authority.
- For liability questions, first classify the appointment: properly appointed (Sec. 192 --- principal bound to third parties, agent answerable for sub-agent, sub-agent liable to agent except fraud/wilful wrong) vs without authority (Sec. 193 --- agent alone responsible to principal and third parties).
- Structure: was delegation permitted (custom/nature of agency/emergency exception to Sec. 190)? → Sec. 192 or 193 → conclusion.

CSQ 5.1 · PYQ 2025-Sep [5] (c) (ii) · Case Scenario · 2M · Pg 250 **asked**
3x

LEVEL II
Application

Medium

Topic 6: Substituted Agent

P2-C2-U2.9-T06

Read first Read Para 9.6 --- substituted agent (Sec. 194) is named by the agent with the principal's authority and becomes the principal's agent; agent's only duty is to select with ordinary prudence (Sec. 195).

NOTES

Sec 194: where an agent, holding an express or implied authority to name another person to act for the principal in the business of the agency, has named another person accordingly, such person is not a sub-agent but an agent of the principal for such part of the business as is entrusted to him — privity arises between principal and substituted agent, who can sue and be sued by the principal.

SM illustrations: solicitor B, directed to sell A's estate by auction and employ an auctioneer, names auctioneer C — C is A's agent for the sale; B, authorised to recover moneys due to A from C & Co, instructs solicitor D to take legal proceedings — D is not a sub-agent but A's solicitor (substituted agent).

Sec 195 (duty in naming): in selecting such agent the agent must exercise the same discretion as a man of ordinary prudence would in his own case; if he does, he is not responsible to the principal for the acts or negligence of the agent so selected — ship-surveyor of good reputation chooses an unseaworthy ship, or auctioneer in good credit becomes insolvent with the sale proceeds: agent B not liable, the person selected alone is answerable to A.

Application apply provision to facts • 1 question

- Master the SM illustration tested directly: B, authorised to recover dues, instructs solicitor D to take legal proceedings --- D is not a sub-agent but a substituted agent, i.e., the principal's own agent (Sec. 194).
- Add Sec. 195: if the agent selected the substituted agent with the discretion of a man of ordinary prudence, he is not responsible for the substituted agent's acts or negligence (ship-surveyor and auctioneer examples).
- Conclude such answers by stating the legal position: privity arises between principal and substituted agent, who can sue and be sued by the principal.

CSQ 6.1 • PYQ 2022-May [1] (c) (ii) {C} • Case Scenario • 2M • Pg 250
asked 2×

LEVEL II
Application

Easy

Topic 7: Difference Between a Sub-Agent and A Substituted Agent

P2-C2-U2.9-T07

Read first Read the 8-point distinction table in Para 9.7 (Sec. 191 vs Sec. 194); a 6- point distinction

question has been asked verbatim.

NOTES

Both are appointed by the agent, yet a sub-agent (Sec 191) and a substituted agent (Sec 194) differ on eight bases — present in tabular form with the basis of distinction for full marks.

Sub-agent (Sec 191)	Substituted agent (Sec 194)
Works under the control and directions of the agent	Works under the instructions of the principal
Agent delegates to him a part of his own duties	Agent does not delegate any part of his task to him
No privity of contract with the principal	Privity of contract established with the principal
Responsible to the agent alone; agent answerable to principal for his acts	Responsible to the principal; agent not answerable for his acts
No right of action against the principal for remuneration	Can sue the principal for remuneration due to him
May be improperly appointed; agent liable while sub-agency continues	Never improperly appointed; agent's duty ends once he names him

Understanding explain with reasons · 1 question

- Be able to elaborate at least 6 distinctions: (1) sub-agent works under agent's control, substituted agent under principal's instructions; (2) agent delegates part of his duties to sub-agent, not to substituted agent; (3) no privity between principal and sub-agent, privity exists with substituted agent; (4) sub-agent answerable to agent alone, substituted agent to principal.
- Remaining points: (5) agent responsible to principal for sub-agent's acts but not for substituted agent's acts; (6) sub-agent cannot sue principal for remuneration, substituted agent can; (7) sub-agents may be improperly appointed, substituted agents never; (8) agent remains liable while sub-agency continues, but his duty ends once the substituted agent is named.
- Present the answer in tabular form with basis of distinction for full marks.

TQ 7.1 · PYQ 2025-Jan [6] (Or) (b) · Descriptive · 6M · Pg 251

LEVEL I
Understanding

Medium

Topic 8: Duties and Obligations of An Agent

P2-C2-U2.9-T08

Read first Read Para 9.8 --- nine duties of an agent (Sec. 190, 211-218) along with the Sec. 182 definitions of agent and principal.

NOTES

Sec 182 (SM): "Agent means a person employed to do any act for another or to represent another in dealing with the third persons"; "The principal means a person for whom such act is done or who is so represented."

Nine duties: (1) follow the principal's directions or, in their absence, the customs prevailing in similar business at the place (Sec 211); (2) reasonable care, skill and diligence — compensate the direct, not remote, consequences of his neglect, want of skill or misconduct (Sec 212); (3) render proper accounts on demand, i.e. accounts supported by vouchers (Sec 213, Anandprasad vs. Dwarkanath); (4) in cases of difficulty use all reasonable diligence to communicate with the principal and seek instructions (Sec 214); (5) not to deal on his own account without the principal's consent (Sec 215-216); (6) not to make secret profit — fiduciary relation demands absolute good faith; (7) not to delegate (Sec 190); (8) pay to the principal all sums received on his account, subject to lawful deductions (Sec 218); (9) not to use confidential information received in the course of agency against the principal.

Consequences of breach: under Sec 211 the agent must make good the loss and account for any profit; under Sec 215-216 the principal may repudiate the transaction (where the agent dishonestly concealed a material fact or the dealing was disadvantageous) or claim any benefit resulting to the agent — Ahuja/Singh pattern: principal recovers the ₹6 lakh secret profit made by the agent who bought through a nominee and resold to him.

Sec 211 credit-sale pattern (Pintu): agent sells goods on credit to a buyer insolvent at the time of sale where credit sales are not the custom of the business and no directions permitted it — he acted against custom, so he must indemnify the principal for the loss (ABC Ltd succeeds); structure: duty with section, breach shown by facts, agent liable to make good the loss or account for profit.

Understanding explain with reasons · 1 question

- Define agent/principal under Sec. 182, then list the duties with sections: follow directions or customs (Sec. 211); reasonable care and skill (Sec. 212); render proper accounts (Sec. 213); communicate in difficulty (Sec. 214); not deal on own account (Sec. 215-216); pay sums received for principal (Sec. 218).
- Also cover: not to make secret profit; not to delegate (Sec. 190); not to use confidential information against the principal.
- Know the consequences: for breach of Sec. 211, agent must make good the loss and account for any profit; under Sec. 215-216 principal may repudiate the transaction or claim the benefit.

TQ 8.1 · MTP 2024-Jul S1 [3] (c) · Descriptive · 6M · Pg 252

LEVEL I
Understanding

Medium

Application apply provision to facts — no question in this edition

- Practise the Sec. 211 credit-sale pattern (agent Pintu sells on credit to an insolvent buyer where credit sales are not the custom): agent acted against custom without directions, so he must indemnify the principal for the loss.
- Structure: duty (section) → breach shown by facts → agent liable to make good the loss/account for profit.

Topic 9: Rights of An Agent

P2-C2-U2.9-T09

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §9.9 of Unit 2.9: the five rights of an agent with their section numbers, and the conditions and loss of the agent's lien.

NOTES

Section 217 — right of retainer: the agent may retain, out of any sums received on the principal's account in the business of the agency, (a) all moneys due to himself for advances made, (b) expenses properly incurred in conducting the business, and (c) such remuneration as is payable to him for acting as agent.

Section 219 — right to remuneration: the agent is entitled to remuneration as agreed, and in the absence of an agreed amount to the usual remuneration customary in that business; but under **Section 220** an agent guilty of misconduct is entitled to **no remuneration for that part** of the business he has misconducted. **Example:** B recovers ₹1,00,000 and invests ₹90,000 well and ₹10,000 badly — he is paid for the recovery and the ₹90,000, not for the ₹10,000, and must indemnify the loss.

Section 221 — agent's lien: absent a contract to the contrary the agent may retain the principal's goods, papers and other property, movable or immovable, received by him, until sums due for commission, disbursement and services are paid. **Conditions:** the sum must be lawfully due, and the property must belong to the principal and have been received by the agent in that capacity in the ordinary course of the agency — property obtained by unlawful means carries no lien. **Lost** when possession is lost or the right is waived.

Remaining two rights: right of **indemnification for lawful acts**, and right of **indemnification against acts done in good faith**.

Topic 10: Principal's Liability to Third Parties

P2-C2-U2.9-T10

Read first Read Para 9.10 --- principal bound by acts within authority (Sec. 226), effect of agent exceeding authority (Sec. 227-228), estoppel exception (Sec. 237), notice to agent as notice to principal (Sec. 229) and liability for agent's fraud/misrepresentation (Sec. 238).

NOTES

Sec 226: the principal is liable for acts of the agent done within the scope of his authority (payment of B's money to his authorised collecting agent discharges the debtor C; undisclosed principal, not the agent, is entitled to claim the price from the buyer).

Agent exceeding authority: where the excess is separable from the authorised part, only what is within authority binds the principal (Sec 227 — B told to insure the ship for ₹4,00,000 also insures the cargo: A pays the ship premium only); where the excess is not separable, the principal may repudiate the whole transaction (Sec 228 — 500 sheep bought with 200 lambs for one sum of ₹6,00,000; bills drawn for ₹1,000 against a ₹200 limit).

Estoppel exception (Sec 237): principal is bound by unauthorised acts or obligations if by his words or conduct he induced third persons to believe they were within the agent's authority (sale below the reserved price binds A against ignorant C; negotiable instruments entrusted endorsed in blank — sale in violation of private orders is good).

Sec 229: notice given to, or information obtained by, the agent in the course of the business transacted for the principal has the same legal consequence as if given to or obtained by the principal — knowledge of the agent is the knowledge of the principal (agent A's knowledge that goods belonged to D binds ignorant principal B).

Sec 238: misrepresentations made or frauds committed by agents acting in the course of the principal's business have the same effect as if made by the principal (contract voidable at the third party's option); but those in matters outside their authority do not affect the principal (captain signing bills of lading without receiving the goods — bills void).

Analysis untangle multi-issue scenarios · 1 question

- For multi-issue scenarios (e.g., agent instructed to buy one brand buys another/extra goods), untangle in order: (1) what authority was actually given; (2) is the excess separable --- if yes, principal bound only for the authorised part (Sec. 227); if inseparable, principal may repudiate the whole (Sec. 228).
- Then test the estoppel exception (Sec. 237): if the principal's words or conduct induced the third party to believe the act was authorised, he is bound despite private instructions.
- Bring in Sec. 238 where the agent commits fraud/misrepresentation within the course of business (principal bound) versus outside authority (principal not affected), and Sec. 229 where knowledge of the agent is imputed to the principal.

CSQ 10.1 • PYQ 2025-May [1] (a) {C} • Case Scenario • 7M • Pg 254
asked 2×

LEVEL II
Analysis

Hard

Topic 11: Personal Liability of Agent to Third Parties

P2-C2-U2.9-T11

Read first Read Para 9.11 --- general rule of Sec. 230 (agent can neither personally enforce nor be bound by contracts made for the principal) and its exceptions, plus rights of third parties (Sec. 231-235).

NOTES

Sec 230 rule: in the absence of a contract to that effect, an agent cannot personally enforce contracts entered into by him on behalf of his principal, nor is he personally bound by them — he can neither sue nor be sued (reason: no privity of contract or passing of consideration between agent and third party).

Presumed exceptions — agent personally bound: (1) contract for sale or purchase of goods for a merchant/principal resident abroad (foreign principal); (2) agent does not disclose the name of his principal (undisclosed/unnamed principal); (3) principal, though disclosed, cannot be sued — non-existent or incompetent, e.g. a minor — unless the other party already knows the principal is a minor; (4) pretended agent whose act the principal disowns and does not ratify (Sec 235); (5) agent exceeding authority who misleads the third person — liable for breach of warranty of authority; being presumptions only, they may be displaced by contract or the third party's knowledge.

Rights of third parties: undisclosed agency — the principal may require performance, but the other party has against him the same rights as against the agent, and may refuse to perform if he shows he would not have contracted had he known the principal or that the agent was not principal (Sec 231-232 — IPL ticket bought through AB may be repudiated by stadium; B may set off agent A's debt against undisclosed principal C); where the agent is personally liable, the third party may hold the agent, the principal, or both liable (Sec 233 — cotton buyer's seller may sue B or C or both); one who induced reliance that principal alone (or agent alone) would be liable cannot afterwards hold the other liable (Sec 234).

Understanding explain with reasons • 1 question

- State the Sec. 230 rule with its reason (no privity between agent and third party), then explain the presumed exceptions: (1) contract for a foreign/merchant principal resident abroad; (2) undisclosed/unnamed principal; (3) principal non-existent or incompetent (e.g., minor) --- agent personally liable; (4) pretended agent whose act is not ratified (Sec. 235); (5) agent exceeding authority --- breach of warranty of authority.
- Add the third party's option under Sec. 233: where the agent is personally liable, the third party may sue the agent, the principal, or both.

- Common trap: exceptions are presumptions of personal liability --- they can be displaced by contract or by the third party's knowledge (e.g., party already knows the principal is a minor).

TQ 11.1 · PYQ 2024-Sep [6] (b) (i) · Descriptive · 4M · Pg 257 asked 4x

LEVEL I
Understanding

Medium

Topic 12: Revocation of Authority

P2-C2-U2.9-T12

Read first Read Para 9.12 --- modes of termination (Sec. 201), revocation rules (Sec. 203-207), irrevocable agency coupled with interest (Sec. 202), when termination takes effect (Sec. 208) and termination of sub-agent's authority (Sec. 210).

NOTES

Modes of termination (Sec 201): by act of parties — (1) revocation by the principal, (2) renunciation by the agent; by operation of law — (3) completion of the business of agency, (4) death or unsoundness of mind of principal or agent (winding up/dissolution has the same effect), (5) insolvency of the principal, (6) expiry of the fixed term, whether or not the purpose is accomplished.

Revocation and renunciation rules: principal may revoke at any time before the authority has been exercised so as to bind him (Sec 203), but not after part exercise as regards acts and obligations already arising (Sec 204 — B who bought cotton in his own name: authority to pay out of A's funds cannot be revoked); premature revocation without sufficient cause requires compensation (Sec 205); reasonable notice must be given (Sec 206); revocation may be express or implied (Sec 207 — A letting the house himself impliedly revokes B's authority); renunciation by the agent is governed by the same principles (Sec 205-206).

Irrevocable agency (Sec 202, SM): "where the agent has himself an interest in the property which forms the subject matter of the agency, the agency cannot, in the absence of an express contract, be terminated to the prejudice of such interest" — authority to sell A's land or consigned cotton and pay himself the debts/advances due from A cannot be revoked, nor is it terminated by A's insanity, death or insolvency (Bhupendra's revocation against lender-agent Atul is not lawful).

Effect timing (Sec 208): termination does not take effect, as regards the agent, before it becomes known to him, nor, as regards third persons, before it becomes known to them — B sells after the revocation letter is sent but before he receives it: the sale binds A and B earns his ₹5,000 commission; payment by the agent after the principal's death but before hearing of it is good against the executor.

Sec 209-210: on termination by the principal's death or insanity, the agent must take, on behalf of the representatives, all reasonable steps for the protection and preservation of the interests entrusted to him (Sec 209); termination of the agent's authority terminates the authority of all

sub-agents appointed by him (Sec 210).

Understanding explain with reasons · 1 question

- Explain termination by act of parties: revocation by principal (before authority exercised, Sec. 203; not after part exercise, Sec. 204; compensation for premature revocation, Sec. 205; reasonable notice, Sec. 206; express or implied, Sec. 207) and renunciation by agent on the same principles.
- Explain termination by operation of law: completion of business, death or insanity of principal or agent, principal's insolvency, expiry of fixed term.
- Note Sec. 209: on principal's death/insanity, agent must take reasonable steps to protect the interests entrusted to him.

TQ 12.1 · RTP 2026-Jan [8] · Descriptive · --- · Pg 258

LEVEL I
Understanding

Medium

Application apply provision to facts · 3 questions

- Agency coupled with interest (Sec. 202) is the most-tested pattern: agent authorised to sell property and pay himself debts due from the principal --- agency cannot be revoked, nor terminated by death/insanity/insolvency, to the prejudice of that interest.
- Practise Sec. 208 timing cases: revocation letter sent but goods sold before it is received --- sale binds the principal and the agent earns his commission, because termination is effective only when it becomes known to the agent (and to third parties, when known to them).
- Also practise Sec. 203/204: revocation is valid before authority is exercised, but once partly exercised, it cannot be revoked for acts and obligations already arising.

CSQ 12.1 · PYQ 2024-Jun [4] (a) (ii) · Case Scenario · 3M · Pg 260 **asked**
4x

LEVEL II
Application

Medium

CSQ 12.2 · PYQ 2025-Sep [1] (a) (I) {C} · Case Scenario · 3M · Pg 261

LEVEL II
Application

Medium

CSQ 12.3 · RTP 2025-Sep [7] · Case Scenario · --- · Pg 262

LEVEL II
Application

Medium

CHAPTER 3

The Sale of Goods Act, 1930

24 Topics · 102 Classified Questions · Importance: B

ICAI SKILL PROFILE Level I 5–20% · Level II 80–95% — this chapter reads **theory-heavy**

Level I — Remembering & Understanding **32.1%** 123 of 383 marks

Level II — Application & Analysis **67.9%** 260 of 383 marks

Unit 3.1: Formation of the Contract of Sale

P2-C3-U3.1 · Importance D · Rank 4 in chapter · Category C · 16.7% of chapter questions · 17 questions

Topic 1: Scope of the Act

P2-C3-U3.1-T01

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §1.1 of Unit 3.1: what the Sale of Goods Act applies to, its relationship with the Indian Contract Act, and the place of customs and usages.

NOTES

Movables only: the Act applies to contracts for the sale of **goods**, meaning movable property. It does **not** apply to the sale of immovable property such as land, fields, a shop or a house — for immovable property the Transfer of Property Act, 1882 applies.

Relationship with the Contract Act: the general provisions of the Indian Contract Act, 1872 apply to a contract of sale of goods so far as they are **not inconsistent** with the express provisions of the Sale of Goods Act; and expressions used but not defined in this Act, which are defined in the Contract Act, carry the meanings assigned there.

Customs and usages: these bind both parties provided they are **reasonable** and were **known to the parties** at the time of entering into the contract of sale.

Topic 2: Definitions

P2-C3-U3.1-T02

Read first Read Para 1.2 of Unit 1, Sale of Goods Act, 1930 --- definitions in Sec. 2: buyer 2(1),

delivery 2(2), deliverable state 2(3), document of title 2(4), future goods 2(6), goods 2(7), insolvent 2(8), mercantile agent 2(9), price 2(10), property 2(11), seller 2(13); plus classification of goods (Sec. 6).

NOTES

Goods (Sec 2(7), SM): “every kind of movable property other than actionable claims and money; and includes stock and shares, growing crops, grass, and things attached to or forming part of the land, which are agreed to be severed” before sale or under the contract of sale — also covers intangibles (goodwill, copyrights, patents, trademarks), gas, steam, water, electricity, decree of court and even FDRs; a debt is an actionable claim, hence not goods.

Classification (Sec 6): existing goods — owned or possessed by the seller at the time of contract: specific (identified and agreed upon at the time of contract, Sec 2(14) — the very ‘Santro’ agreed on), ascertained (identified in accordance with the agreement AFTER the contract — 50 bales selected and set aside out of 100) and unascertained (defined only by description or sample — one packet out of 100 in the shop, one of X’s ten horses; becomes ascertained on separation); future goods (Sec 2(6)) — to be manufactured, produced or acquired after the contract (next year’s milk, this year’s oranges of the garden) — always an agreement to sell, never a sale; contingent goods (Sec 6(2)) — acquisition depends on an uncertain contingency (Picasso painting if seller can buy it; 50 pieces if the ship arrives safely) — also only an agreement to sell.

Delivery (Sec 2(2)): voluntary transfer of possession from one person to another; **three forms:** actual (physical possession handed to buyer or his authorised holder), constructive (attornment/acknowledgement — warehouseman holding A’s goods agrees to hold them on B’s behalf), symbolic (delivery in token of transfer — documents of title such as bill of lading or railway receipt, or key of the warehouse); **deliverable state (Sec 2(3)):** such condition that the buyer would, under the contract, be bound to take delivery.

Document of title (Sec 2(4)): bill of lading, dock-warrant, warehouse keeper’s or wharfinger’s certificate, railway receipt, multimodal transport document, warrant or order for delivery of goods — proof of possession or control authorising the possessor, by endorsement or delivery, to transfer or receive the goods; distinguish a mere ‘document showing title’ — a share certificate names the owner but cannot pass the share by endorsement and delivery; a mate’s receipt is only an acknowledgement, not a document of title.

Other Sec 2 definitions: buyer 2(1)/seller 2(13) — not only one who buys/sells but also one who agrees to buy/sell; mercantile agent 2(9) — customary-course authority to sell goods, consign for sale, buy goods or raise money on their security (auctioneers, brokers); price 2(10) — the money consideration for a sale of goods; property 2(11) — general property (ownership), not mere special property (pledgee gets only special property to the extent of his advance); insolvent 2(8) — one who ceases to pay his debts in the ordinary course of business or cannot pay them as they become due.

Remembering memorise · 1 question

- Memorise Sec. 2(7): goods = every kind of movable property other than actionable claims and money; includes stock and shares, growing crops, grass and things attached to or forming part of land agreed to be severed before sale.
- Memorise the classification: existing goods (specific 2(14), ascertained, unascertained), future goods 2(6) and contingent goods 6(2) --- future and contingent goods can only be an agreement to sell.
- Memorise delivery (Sec. 2(2) --- voluntary transfer of possession) and its three modes: actual, constructive (attornment/acknowledgement, e.g., warehouseman) and symbolic (documents of title, key of warehouse).

TQ 2.1 · PYQ 2018-May [1] (c) · Descriptive · 4M · Pg 266 asked 4x

LEVEL I
Remembering**Easy****Understanding** explain with reasons · 1 question

- Distinguish ascertained from unascertained goods with examples: 50 bales selected and set aside from 100 = ascertained; one packet out of a lot = unascertained until separated.
- Understand 'document of title' (bill of lading, railway receipt, warehouse keeper's certificate etc.) vs a mere 'document showing title' (share certificate).

TQ 2.2 · PYQ 2018-Nov [1] (c) {C} · Distinguish Between · 4M · Pg 267

LEVEL I
Understanding**Easy****Application** apply provision to facts · 1 question

- Practise classification MCQ-style scenarios: selected/set-aside bales = ascertained; a packet out of a lot = existing but unascertained; produce of a garden/field next season = future goods, hence an agreement to sell.
- State the definition first, then map each transaction to its category with one-line reasoning.

CSQ 2.1 · MTP 2025-Jan S2 [5] (a) (ii) · Case Scenario · 3M · Pg 268
asked 9x**LEVEL II**
Application**Easy****Topic 3: Sale and Agreement to Sell (Section 4)**

P2-C3-U3.1-T03

Read first Read Para 1.3 --- Sec. 4(1) definition of contract of sale, sale vs agreement to sell under Sec. 4(3), conversion under Sec. 4(4), and the six essential elements of a contract of sale.

NOTES

Sec 4(1) (SM): "A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price" — may be between one part-owner and

another; a contract of sale may be absolute or conditional (Sec 4(2)).

Sec 4(3)-(4): where the property in the goods is transferred to the buyer, the contract is a sale; where the transfer is to take place at a future time or subject to some condition thereafter to be fulfilled, it is an agreement to sell — which becomes a sale when the time elapses or the conditions subject to which the property is to pass are fulfilled (Sec 4(4)).

Six essential elements: (i) two distinct parties — a person cannot buy his own goods; (ii) subject matter must be goods (movable property), existing or future; (iii) price in money — though consideration may be partly money and partly goods (new TV for old TV plus ₹20,000 cash is a valid sale; goods wholly for goods is barter); (iv) transfer of general property from seller to buyer via offer and acceptance; (v) absolute or conditional; (vi) all essentials of a valid contract — free consent, competency, legality of object and consideration.

Classification test: ask one question — does ownership pass immediately? Immediate transfer with price payable later or in instalments is still a sale; goods yet to be customised or a condition yet to be fulfilled means an agreement to sell until property passes and goods are in a deliverable state; a purported present sale of future goods operates only as an agreement to sell (Sec 6(3) — 1,000 quintals of potatoes to be grown), so on crop failure apply Sec 8 supervening-impossibility logic to fix risk and remedies (seller excused; prepaid price refundable, no damages).

Answer order: type of goods, then sale or agreement to sell, then who owns and bears risk at the time of loss, then the remedy.

Remembering memorise · 1 question

- Memorise Sec. 4(1): a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price; it may be absolute or conditional (Sec. 4(2)).
- List the essentials: (i) two distinct parties; (ii) goods (movable property); (iii) price in money (may be partly in kind); (iv) transfer of general property; (v) absolute or conditional; (vi) all essentials of a valid contract.
- Sec. 4(4): an agreement to sell becomes a sale when time elapses or the conditions subject to which property is to pass are fulfilled.

TQ 3.1 · RTP 2021-May [12] · Descriptive · --- · Pg 269 **asked 4x**

LEVEL I
Remembering

Easy

Application apply provision to facts · 2 questions

- Test each scenario on one question: does ownership pass immediately? Immediate transfer of property with price payable in instalments is still a sale; payment timing is irrelevant to classification.
- Goods to be customised/selected (e.g., diamond bangle to be fitted with ruby stones) = agreement to sell; property and risk pass only when the condition is fulfilled and goods are in a deliverable state.

CSQ 3.1 · PYQ 2022-May [5] (a) · Case Scenario · 6M · Pg 270 asked 6×	LEVEL II Application	Medium
CSQ 3.3 · RTP 2026-May [10] · Case Scenario · --- · Pg 272	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios · 1 question

- For future-goods scenarios (100 quintals of potatoes to be grown, price prepaid, crop fails): first classify --- sale of future goods operates only as an agreement to sell (Sec. 6(3)); then apply perishing/supervening impossibility (Sec. 8 logic) to decide risk and whether the buyer can recover the price or damages.
- Untangle in order: type of goods → sale or agreement to sell → who owns/bears risk at loss → remedy.

CSQ 3.2 · MTP 2023-Nov [5] (a) · Case Scenario · 6M · Pg 271 asked 2×	LEVEL II Analysis	Hard
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Topic 4: Distinction Between Sale and an Agreement to Sell

P2-C3-U3.1-T04

Read first Read the distinction table in Para 1.4 built on Sec. 4(3) --- eight bases of difference.

NOTES

Sec 4(3) anchor: sale — property passes at once (executed contract creating rights in rem); agreement to sell — property is to pass later or on conditions (executory contract creating rights in personam); write the 8 bases as a table with 'basis of difference' for full marks.

Sale	Agreement to sell
Property passes to the buyer immediately	Property passes on a future date or on fulfilment of condition
Executed contract — consideration paid	Executory contract — consideration to be paid at a future date
Seller can sue the buyer for the price	Aggrieved party can sue for damages only, not price
Loss or destruction of goods falls on buyer — risk follows ownership	Loss or destruction is the liability of the seller
Jus in rem — right against the whole world; seller cannot resell	Jus in personam — right against the party; seller may resell
Seller insolvent: assignee cannot take goods; buyer insolvent: assignee controls goods	Seller insolvent: assignee takes goods; buyer insolvent: no control over goods

Understanding explain with reasons • 1 question

- Master the 8 bases: transfer of property (immediate vs future/conditional); nature of contract (executed vs executory); remedies for breach (seller sues for price vs damages only); liability for loss/destruction (buyer vs seller); burden of risk (risk follows ownership).
- Complete with: nature of rights (jus in rem vs jus in personam); right of resale (seller cannot resell vs can); consequences on insolvency of seller and of buyer (official assignee's control over goods vs price).
- Write the answer as a table with 'basis of difference' for full marks; anchor it to Sec. 4(3).

TQ 4.1 • RTP 2023-Jun [11] • Distinguish Between • --- • Pg 273

LEVEL I
Understanding**Easy****Topic 5: Sale Distinguished from Other Similar Contracts**

P2-C3-U3.1-T05

Read first Read Para 1.5 --- sale vs hire-purchase (Hire-Purchase Act, 1972), sale vs bailment, and sale vs contract for work and labour.

NOTES

Hire-purchase agreement (Hire-Purchase Act, 1972): goods are let on hire with an option to purchase — (a) possession is delivered by the owner on condition that the person pays the agreed amount in periodical instalments, (b) property passes on payment of the last instalment, and (c) the hirer has a right to terminate the agreement at any time before the property so passes.

Sale	Hire-purchase
Property passes to buyer immediately at the time of contract	Property passes to hirer only on payment of the last instalment
Buyer's position is that of owner of the goods	Hirer is a bailee till he pays the last instalment
Buyer cannot terminate; bound to pay the price	Hirer may terminate by returning the goods, no further liability
Seller takes the risk of the buyer's insolvency	Owner takes no such risk — may retake goods if instalment unpaid
Buyer can pass a good title to a bona fide purchaser and resell	Hirer can neither pass title nor resell till all instalments paid

Sale vs bailment: sale transfers the general property in the goods for a money price and the goods are never returnable; bailment (Indian Contract Act, 1872) transfers mere possession — a special property — for a specific purpose (safe custody, carriage), the same goods being returnable or

disposed of per the bailor's directions, and consideration may be gratuitous or non-gratuitous.

Sale vs work and labour: where no goods are sold and the substance of the contract is the exercise of skill and labour, it is a contract for work and labour, not of sale — gold supplied to a goldsmith for preparing an ornament, or an artist asked to paint a picture.

Understanding explain with reasons · 1 question

- Explain a hire-purchase agreement: goods let on hire with an option to purchase --- possession delivered on condition of periodical instalments, property passes on payment of the last instalment, and hirer may terminate before property passes.
- Master five sale vs hire-purchase distinctions: time of passing of property; buyer is owner vs hirer is bailee till last instalment; buyer cannot terminate and must pay price vs hirer may return goods; seller bears buyer's insolvency risk vs owner can retake goods; buyer can pass good title to a bona fide purchaser vs hirer cannot; resale rights.
- Also be able to contrast sale with bailment (transfer of general property vs mere possession/special property, goods returnable) and with work and labour (substance of contract is skill and labour, e.g., goldsmith making an ornament from gold supplied).

TQ 5.1 · PYQ 2025-Sep [6] (c) · Descriptive · 7M · Pg 274 **asked 5x**

LEVEL I
Understanding

Medium

Topic 6: Contract of Sale How Made (Section 5)

P2-C3-U3.1-T06

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §1.6 of Unit 3.1: the six modes in which a contract of sale may be made under Section 5(1).

NOTES

Section 5(1) — six modes: a contract of sale may be made (i) by an **offer to buy or sell** goods for a price and acceptance of that offer; (ii) with **immediate delivery** of the goods; (iii) with **immediate payment** of price, delivery to be made at a future date; (iv) with **immediate delivery and immediate payment**; (v) with delivery or payment or both in **instalments**; or (vi) with delivery or payment or both at some **future date**.

Point to note: the modes are alternatives, not cumulative — a contract of sale is complete once offer and acceptance for a price exist, whatever the timing of delivery and payment.

Example: R agrees to deliver his old motorcycle valued at ₹55,000 to S in exchange for a new

motorcycle and to pay the difference in cash — this is a contract of sale.

Topic 7: Subject Matter of Contract of Sale

P2-C3-U3.1-T07

Read first Read Para 1.7 --- existing or future goods (Sec. 6), goods perishing before making of contract (Sec. 7) and goods perishing before sale but after agreement to sell (Sec. 8), plus perishing of specific future goods.

NOTES

Sec 6: the subject matter may be existing goods (acquired, owned or possessed by the seller) or future goods; a contract for goods whose acquisition depends on a contingency is valid (cloth to be manufactured by a certain mill — contingent contract); where the seller purports to effect a present sale of future goods, the contract operates only as an agreement to sell (Sec 6(3)).

Sec 7 (perishing before contract): a contract for the sale of SPECIFIC goods is void if, without the seller's knowledge, the goods have, at the time the contract was made, perished or become so damaged that they no longer answer to their description in the contract (50 bags of wheat destroyed by water-logging, neither party aware — agreement void).

Sec 8 (perishing after agreement to sell but before sale): an agreement to sell specific goods is avoided if, without any fault of seller or buyer, the goods perish or become so damaged that they no longer answer their description before the risk passes to the buyer — based on supervening impossibility; **specific future goods:** their destruction likewise makes the contract void (100 tons of tomatoes to be grown fail by plant disease — seller not liable for the shortfall).

Goods-on-ship pattern: sugar to arrive by ship from Australia, ship already sunk unknown to both — agreement to sell + specific goods + loss before property/risk passed + no fault of either party, so the agreement is avoided (Sec 8, or Sec 7 if perished before contract): buyer has no right against the seller and cannot recover the extra cost of buying from the open market, though any prepaid price is refundable.

Answer structure: are the goods specific? when did they perish and by whose fault? then Sec 7 or Sec 8, contract void/avoided, then conclude on the claim.

Understanding explain with reasons · 2 questions

- Sec. 7: contract for specific goods is void if, without the seller's knowledge, the goods had perished or become so damaged as to no longer answer their description when the contract was made.
- Sec. 8: an agreement to sell specific goods is avoided if the goods perish without fault of either party before the risk passes to the buyer --- grounded in supervening impossibility.

- Explain both timings together (a favourite 4-6 mark question): destruction before contract (Sec. 7) vs after agreement to sell but before sale (Sec. 8); if specific future goods are destroyed, the contract becomes void by impossibility.

TQ 7.1 · RTP 2020-Nov [8] · Descriptive · --- · Pg 276

LEVEL I
Understanding

Medium

TQ 7.2 · PYQ 2022-May [1] (c) {C} · Descriptive · 4M · Pg 277 asked 4x

LEVEL I
Understanding

Medium

Application apply provision to facts · 1 question

- Practise the goods-on-ship pattern (specific goods to arrive by ship not found on board): agreement is void under Sec. 7/8, so the buyer cannot recover the extra cost of procuring goods from the open market, though prepaid price is refundable.
- Answer structure: are the goods specific? → when did they perish and by whose fault? → Sec. 7 or Sec. 8 → contract void/avoided → conclusion on the claim.

CSQ 7.1 · MTP 2025-Aug S2 [2] (a) (i) · Case Scenario · 4M · Pg 277

LEVEL II
Application

Medium

Topic 8: Ascertainment of Price (Section 9 & 10)

P2-C3-U3.1-T08

Read first Read Para 1.8 --- price defined in Sec. 2(10); modes of ascertainment under Sec. 9; agreement to sell at valuation by a third party under Sec. 10.

NOTES

Sec 9: price — the money consideration for a sale (Sec 2(10)) — may be (1) fixed by the contract, (2) agreed to be fixed in a manner provided by the contract, e.g. by a valuer, or (3) determined by the course of dealings between the parties; where nothing is fixed, the buyer must pay a reasonable price — a question of fact in each case.

Sec 10 (agreement to sell at valuation): where the price is to be fixed by a third party and he cannot or does not make the valuation, the agreement is void; but a buyer who has received and appropriated the goods (or part) must pay a reasonable price in any eventuality; where the third party is prevented from valuing by the default of either party, the party at fault is liable in damages to the party not at fault.

Price-never-discussed pattern (X's car): ignoring the price altogether does NOT make the agreement uncertain or invalid — it is a valid contract and the buyer must pay a reasonable price; Y can legally demand the car and X recovers a reasonable price, so the seller cannot refuse to perform.

Valuer-fails pattern (P's two bikes, Q refuses to fix the price): split the answer — the bike already

delivered to and appropriated by S: reasonable price payable; the undelivered bike: agreement void and may be avoided; and had the seller's own default (e.g. withholding particulars) prevented the valuation, he would be liable in damages to the buyer; structure: Sec 9/10 rule, which limb the facts fall in, conclusion for each part of the goods.

Remembering memorise · 1 question

- Sec. 9: price may be (1) fixed by the contract, (2) agreed to be fixed in a manner provided by the contract (e.g., by a valuer), or (3) determined by the course of dealings; where nothing is fixed, the buyer must pay a reasonable price (a question of fact).
- Sec. 10 (valuation by third party): if the third party cannot or does not fix the price, the agreement is void; but if goods (or part) have been delivered to and appropriated by the buyer, he must pay a reasonable price; if a party's default prevents the valuation, that party is liable in damages to the other.

TQ 8.1 · PYQ 2026-May [6] (c) (ii) · Descriptive · 3M · Pg 278

LEVEL I
Remembering

Easy

Application apply provision to facts · 4 questions

- Price-never-discussed car cases: the contract is NOT void for uncertainty --- it is valid and the buyer must pay a reasonable price; the seller cannot refuse to perform.
- Valuer-fails cases (two-wheeler/laptop/mustard oil): split the answer --- goods already delivered and appropriated → reasonable price payable; undelivered portion → agreement void; where the seller's own default (e.g., withholding particulars from the valuer) prevented valuation, he is liable in damages to the buyer.
- Structure: Sec. 9/10 rule → which limb the facts fall in → conclusion for each part of the goods.

CSQ 8.1 · PYQ 2023-Jun [1] (c) {C} · Case Scenario · 4M · Pg 279 **asked**
5x

LEVEL II
Application

Medium

CSQ 8.2 · PYQ 2024-Jun [2] (a) · Case Scenario · 7M · Pg 280 **asked** 3x

LEVEL II
Application

Medium

CSQ 8.3 · PYQ 2024-Sep [2] (a) (ii) · Case Scenario · 3M · Pg 281 **asked**
4x

LEVEL II
Application

Medium

CSQ 8.4 · RTP 2025-May [10] · Case Scenario · --- · Pg 282

LEVEL II
Application

Medium

Unit 3.2: Conditions and Warranties

P2-C3-U3.2 · Importance B · Rank 1 in chapter · Category A · 34.3% of chapter questions · 35 questions

Topic 1: Stipulation as To Time (Section 11)

P2-C3-U3.2-T01

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §2.1 of Unit 3.2: Section 11 and the difference between time for payment of price and time for delivery of goods.

NOTES

Section 11 — payment of price: unless a different intention appears from the terms of the contract, a stipulation as to the **time of payment of the price** is **not deemed to be of the essence** of a contract of sale.

Delivery is different: delivery of goods must be made without delay, and stipulations as to the **time of delivery** are usually **of the essence** of the contract — the practical distinction the examiner looks for.

Price: the price may be fixed by the contract or agreed to be fixed later in a specified manner; whether any other stipulation is of the essence depends on the terms the parties agreed.

Topic 2: Introduction - Conditions and Warranties

P2-C3-U3.2-T02

Read first Read Para 2.2 of Unit 2 (Conditions & Warranties), Sale of Goods Act, 1930 --- stipulations, condition (Sec. 12(2)), warranty (Sec. 12(3)), construction of the contract (Sec. 12(4)) and the distinction table.

NOTES

Stipulation: a representation which forms part of the contract of sale and affects it (Sec 12(1)); the more significant stipulations are conditions, the less significant are warranties.

Condition (Sec 12(2), SM): "A condition is a stipulation essential to the main purpose of the contract, the breach of which gives rise to a right to treat the contract as repudiated" (car stipulated to give 20 km/litre gives only 15 — breach of condition).

Warranty (Sec 12(3), SM): "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."

Construction test (Sec 12(4)): whether a stipulation is a condition or a warranty depends in each case on the construction of the contract, not its label — a stipulation may be a condition though called a warranty; **3-point distinction:** meaning (essential vs collateral to main purpose), rights on

breach (repudiate the contract, or claim damages, or both vs damages only), conversion (breach of condition may be treated as breach of warranty under Sec 13, but breach of warranty can never be treated as breach of condition).

Touring-car pattern (Ram/Shyam): buyer relying on the dealer for a car suitable for touring — suitability is a condition so vital that non-fulfilment defeats the very purpose, so the buyer may reject the car and have refund of the price; contrast the one-year guarantee where the horn fails — only repair/replacement and damages, no repudiation; structure: classify the stipulation with section, apply to facts, state the remedy.

Understanding explain with reasons · 1 question

- Define both: a condition is a stipulation essential to the main purpose of the contract whose breach gives a right to repudiate (Sec. 12(2)); a warranty is collateral, whose breach gives only a claim for damages, not rejection (Sec. 12(3)).
- Master the 3-point distinction (meaning: rights on breach --- repudiate and/or damages vs damages only; conversion --- breach of condition may be treated as breach of warranty but never the reverse) and link it to the Sec. 13 circumstances.
- Trap: whether a stipulation is a condition or warranty depends on the construction of the contract, not its label --- a stipulation may be a condition though called a warranty (Sec. 12(4)).

TQ 2.1 · PYQ 2021-Jan [4] (a) · Descriptive · 6M · Pg 286 asked 7x

LEVEL I
Understanding

Medium

Application apply provision to facts · 1 question

- Practise the touring-car pattern (buyer relies on dealer for a car suitable for touring; car unfit): suitability is a condition going to the root, so the buyer may reject the car and recover the price.
- Structure: classify the stipulation (condition/warranty with section) → apply to facts → state the remedy (repudiation + refund vs damages).

CSQ 2.1 · RTP 2018-Nov [5] (I) · Case Scenario · --- · Pg 288

LEVEL II
Application

Medium

Topic 3: When Condition is to Be Treated as Warranty (Section 13)

P2-C3-U3.2-T03

Read first Read Para 2.3 --- Sec. 13 circumstances in which breach of condition sinks to breach of warranty, so the buyer loses the right to rescind and can claim damages only.

NOTES

Sec 13 effect: in the following cases a breach of condition sinks to a breach of warranty — the

buyer loses his right to rescind, the contract is not avoided, and he can claim damages only.

Four circumstances: (i) buyer altogether waives the performance of the condition — voluntary waiver for his own benefit; (ii) buyer elects to treat the breach of condition as a breach of warranty — e.g. accepts second-quality sugar supplied against first-quality @ ₹625 and claims damages of ₹25 per bag; (iii) the contract is non-severable and the buyer has accepted the whole goods or any part thereof — e.g. basmati mixed with lower-quality rice makes the contract non-severable; (iv) fulfilment of the condition is excused by law by reason of impossibility or otherwise.

Grouping: (i)-(ii) voluntary waiver, (iii)-(iv) compulsory waiver — always end with the consequence: remedy limited to damages; **acceptance pattern:** goods accepted in a non-severable contract (wrong-colour bags, second-quality sugar) leave the buyer with damages only; in sample chains the intermediate sellers who accepted the goods can only claim damages under Sec 13, never reject; structure: identify the condition breached (description/quality), test waiver/election/acceptance, then Sec 13, then damages only.

Understanding explain with reasons · 2 questions

- Explain the four circumstances: (i) buyer altogether waives performance of the condition (voluntary); (ii) buyer elects to treat the breach of condition as a breach of warranty; (iii) contract is non-severable and buyer has accepted the goods or part thereof (compulsory); (iv) fulfilment excused by law by reason of impossibility or otherwise.
- Group them as voluntary waiver vs compulsory waiver, and always state the consequence: contract not avoided; remedy limited to damages.

TQ 3.1 · PYQ 2021-Dec [1] (c) {C} · Descriptive · 4M · Pg 289 **asked 3x**

LEVEL I
Understanding

Medium

TQ 3.2 · PYQ 2025-May [6] (c) (ii) · Descriptive · 3.5M · Pg 290 **asked 2x**

LEVEL I
Understanding

Medium

Application apply provision to facts · 1 question

- Practise the acceptance pattern (basmati rice supplied in wrong-colour bags but accepted; second-quality sugar accepted with price difference claimed): once goods are accepted in a non-severable contract, only damages can be claimed under Sec. 13.
- Structure: identify the condition breached (description/quality) → has the buyer waived/elected/accepted? → Sec. 13 → damages only.

CSQ 3.1 · PYQ 2024-Sep [2] (a) (i) · Case Scenario · 4M · Pg 291

LEVEL II
Application

Medium

Topic 4: Express and Implied Conditions and Warranties (Section 14--17)

P2-C3-U3.2-T04

Read first Read Para 2.4 --- implied conditions: title (Sec. 14(a)), description (Sec. 15), sample (Sec.

17), sample plus description (Sec. 15), fitness (Sec. 16(1)), merchantability (Sec. 16(2)), wholesomeness; implied warranties under Sec. 14(b), 14(c), 16(3) and dangerous goods.

NOTES

Express vs implied: express terms are agreed and stated in the contract; implied conditions/warranties are incorporated by law unless a different intention appears, and may be negated by express agreement, course of dealing or trade usage (Sec 62).

Seven implied conditions: (1) title — in a sale the seller has a right to sell, in an agreement to sell he will have it when property is to pass (Sec 14(a) — tractor bought from a non-owner surrendered to true owner: full price recoverable from the seller); (2) description — goods must correspond with the description: “if you contract to sell peas, you cannot compel the buyer to take beans” (Sec 15 — ‘copper-fastened vessel’ only partly copper-fastened, ‘waste silk’ not answering the market description — rejectable whether or not buyer could inspect); (3) sale by sample (Sec 17); (4) sample as well as description — bulk must correspond with BOTH (refined sunflower oil equal to sample but mixed with hemp oil — rejectable); (5) quality or fitness for the buyer's purpose (Sec 16(1)); (6) merchantability (Sec 16(2)); (7) wholesomeness of eatables and provisions (milk with typhoid germs — seller liable in damages; stone in a bun breaking the tooth — breach, damages).

Sec 17 sale by sample — three implied conditions: (a) the bulk shall correspond with the sample in quality; (b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample (inspection of only the smaller parcel of wheat — buyer could refuse both); (c) the goods shall be free from any defect rendering them unmerchantable which would not be apparent on reasonable examination of the sample — latent defects (shoe soles containing paper for the French Army — refund of price plus damages).

Sec 16(1) fitness — three requirements: buyer makes known to the seller the particular purpose; buyer relies on the seller's skill and judgement; goods are of a description the seller ordinarily deals in; where goods have only one purpose no disclosure is needed (false teeth unfit for the mouth — refund), but the condition is excluded where goods are sold under a patent or trade name (‘Merit’ sewing machine asked for by name — no implied fitness); exam sets: washing machine asked for as fit for woollens found unfit — buyer may repudiate or claim refund.

Sec 16(2) merchantability and the four implied warranties: goods bought by description from a seller dealing in goods of that description must be of merchantable quality — such as a man of ordinary prudence would accept (motor horns scratched by bad packing, velvet damaged by white ants — unmerchantable), though actual examination bars claims for defects it ought to have revealed; **implied warranties:** (1) quiet/undisturbed possession (Sec 14(b) — stolen laptop taken by true owner: damages cover price plus repair cost); (2) non-existence of encumbrances not declared or known to the buyer (Sec 14(c) — car pledged for ₹15,000 then sold to bona fide B: B may make the seller clear the loan or pay it and sue for recovery with interest); (3) quality or fitness by usage of trade (Sec 16(3)); (4) disclosure of the dangerous nature of goods to an ignorant

buyer — breach makes the seller liable in damages.

Remembering memorise · 1 question

- Memorise the Sec. 17 sample conditions: bulk corresponds with sample in quality; reasonable opportunity of comparing bulk with sample; goods free from latent defects making them unmerchantable.
- Memorise the four implied warranties: quiet possession (Sec. 14(b)); non-existence of encumbrances (Sec. 14(c)); fitness by usage of trade (Sec. 16(3)); disclosure of dangerous nature of goods.

TQ 4.4 · RTP 2025-Jan [10] · Descriptive · --- · Pg 295 **asked 2x**

LEVEL I
Remembering

Medium

Understanding explain with reasons · 2 questions

- Discuss each implied warranty with an example (stolen laptop --- quiet possession; pledged car sold --- encumbrance); for Sec. 16(1) fitness know its three requirements (purpose made known, reliance on seller's skill, seller deals in such goods) and the patent/trade-name exclusion.
- One PYQ here actually tests undue influence under Sec. 16, Indian Contract Act, 1872 (inducement; position to dominate the will) --- revise it from the Free Consent unit.

TQ 4.2 · PYQ 2023-Dec [1] (c) {C} · Descriptive · 4M · Pg 293 **asked 6x**

LEVEL I
Understanding

Medium

TQ 4.3 · PYQ 2025-Jan [5] (c) · Descriptive · 6M · Pg 294

LEVEL I
Understanding

Medium

Application apply provision to facts · 21 questions

- Fitness cases (exhaust fan, washing machine for woollens, AC after technician visit): verify the three Sec. 16(1) requirements → buyer may reject/refund; no remedy where purpose or abnormal sensitivity (tweed coat) was not disclosed.
- Description/packing (1-inch timber; 30-tin boxes instead of 50) breaches the Sec. 15 condition even if goods are commercially fit; in sample chains (J→K→L→M) only the final rejecting buyer uses Sec. 17 --- sellers who accepted claim damages only (Sec. 13).
- Title/wholesomeness: stolen motorcycle --- Sec. 14(a) breach, price recoverable despite use; stone in bun --- breach of wholesomeness, damages.

TQ 4.1 · PYQ 2021-Jan [5] (a) · Descriptive · 6M · Pg 292

LEVEL II
Application

Medium

CSQ 4.1 · PYQ 2019-Nov [5] (a) · Case Scenario · 6M · Pg 296 **asked 8x**

LEVEL II
Application

Medium

CSQ 4.2 · RTP 2020-May [15] · Case Scenario · --- · Pg 297

LEVEL II
Application

Medium

CSQ 4.4 · PYQ 2021-Jul [5] (a) · Case Scenario · 6M · Pg 299

LEVEL II
Application

Medium

CSQ 4.5 • PYQ 2021-Dec [5] (a) (I) • Case Scenario • 3M • Pg 300	LEVEL II Application	Medium
CSQ 4.6 • MTP 2022-Nov S1 [5] (I) • Case Scenario • 6M • Pg 300	LEVEL II Application	Medium
CSQ 4.7 • RTP 2022-Nov [6] (i) • Case Scenario • --- • Pg 301	LEVEL II Application	Medium
CSQ 4.8 • PYQ 2023-Jun [5] (a) (ii) • Case Scenario • 4M • Pg 302 asked 3x	LEVEL II Application	Medium
CSQ 4.9 • RTP 2023-Jun [8] • Case Scenario • --- • Pg 302	LEVEL II Application	Medium
CSQ 4.10 • RTP 2024-Jun [9] • Case Scenario • --- • Pg 303 asked 2x	LEVEL II Application	Medium
CSQ 4.11 • MTP 2024-Jul [2] (a) • Case Scenario • 7M • Pg 304 asked 4x	LEVEL II Application	Medium
CSQ 4.12 • PYQ 2025-Jan [2] (a) (ii) • Case Scenario • 3M • Pg 305 asked 3x	LEVEL II Application	Medium
CSQ 4.13 • PYQ 2025-Jan [5] (a) (ii) • Case Scenario • 3M • Pg 305	LEVEL II Application	Medium
CSQ 4.14 • MTP 2025-Apr S1 [2] (a) • Case Scenario • 7M • Pg 306	LEVEL II Application	Medium
CSQ 4.15 • MTP 2025-Aug S2 [5] (a) • Case Scenario • 7M • Pg 307	LEVEL II Application	Medium
CSQ 4.16 • PYQ 2025-Sep [2] (a) (ii) • Case Scenario • 3M • Pg 308 asked 2x	LEVEL II Application	Medium
CSQ 4.18 • RTP 2026-Jan [11] • Case Scenario • --- • Pg 310	LEVEL II Application	Medium
CSQ 4.20 • RTP 2026-May [11] • Descriptive • --- • Pg 314	LEVEL II Application	Medium
CSQ 4.21 • PYQ 2026-May [2] (a) • Case Scenario • 7M • Pg 315	LEVEL II Application	Medium
CSQ 4.22 • PYQ 2026-May [5] (a) • Case Scenario • 7M • Pg 318	LEVEL II Application	Medium
CSQ 4.3 • RTP 2021-May [8] • Case Scenario • --- • Pg 298	LEVEL II Application	Hard

Analysis untangle multi-issue scenarios • 2 questions

- In multi-part 'condition or warranty?' scenarios, classify each stipulation first, then check conversion by acceptance/waiver (Sec. 13), and give a separate remedy per sub-case.
- In pledge-then-sale jewellery facts, separate general vs special property: the sale breaches Sec. 14(c) (encumbrance) and possibly Sec. 14(a) (title) --- decide buyer's and pledgee's rights separately.

CSQ 4.17 • PYQ 2025-Sep [5] (a) (ii) • Case Scenario • 4M • Pg 309	LEVEL II Analysis	Hard
CSQ 4.19 • PYQ 2026-Jan [2] (a) • Case Scenario • 7M • Pg 311	LEVEL II Analysis	Hard

Topic 5: Caveat Emptor

P2-C3-U3.2-T05

Read first Read Para 2.5 --- the doctrine 'let the buyer beware' embodied in the opening words of Sec. 16, and its eight exceptions.

NOTES

Doctrine (Sec 16, SM): “subject to the provisions of this Act or of any other law for the time being in force, there is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a contract of sale” — ‘let the buyer beware’: the buyer must satisfy himself and make a proper selection; the seller is not bound to disclose defects (infected pigs sold without disclosure — seller not liable; horse wanted for undisclosed riding purpose — buyer can neither reject nor claim compensation).

Eight exceptions: (1) fitness as to quality or use — purpose made known, reliance on seller's skill and judgement, seller's business to supply such goods (Sec 16(1) — trucks for heavy traffic in hilly country broke down; hot-water bottle bursting in Priest vs. Last; timber unfit for railway sleepers in Bombay Burma Trading Corporation Ltd. vs. Aga Muhammad); (2) goods purchased under patent or brand name — no implied fitness condition, buyer relies on the brand (Sec 16(1)); (3) goods sold by description must correspond with it (Sec 15); (4) merchantable quality — rule inapplicable to latent defects, though it applies to defects an actual examination ought to have revealed (Sec 16(2)); (5) sale by sample where bulk does not correspond (Sec 17); (6) sample as well as description (Sec 15); (7) trade usage annexing a condition/warranty of fitness (Sec 16(3) — readymade garments impliedly reasonably fit on the buyer); (8) seller's fraud, misrepresentation or active concealment of a defect not discoverable on reasonable examination — buyer may avoid the contract and claim damages.

Application patterns: purpose made known and seller's skill relied on (wooden logs specifically asked for door/window frames but unsuitable mango wood supplied) — Sec 16(1) exception, buyer gets money back or the right goods, caveat emptor is no defence; latent defects no examination could reveal — merchantability/wholesomeness exception protects the buyer; but a buyer concealing special sensitivity or not disclosing the purpose (Mrs. G's tweed coat causing rashes on her abnormally sensitive skin) is caught by the doctrine and recovers nothing.

Structure: state the doctrine with Sec 16, test which exception (if any) the facts attract, then conclude on the seller's liability.

Remembering memorise · 1 question

- State the rule (Sec. 16): subject to this Act or any other law, there is no implied warranty or condition as to quality or fitness for any particular purpose of goods supplied under a contract of sale --- the buyer must satisfy himself.
- Memorise the eight exceptions: fitness as to quality or use (Sec. 16(1)); goods bought under patent/brand name; goods sold by description (Sec. 15); merchantable quality (Sec. 16(2)), latent

defects); sale by sample (Sec. 17); sample as well as description; trade usage (Sec. 16(3)); seller's fraud or active concealment of defects.

TQ 5.1 · PYQ 2020-Nov [1] (c) {C} · Descriptive · 4M · Pg 321 asked 3x

LEVEL I
Remembering

Easy

Application apply provision to facts · 3 questions

- Purpose-made-known cases (laptop for high-end graphic design bought on salesman's advice; marble measured at buyer's house): the Sec. 16(1) exception applies --- buyer relied on seller's skill, so seller is liable and caveat emptor is no defence.
- Latent-defect cases (talcum powder with chemical residue causing skin irritation): merchantability/wholesomeness exception --- caveat emptor does not protect the seller for defects no examination could reveal; but where the buyer conceals a special sensitivity or does not disclose the purpose, the doctrine applies and he has no remedy.
- Structure: state the doctrine → test which exception (if any) the facts attract → conclusion on seller's liability.

CSQ 5.1 · PYQ 2022-Nov [5] (a) · Case Scenario · 6M · Pg 323 asked 5x

LEVEL II
Application

Medium

CSQ 5.2 · PYQ 2025-Sep [5] (a) (i) · Case Scenario · 3M · Pg 325

LEVEL II
Application

Medium

CSQ 5.3 · PYQ 2026-Jan [5] (a) · Case Scenario · 7M · Pg 326

LEVEL II
Application

Medium

Unit 3.3: Transfer of Ownership and Delivery of Goods

P2-C3-U3.3 · Importance C · Rank 2 in chapter · Category A · 30.4% of chapter questions · 31 questions

Topic 1: Passing of Property (Sections 18 -- 26)

P2-C3-U3.3-T01

Read first Read Unit 3 'Transfer of Ownership and Delivery of Goods' of the Sale of Goods Act, 1930 --- heading 3.1 'Passing of Property (Sections 18--26)', covering Secs. 18--19 (ascertainment and intention), Secs. 20--22 (specific goods), Sec. 23 (unascertained goods and appropriation), Sec. 24 (sale on approval) and Sec. 25 (reservation of right of disposal).

NOTES

Two basic factors: (a) **Sec 18 — ascertainment:** in a contract for unascertained goods, property cannot pass unless and until the goods are ascertained; (b) **Sec 19(1) — intention:** property in specific/ascertained goods passes when the parties intend it to pass; **Sec 19(2):** intention gathered from (i) terms of the contract (ii) conduct of the parties (iii) circumstances of the case; unless a

different intention appears, Secs 20–24 are the rules for ascertaining that intention [Sec 19(3)].

Specific goods — three stages: **Sec 20:** unconditional contract, specific goods in deliverable state — property passes when the contract is made; time of payment or delivery (or both) being postponed is immaterial; **Sec 21:** seller bound to do something to put goods into a deliverable state (install OS, lay the carpet) — property passes only when that thing is done AND buyer has notice; **Sec 22:** deliverable specific goods but seller must weigh, measure, test or do some act to ascertain the price — no passing till the act is done and buyer has notice.

Sec 23(1) appropriation — seven essentials: (a) contract for unascertained or future goods (b) goods conform to description and quality (c) goods in a deliverable state (d) unconditional appropriation (as distinguished from a mere intention to appropriate) by delivery to buyer, his agent or the carrier (e) by seller with buyer's assent or by buyer with seller's assent (f) assent may be express or implied (g) assent may be given before or after appropriation. **Sec 23(2):** delivery to a carrier/bailee for transmission without reserving the right of disposal = unconditional appropriation — book sent by courier and lost in the way: buyer became owner and bears the loss.

Sec 24 sale on approval or 'sale or return': property passes when the buyer (a) signifies approval/acceptance or does any other act adopting the transaction — e.g. pledges or resells (jewellery on sale or return pledged with C: ownership had passed to B, so A cannot recover the jewellery from C, only the price from B); or (b) retains the goods without notice of rejection beyond the fixed time or, if none fixed, a reasonable time. **Sale for cash only or return:** where the terms keep the goods the seller's property till cash is paid, no property passes before payment — pledge before payment is invalid and A can recover the jewellery from pledgee C; goods perishing within the trial period (horse dying on 3rd of 8 days) remain the seller's loss — no suit for price.

Sec 25 reservation of right of disposal (conditional appropriation): seller may by the terms of contract or appropriation reserve the right of disposal until conditions (payment) are fulfilled — property does not pass despite delivery to buyer, carrier or bailee; presumed reserved where (1) by bill of lading/railway receipt the goods are deliverable to the order of the seller or his agent, and (2) seller draws a bill of exchange for the price and sends it with the bill of lading/railway receipt — buyer must return the documents if he does not accept or pay, and wrongful retention passes no property.

Understanding explain with reasons · 4 questions

- Explain the two basic factors for transfer of property: goods must be ascertained (Sec. 18) and property passes when the parties intend it to pass (Sec. 19(1)); intention is gathered from terms of contract, conduct of parties and circumstances of the case (Sec. 19(2)) --- this exact framework is repeatedly asked.
- Master the seven essentials of appropriation of unascertained goods under Sec. 23(1): contract for unascertained/future goods, conformity with description, deliverable state, unconditional appropriation, by seller with buyer's assent or vice versa, assent express or implied, before or after appropriation.

- Prepare 'Reservation of right of disposal' (Sec. 25) --- meaning plus the two circumstances where it is presumed: goods deliverable to seller's order per bill of lading/railway receipt, and bill of exchange sent with documents where buyer must return them if he does not accept/pay. Asked twice in recent exams.
- Contrast Sec. 20 (unconditional contract, specific goods in deliverable state --- property passes when contract is made, payment/delivery immaterial) with Sec. 21 (something to be done to put goods in deliverable state) and Sec. 22 (weigh/measure/test to ascertain price) --- property passes only after the act is done AND buyer has notice.

TQ 1.1 · PYQ 2022-Nov [1] (c) {C} · Descriptive · 4M · Pg 330 asked 6×	LEVEL I Understanding	Medium
TQ 1.2 · PYQ 2025-May [6] (c) (i) · Descriptive · 3.5M · Pg 331 asked 2×	LEVEL I Understanding	Medium
TQ 1.3 · PYQ 2026-Jan [3] (c) · Descriptive · 6M · Pg 332	LEVEL I Understanding	Medium
TQ 1.4 · PYQ 2026-May [6] (c) (i) · Descriptive · 4M · Pg 334	LEVEL I Understanding	Medium

Application apply provision to facts · 9 questions

- Practise Sec. 24 'sale or return' scenarios --- the most tested pattern: property passes on (a) approval/acceptance, (b) act adopting the transaction (pledge or resale to a third party), or (c) retention beyond fixed/reasonable time without rejection notice; conclude the original owner can only sue the deliverer for price, not recover goods from the pledgee/sub-buyer.
- Distinguish the 'sale for cash only or return' variant: where the terms say goods remain the seller's property until cash is paid, a pledge before payment is invalid and the owner CAN recover the goods.
- Apply Sec. 23(2): delivery to a carrier/courier without reserving the right of disposal is unconditional appropriation --- property and risk of loss in transit fall on the buyer.
- Structure answers as provision → facts → conclusion, e.g. Sec. 21/22 destruction cases (machine to be repaired, dress to be altered): goods not yet in deliverable state, so property and loss remain with the seller.

CSQ 1.1 · RTP 2018-Nov [6] (i) · Case Scenario · --- · Pg 335	LEVEL II Application	Medium
CSQ 1.2 · PYQ 2020-Nov [5] (a) · Case Scenario · 6M · Pg 336 asked 2×	LEVEL II Application	Medium
CSQ 1.4 · PYQ 2024-Jun [6] (c) · Case Scenario · 7M · Pg 339 asked 5×	LEVEL II Application	Medium
CSQ 1.6 · RTP 2024-Sep [11] · Case Scenario · --- · Pg 341 asked 4×	LEVEL II Application	Medium
CSQ 1.7 · PYQ 2025-Jan [2] (a) (i) · Case Scenario · 4M · Pg 342 asked 3×	LEVEL II Application	Medium
CSQ 1.8 · PYQ 2025-Jan [5] (a) (i) · Case Scenario · 4M · Pg 343 asked 2×	LEVEL II Application	Medium
CSQ 1.10 · PYQ 2025-Sep [2] (a) (i) · Case Scenario · 4M · Pg 346	LEVEL II Application	Medium

CSQ 1.11 · RTP 2026-Jan [12] · Case Scenario · --- · Pg 347	LEVEL II Application	Medium
CSQ 1.12 · PYQ 2026-Sep [2] (a) · Case Scenario · 7M · Pg 348	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios · 3 questions

- Work through partial-appropriation fire cases (60 of 100 bales packed): split the analysis --- packed/selected goods appropriated with buyer's men's assent are at buyer's risk; the unappropriated balance stays at seller's risk; state alternative conclusions if selection lacked assent.
- Untangle chains of successive 'sale or return' deliveries (A→B on sale or return, B→C on 'cash only or return', C→D): fix at each link whether property passed under Sec. 24 or was blocked by the cash-only stipulation before deciding who bears the loss/who owns the goods.
- In mixed scenarios combine Sec. 24/Sec. 26: check first whether an act adopting the transaction or expiry of time occurred; if goods perish before that, ownership (and loss) is still the seller's.

CSQ 1.3 · MTP 2021-Apr [5] (a) · Case Scenario · 6M · Pg 338 asked 2×	LEVEL II Analysis	Hard
CSQ 1.5 · PYQ 2024-Sep [5] (a) (i) · Case Scenario · 4M · Pg 340 asked 3×	LEVEL II Analysis	Hard
CSQ 1.9 · PYQ 2025-May [2] (a) · Case Scenario · 7M · Pg 344	LEVEL II Analysis	Hard

Topic 2: Risk Prima Facie Passes with Property (Section 26)

P2-C3-U3.3-T02

Read first Read heading 3.2 of the unit on Sec. 26 of the Sale of Goods Act, 1930 --- the rule 'risk prima facie passes with property', its statutory wording and its two qualifications.

NOTES

Sec 26 (SM): "unless otherwise agreed, the goods remain at the seller's risk until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at the buyer's risk whether delivery has been made or not" — risk follows ownership, not possession, delivery or payment; auction example: auctioneer's hammer hit and damaged the antique while signifying acceptance — ownership had not yet passed, so the seller bears the loss.

Two qualifications: (i) where delivery has been delayed through the fault of buyer or seller, the goods are at the risk of the party in fault as regards any loss which might not have occurred but for such fault (B defaults in taking remaining cotton bales, cotton becomes unfit — buyer bears the loss); (ii) duties and liabilities of seller or buyer as bailee of the other party's goods remain unaffected — care of a man of ordinary prudence.

Contrary agreement: parties may by special agreement stipulate that risk passes sometime before or after the property passes — risk is separable from ownership by contract.

Understanding explain with reasons · 1 question

- Explain Sec. 26: unless otherwise agreed, goods remain at the seller's risk until property passes to the buyer; thereafter at buyer's risk whether delivery has been made or not --- i.e. risk follows ownership, not possession or payment.
- State the two qualifications: (i) where delivery is delayed through the fault of buyer or seller, goods are at the risk of the party in fault as regards loss which would not have occurred but for the fault; (ii) duties of seller/buyer as bailee of the other's goods remain unaffected.
- Note the parties may by special agreement separate risk from property (risk may pass before or after ownership); support the answer with the auction-hammer and cotton-bales default examples from the SM.

TQ 2.1 · PYQ 2021-Jul [1] (c) {C} · Descriptive · 4M · Pg 350 asked 4x

LEVEL I
Understanding**Medium****Topic 3: Transfer of Title by Non-Owners (Sections 27 -- 30)**

P2-C3-U3.3-T03

Read first Read heading 3.3 on Secs. 27--30 --- the maxim 'nemo dat quod non habet' (Sec. 27) and its eight exceptions: mercantile agent (proviso to Sec. 27 read with Sec. 2(9)), joint owner (Sec. 28), possession under voidable contract (Sec. 29), seller/buyer in possession (Sec. 30(1)/(2)), estoppel, unpaid seller's resale (Sec. 54(3)) and sales under other Acts.

NOTES

Sec 27 — nemo dat quod non habet: “no one can give what he has not got” — seller cannot transfer a better title than he himself has; buyer of stolen goods gets no title even in good faith; hirer under hire-purchase selling the vehicle passes only the hirer's rights.

Eight exceptions (non-owner conveys good title to bona fide purchaser for value): (1) mercantile agent (proviso to Sec 27) (2) one of joint owners in sole possession with co-owners' permission (Sec 28) (3) person in possession under a voidable contract (Sec 29) (4) seller in possession after sale — sale, pledge or other disposition equally valid [Sec 30(1)] (5) buyer in possession before property passes [Sec 30(2)] (6) estoppel — owner actively suffered/held out another as owner or as authorised to sell (7) unpaid seller reselling after lien/stoppage [Sec 54(3)] (8) sales under other Acts — Official Receiver/Liquidator, finder of goods (Sec 169 ICA) and pawnee (Sec 176 ICA).

Mercantile agent — three conditions (proviso to Sec 27): (a) possession of goods or documents of title with the owner's consent (b) sale in the ordinary course of business as mercantile agent (c) buyer acts in good faith without notice, at the time of sale, that the agent had no authority; **Sec 2(9) (SM):** mercantile agent is one “having in the customary course of business as such agent authority either to sell goods, or to consign goods for the purposes of sale, or to buy goods, or to raise money on the security of goods” — car handed to agent for sale at not less than ₹50,000 sold at ₹40,000: all conditions met, bona fide buyer keeps the car; owner's remedy is against the agent

only.

Where exceptions fail: Sec 29 needs a contract voidable for coercion, fraud, misrepresentation or undue influence AND not rescinded before the resale (fraudulently obtained ring resold to innocent Z — Y cannot recover); theft gives a void title — no protection; a hire-purchase holder with a mere option to buy is NOT a 'buyer in possession' under Sec 30(2) — contrast Lee v. Butler (furniture on instalments under agreement to buy: sub-buyer got good title); in every case the true owner's remedy is price/damages from the wrongdoer, not the goods from the bona fide purchaser.

Understanding explain with reasons • 1 question

- Memorise and explain at least six exceptions to nemo dat with section numbers --- 'explain any six circumstances in which a non-owner can convey better title' is a standard 6-mark question.
- For sale by mercantile agent (proviso to Sec. 27), master the three conditions: possession of goods/documents with owner's consent; sale in ordinary course of business as mercantile agent; buyer in good faith without notice of lack of authority --- plus the Sec. 2(9) definition of mercantile agent.
- Know precisely when each exception fails, e.g. hire-purchase holder with mere option to buy is not a 'buyer in possession' under Sec. 30(2).

TQ 3.1 • PYQ 2020-Nov [4] (a) • Descriptive • 6M • Pg 351 asked 5x

LEVEL I
Understanding

Hard

Application apply provision to facts • 5 questions

- Practise mercantile-agent facts (car handed to agent for sale at not less than a stated price, agent sells below it): all three proviso conditions met → bona fide buyer gets good title; owner's remedy is only against the agent.
- Apply Sec. 29 (voidable contract) to fraud/coercion cases: if the contract was not rescinded before resale, the innocent sub-purchaser gets good title; contrast with theft, where the contract is void and no title passes.
- Apply Sec. 30(1) seller in possession after sale and Sec. 30(2) buyer in possession before property passes (furniture-instalments, Lee v. Butler pattern): delivery/possession + good faith + no notice = good title to third party.
- Conclude with the correct remedy: the true owner recovers price/damages from the wrongdoer, not the goods from the bona fide purchaser.

CSQ 3.6 • MTP 2025-Aug S2 [2] (a) (ii) • Case Scenario • 3M • Pg 357
asked 2x

LEVEL II
Application

Easy

CSQ 3.1 • RTP 2020-Nov [6] • Case Scenario • --- • Pg 353 asked 2x

LEVEL II
Application

Medium

CSQ 3.2 • MTP 2022-Mar [5] (a) • Case Scenario • 6M • Pg 353

LEVEL II
Application

Medium

CSQ 3.3 · RTP 2022-May [8] · Case Scenario · --- · Pg 355

LEVEL II
Application

Medium

CSQ 3.5 · PYQ 2023-Dec [5] (a) (i) · Case Scenario · 4M · Pg 356

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios · 1 question

- Work multi-issue agency scenarios (e.g. mercantile agent appointed to sell immovable property, or selling below a price ceiling): first check whether the Sale of Goods Act applies at all ('goods' vs immovable property), then test each proviso condition separately before concluding.
- Where two exceptions could apply (voidable contract vs mercantile agent vs buyer in possession), identify which fits the facts and state why the others do not --- examiners reward eliminating the wrong route.

CSQ 3.4 · RTP 2023-Jun [9] · Case Scenario · --- · Pg 356

LEVEL II
Analysis

Hard

Topic 4: Performance of the Contract of Sale (Sections 31 -- 44)

P2-C3-U3.3-T04

Read first Read heading 3.4 on Secs. 31--44: duties of seller and buyer (Sec. 31), payment and delivery as concurrent conditions (Sec. 32), rules of delivery (Secs. 33--39 --- part delivery, place, time, third-party possession, expenses, wrong quantity Sec. 37, instalments Sec. 38, delivery to carrier Sec. 39), deterioration in transit (Sec. 40), examination (Sec. 41), acceptance (Sec. 42) and Secs. 43--44.

NOTES

Delivery — Sec 2(2) (SM): “voluntary transfer of possession from one person to another” — possession taken by unfair means is no delivery; **three types:** actual, symbolic (key of warehouse), constructive (attornment — third party acknowledges holding for the buyer); **Sec 31:** seller's duty to deliver, buyer's to accept and pay per the contract; **Sec 32:** unless otherwise agreed, delivery of goods and payment of price are concurrent conditions.

Delivery rules (Secs 33–41), section-wise: Sec 33 — delivery by anything agreed as delivery or putting goods in buyer's possession; Sec 34 — part delivery in progress of delivery of the whole operates as delivery of the whole, but part delivery intended to sever does not pass the remainder; Sec 35 — seller not bound to deliver until the buyer applies for delivery; Sec 36(1) — place: goods sold, where they are at time of sale; agreement to sell, where at time of agreement; future goods, place of manufacture/production; Sec 36(2) — reasonable time; Sec 36(3) — goods with a third person: no delivery until he acknowledges to the buyer that he holds on his behalf; Sec 36(4) — demand/tender of delivery at a reasonable hour; Sec 36(5) — expenses of putting goods into a deliverable state borne by the seller.

Sec 37 wrong quantity — four sub-rules: (1) short delivery — buyer may reject, or accept and pay at the contract rate; (2) excess delivery — accept the contracted quantity and reject the rest, reject

the whole, or accept the whole paying at the contract rate (100 quintals ordered, 1,100 delivered); (3) mixed with goods of a different description — accept the conforming goods and reject the rest, or reject the whole; (4) all subject to usage of trade, special agreement or course of dealing.

Secs 38–41: Sec 38 — buyer not bound to accept instalment deliveries unless agreed (100 tons of paper shipped 80 in November + 20 in December: buyer could reject the whole); Sec 39(1) — delivery to carrier for transmission is prima facie delivery to the buyer; Sec 40 — deterioration necessarily incidental to transit falls on the buyer; Sec 41 — buyer who has not previously examined is entitled to a reasonable opportunity of examining to check conformity.

Acceptance — Sec 42: buyer is deemed to accept when he (a) intimates acceptance to the seller, (b) does any act to the goods inconsistent with the seller's ownership, or (c) retains the goods beyond a reasonable time without intimating rejection; **Sec 43:** buyer rightfully refusing goods is not bound to return them — intimation of refusal suffices; **Sec 44:** buyer not taking delivery within reasonable time of request is liable for loss occasioned and a reasonable charge for care and custody (rights of seller unaffected where refusal amounts to repudiation).

Remembering memorise · 1 question

- Memorise Sec. 42 rules of acceptance verbatim: buyer accepts when he (a) intimates acceptance, (b) does any act inconsistent with the seller's ownership, or (c) retains goods beyond a reasonable time without intimating rejection.
- Learn the Sec. 2(2) definition of delivery ('voluntary transfer of possession') and its three types --- actual, symbolic, constructive.
- Keep a section-wise list of the 13 delivery rules (Secs. 33–41) ready, including: buyer to apply for delivery (Sec. 35), expenses on seller (Sec. 36(5)), buyer not bound to return rejected goods (Sec. 43), buyer's liability for refusing delivery (Sec. 44).

TQ 4.1 · RTP 2019-May [6] · Descriptive · --- · Pg 358

LEVEL I
Remembering

Easy

Understanding explain with reasons · 2 questions

- Explain Sec. 37 delivery of wrong quantity with all four sub-rules: short delivery --- reject or accept and pay at contract rate; excess --- accept contracted quantity and reject rest, or reject whole, or accept whole at contract rate; mixed goods --- accept conforming and reject rest, or reject whole; all subject to trade usage/special agreement (Sec. 37(4)).
- Explain effect of part delivery (Sec. 34): part delivery in progress of delivery of the whole operates as delivery of the whole, but part delivery intended to sever does not; and place of delivery rules under Sec. 36(1) (goods sold --- where they are at time of sale; agreement to sell --- at time of agreement; future goods --- place of manufacture).

TQ 4.3 · PYQ 2024-Sep [6] (c) (ii) · Descriptive · 3M · Pg 359 **asked 3x**

LEVEL I
Understanding

Easy

TQ 4.4 · MTP 2025-Apr S1 [6] (c) · Descriptive · 7M · Pg 360

LEVEL I
Understanding

Medium

Application apply provision to facts · 4 questions

- Practise Sec. 37(3) mixed-description problems (25 right chairs + 25 wrong; tomatoes short-delivered): give the buyer's options and note acceptance obliges payment at contract rate.
- Apply Sec. 36(3) third-party possession: delivery is complete only when the third person (warehouse keeper) acknowledges to the buyer that he holds goods on his behalf --- attornment constitutes constructive delivery.
- For the unpaid-seller-style scenario (goods delivered on credit, buyer refuses to pay), reason from Secs. 31--32 duties and conclude with the seller's personal remedies --- suit for price, damages and interest.

TQ 4.2 · RTP 2022-Nov [6] (ii) · Descriptive · --- · Pg 359

LEVEL II
Application

Easy

CSQ 4.2 · PYQ 2023-Dec [5] (a) (ii) · Case Scenario · 2M · Pg 362

LEVEL II
Application

Easy

CSQ 4.1 · PYQ 2018-May [5] (a) · Case Scenario · 6M · Pg 361

LEVEL II
Application

Medium

CSQ 4.3 · RTP 2024-Sep [13] · Case Scenario · --- · Pg 362 asked 4x

LEVEL II
Application

Medium

Unit 3.4: Unpaid Seller

P2-C3-U3.4 · Importance C · Rank 3 in chapter · Category B · 18.6% of chapter questions · 19 questions

Topic 1: Unpaid Seller (Section 45)

P2-C3-U3.4-T01

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §4.1 of Unit 3.4: the two limbs of Section 45(1) that make a seller 'unpaid', and who counts as a seller under Section 45(2).

NOTES

Section 45(1) — when a seller is 'unpaid': (a) where the **whole of the price** has not been paid or tendered and the seller had an immediate right of action for the price; or (b) where a **bill of exchange or other negotiable instrument** was received as conditional payment and the condition has not been fulfilled by reason of dishonour of the instrument or otherwise.

Section 45(2) — who is a 'seller': the term includes any person in the position of a seller — for instance an agent of the seller to whom the bill of lading has been endorsed, or a consignor or

agent who has himself paid, or is directly responsible for, the price.

Examples: X sells goods for ₹50,000, Y pays ₹40,000 and fails to pay the balance — X is an unpaid seller. P sells goods for ₹60,000 and takes a cheque for the full price which is dishonoured on presentment — P is an unpaid seller.

Topic 2: Rights of An Unpaid Seller (Section 46)

P2-C3-U3.4-T02

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §4.2 of Unit 3.4: the three rights conferred by Section 46(1) and the additional right under Section 46(2) where property has not passed.

NOTES

Section 46(1): notwithstanding that the property in the goods may have passed to the buyer, the unpaid seller has by implication of law — (a) a **lien** on the goods for the price while he is in possession of them; (b) in case of the **insolvency of the buyer**, a right of **stopping the goods in transit** after he has parted with possession; and (c) a **right of re-sale** as limited by the Act.

Section 46(2): where the property in the goods has **not passed** to the buyer, the unpaid seller has, in addition to his other remedies, a right of **withholding delivery**, similar to and co-extensive with his rights of lien and stoppage in transit.

Two directions: the rights run both **against the goods** (lien, stoppage in transit, re-sale) and **against the buyer personally** (suit for price, damages, interest) — keep the two headings apart when answering.

Topic 3: Right of Unpaid Seller Against the Goods

P2-C3-U3.4-T03

Read first Read Unit 4 'Unpaid Seller' --- headings 4.1--4.3: definition of unpaid seller (Sec. 45), rights under Sec. 46, seller's lien (Secs. 47--49), stoppage in transit (Secs. 50--52), effect of sub-sale or pledge by buyer (Sec. 53) and right of resale (Sec. 54).

NOTES

Sec 45(1) unpaid seller: seller is deemed unpaid when (a) "the whole of the price has not been paid or tendered" and he has an immediate right of action for the price, or (b) a bill of exchange or other negotiable instrument received as conditional payment is dishonoured; 'seller' includes

anyone in the position of a seller — agent with bill of lading endorsed, consignor who has paid or is responsible for the price [Sec 45(2)]; **Sec 46 scheme:** against the goods — (i) lien while in possession (ii) stoppage in transit on buyer's insolvency (iii) resale; where property has NOT passed — right of withholding delivery ('quasi-lien'), similar to and co-extensive with lien and stoppage.

Lien (Secs 47–49): possessory right to retain the goods for the price while in possession, exercisable only where (a) sale without stipulation of credit (b) credit sale but term expired (c) buyer insolvent; available even while seller holds as agent/bailee for the buyer; part delivery — lien on the remainder unless circumstances show waiver (Sec 48); **terminated (Sec 49):** (i) delivery to carrier/bailee without reserving right of disposal (ii) buyer or agent lawfully obtains possession (iii) waiver (iv) estoppel — but NOT lost merely because the seller has obtained a decree for the price.

Stoppage in transit (Secs 50–52): right to stop goods in transit, regain possession and retain till price paid; **conditions (Sec 50):** seller unpaid + has parted with possession + goods in transit + buyer insolvent; **Sec 51 duration:** from delivery to carrier/bailee for transmission until buyer or his agent takes delivery — transit ends by buyer taking delivery, interception before arrival, carrier's acknowledgment (attornment) to buyer, carrier's wrongful refusal to deliver, delivery to buyer-hired carrier or buyer-chartered ship, and part delivery to buyer ends transit for the remainder; once buyer's agent has loaded goods on his truck, railway authorities cannot stop them; **Sec 52:** effected by taking actual possession or notice to the carrier or his principal (in time to communicate) — carrier must redeliver per seller's directions, redelivery expenses on the seller; contract is not rescinded — buyer may still claim goods on payment.

Right of lien	Right of stoppage in transit
Essence — to retain possession	Essence — to regain possession
Seller must be in possession of the goods	Seller has parted with possession; goods with carrier; buyer has not got them
Exercisable even when buyer is not insolvent	Exercisable only when buyer is insolvent
Ends when goods leave the seller's possession	Ends when goods are delivered to the buyer
Right of lien ends where stoppage begins	Begins when lien ends — an extension of the lien

Sec 53 sub-sale or pledge by buyer: does NOT defeat lien/stoppage — second buyer cannot stand better than the first; **exceptions:** (a) seller assented to the buyer's sale, mortgage or disposition (Mount D.F. Ltd vs Jay & Jay — price payable from sub-sale proceeds, lien defeated); (b) document of title (bill of lading, railway receipt, delivery order) transferred to the buyer who transfers it to a person taking in good faith and for value — transfer by sale defeats lien/stoppage wholly, by pledge only subject to the pledgee's rights (pledgee may be required to first exhaust the pledger's

other goods/securities).

Resale (Sec 54) — four conditions: (i) perishable goods — no notice of resale needed; (ii) after notice of intention to resell and buyer's failure to pay within reasonable time — seller may recover the deficiency (contract price – resale price) as damages and retain any surplus profit; without notice he cannot recover the loss and must return any profit to the original buyer [Sec 54(2)]; (iii) resale after exercising lien/stoppage — subsequent buyer gets good title against the original buyer even without notice; (iv) right of resale expressly reserved in the contract on buyer's default — no notice needed, damages still recoverable.

Remembering memorise • 1 question

- Memorise the Sec. 45(1) definition: seller is 'unpaid' when the whole price has not been paid or tendered, or a negotiable instrument taken as conditional payment is dishonoured.
- Learn the resale conditions under Sec. 54: (i) perishable goods --- no notice needed; (ii) after notice of intention to resell and buyer's failure to pay within reasonable time; (iii) resale after exercising lien/stoppage gives the new buyer good title even without notice; (iv) express reservation of right of resale in the contract.
- Remember the consequences of notice: with notice the seller may recover the deficiency as damages and keep any surplus; without notice he cannot recover loss and must return any profit to the original buyer [Sec. 54(2)].

TQ 3.3 • PYQ 2026-Jan [6] (c) (ii) • Descriptive • 4M • Pg 368 **asked 3x**

LEVEL I
Remembering

Easy

Understanding explain with reasons • 2 questions

- Explain the scheme of Sec. 46: against the goods --- lien, stoppage in transit, resale (and right of withholding delivery/'quasi-lien' where property has not passed); be ready to draw this classification for the 6-mark 'rights against goods' question.
- For lien (Sec. 47): possessory right to retain for the price, exercisable only where (a) cash sale, (b) credit term expired, or (c) buyer insolvent; seller may hold even as agent/bailee for buyer.
- Termination of lien (Sec. 49): delivery to carrier without reserving right of disposal, buyer/agent lawfully obtains possession, waiver, estoppel --- but lien is NOT lost merely because seller obtained a decree for the price.
- Master the five-point distinction between lien (retain possession, insolvency not required) and stoppage in transit (regain possession, only on buyer's insolvency; begins where lien ends).

TQ 3.1 • PYQ 2019-Nov [4] (a) • Descriptive • 6M • Pg 366 **asked 4x**

LEVEL I
Understanding

Medium

TQ 3.2 • PYQ 2023-Dec [4] (a) • Descriptive • 6M • Pg 367 **asked 5x**

LEVEL I
Understanding

Medium

Application apply provision to facts · 7 questions

- Practise duration-of-transit problems (Secs. 50--51): transit ends when the buyer or his agent takes delivery from the carrier --- so once the buyer's agent has loaded goods on his truck, railway authorities cannot stop them; also part delivery, interception, carrier's acknowledgment/attornment and buyer-chartered carrier end transit.
- Structure stoppage answers around the Sec. 50 conditions: seller unpaid + parted with possession + goods in transit + buyer insolvent; notice under Sec. 52 to carrier or his principal; redelivery expenses fall on the seller.
- Apply Sec. 53: sub-sale or pledge by the buyer does not defeat lien/stoppage UNLESS the seller assented to it or a document of title (railway receipt, delivery order) was transferred to a bona fide sub-buyer for value --- transfer by sale defeats the right wholly, by pledge only subject to pledgee's rights.
- In split-consignment facts (450 bags by transport + 50 taken by buyer), treat each portion separately: stoppage lies only over goods still in transit; for delivered goods the seller falls back on personal remedies.

CSQ 3.1 · MTP 2020-Oct [5] (i) · Case Scenario · 6M · Pg 369	LEVEL II Application	Medium
CSQ 3.2 · PYQ 2021-Dec [5] (a) (ii) · Case Scenario · 3M · Pg 370 asked 6×	LEVEL II Application	Medium
CSQ 3.3 · MTP 2023-May [5] (a) · Case Scenario · 6M · Pg 371	LEVEL II Application	Medium
CSQ 3.4 · RTP 2024-Jun [12] · Case Scenario · --- · Pg 372 asked 2×	LEVEL II Application	Medium
CSQ 3.5 · PYQ 2024-Sep [5] (a) (ii) · Case Scenario · 3M · Pg 373 asked 3×	LEVEL II Application	Medium
CSQ 3.6 · PYQ 2025-May [5] (a) (i) · Case Scenario · 4M · Pg 374 asked 2×	LEVEL II Application	Medium
CSQ 3.7 · PYQ 2026-Sep [5] (a) · Case Scenario · 7M · Pg 375	LEVEL II Application	Medium

Topic 4: Rights of Unpaid Seller Against the Buyer (Sections 55--61)

P2-C3-U3.4-T04

Read first Read heading 4.4 'Rights of Unpaid Seller Against the Buyer (Sections 55--61)' --- the rights in personam: suit for price (Sec. 55), damages for non- acceptance (Sec. 56), repudiation before due date (Sec. 60) and suit for interest (Sec. 61).

NOTES

Four personal remedies: (1) **suit for price:** Sec 55(1) — property passed and buyer wrongfully neglects/refuses to pay (contract of sale); Sec 55(2) — price payable on a day certain irrespective of delivery: suit lies though property has not passed nor goods appropriated (agreement to sell);

(2) **Sec 56 damages for non-acceptance** — buyer wrongfully neglects/refuses to accept and pay; measure per Sec 73, Indian Contract Act, 1872; (3) **Sec 60 repudiation before due date** — seller may treat contract as rescinded and sue for damages ('rule of anticipatory breach'); (4) **Sec 61 interest** — per agreement from the date payment becomes due, else from a date notified to the buyer; court may award interest from tender of goods or the date the price was payable.

In rem vs in personam: rights against the goods (lien, stoppage, resale) attach to the goods; rights against the buyer personally are the seller's remedies for breach of the contract of sale — additional to the rights against the goods and the only rights surviving once possession has parted.

Classic scenario (SM): goods sold on 15 days' credit and delivered, buyer refuses on due date — seller is an unpaid seller under Sec 45(1); goods having been delivered, rights against the goods are gone; he can only sue for the price (Sec 55), for damages for non-acceptance (Sec 56) and for interest (Sec 61); where goods are still in the seller's possession and credit expired/buyer insolvent, combine lien (Sec 47) with these personal remedies.

Understanding explain with reasons • 2 questions

- Explain the four personal remedies with sections: suit for price [Sec. 55(1) where property has passed; Sec. 55(2) where price payable on a day certain irrespective of delivery], damages for non-acceptance (Sec. 56, measure per Sec. 73 of the Indian Contract Act, 1872), anticipatory breach (Sec. 60) and interest (Sec. 61).
- Distinguish rights against the goods (in rem) from rights against the buyer (in personam) --- the latter are the seller's remedies for breach and remain available after goods are delivered.

TQ 4.1 • PYQ 2021-Jul [4] (a) • Descriptive • 6M • Pg 378 **asked 3×**

LEVEL I
Understanding

Medium

TQ 4.2 • PYQ 2026-Sep [6] (c) • Descriptive • 7M • Pg 379

LEVEL I
Understanding

Medium

Application apply provision to facts • 1 question

- Practise the classic scenario (goods sold on credit, delivered, buyer refuses to pay on due date): first establish unpaid-seller status under Sec. 45, note rights against goods are lost because possession has parted, then conclude with suit for price (Sec. 55), damages for non-acceptance (Sec. 56) and interest (Sec. 61).
- Where goods are still in the seller's godown and price unpaid, combine lien (Sec. 47) with the personal remedies --- check possession before choosing between rights against goods and rights against the buyer.

CSQ 4.1 • PYQ 2018-Nov [5] (a) • Case Scenario • 6M • Pg 380 **asked 7×**

LEVEL II
Application

Medium

Topic 5: Remedies of Buyer Against the Seller

P2-C3-U3.4-T05

Read first Read heading 4.5 'Remedies of Buyer Against the Seller' --- damages for non-delivery (Sec. 57), suit for specific performance (Sec. 58), breach of warranty (Sec. 59), repudiation before due date (Sec. 60) and suit for interest (Sec. 61).

NOTES

Buyer's five remedies: (1) **Sec 57 damages for non-delivery** — seller wrongfully neglects/refuses to deliver (shoes at ₹10,500 bought for resale at ₹11,000: damages ₹500 per pair, contract-price/resale-price difference); (2) **Sec 58 specific performance**; (3) **Sec 59 breach of warranty** — buyer cannot reject the goods but may (i) set up the breach in diminution or extinction of the price or (ii) sue for damages; (4) **Sec 60 repudiation before due date** — treat contract as subsisting and wait, or treat as rescinded and sue for damages; (5) **Sec 61 interest/special damages** — recover money paid where consideration has failed; court may award interest on the price refund from the date of payment.

Sec 58 specific performance — meaning: on seller's breach the buyer may ask the court to compel actual delivery of the goods; **conditions:** (a) contract must be for specific or ascertained goods (b) court's power subject to the Specific Relief Act, 1963 (c) ordered where damages would not be an adequate remedy (d) granted where goods are unique or of special nature — e.g. rare painting of the Mughal period.

Keep sections ready: non-delivery 57, specific performance 58, warranty 59, anticipatory breach 60, interest 61 — the buyer's mirror of the seller's Secs 55–61 remedies.

Remembering memorise · 1 question

- Memorise the meaning of suit for specific performance (Sec. 58): where the seller breaches, the buyer may ask the court to compel actual delivery of the goods.
- Learn its conditions verbatim: (a) contract must be for specific or ascertained goods; (b) court's power subject to the Specific Relief Act, 1963; (c) ordered where damages would not be an adequate remedy; (d) granted where goods are unique or of special nature (e.g. rare Mughal painting).
- Keep the full list of buyer's remedies ready with sections: damages for non-delivery (Sec. 57), specific performance (Sec. 58), breach of warranty --- diminution/extinction of price or damages (Sec. 59), anticipatory breach (Sec. 60), interest/special damages (Sec. 61).

TQ 5.1 · PYQ 2026-Jan [6] (c) (i) · Descriptive · 3M · Pg 381 **asked 8x**

LEVEL I
Remembering

Easy

Topic 6: Auction Sale (Section 64)

P2-C3-U3.4-T06

Read first Read heading 4.6 'Auction Sale (Section 64)' --- the six legal rules of auction sale: sale in lots, completion by fall of hammer, retraction of bid, seller's reserved right to bid, unnotified bidding by seller, reserve price and pretended bidding.

NOTES

Meaning: mode of selling property by inviting bids publicly, sold to the highest bidder; auctioneer is an agent of the seller governed by the Law of Agency, but may sell his own property as principal without disclosing it.

Sec 64 — six rules: (a) goods in lots — each lot is prima facie the subject of a separate contract of sale; (b) sale complete when the auctioneer announces completion by fall of hammer or other customary manner — until such announcement any bidder may retract his bid; (c) right to bid may be reserved expressly by or on behalf of the seller — then the seller or any one person on his behalf may bid; (d) where sale not notified subject to seller's right to bid — unlawful for the seller to bid himself or employ any person to bid, or for the auctioneer knowingly to take such a bid; a contravening sale may be treated as fraudulent by the buyer; (e) sale may be notified subject to a reserve or upset price; (f) pretended bidding to raise the price makes the sale voidable at the buyer's option.

Property passes on the fall of the hammer (SM Example 12): car knocked down to Q, who signed that ownership would not pass till his cheque cleared, then sold to R before clearance — held property passed on the fall of the hammer, so R got a good title; both sale and sub-sale valid.

Broken hammer case (SM): hammer broke while falling and damaged the antique clock — completion was never validly announced (hammer must come to its normal position), so the sale is incomplete, the loss falls on the seller and the highest bidder (Deepa) can avoid the contract.

Understanding explain with reasons • 1 question

- Explain the Sec. 64 rules with reasons: (a) each lot is prima facie a separate contract of sale; (b) sale is complete when the auctioneer announces completion by fall of hammer or other customary manner --- until then any bidder may retract his bid; (c) right to bid may be reserved expressly by or on behalf of the seller.
- Cover the fraud rules: where the sale is not notified to be subject to the seller's right to bid, the seller cannot bid himself or employ any person to bid, and the buyer may treat a contravening sale as fraudulent; pretended bidding to raise the price makes the sale voidable at the buyer's option; sale may be notified subject to a reserve/upset price.

TQ 6.1 • PYQ 2024-Sep [6] (c) (i) • Descriptive • 4M • Pg 383 asked 5x

LEVEL I
Understanding

Easy

Application apply provision to facts • 3 questions

- Practise 'when is the sale complete' problems: property passes on the fall of the hammer, not on payment or delivery --- so a sub-sale by the highest bidder after the hammer falls is valid (SM Example 12).
- Apply the broken-hammer case: if the hammer breaks and damages the goods while falling, completion was never validly announced, so the sale is incomplete, the loss is the seller's and the bidder can avoid the contract.
- Where a customary manner of completion is notified (hammer plus announcement), the sale completes only per that custom --- bidders may retract any time before it.

CSQ 6.1 • PYQ 2023-Jun [5] (a) (i) • Case Scenario • 2M • Pg 384	asked 2×	LEVEL II Application	Easy
CSQ 6.4 • PYQ 2025-May [5] (a) (ii) • Case Scenario • 3M • Pg 387	asked 2×	LEVEL II Application	Easy
CSQ 6.3 • MTP 2024-Jun [5] (a) (i) • Case Scenario • 4M • Pg 386	asked 2×	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios • 1 question

- Work multi-issue auction scenarios (right to bid not notified + seller's agent bids + pretended bidding): separate the issues --- legality of the seller's bidding, buyer's option to treat sale as fraudulent/voidable, and completion by fall of hammer --- and conclude on each with Sec. 64 clauses.
- Combine Sec. 64 with passing of property/risk: identify first whether the hammer had fallen; ownership and risk questions (damage during auction) flow from that single fact.

CSQ 6.2 • PYQ 2024-Jun [5] (a) • Case Scenario • 7M • Pg 385	LEVEL II Analysis	Hard
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Topic 7: Inclusion of Increased or Decreased Taxes in Contract of Sale (Section 64A)

P2-C3-U3.4-T07

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §4.7 of Unit 3.4: Section 64A and how a tax revision between contract and performance is borne.

NOTES

Section 64A: where a tax is imposed, increased, decreased or remitted **after a contract has been made but before it has been performed**, and the contract contains no stipulation as to payment of tax, the parties become entitled to **readjust the price** of the goods accordingly.

Taxes covered: any duty of customs or excise on goods, and any tax on the sale or purchase of

goods.

Effect and exclusion: the buyer pays the increased price where the tax rises and takes the benefit where taxes are curtailed, so the seller may add the increased tax to the price. The provision can be **excluded by an agreement to the contrary** — the parties are free to stipulate anything with regard to taxation.

CHAPTER 4

The Indian Partnership Act, 1932

24 Topics · 106 Classified Questions · Importance: A

ICAI SKILL PROFILE Level I 5–20% · Level II 80–95% — this chapter reads **theory-heavy**

Level I — Remembering & Understanding **60.0%** 234 of 390 marks

Level II — Application & Analysis **40.0%** 156 of 390 marks

Unit 4.1: General Nature of a Partnership

P2-C4-U4.1 · Importance D · Rank 2 in chapter · Category A · 24.5% of chapter questions · 26 questions

Topic 1: Definition of 'Partnership', 'Partner', 'Firm' And 'Firm Name' (Section 4)

P2-C4-U4.1-T01

CONCEPT BASE — no exam question asked yet · essential for full preparation

Read first Read §1.1 of Unit 4.1: the Section 4 definition of partnership and the three terms it fixes — partner, firm and firm name.

NOTES

Section 4 — partnership: “Partnership” is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.” Learn this wording verbatim; every question on elements, true test or kinds of partnership is built on it.

The three terms: persons who have entered into partnership with one another are called individually '**partners**' and collectively '**a firm**', and the name under which their business is carried on is the '**firm name**'.

What the definition carries: the five elements that must co-exist before a partnership arises — an association of two or more persons, an agreement between all of them, a business, an agreement to share the profits of that business, and the business being carried on by all or any of them **acting for all** (the mutual-agency element, which is the true test).

Topic 2: Elements of Partnership

P2-C4-U4.1-T02

Read first Read Unit 1 'General Nature of Partnership' of the Indian Partnership Act, 1932 --- headings 1.1 (Sec. 4 definitions of partnership, partner, firm, firm name) and 1.2 (the five essential elements), including the KD Kamath & Co. Supreme Court ruling.

NOTES

Sec 4 definitions (SM): 'Partnership' is "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all"; persons entering it are individually 'partners', collectively 'a firm', and the name under which their business is carried on is the 'firm name'.

Five co-existing elements: (1) **association of two or more persons** — only persons recognised by law: a firm cannot be a partner; a minor cannot be a partner but with consent of all partners may be admitted to the benefits; maximum 50 partners [Sec 464, Companies Act, 2013 read with Companies (Miscellaneous) Rules, 2014]; (2) **agreement** — voluntary and contractual, express or implied from conduct, oral or in writing — not from status; (3) **business** — includes every trade, occupation and profession, carried on with the motive of 'acquisition of gains' — no charitable institution or club can be floated in partnership; (4) **sharing of profits** — essential (no partnership where one alone takes all profits), but agreement to share LOSSES is not essential — one or more partners may bear all losses; (5) **business carried on by all or any acting for all** — mutual agency, the cardinal principle.

Mutual agency: each partner carrying on the business is principal as well as agent of the others — he binds them by his acts and is bound by theirs, so a creditor of the firm can recover from any partner; **KD Kamath & Co. (SC):** two essential conditions — (1) agreement to share profits as well as losses of business, (2) business carried on by all or any acting for all (Sec 4); exclusive power and control vested by agreement in one partner, or only one partner operating bank accounts/borrowing, is NOT destructive of partnership.

Fact patterns (provision → facts → conclusion): profits shared equally but losses borne by X alone — still partnership (loss-sharing not essential); publisher paying author half the net profits — no partnership, mutual agency absent, so the paper dealer (third party) cannot make the author liable; co-owners sharing rent from land or a leased-out tea shop — no business and no mutual agency, hence co-ownership, not partnership.

Understanding explain with reasons · 1 question

- Reproduce the Sec. 4 definition --- 'the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all' --- then explain the five co-existing elements: association of two or more persons, agreement, business, sharing of profits, mutual agency.
- Be ready to explain any two elements in depth: e.g. agreement (voluntary and contractual, express or implied, not from status; minor cannot be a partner but may be admitted to benefits; max 50 partners

per Sec. 464 Companies Act, 2013 read with Rules) and mutual agency (each partner is principal and agent --- the cardinal principle per KD Kamath & Co.).

- Note the traps: sharing losses is NOT essential (one partner may bear all losses), and 'business' includes every trade, occupation and profession with the motive of acquisition of gains.

TQ 2.1 · PYQ 2021-Dec [3] (a) · Descriptive · 6M · Pg 390 asked 5x

LEVEL I
Understanding

Medium

Application apply provision to facts · 3 questions

- Practise 'is this a partnership?' fact patterns: profits shared equally but losses borne by one alone --- still a partnership (loss-sharing not essential); publisher paying an author half the net profit --- no partnership because mutual agency is absent, so third parties cannot sue the author.
- Co-ownership facts (friends jointly letting a flat and sharing rent) --- no partnership: sharing gross returns from jointly held property involves no business and no mutual agency.
- Answer in provision → facts → conclusion form: quote Sec. 4, test each of the five elements against the facts, and single out the missing element (usually business or mutual agency) as the reason.

CSQ 2.1 · PYQ 2023-Dec [4] (b) · Case Scenario · 6M · Pg 392

LEVEL II
Application

Medium

CSQ 2.2 · RTP 2024-Jun [14] · Case Scenario · --- · Pg 393 asked 4x

LEVEL II
Application

Medium

CSQ 2.3 · PYQ 2026-Jan [3] (a) (i) · Case Scenario · 3M · Pg 394

LEVEL II
Application

Medium

Topic 3: True Test of Partnership

P2-C4-U4.1-T03

Read first Read heading 1.3 'True Test of Partnership' --- Sec. 6 (mode of determining existence of partnership), Sec. 5 (partnership arises from contract, not status), the profit-sharing exceptions in Sec. 6, and the Santiranjan Das Gupta v. Dasyran Murzamull factors.

NOTES

True test: mutual agency, not sharing of profits — profit-sharing is only prima facie evidence, not conclusive; sharing of profits or gross returns arising from property held in joint or common interest does not of itself make the holders partners; existence of partnership must be proved by (1) agreement between all persons concerned (2) agreement to share profits of a business (3) business carried on by all or any of them acting for all.

Sec 5 — contract, not status: the relation of partnership arises from contract and not from status; members of a Hindu Undivided Family carrying on family business as such, or a Burmese Buddhist husband and wife carrying on business as such, are NOT partners.

Sec 6 exceptions — receipt of a profit share or profit-linked payment does not of itself make a partner: (a) by a lender of money to persons engaged or about to engage in business (creditor's contingent share till loan repaid), (b) by a servant or agent as remuneration, (c) by a widow or child of a deceased partner as annuity, (d) by a previous owner or part-owner of the business as consideration for sale of the goodwill or a share thereof.

Sec 6 mode of determination: regard shall be had to the real relation between the parties as shown by ALL relevant facts taken together — cumulative effect of written/verbal agreement, real intention and conduct of the parties and surrounding circumstances; **Santiranjan Das Gupta v. Dasyran Murzamull (SC):** no partnership where (a) no record of terms retained (b) no accounts of the business open to both parties (c) no bank account in the firm's name (d) no written intimation to the Deputy Director of Procurement.

Applying the test: act of one partner on behalf of the firm binds all — where mutual agency exists in a profit-seeking group, partnership may be deemed; contractor/employee paid remuneration varying with profits — mere servant/agent, no mutual agency, no partnership; exclusive control in one partner does not negate partnership if profit-sharing and mutual agency exist (KD Kamath & Co.).

Remembering memorise · 1 question

- Memorise that mutual agency --- not profit sharing --- is the true/conclusive test of partnership; profit sharing is only prima facie evidence.
- List the receipts that do NOT of themselves make one a partner: (a) lender of money receiving a share of profits, (b) servant or agent receiving remuneration, (c) widow or child of a deceased partner receiving annuity, (d) previous owner receiving consideration for sale of goodwill.
- Recall Sec. 5: HUF members carrying on family business and Burmese Buddhist husband and wife are not partners --- partnership arises from contract, not status.

TQ 3.1 · MTP 2019-Oct [6] (b) · Descriptive · 4M · Pg 395

LEVEL I
Remembering

Easy

Understanding explain with reasons · 4 questions

- Explain Sec. 6: regard must be had to the real relation between the parties as shown by ALL relevant facts taken together --- agreement, intention, conduct and surrounding circumstances cumulatively.
- Discuss 'business carried on by all or any of them acting for all': each partner is both principal and agent; exclusive control vested in one partner does not destroy partnership if agreement to share profits and mutual agency exist (KD Kamath & Co.).
- Explain why 'sharing profits is not conclusive evidence' --- link the Sec. 6 exceptions and the rule that sharing gross returns from joint property does not create partnership.

TQ 3.5 · PYQ 2026-Sep [1] (c) {C} · Descriptive · 3M · Pg 398

LEVEL I
Understanding

Easy

TQ 3.2 · PYQ 2021-Jan [3] (b) · Descriptive · 4M · Pg 395	LEVEL I Understanding	Medium
TQ 3.3 · PYQ 2021-Dec [6] (b) · Descriptive · 4M · Pg 396 asked 5x	LEVEL I Understanding	Medium
TQ 3.4 · MTP 2025-Dec S1 [1] (c) · Descriptive · 6M · Pg 397	LEVEL I Understanding	Medium

Application apply provision to facts · 4 questions

- Practise classifying arrangements: jointly owned car/tea shop let on hire with earnings divided → co-ownership, not partnership (no business, no mutual agency); two firms of 12 partners each combining to share profits of a joint venture → test as an association of persons against Sec. 4/6.
- For lender-with-profit-share facts (25% profit share until loan repaid) apply the Sec. 6 exception: a creditor's contingent share does not make him a partner.
- For contractor/sub-contractor or employer-employee facts, show mutual agency is absent --- payment varying with profits is mere remuneration; conclude with the Sec. 6 cumulative-facts test.

CSQ 3.2 · PYQ 2026-Jan [3] (a) (ii) · Case Scenario · 2M · Pg 400	LEVEL II Application	Easy
CSQ 3.4 · PYQ 2026-Jan [3] (a) (iii) · Case Scenario · 2M · Pg 402	LEVEL II Application	Easy
CSQ 3.1 · PYQ 2021-Dec [4] (b) · Case Scenario · 6M · Pg 399 asked 3x	LEVEL II Application	Medium
CSQ 3.3 · RTP 2026-Jan [15] · Case Scenario · --- · Pg 401	LEVEL II Application	Medium

Topic 4: Partnership Distinguished from Other Forms of Organisation

P2-C4-U4.1-T04

Read first Read heading 1.4 'Partnership Distinguished from Other Forms of Organisation' --- tabulated distinctions of partnership vs joint stock company, club, Hindu Undivided Family, co-ownership and association.

NOTES

Basis-wise distinctions (SM tables): partnership vs joint stock company, club, HUF, co-ownership and association — write as many bases as the marks demand; vs club: club promotes beneficial purposes (health, recreation) not profit, a member is not agent of other members and has no interest in club property, membership changes do not affect existence; vs association: association evolves out of a social cause (charitable/religious society, mutual insurance, trade protection) with no motive to earn and share profits; also note firm is governed by the Indian Partnership Act, 1932 with max 50 partners, while HUF business is governed by Hindu Law with unlimited members.

Partnership

Joint Stock Company

Firm has no legal entity distinct from partners	Separate legal entity distinct from members (Salomon v. Salomon)
Every partner is agent of the firm and other partners	A member is not an agent of the company or other members
Liability of partners unlimited — private property liable	Liability limited to unpaid amount on shares (or guarantee)
Share not transferable without consent of all partners	Shares transferable subject to Articles; usually free if quoted
Registration not compulsory; max 50 partners	No existence unless registered; private ≤ 200 , public no limit
Death, retirement or insolvency of a partner dissolves firm	Perpetual succession; wound up by NCLT or struck off

Partnership	Hindu Undivided Family
Created necessarily by agreement	Right created by status, i.e. birth in the family
Every partner can by his act bind the firm	Only the Karta has authority to bind the family business
Liability of every partner unlimited	Only Karta's liability unlimited; coparceners liable to share in profits
Death of a partner ordinarily dissolves the firm	Death of a member does not dissolve the family business
Minor cannot be a partner; admitted to benefits with all partners' consent	Minor becomes a member of the ancestral business by birth
Each partner has a defined share by agreement	No coparcener has a definite share; interest fluctuates with births/deaths

Partnership	Co-ownership
Always arises out of contract, express or implied	May arise from agreement or operation of law, e.g. inheritance
A partner is the agent of the other partners	A co-owner is not the agent of other co-owners

Community of interest — profits and losses must be shared	Does not necessarily involve sharing of profits and losses
Share transferred only with consent of all partners	Co-owner may transfer his interest without others' consent

Understanding explain with reasons • 3 questions

- For Partnership vs HUF, master at least: mode of creation (agreement vs status/birth), authority (every partner binds firm vs only Karta), liability (all partners unlimited vs only Karta unlimited), death (dissolves firm vs no effect), minor's position, governing law, and share (defined vs fluctuating).
- For Partnership vs Joint Stock Company: no separate legal entity vs separate entity (Salomon v. Salomon), mutual agency vs none, unlimited vs limited liability, transfer of share needs all partners' consent vs free transfer, registration optional vs compulsory, dissolution by agreement vs perpetual succession, max 50 partners vs 200/unlimited members.
- For Partnership vs Co-ownership: partnership arises only from contract while co- ownership may arise by operation of law (inheritance); co-owner is not an agent of the others; co-ownership need not involve profit-sharing; a co-owner may transfer his interest without others' consent.
- These are asked as 2--6 mark 'distinguish between' questions --- prepare basis- wise tables and write the number of points the marks demand.

TQ 4.1 • MTP 2019-Oct [3] (a) • Distinguish Between • 2M • Pg 403

LEVEL I
Understanding

Easy

TQ 4.2 • MTP 2022-Jun [3] (i) • Distinguish Between • 6M • Pg 405

LEVEL I
Understanding

Easy

TQ 4.3 • PYQ 2022-Nov [6] (b) • Distinguish Between • 4M • Pg 408
asked 3x

LEVEL I
Understanding

Easy

Topic 5: Kinds of Partnerships

P2-C4-U4.1-T05

Read first Read heading 1.5 'Kinds of Partnerships' --- partnership at will (Sec. 7), partnership for a fixed period, particular partnership and general partnership, plus the paragraph on the Partnership Deed and its contents.

NOTES

Four kinds: with regard to duration — partnership at will and partnership for a fixed period; with regard to extent of business — particular partnership and general partnership.

Partnership at will (Sec 7) — two conditions, both required: (1) no fixed period agreed upon for the duration of the partnership AND (2) no provision made as to the determination of the

partnership; dissolvable by any partner giving notice in writing to all other partners of his intention to dissolve; a partnership for a fixed term continued after expiry of the term becomes a partnership at will.

Other kinds: **fixed period:** duration provided by contract — comes to an end on expiry of the fixed period; **particular partnership:** formed for a single adventure or undertaking — subject to agreement, dissolved by completion of the adventure; **general partnership:** constituted with respect to business in general — liability not confined to one adventure (contrast particular partnership and LLP).

Partnership deed — meaning and formalities: the document in writing containing the terms and conditions as to the relationship of the partners to each other; no particular formalities required — agreement may be oral or written, but writing is desirable to avoid future disputes; deed must be drafted with care and stamped per the Stamp Act, 1899; where the partnership comprises immovable property, the instrument must be in writing, stamped AND registered under the Registration Act.

Twelve contents of the deed: (1) name of the firm (2) names of all partners (3) nature and place of business (4) date of commencement (5) duration (6) capital contribution of each partner (7) profit-sharing ratio (8) admission and retirement of a partner (9) rates of interest on capital, drawings and loans (10) settlement of accounts on dissolution (11) salaries/commission payable to partners (12) expulsion of a partner for gross breach of duty or fraud — the firm may add or delete provisions per its needs.

Remembering memorise · 5 questions

- Partnership at will (Sec. 7): exists when (i) no fixed period is agreed for duration AND (ii) no provision is made for determination of the partnership; dissolvable by any partner by written notice to all others; a fixed-term partnership continued after expiry becomes a partnership at will.
- Definitions to reproduce: partnership for a fixed period (duration fixed by contract, ends on expiry); particular partnership (for a single adventure/undertaking, dissolved on its completion); general partnership (constituted for business in general --- liability not confined to one adventure).
- Memorise the 12-item contents list of a partnership deed (firm name, partners' names, nature and place of business, commencement date, duration, capital contribution, profit-sharing ratio, admission/retirement, interest rates on capital/drawings/loans, settlement on dissolution, salaries/commission, expulsion clause) and the drafting points --- writing not compulsory, stamped per the Stamp Act, 1899, registered if immovable property is involved.

TQ 5.1 · PYQ 2020-Nov [3] (a) (i) · Descriptive · 2M · Pg 409 asked 3x	LEVEL I Remembering	Easy
TQ 5.2 · PYQ 2021-Jan [3] (a) (i) · Descriptive · 2M · Pg 410 asked 4x	LEVEL I Remembering	Easy
TQ 5.3 · PYQ 2022-May [3] (a) (i) · Descriptive · 2M · Pg 410 asked 4x	LEVEL I Remembering	Easy

TQ 5.4 • MTP 2022-Nov S1 [6] (ii) • Descriptive • 4M • Pg 411 asked 4x	LEVEL I Remembering	Easy
TQ 5.6 • RTP 2026-May [17] (d) • Descriptive • --- • Pg 413	LEVEL I Remembering	Easy

Understanding explain with reasons • 1 question

- Explain what a partnership deed is (written document of terms governing partners' mutual relations), why writing is advisable though not mandatory (avoids future disputes, evidentiary value) and its significance --- expect a 7-mark combined 'meaning + significance + contents' question.
- Be able to reason about formality requirements: no particular formalities are required for a partnership agreement (oral or written), but the deed must be stamped under the Stamp Act, 1899, and where the partnership comprises immovable property the instrument must be in writing, stamped and registered under the Registration Act.

TQ 5.5 • MTP 2025-May S2 [5] (b) • Descriptive • 7M • Pg 412	LEVEL I Understanding	Medium
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Topic 6: Types of Partners

P2-C4-U4.1-T06

Read first Read heading 1.6 'Types of Partners' --- active/ostensible, sleeping/dormant, nominal, partner in profits only, sub-partner, incoming, outgoing and partner by holding out (Sec. 28).

NOTES

Eight types: active/actual/ostensible, sleeping/dormant, nominal, partner in profits only, sub-partner, incoming, outgoing/retiring, partner by holding out (Sec 28).

Active/sleeping/nominal: **active (ostensible):** partner by agreement actively conducting business — agent of the others for all acts in the ordinary course; must give public notice on retirement to escape liability for later acts; **sleeping (dormant):** partner by agreement taking no active part — shares profits and losses, liable to third parties for all acts of the firm, but NO public notice needed on retirement; **nominal:** lends his name without any real interest — no capital, no share of profits, no part in management, yet liable to third parties for all acts of the firm (creditor's suit against a no-profit nominal partner succeeds).

Profits-only/sub/incoming/outgoing: **partner in profits only:** shares profits without liability for losses — still liable to third parties for all acts of the firm; **sub-partner:** outsider with whom a partner agrees to share his own share — neither has rights against the firm nor is liable for its debts; **incoming:** admitted with consent of all existing partners — not liable for any act of the firm done before his admission; **outgoing (retiring):** remains liable to third parties for all acts of the firm until public notice of his retirement is given.

Partner by holding out — Sec 28 (estoppel): where a person represents himself, or knowingly permits himself to be represented, as a partner (when in fact he is not), he is liable like a partner to

anyone who on the faith of such representation has given credit to the firm; fraudulent intention need not be shown, and only the person to whom the representation was made and who acted on it can enforce the liability — manager introduced as partner who remained silent held liable to the trader who supplied TV sets on credit.

Retired-partner extension: Sec 28 also applies to a former partner retiring without proper public notice — S retires but his name continues on the firm's letterheads: S is liable as partner by holding out to creditors who lent on the faith of his being a partner; structure — Sec 28 conditions → representation/omission of public notice → credit given on that faith → liability.

Remembering memorise — no question in this edition

- Nominal partner: lends his name to the firm without any real interest --- no capital, no share of profits, no part in management, BUT liable to third parties for all acts of the firm.
- Keep one-line definitions with liability points for each type: sleeping/dormant (shares profits and losses, liable to third parties, no public notice needed on retirement), partner in profits only, sub-partner (no rights against and no liability to the firm), incoming (not liable for pre-admission acts), outgoing (liable till public notice of retirement).

Understanding explain with reasons · 2 questions

- Explain partner by holding out / estoppel (Sec. 28): a person who represents himself, or knowingly permits himself to be represented, as a partner is liable like a partner to anyone who has given credit to the firm on the faith of that representation; fraudulent intention need not be proved, and only the person to whom the representation was made can enforce the liability.
- Note the extension to retired partners: a partner who retires without public notice remains liable by holding out to creditors who lend on the belief he is still a partner.

TQ 6.1 · PYQ 2025-Jan [5] (b) (i) · Descriptive · 2M · Pg 413	asked 2×	LEVEL I Understanding	Easy
TQ 6.2 · PYQ 2025-Jan [5] (b) (i) · Descriptive · 4M · Pg 414	asked 3×	LEVEL I Understanding	Easy

Application apply provision to facts · 2 questions

- Practise nominal-partner suits (creditor sues a nominal partner who shares no profits): conclude he IS liable to third parties for all acts of the firm despite having no profit share.
- Apply Sec. 28 to retirement-without-notice facts (retired partner's name still on letterhead, supplier deals believing him a partner): he is liable as partner by holding out; structure as Sec. 28 conditions → representation/omission of public notice → credit given on faith → liability.

CSQ 6.1 · RTP 2022-Nov [10] · Case Scenario · --- · Pg 415	LEVEL II Application	Medium
CSQ 6.2 · PYQ 2025-Sep [5] (b) (i) · Case Scenario · 3M · Pg 416	LEVEL II Application	Medium

Unit 4.2: Relations of Partners

P2-C4-U4.2 · Importance A · Rank 1 in chapter · Category A · 55.7% of chapter questions · 59 questions

Topic 1: Relation of Partners to One Another

P2-C4-U4.2-T01

Read first Read heading 2.1 'Relation of Partners to One Another': general duties (Sec. 9), indemnity for fraud (Sec. 10), rights/duties by contract (Sec. 11), conduct of business (Sec. 12) and mutual rights and liabilities (Sec. 13).

NOTES

Sec 9 (general duties): carry on the business to the greatest common advantage, render true accounts and full information of all things affecting the firm to any partner or his legal representatives, and observe utmost good faith; **Sec 10:** a partner committing fraud in the conduct of the business must make good the loss to the firm; **Sec 11:** mutual rights/duties may be fixed by contract (express or implied by course of dealing), varied by consent of all — may validly provide that a partner shall not carry on any other business while a partner, despite Sec 27, Contract Act.

Sec 12 (conduct of business, subject to contract): (a) every partner may take part in conduct of the business; (b) bound to attend diligently to his duties; (c) ordinary matters decided by majority (in good faith, every partner heard), but NO change in the nature of the business without consent of ALL partners; (d) every partner, active or sleeping, may access, inspect and copy any books of the firm (bona fide); (e) on a partner's death his heirs/legal representatives or their authorised agents may access, inspect and copy the books.

Sec 13 (mutual rights and liabilities, all subject to contract): (a) no remuneration for taking part in the business (claimable only by agreement or continued usage/custom of the firm); (b) equal share in profits, equal contribution to losses; (c) interest on capital payable only out of profits; (d) interest on advances beyond agreed capital @ 6% p.a. — runs even after dissolution up to payment, while interest on capital ceases on dissolution; (e) firm indemnifies a partner for payments/liabilities in the ordinary and proper conduct of business and for prudent emergency acts to protect the firm from loss; (f) partner indemnifies the firm for loss caused by his wilful neglect in conduct of the business.

Trap: equality of profit-sharing is presumed where the deed is silent, even if capital contributions are unequal — there is no connection between profit ratio and capital ratio; the burden of proving unequal shares lies on the party alleging it.

Sec 18 dual character: a partner virtually embraces the character of both principal and agent — principal so far as he acts for himself in the common concern, agent so far as he acts for his partners; unlike a mere agent he has a community of interest with other partners in the whole

property, business and liabilities of the partnership.

Remembering memorise · 2 questions

- Sec. 12 rights: take part in business; be consulted --- ordinary matters by majority, change in nature of business needs consent of ALL; access/inspect/copy books; heirs' right to inspect books on a partner's death.
- Sec. 13 list: no remuneration; equal profits/losses; interest on capital only out of profits; interest on advances @ 6% p.a.; firm indemnifies partner [13(e)]; partner indemnifies firm for wilful neglect [13(f)]. All 'subject to contract between the partners'.

TQ 1.1 · PYQ 2023-Jun [6] (b) · Descriptive · 4M · Pg 419

LEVEL I
Remembering

Easy

TQ 1.4 · PYQ 2026-Jan [5] (b) (i) · Descriptive · 4M · Pg 422

LEVEL I
Remembering

Easy

Understanding explain with reasons · 2 questions

- Explain the two-way indemnity: Sec. 13(e) (ordinary and proper conduct + emergency acts of a prudent person) vs Sec. 13(f)/Sec. 10 (wilful neglect, fraud).
- Master 'partner embraces the character of both principal and agent' (Sec. 18): principal for himself, agent for co-partners; unlike a mere agent he has community of interest.
- Trap: equality of profit share is presumed even where capital contributions are unequal.

TQ 1.2 · PYQ 2025-May [1] (c) (ii) {C} · Descriptive · 6M · Pg 421

LEVEL I
Understanding

Medium

TQ 1.3 · MTP 2025-Dec S1 [5] (b) · Descriptive · 7M · Pg 421

LEVEL I
Understanding

Medium

Application apply provision to facts · 3 questions

- Practise Sec. 12(c): routine differences by majority; change in the nature of business (or agreed restrictions) needs unanimous consent --- provision → facts → conclusion.
- Practise Sec. 13(a)/(b)/(d): deny remuneration claims where deed is silent, presume equal profit sharing despite unequal capital, allow 6% p.a. on advances beyond capital.

CSQ 1.1 · MTP 2024-Apr [3] (a) · Case Scenario · 7M · Pg 424 **asked 3x**

LEVEL II
Application

Medium

CSQ 1.2 · RTP 2024-Jun [13] · Case Scenario · --- · Pg 425 **asked 2x**

LEVEL II
Application

Medium

CSQ 1.3 · RTP 2025-May [13] · Case Scenario · --- · Pg 425

LEVEL II
Application

Medium

Topic 2: Partnership Property (Section 14)

P2-C4-U4.2-T02

Read first Read heading 2.2 'Partnership Property' covering Sec. 14 (what comprises property of the firm, goodwill) and Sec. 15 (application of firm property exclusively for firm purposes).

NOTES

Sec 14 — property of the firm (absent contrary agreement): (i) all property, rights and interests brought into the common stock as contribution; (ii) all property, rights and interests acquired or purchased by or for the firm, or for the purposes and in the course of the business of the firm; (iii) goodwill of the business.

Goodwill (SM): “the value of the reputation of a business house in respect of profits expected in future over and above the normal level of profits earned by undertaking belonging to the same class of business”; it is part of firm property, saleable separately or with other assets; on dissolution every partner may (absent contrary agreement) have the goodwill sold for the benefit of all; the buyer may take an agreement that a partner will not carry on similar business within specified period/local limits — valid despite Sec 27, Contract Act, if reasonable.

Intention test: whether property is firm property ultimately depends on the real intention/agreement of the partners — a partner's exclusive property merely used for firm business does NOT become firm property without agreement; conversely property acquired with firm money by or for the firm falls within Sec 14; partners may by agreement (effectual if in good faith) convert a partner's separate property into partnership property — work in order: whose money, real intention, then the Sec 14 presumption.

Sec 15 (application): firm property must be held and used EXCLUSIVELY for the purposes of the firm; during subsistence no partner has a proprietary interest in specific firm assets — only a right to his share of profits and to see all assets applied for partnership purposes; a partner using firm property for personal benefit must account to the firm.

Remembering memorise · 1 question

- Memorise the three items of firm property under Sec. 14: (i) property brought into common stock, (ii) property acquired by or for the firm or in the course of its business, (iii) goodwill of the business.
- Definition of goodwill: value of the reputation of a business in respect of profits expected in future over and above normal profits of similar businesses; on dissolution every partner can insist it be sold, and a buyer may take a reasonable restraint covenant despite Sec. 27, Contract Act.

TQ 2.1 · PYQ 2019-Nov [3] (Or) (a) (ii) · Descriptive · 2M · Pg 426 **asked**
4x

LEVEL I
Remembering

Easy

Understanding explain with reasons · 1 question

TQ 2.2 · PYQ 2026-Sep [1] (c) {C} · Descriptive · 3M · Pg 427

LEVEL I
Understanding**Easy****Application** apply provision to facts · 1 question

- Practise Sec. 15 scenarios: firm property must be held and used exclusively for firm purposes --- a partner using firm assets/supplies for personal benefit must account to the firm.
- Structure answers: state Sec. 14/15 rule, test the partners' real intention on the facts, conclude.

CSQ 2.2 · PYQ 2026-May [3] (a) (ii) · Case Scenario · 3M · Pg 429

LEVEL II
Application**Medium****Analysis** untangle multi-issue scenarios · 1 question

- Untangle intention vs source of funds: property bought in a partner's own name but paid from firm money is presumed firm property, while a partner's own property merely used for firm business is not.
- Work in order: identify whose money was used, then the partners' real intention/agreement, then apply the Sec. 14 presumption and conclude who owns the asset (e.g., shares bought with firm funds).

CSQ 2.1 · MTP 2025-Apr S1 [3] (a) · Case Scenario · 7M · Pg 428

LEVEL II
Analysis**Medium**

Topic 3: Personal Profit Earned by Partners (Section 16)

P2-C4-U4.2-T03

Read first Read heading 2.3 on Sec. 16: duty to account for personal profits from firm transactions, use of firm property/name/business connection, and profits of a competing business (with the sugar-refining and salt-import examples).

NOTES

Sec 16 (subject to contract): (a) if a partner derives any profit for himself from any transaction of the firm, or from use of the property, business connection or name of the firm, he must account for it and pay it to the firm; (b) if he carries on any business of the same nature as and competing with that of the firm, he must account for and pay to the firm all profits made in that business.

SM illustrations: sugar-refining firm — partner entrusted with purchases secretly sold his own sugar stock to the firm without disclosure: bound to account for the profit under 16(a); salt-import firm — partner struck salt transactions of the same nature on his own account: liable to account for those profits under 16(b).

Notes: the duty flows from utmost good faith (Sec 9); both limbs are 'subject to contract between the partners', so partners may agree otherwise; profits of a NON-competing separate business need not be handed over.

Understanding explain with reasons · 1 question

- Explain both limbs of Sec. 16: (a) profit from any transaction of the firm or from use of firm property, business connection or firm name must be accounted for and paid to the firm; (b) profits of a competing business of the same nature must also be handed over.
- Remember the rule is 'subject to contract between the partners' --- partners can agree otherwise; link it to the duty of utmost good faith (Sec. 9).

TQ 3.1 · PYQ 2019-Jun [3] (Or) (a) (ii) · Descriptive · 2M · Pg 430 **asked**
3x**LEVEL I**
Understanding**Easy****Application** apply provision to facts · 1 question

- Practise the classic pattern: a partner entrusted with purchases secretly supplies his own goods to the firm (sugar example) --- he must account for the secret profit under Sec. 16(a).
- Where a partner runs a parallel business competing with the firm, conclude he must account for those profits under Sec. 16(b); if the business is non-competing, no liability.

CSQ 3.1 · RTP 2024-Jun [16] · Case Scenario · --- · Pg 430

LEVEL II
Application**Medium****Topic 4: Rights and Duties of Partners After a Change in the Firm (Section 17)**

P2-C4-U4.2-T04

CONCEPT BASE — no exam question asked yet · essential for full preparation**Read first** Read §2.4 of Unit 4.2: the four ways a firm's constitution may change, and the three limbs of Section 17.**NOTES**

Four ways a change may occur: a new partner or partners come in; some partner or partners go out, by death or retirement; the firm carries on a **business other than** that for which it was originally formed; or the firm carries on business **after the expiry of the term** fixed for it.

Section 17, subject to contract between the partners: (a) **after a change in the firm** — the mutual rights and duties of the partners in the reconstituted firm remain the same as they were immediately before the change, as far as may be; (b) **after expiry of the term** — where a firm constituted for a fixed term continues after that term, the mutual rights and duties remain as before, so far as they are consistent with the incidents of a partnership at will; (c) **where additional undertakings are carried out** — the mutual rights and duties in respect of the other business are the same as those in respect of the original business.

The governing words: 'subject to contract between the partners' — Section 17 supplies the default

only, so an express agreement between the partners displaces it.

Topic 5: Relation of Partners to Third Parties

P2-C4-U4.2-T05

Read first Read heading 2.5: Sec. 18 (partner as agent of the firm), Sec. 19 (implied authority and statutory exclusions), Sec. 22 (mode of doing act to bind firm), Sec. 20 (extension/restriction) and Sec. 21 (emergency authority).

NOTES

Sec 18: subject to the Act, a partner is the agent of the firm for the purpose of the business of the firm — the rule applies only to acts done for the firm's business, not to dealings between the partners themselves.

Implied authority [Secs 19(1), 22]: the firm is bound by a partner's act if (1) it relates to business of the kind carried on by the firm, (2) it is done in the usual way of such business, and (3) it is done in the firm name or in a manner expressing/implying an intention to bind the firm.

Sec 19(2) — eight statutory exclusions (absent usage/custom of trade): (a) submit a firm dispute to arbitration; (b) open a bank account on behalf of the firm in his OWN name; (c) compromise or relinquish any claim of the firm; (d) withdraw a suit filed on behalf of the firm; (e) admit liability in a suit against the firm; (f) acquire immovable property for the firm; (g) transfer immovable property of the firm; (h) enter into partnership on behalf of the firm.

Scope varies with business: in a general commercial/trading firm a partner may pledge or sell firm property, buy goods for the firm, borrow money, contract and pay debts, and draw/make/sign/endorse promissory notes, bills, cheques in the firm name; but a solicitor-firm partner executing a promissory note in the firm name does not bind co-partners — negotiable instruments are not the ordinary business of solicitors.

Sec 20: implied authority can be extended or restricted only by consent of ALL partners; a private restriction affects a third party only if (1) he knows of the restriction or (2) he does not know he is dealing with a partner — so where a partner of a trading firm borrows in the firm name in excess of a restriction, the firm must repay a lender ignorant of it. **Sec 21 (emergency):** a partner may do all acts a person of ordinary prudence would do in his own case to protect the firm from loss, and such acts bind the firm.

Remembering memorise · 1 question

- Implied authority [Secs. 19(1), 22]: act done to carry on, in the usual way, business of the kind carried on by the firm, in the firm name or implying intention to bind the firm.

- Memorise the eight Sec. 19(2) exclusions: submit dispute to arbitration; open bank account in own name; compromise/relinquish a claim; withdraw a suit; admit liability in a suit; acquire immovable property; transfer immovable property; enter into partnership on behalf of the firm.

TQ 5.1 • PYQ 2021-Jul [3] (a) • Descriptive • 6M • Pg 431

LEVEL I
Remembering

Medium

Understanding explain with reasons • 3 questions

- Explain that scope varies with the business: a trading firm's partner may borrow, pledge/sell firm goods and deal in negotiable instruments; a solicitor-firm partner cannot bind the firm on a promissory note.
- Sec. 20 trap: a private restriction binds a third party only if he knows of it or does not know he is dealing with a partner.

TQ 5.2 • PYQ 2025-May [5] (b) • Descriptive • 7M • Pg 433 asked 3×

LEVEL I
Understanding

Medium

TQ 5.3 • PYQ 2026-Sep [5] (b) • Descriptive • 7M • Pg 434

LEVEL I
Understanding

Medium

CSQ 5.4 • PYQ 2023-Dec [3] (a) • Case Scenario • 6M • Pg 437 asked 2×

LEVEL I
Understanding

Medium

Application apply provision to facts • 5 questions

- Practise borrowing scenarios: trading-firm partner borrows in firm name and misapplies it --- firm liable to a lender ignorant of any restriction (Secs. 19, 20, 22); act in the partner's own name or outside usual business does not bind the firm.
- Answer format: identify the act, test the three implied-authority conditions and Sec. 19(2) list, then fix liability; use Sec. 21 for prudent emergency acts.

CSQ 5.1 • MTP 2019-Oct [4] (b) • Case Scenario • 6M • Pg 434

LEVEL II
Application

Medium

CSQ 5.2 • MTP 2021-Apr [4] (b) • Case Scenario • 6M • Pg 435 asked 2×

LEVEL II
Application

Medium

CSQ 5.3 • RTP 2023-Jun [13] • Case Scenario • --- • Pg 436

LEVEL II
Application

Medium

CSQ 5.5 • PYQ 2024-Sep [3] (a) (i) • Case Scenario • 3M • Pg 438 asked 3×

LEVEL II
Application

Medium

CSQ 5.6 • MTP 2025-Aug S2 [3] (a) • Case Scenario • 7M • Pg 439

LEVEL II
Application

Medium

Topic 6: Effect of Admissions by A Partner (Section 23)

P2-C4-U4.2-T06

CONCEPT BASE — no exam question asked yet • essential for full preparation

Read first Read §2.6 of Unit 4.2: when an admission or representation by one partner binds the firm, and the limits on that rule.

NOTES

Section 23: partners, as agents of each other, can make binding admissions — but **only** in relation to partnership transactions and **in the ordinary course of business**.

Limit: an admission or representation by a partner will **not** bind the firm if his authority on the point is limited **and the other party knows of the restriction**. The section speaks of admissions being evidence **against the firm** — they affect the firm when tendered by third parties, and may not have the same effect in disputes between the partners themselves.

Example: X and Y deal in motorcycle spare parts; Z buys a part for his Yamaha after X tells him it is suitable, Y being ignorant of the transaction. The part proves unsuitable and the motorcycle is damaged — X and Y are **both** responsible to Z for the loss.

Topic 7: Effect of Notice to Acting Partner (Section 24)

P2-C4-U4.2-T07

Read first Read heading 2.7: Sec. 24 --- notice to a partner who habitually acts in the business, on matters relating to firm affairs, operates as notice to the firm, except in case of fraud on the firm by or with the consent of that partner.

NOTES

Sec 24: notice to a partner who habitually acts in the business of the firm, on matters relating to the affairs of the firm, operates as notice to the firm — just as notice to an agent is notice to his principal.

Three conditions: notice must be (i) to a working/acting partner — not a sleeping partner, (ii) actual, not constructive, and (iii) relating to the firm's affairs; only then is it notice to the firm.

Sole exception — fraud on the firm: committed by or with the consent of that partner; e.g. a partner who, in league with the seller, conceals a defect in goods bought — his knowledge is not imputed and the other partners may reject the goods on detecting the defect.

Remembering memorise · 1 question

- Memorise Sec. 24 conditions: notice must be (i) to a working/acting partner (not a sleeping partner), (ii) actual not constructive, and (iii) relating to the firm's affairs --- then it is notice to the firm.
- Sole exception: fraud on the firm committed by or with the consent of that partner (e.g., partner colluding with seller to conceal a defect).

TQ 7.1 · PYQ 2019-Jun [3] (a) (i) · Descriptive · 2M · Pg 440

LEVEL I
Remembering

Easy

Topic 8: Liability to Third Parties (Section 25 to 27)

P2-C4-U4.2-T08

Read first Read heading 2.8: Sec. 25 (joint and several liability of every partner for acts of the firm), Sec. 26 (liability of firm for wrongful acts of a partner) and Sec. 27 (liability of firm for misapplication by partners, clauses (a) and (b)).

NOTES

Sec 25: every partner is liable JOINTLY with all the other partners and also SEVERALLY for all acts of the firm done while he is a partner; “act of a firm” means any act or omission by all the partners, or by any partner or agent of the firm, giving rise to a right enforceable by or against the firm — sleeping partners cannot escape this liability.

Sec 26 (wrongful acts): the firm is liable to the same extent as the partner for loss/injury caused to a third party by a partner's wrongful act done (a) in the ordinary course of the business of the firm, or (b) with the authority of the partners — SM example: co-partner held liable where the managing partner of a coal mine negligently left the shaft unfenced and a workman was injured; a wrongful method does not matter if the act itself was authorised/ordinary course.

Sec 27 (misapplication) — two clauses: (a) a partner acting within his APPARENT authority receives money/property of a third party and misapplies it — custody by the firm NOT necessary; (b) money/property IN THE CUSTODY of the firm is misapplied by any partner; the firm is liable in BOTH cases.

Limit: if the receipt was outside the partner's apparent authority it is not receipt by the firm — the other partners are not liable unless the money came into their possession or under their control; otherwise classify the receipt under (a) or (b) and hold all partners jointly and severally liable.

Understanding explain with reasons · 2 questions

- Explain Sec. 25: every partner is liable jointly with all other partners and also severally for all acts of the firm done while he is a partner --- 'act of firm' means any act/omission giving rise to a right enforceable by or against the firm.
- Explain Sec. 26: firm liable to the same extent as the partner for loss/injury caused to a third party by a partner's wrongful act done in the ordinary course of business or with the authority of the partners.
- Distinguish Sec. 27(a) (partner acting within apparent authority receives money/property and misapplies it --- custody by firm not needed) from Sec. 27(b) (money/property in the custody of the firm misapplied by any partner) --- firm liable in both.

TQ 8.2 · PYQ 2021-Jan [6] (b) · Descriptive · 4M · Pg 442

LEVEL I
Understanding

Easy

TQ 8.1 • PYQ 2020-Nov [6] (b) • Descriptive • 4M • Pg 441 asked 4x

LEVEL I
Understanding

Medium

Application apply provision to facts • 2 questions

- Practise scenarios where one partner misapplies money received from a customer in the ordinary course --- firm (including a sleeping partner) is liable; sleeping partners cannot escape Sec. 25 liability.
- Structure: classify the receipt under clause (a) or (b) of Sec. 27, confirm ordinary course/authority, conclude that all partners are liable jointly and severally.

CSQ 8.1 • PYQ 2024-Jun [3] (a) (ii) • Case Scenario • 3M • Pg 443

LEVEL II
Application

Medium

CSQ 8.2 • PYQ 2025-Jan [3] (a) • Case Scenario • 7M • Pg 444 asked 3x

LEVEL II
Application

Medium

Topic 9: Rights of Transferee of a Partner's Interest (Section 29)

P2-C4-U4.2-T09

Read first Read heading 2.9 on Sec. 29: transfer of a partner's interest by sale, mortgage or charge, the limited rights of the transferee during continuance of the firm and his rights on dissolution/retirement; link with Sec. 31 (no new partner without consent of all).

NOTES

Modes: a partner's share is transferable like any other property — by sale, mortgage or charge; it is an existing interest and tangible property which can be assigned, but the transferee does NOT become a partner: partnership rests on mutual confidence and under Sec 31 no person can be introduced as a partner without consent of all the partners.

During continuance: the transferee is NOT entitled (a) to interfere with the conduct of the business, (b) to require accounts, or (c) to inspect the books; he is entitled ONLY to receive the transferring partner's share of profits and is bound to accept the account of profits agreed to by the partners — he cannot challenge the accounts even if he suspects understatement.

On dissolution of the firm or retirement of the transferring partner: the transferee is entitled against the remaining partners (a) to receive the share of the assets to which the transferring partner was entitled, and (b) for ascertaining that share, to an account as from the date of dissolution.

Remembering memorise • 3 questions

- Modes of transfer: sale, mortgage or charge of a partner's interest --- the interest is assignable property, but transfer does not make the transferee a partner.
- During continuance the transferee CANNOT interfere in the conduct of business, require accounts or inspect books; he only receives the transferring partner's share of profits and must accept the accounts as agreed by the partners.

- On dissolution or retirement of the transferring partner: transferee gets the share of assets the transferor was entitled to, and an account as from the date of dissolution.

TQ 9.1 • MTP 2022-Nov S1 [3] (i) • Descriptive • 4M • Pg 446 asked 2×	LEVEL I Remembering	Easy
TQ 9.4 • PYQ 2026-Jan [1] (c) (ii) {C} • Descriptive • 4M • Pg 448	LEVEL I Remembering	Easy
TQ 9.2 • RTP 2026-Jan [17] • Descriptive • --- • Pg 447 asked 5×	LEVEL I Remembering	Medium

Understanding explain with reasons • 1 question

- Explain why: partnership rests on mutual confidence, so under Sec. 31 no person can be introduced as a partner without consent of all partners --- a transfer cannot force a new partner on the firm.
- Trap: the transferee cannot challenge the accounts during continuance even if he suspects understated profits.

TQ 9.3 • PYQ 2026-Jan [1] (c) (i) {C} • Descriptive • 2M • Pg 448	LEVEL I Understanding	Easy
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Application apply provision to facts • 2 questions

- Practise scenarios of a partner selling his share to pay personal debts --- the buyer becomes transferee under Sec. 29, not a partner, unless all partners consent under Sec. 31.
- Answer format: state transferee's rights during continuance vs on dissolution, apply to facts, conclude on what the transferee can and cannot demand.

CSQ 9.1 • PYQ 2021-Jul [4] (b) • Case Scenario • 6M • Pg 449 asked 4×	LEVEL II Application	Medium
CSQ 9.2 • RTP 2021-Nov [14] • Case Scenario • --- • Pg 450	LEVEL II Application	Medium

Topic 10: Minors Admitted to the Benefits of Partnership (Section 30)

P2-C4-U4.2-T10

Read first Read heading 2.10 on Sec. 30: minor cannot be a partner (contract with a minor is void) but may be admitted to benefits of partnership with consent of all partners; his rights, liabilities before and after majority, and the 6-month election.

NOTES

Rule: a minor's agreement is void (not merely voidable), so he cannot be a partner — partnership is founded on contract; but under Sec 30 he may, with the consent of ALL the partners, be admitted to the BENEFITS of partnership, i.e. validly given a share in profits.

Rights: his agreed share of the profits and property of the firm; access to, inspection and copying of the ACCOUNTS of the firm (not the other books); may sue the partners for accounts or payment of his share, but only when severing his connection with the firm.

Liabilities before majority: confined to his share in the profits and property of the firm; no personal liability for firm debts incurred during minority; cannot be declared insolvent — if the firm is insolvent his share vests in the Official Receiver/Assignee (recoverable proportionately).

Election [Sec 30(5)]: within 6 months of attaining majority OR of obtaining knowledge that he had been admitted to the benefits, WHICHEVER IS LATER, he must give public notice electing to become or not to become a partner; if he fails to give notice, he BECOMES a partner on expiry of the six months (notice to the Registrar also to be given).

Consequences [Sec 30(7)]: if he becomes a partner (by choice or default) — personally liable to third parties for ALL acts of the firm done since he was admitted to the benefits, his share remaining the same as when a minor; if he elects out — his rights/liabilities remain those of a minor up to the date of public notice, his share is not liable for acts of the firm after that date, and he may sue the partners for his share of property and profits.

Understanding explain with reasons · 3 questions

- Explain that a minor cannot be a partner because partnership is founded on contract and a minor's agreement is void ab initio, yet Sec. 30 allows admission to the BENEFITS of partnership with consent of all partners.
- Rights: agreed share of profits and property; access to, inspection and copying of accounts (not other books); can sue for accounts/share only when severing connection with the firm.
- Liabilities before majority: liability limited to his share in profits and property; no personal liability; cannot be adjudicated insolvent (his share vests in Official Receiver if the firm is insolvent).

TQ 10.1 · PYQ 2022-May [3] (a) (ii) · Descriptive · 4M · Pg 451	asked 5×	LEVEL I Understanding	Medium
TQ 10.2 · PYQ 2025-Jan [1] (c) {C} · Descriptive · 6M · Pg 452	asked 5×	LEVEL I Understanding	Medium
TQ 10.3 · PYQ 2026-May [5] (b) · Descriptive · 7M · Pg 453		LEVEL I Understanding	Medium

Application apply provision to facts · 1 question

- Practise the election rule: within 6 months of attaining majority or of knowledge of admission (whichever is later) he must give public notice whether he becomes a partner; on failure, he BECOMES a partner on expiry of six months.
- If he becomes a partner (by choice or default), he is personally liable to third parties for all acts of the firm done since he was admitted to the benefits; if he elects out, his share is not liable for acts after the date of public notice and he may sue for his share.

CSQ 10.1 · PYQ 2019-Nov [4] (b) · Case Scenario · 6M · Pg 456 asked 3x

LEVEL II
Application

Medium

Topic 11: Legal Consequences of Partner Coming in And Going Out (Section 31 -- 35)

P2-C4-U4.2-T11

Read first Read heading 2.11 on reconstitution: introduction (Sec. 31), retirement (Sec. 32), expulsion (Sec. 33), insolvency (Sec. 34) and death (Sec. 35), with the public-notice rules.

NOTES

Sec 31 (introduction): subject to contract and to Sec 30, no new partner without consent of ALL existing partners; new partner's liability ordinarily commences from the date of admission; he is bound by old debts only through NOVATION — the new firm (including him) assumes the old debts AND the creditors accept the new firm as their debtor; a mere agreement among the partners gives creditors no right against him; Sec 31 does not apply to a two-partner firm, which dissolves automatically on one partner's death.

Sec 32 (retirement): modes — (a) consent of all other partners, (b) express agreement, (c) in partnership at will, written notice to all other partners; discharge for PRE-retirement acts only by agreement with the third party and the reconstituted firm (may be implied from course of dealing after the third party knew of retirement); for LATER acts he and the others remain liable until PUBLIC NOTICE of retirement (given by him or any partner of the reconstituted firm) — proviso: not liable to a third party who dealt with the firm without knowing he was a partner (Vishnu Chandra v. Chandrika Prasad: on retirement the partnership business does not come to an end).

Sec 33 (expulsion): valid only if (i) the power of expulsion existed in the contract between partners, (ii) exercised by a majority, and (iii) in good faith — the good-faith test: expulsion in the interest of the partnership, notice served on the partner, and opportunity of being heard; otherwise the expulsion is NULL AND VOID (invalid expulsion does not end even a partnership at will); an expelled partner's rights/liabilities are those of a retired partner [Secs 32(2)-(4) apply].

Sec 34 (insolvency): the partner ceases to be a partner on the DATE of the order of adjudication, whether or not the firm dissolves; thereafter his estate is not liable for acts of the firm nor the firm for his acts; NO public notice required. **Sec 35 (death):** firm dissolves unless the deed provides otherwise (always dissolves if only two partners); the estate is not liable for acts of the firm done AFTER death, and no notice to the public or dealers is necessary.

Death trap (SM Example): goods ordered in X's lifetime but delivered after his death — no debt was due in his lifetime, so X's estate is NOT liable; the creditor has only a personal decree against the surviving partners and against partnership assets in their hands.

Understanding explain with reasons · 4 questions

- Retirement (Sec. 32): by consent of all, express agreement, or written notice in partnership at will; discharge for past acts needs agreement with the third party and reconstituted firm; liable for later acts until public notice.
- Expulsion (Sec. 33): needs power in the contract, exercise by majority, good faith (firm's interest + notice + hearing); otherwise null and void.
- Insolvency (Sec. 34): partner ceases on the adjudication date; estate and firm not liable for each other's later acts; no public notice needed. Death (Sec. 35): estate not liable for post-death acts; no notice needed; a two-partner firm dissolves.

TQ 11.1 · PYQ 2019-Nov [3] (b) · Descriptive · 4M · Pg 457 asked 4×	LEVEL I Understanding	Medium
TQ 11.2 · RTP 2019-Nov [12] · Descriptive · --- · Pg 457	LEVEL I Understanding	Medium
TQ 11.3 · PYQ 2022-Nov [3] (a) · Descriptive · 6M · Pg 459 asked 4×	LEVEL I Understanding	Medium
TQ 11.4 · PYQ 2024-Sep [1] (c) {C} · Descriptive · 6M · Pg 459 asked 2×	LEVEL I Understanding	Medium

Application apply provision to facts · 9 questions

- New partner (Sec. 31): liable only from admission; old debts bind him only by novation --- consent of the new firm AND creditors.
- Goods ordered before but delivered after death: no debt in the deceased's lifetime --- estate not liable; sue surviving partners only.
- Retirement without public notice: retiring partner liable for later firm acts, except to third parties who never knew him as partner.

CSQ 11.1 · PYQ 2018-Nov [4] (b) (ii) · Case Scenario · 3M · Pg 461	LEVEL II Application	Medium
CSQ 11.2 · RTP 2018-Nov [8] (i) · Case Scenario · --- · Pg 462	LEVEL II Application	Medium
CSQ 11.3 · RTP 2019-May [7] (ii) · Case Scenario · --- · Pg 462	LEVEL II Application	Medium
CSQ 11.4 · PYQ 2021-Jan [4] (b) · Case Scenario · 6M · Pg 463 asked 6×	LEVEL II Application	Medium
CSQ 11.5 · PYQ 2022-May [4] (b) · Case Scenario · 6M · Pg 465 asked 2×	LEVEL II Application	Medium
CSQ 11.6 · RTP 2022-Nov [11] · Case Scenario · --- · Pg 466	LEVEL II Application	Medium
CSQ 11.8 · PYQ 2024-Sep [3] (a) (ii) · Case Scenario · 2M · Pg 467 asked 2×	LEVEL II Application	Medium
CSQ 11.9 · PYQ 2025-May [3] (a) · Case Scenario · 7M · Pg 468	LEVEL II Application	Medium

CSQ 11.11 • PYQ 2025-Sep [5] (b) (ii) • Case Scenario • 4M • Pg 472
asked 8×

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios • 2 questions

- In multi-issue scenarios (retirement/transfer of whole interest + no public notice + later dealings), first fix the date and mode of cesser.
- Then test each third party's knowledge and apply Secs. 32(3), 45 and holding-out claim by claim.

CSQ 11.7 • PYQ 2023-Jun [4] (b) • Case Scenario • 6M • Pg 466

LEVEL II
Analysis

Medium

CSQ 11.10 • PYQ 2025-Sep [3] (a) • Case Scenario • 7M • Pg 469

LEVEL II
Analysis

Hard

Topic 12: Rights of Outgoing Partner to Carry on Competing Business (Section 36)

P2-C4-U4.2-T12

Read first Read heading 2.12 on Sec. 36: an outgoing partner may carry on and advertise a competing business, subject to three statutory restrictions and any reasonable restraint agreement.

NOTES

Sec 36 rule: an outgoing partner MAY carry on a business competing with that of the firm and may advertise it, but, subject to contract to the contrary, he may NOT (a) use the firm name, (b) represent himself as carrying on the business of the firm, or (c) solicit the custom of persons who were dealing with the firm before he ceased to be a partner.

Restraint agreement: he may agree with his partners that on ceasing to be a partner he will not carry on a similar business within a specified period or specified local limits — valid despite Sec 27, Contract Act, if the restrictions imposed are reasonable.

Application: a retired partner opening and advertising a similar shop nearby acts lawfully; liability arises only from use of the firm name, holding himself out as carrying on the firm's business, or soliciting old customers — test each act separately and conclude.

Understanding explain with reasons • 1 question

- Explain the rule with its three restrictions: outgoing partner may compete and advertise but (subject to contrary contract) may NOT use the firm name, represent himself as carrying on the firm's business, or solicit customers who dealt with the firm before he left.
- Restraint agreements: partners may agree that an outgoing partner will not carry on a similar business within a specified period/local limits --- valid despite Sec. 27, Contract Act, if restrictions are reasonable.

TQ 12.1 • PYQ 2025-May [1] (c) (i) {C} • Descriptive • 6M • Pg 473

LEVEL I
Understanding

Medium

Application apply provision to facts · 1 question

- Practise scenarios where a retired partner opens a similar shop nearby: opening and advertising the competing business is lawful under Sec. 36.
- Liability arises only if he uses the firm name, represents himself as carrying on the firm's business, or solicits old customers --- test each act separately and conclude.

CSQ 12.1 · PYQ 2020-Nov [4] (b) · Case Scenario · 6M · Pg 474 asked 2×

LEVEL II
Application

Medium

Topic 13: Right of Outgoing Partner in Certain Cases to Share Subsequent Profits (Section 37)

P2-C4-U4.2-T13

Read first Read heading 2.13 on Sec. 37: where a partner dies or ceases and the continuing partners carry on business with firm property without final settlement of accounts, and the proviso on buy-out options.

NOTES

Sec 37 rule: where a partner has died or otherwise ceased to be a partner and the surviving/continuing partners carry on the business with the PROPERTY of the firm WITHOUT any final settlement of accounts, then, absent a contract to the contrary, the outgoing partner or his estate is entitled AT THE OPTION of himself or his representatives to EITHER (i) such share of post-cesser profits as is attributable to the use of his share of the firm's property, OR (ii) interest @ 6% p.a. on the amount of his share in the property of the firm.

Proviso (buy-out): where the contract gives surviving/continuing partners an option to purchase the deceased/outgoing partner's interest and the option is DULY exercised, no further share of profits is payable; but a partner assuming to exercise the option who does not comply with its terms in all material respects is liable to account under Sec 37.

SM examples: A (3/8 share) becomes bankrupt, B and C continue without paying out his share or settling accounts — A's estate gets 3/8 of profits from bankruptcy until final liquidation; where C retired after selling his share and A and B failed to pay the agreed value, that value is a pure debt from the date of cesser, recoverable with interest.

Application apply provision to facts · 3 questions

- Apply the core rule: absent a contrary contract, the outgoing partner/estate may choose EITHER the share of post-cesser profits attributable to the use of his share of firm property OR interest @ 6% p.a. on the amount of his share --- the option lies with him/his representatives.
- Proviso: if the contract gives continuing partners an option to purchase the outgoing partner's interest and it is duly exercised, no further share of profits is payable; but non-compliance in material respects revives liability to account under Sec. 37.

- Answer format: compute/identify his share (e.g., 10% of property), confirm business continued without settlement, state the two alternatives and conclude with the claimant's option.

CSQ 13.1 • PYQ 2018-Nov [4] (b) (i) • Case Scenario • 3M • Pg 475

LEVEL II
Application

Medium

CSQ 13.2 • RTP 2020-May [19] • Case Scenario • ---- • Pg 477

LEVEL II
Application

Medium

CSQ 13.3 • PYQ 2024-Sep [3] (a) (iii) • Case Scenario • 2M • Pg 477

LEVEL II
Application

Medium

Topic 14: Revocation of Continuing Guarantee by Change in Firm (Section 38)

P2-C4-U4.2-T14

Read first Read heading 2.14 on Sec. 38: effect of a change in the constitution of the firm on a continuing guarantee given to the firm or to a third party.

NOTES

Sec 38 (SM): “a continuing guarantee given to a firm or to third party in respect of the transaction of a firm is, in the absence of an agreement to the contrary, revoked as to future transactions from the date of any change in the constitution of the firm.”

Notes: revocation is automatic and PROSPECTIVE only — past transactions remain covered; every admission, retirement, expulsion, insolvency or death of a partner is a 'change in the constitution' of the firm.

Remembering memorise • 1 question

- Memorise Sec. 38: a continuing guarantee given to a firm, or to a third party in respect of the transactions of a firm, is, in the absence of agreement to the contrary, revoked as to FUTURE transactions from the date of any change in the constitution of the firm.
- Note: revocation is automatic and prospective only --- past transactions remain covered; any admission, retirement, death etc. is a 'change in constitution'.

TQ 14.1 • PYQ 2019-Nov [3] (a) (i) • Descriptive • 2M • Pg 479 **asked 5x**LEVEL I
Remembering

Easy

Application work the problem • 1 question

CSQ 14.1 • PYQ 2026-Sep [3] (a) • Case Scenario • 7M • Pg 479

LEVEL II
Application

Medium

Unit 4.3: Registration and Dissolution of Firm

P2-C4-U4.3 • Importance B • Rank 3 in chapter • Category C • 19.8% of chapter questions • 21 questions

Topic 1: Registration of Firms

P2-C4-U4.3-T01

Read first Read heading 3.1: application for registration (Sec. 58) --- contents of the statement, signing/verification, prohibited words in firm name; registration by the Registrar (Sec. 59) and late registration on penalty (Sec. 59A-1).

NOTES

Sec 58 procedure: registration may be effected AT ANY TIME by sending by post or delivering to the Registrar of the area in which any place of business is situated or proposed, a statement in the prescribed form with the prescribed fee stating (a) the firm's name, (b) the place or principal place of business, (c) names of other places of business, (d) the date when each partner joined, (e) full names and permanent addresses of the partners, and (f) the duration of the firm — signed by ALL partners or their specially authorised agents, each signatory verifying it in the prescribed manner.

Name restriction: firm name must not contain 'Crown', 'Emperor', 'Empress', 'Empire', 'Imperial', 'King', 'Queen', 'Royal' or words expressing/implying Government sanction, approval or patronage — except with the State Government's consent by order in writing.

Sec 59: when satisfied that Sec 58 is complied with, the Registrar records an entry of the statement in the Register of Firms, files the statement and issues a certificate of registration; but registration is deemed COMPLETE as soon as a complete application with fee and particulars is delivered — recording the entry is only a routine duty of the Registrar; registration is even possible after a suit is filed, but the suit must be withdrawn and a fresh suit filed after registration.

Sec 59A-1 (late registration): if the statement is not delivered within the time under Sec 58(1A), the firm may still be registered on payment of a penalty of ₹100 per year of delay or part thereof.

Understanding explain with reasons · 1 question

- Explain the Sec. 58 procedure: statement in prescribed form with prescribed fee to the Registrar of the area of the place of business, stating firm name, principal and other places of business, date each partner joined, full names and permanent addresses of partners, and duration of the firm; signed by all partners or their specially authorised agents and duly verified.
- Sec. 59: Registrar, when satisfied, records the entry in the Register of Firms and files the statement; but registration is deemed COMPLETE as soon as a complete application with fee is delivered --- recording is a routine duty. Late registration: penalty of Rs. 100 per year of delay (Sec. 59A-1).
- Remember the name restriction: no 'Crown', 'Emperor', 'Empress', 'Empire', 'Imperial', 'King', 'Queen', 'Royal' or words implying government sanction, except with State Government's written consent.

Topic 2: Consequences of Non-Registration (Section 69)

P2-C4-U4.3-T02

Read first Read heading 3.2 on Sec. 69: the disabilities of non-registration, the rights NOT affected, and Example 1 on suits by a registered firm after a change in constitution (the two Sec. 69(2) requirements).

NOTES

Position: unlike English law, registration is NOT compulsory in India and there is no penalty for non-registration, but the Sec 69 disabilities exert a 'persuasive pressure' towards registration.

Disabilities: (i) no suit by the firm or on its behalf against a third party for breach of contract unless the firm is registered AND the persons suing are/have been shown in the Register of Firms as partners; (ii) no claim of set-off (or other proceeding to enforce a contractual right) above ₹100 when sued by a third party; (iii) an aggrieved partner of an unregistered firm cannot sue the firm or any co-partner; (iv) a third party CAN nevertheless sue the unregistered firm.

Rights NOT affected: (1) third parties' right to sue the firm or any partner; (2) partners' right to sue for dissolution, for accounts of a dissolved firm, or for realisation of the property of a dissolved firm; (3) powers of an Official Assignee/Receiver of Court to realise an insolvent partner's property and sue; (4) suits/set-off not exceeding ₹100; (5) suits by legal representatives/heirs of a deceased partner for accounts/realisation of firm property.

Sec 69(2) two-condition test (SM Example 1): suit maintainable if (i) instituted by or on behalf of a REGISTERED firm and (ii) the persons suing are shown as partners in the Register of Firms — so after A's death, B and C may sue in the firm name without fresh registration; but if a NEW partner D (not entered in the register) has joined, the suit fails: 'persons suing' means the individuals whose names appear in the register and who are all partners at the date of the suit.

Application: classify each claim — who sues (firm/partner/third party) and for what (contract claim, set-off, dissolution/accounts, claim up to ₹100) — then apply the matching disability or exception; an unregistered firm's suit for the price of goods sold is not maintainable, though the buyer can still sue the firm.

Understanding explain with reasons · 1 question

- Registration is optional with no penalty, but Sec. 69 disabilities exert 'persuasive pressure': no suit by the firm/partners against third parties on a contract; no set-off or other proceeding above Rs. 100; an aggrieved partner cannot sue the firm or co-partners.
- Memorise the exceptions: third parties CAN sue the firm/partners; partners may sue for dissolution, accounts or realisation of property of a dissolved firm; powers of Official Assignee/Receiver; suits/set-off up to Rs. 100.

Understanding

Application apply provision to facts · 2 questions

- Apply the Sec. 69(2) two-condition test --- suit by a REGISTERED firm and persons suing shown in the Register of Firms: after death/retirement, remaining registered partners may sue without fresh registration; if a new partner not entered in the register joins, the suit fails.
- An unregistered firm suing on a contract (e.g., price of goods sold): not maintainable, though the opposite party can still sue the firm.

CSQ 2.1 · RTP 2019-May [7] (i) · Case Scenario · --- · Pg 488

LEVEL II
Application**Medium**

CSQ 2.2 · RTP 2022-May [13] · Case Scenario · --- · Pg 488

LEVEL II
Application**Medium****Analysis** untangle multi-issue scenarios · 1 question

- For multi-part maintainability problems, classify each claim first: who sues (firm / partner / third party) and for what (contract claim, set-off, dissolution/accounts, claim up to Rs. 100).
- Then apply the matching Sec. 69 disability or exception to each claim separately --- e.g., third party's suit against the unregistered firm survives even where the firm's own suit fails.

CSQ 2.3 · PYQ 2025-Sep [1] (c) {C} · Case Scenario · 6M · Pg 489

LEVEL II
Analysis**Medium****Topic 3: Dissolution of Firm (Sections 39 -- 47)**

P2-C4-U4.3-T03

Read first Read heading 3.3: Sec. 39 meaning, the dissolution of firm vs dissolution of partnership table, and modes --- agreement (Sec. 40), compulsory (Sec. 41), contingencies (Sec. 42), notice (Sec. 43), by Court (Sec. 44).

NOTES

Sec 39: "the dissolution of partnership between all partners of a firm is called the 'dissolution of the firm'" — where only some partner goes out (retirement, death, insolvency, insanity) and the rest continue, there is merely dissolution of PARTNERSHIP (reconstitution), not of the firm.

Dissolution of firm	Dissolution of partnership
Business in partnership discontinued	Business continues; only reconstitution of the firm
Winding up — realisation of assets, settlement of liabilities	Only revaluation of assets and liabilities

May be ordered by the court	Never ordered by the court
Necessarily involves dissolution of partnership	May or may not involve dissolution of the firm
Final closure of the books of the firm	No final closure of books

Modes without court: **Sec 40 (agreement):** with consent of all partners or per a contract already made between them; **Sec 41 (compulsory):** on an event making the firm's business (or its being carried on in partnership) unlawful — but where several separate adventures/undertakings are carried on, illegality of one does not dissolve the firm as to the lawful ones; also where all, or all but one, partners are adjudicated insolvent; **Sec 42 (contingencies, subject to contract):** expiry of fixed term, completion of the adventure/undertaking, death of a partner, adjudication of a partner as insolvent; **Sec 43 (notice):** in partnership at will, by any partner's written notice to all others — dissolution from the date mentioned in the notice or, if none, from the date of communication.

Sec 44 — seven court grounds (at the suit of a partner): (a) unsound mind (suit by other partners or the insane partner's next friend; temporary sickness, e.g. typhoid for a few weeks, is NO ground); (b) permanent incapacity of a partner other than the one suing; (c) misconduct likely to prejudicially affect the business (need not relate to the business — regard to nature of business); (d) wilful or persistent breach of agreements on management/conduct — embezzlement, keeping erroneous accounts, holding more cash than allowed, refusal to show accounts; (e) transfer of the WHOLE of his interest to a third party, or share charged/sold for arrears of land revenue; (f) business cannot be carried on except at a loss (available even before a fixed term expires); (g) just and equitable — deadlock in management, partners not on talking terms, loss of substratum, gambling by a partner on a stock exchange.

Checks: grounds (b)-(e) must relate to a partner OTHER than the partner suing (insanity excepted — even the insane partner's next friend may sue); in combined facts map each fact to its specific Sec 44 clause before concluding.

Remembering memorise · 2 questions

- Seven Sec. 44 grounds: unsoundness of mind; permanent incapacity; misconduct affecting business; wilful/persistent breach; transfer of whole interest; business only at a loss; just and equitable (deadlock, no talking terms, loss of substratum, gambling on stock exchange).
- Sec. 39: dissolution of partnership between ALL partners = dissolution of the firm.

TQ 3.5 · PYQ 2026-Jan [5] (b) (ii) · Descriptive · 3M · Pg 495

LEVEL I
Remembering

Easy

TQ 3.3 · PYQ 2024-Sep [5] (b) · Descriptive · 7M · Pg 493 **asked 8×**

LEVEL I
Remembering

Medium

Understanding explain with reasons · 5 questions

- Firm vs partnership dissolution: winding up and final closure of books vs mere reconstitution with the business continuing; only dissolution of firm can be court-ordered.
- Modes without court: consent of all/contract (Sec. 40); compulsory when business becomes unlawful or all/all-but-one partners insolvent (Sec. 41); contingencies --- expiry of term, completion of venture, death, insolvency, subject to contract (Sec. 42); written notice in partnership at will, effective from date in notice or of communication (Sec. 43).

TQ 3.1 · MTP 2021-Mar [6] (b) · Descriptive · 4M · Pg 491	LEVEL I Understanding	Medium
TQ 3.2 · PYQ 2024-Jun [5] (b) · Descriptive · 7M · Pg 492 asked 2x	LEVEL I Understanding	Medium
TQ 3.4 · RTP 2024-Sep [16] · Descriptive · ---- · Pg 494 asked 8x	LEVEL I Understanding	Medium
CSQ 3.4 · PYQ 2025-Jan [5] (b) (ii) · Case Scenario · 3M · Pg 499	LEVEL I Understanding	Medium
CSQ 3.6 · PYQ 2026-May [1] (c) {C} · Case Scenario · 6M · Pg 501	LEVEL I Understanding	Medium

Application apply provision to facts · 4 questions

- Sec. 41 scenario: a law banning the firm's trade compels dissolution; but where the firm has several undertakings, illegality of one does not dissolve it as to the lawful ones.
- A fixed-term firm running at persistent losses: partners may sue under Sec. 44(f) before expiry of the term.

CSQ 3.1 · RTP 2021-Nov [15] · Case Scenario · ---- · Pg 497	LEVEL II Application	Medium
CSQ 3.2 · RTP 2022-Nov [12] · Case Scenario · ---- · Pg 498	LEVEL II Application	Medium
CSQ 3.3 · PYQ 2024-Jun [3] (a) (i) · Case Scenario · 4M · Pg 498 asked 6x	LEVEL II Application	Medium
CSQ 3.7 · PYQ 2026-May [3] (a) (i) · Case Scenario · 4M · Pg 503	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios · 1 question

- For combined facts (insanity + misconduct + erroneous accounts), map each fact to its specific Sec. 44 clause before concluding.
- Check that each ground relates to a partner other than the one suing (insanity excepted), and reject temporary illness as a ground for dissolution.

CSQ 3.5 · RTP 2026-Jan [16] · Case Scenario · --- · Pg 500	LEVEL II Analysis	Hard
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Topic 4: Consequences of Dissolution (Sections 45 -- 55)

P2-C4-U4.3-T04

Read first Read heading 3.4: continuing liability until public notice (Sec. 45), right to have business wound up (Sec. 46), continuing authority for winding up (Sec. 47), mode of settlement of accounts (Sec. 48) and payment of firm debts vs separate debts (Sec. 49).

NOTES

Sec 45 (continuing liability): despite dissolution, partners remain liable as such to third parties for any act which would have been an act of the firm if done before dissolution, UNTIL PUBLIC NOTICE (given by any partner) — twofold object: protect third parties without notice of dissolution AND protect partners of a dissolved firm from continuing liability; SM Example: X borrows in the firm name after the dissolution deed but before public notice — Y also liable to the ignorant lender R.

Sec 45 exceptions: even without notice, no liability for subsequent acts attaches to (a) the estate of a deceased partner, (b) an insolvent partner, or (c) a dormant partner not known as a partner to the person dealing with the firm.

Sec 46: on dissolution every partner (or his representative) is entitled, against all the others, to have the firm's property applied in payment of the debts and liabilities of the firm and the surplus distributed among the partners according to their rights; **Sec 47:** each partner's authority to bind the firm and mutual rights/obligations continue after dissolution SO FAR AS necessary to wind up the affairs and complete transactions begun but unfinished — proviso: the firm is never bound by acts of a partner adjudicated insolvent (though one representing himself as that insolvent's partner remains liable).

Sec 48 (settlement of accounts, subject to agreement): LOSSES including deficiencies of capital paid first out of profits, next out of capital, lastly by the partners individually in their profit-sharing ratio; ASSETS (including sums contributed to make up capital deficiencies) applied — (a) paying firm debts to third parties, (b) paying each partner rateably what is due for advances (as distinct from capital), (c) paying each partner rateably what is due on account of capital, (d) residue divided in profit-sharing ratio; SM Example: X's capital ₹6,60,000, Y's ₹40,000, assets ₹2,00,000 — deficiency of ₹5,00,000 shared EQUALLY by Y and X's estate (equal profit-sharers), unless the deed says surplus assets go in capital ratio.

Sec 49 (firm debts vs separate debts): firm property applied FIRST to firm debts, any surplus share of each partner then to his separate debts or paid to him; a partner's separate property applied FIRST to his separate debts, surplus to firm debts.

Remembering memorise · 2 questions

- Memorise the Sec. 48 order: losses including deficiencies of capital paid first out of profits, next out of capital, lastly by partners in profit-sharing ratio; assets applied --- (a) third-party debts, (b) rateably for partners' advances, (c) rateably for capital, (d) residue in profit-sharing ratio.

- Sec. 49: firm property applied first to firm debts, surplus to partners' separate debts; separate property first to separate debts, surplus to firm debts.

TQ 4.1 · PYQ 2023-Dec [6] (b) · Descriptive · 4M · Pg 504 asked 6×

LEVEL I
Remembering

Medium

TQ 4.2 · MTP 2025-May S2 [1] (c) (i) · Descriptive · 4M · Pg 505

LEVEL I
Remembering

Medium

Understanding explain with reasons · 1 question

- Explain Sec. 46 (every partner entitled to have firm property applied to debts and surplus distributed) and Sec. 47 (partners' authority continues after dissolution so far as necessary to wind up and complete unfinished transactions --- but not for acts of an insolvent partner).
- Explain Sec. 45's twofold object: protecting third parties without notice of dissolution and protecting partners from continuing liability.

TQ 4.3 · MTP 2025-Aug S2 [5] (b) · Descriptive · 7M · Pg 506 asked 2×

LEVEL I
Understanding

Medium

Application apply provision to facts · 1 question

- Practise Sec. 45 scenarios: a partner borrows or buys in the firm name after dissolution but before public notice --- all partners remain liable to the ignorant third party.
- Apply the exceptions: no liability for the estate of a deceased partner, an insolvent partner, or a dormant partner not known to the person dealing with the firm.

CSQ 4.1 · RTP 2024-Jun [15] · Case Scenario · --- · Pg 507 asked 2×

LEVEL II
Application

Medium

CHAPTER 5

The Limited Liability Partnership Act, 2008

4 Topics · 30 Classified Questions · Importance: B

ICAI SKILL PROFILE Level I 5–20% · Level II 80–95% — this chapter reads **theory-heavy**

Level I — Remembering & Understanding **92.0%** 104 of 113 marks

Level II — Application & Analysis **8.0%** 9 of 113 marks

Topic 1: Limited Liability Partnership -- Meaning and Concept

P2-C5-U5-T01

Read first Read the chapter introduction and heading 1: LLP as a hybrid, definitions in Sec. 2(1) --- designated partner (j), LLP agreement (o), small LLP (ta) --- and Secs. 4 (Partnership Act excluded), 5 (who may be partner), 6 (minimum partners), 7 (designated partners).

NOTES

Concept (hybrid): LLP [Sec 2(1)(n): “a partnership formed and registered under this Act”] is an alternative corporate business vehicle giving the benefits of LIMITED LIABILITY of a company at low compliance cost with the FLEXIBILITY of organising internal structure as a partnership by mutual agreement — the LLP itself is liable to the full extent of its assets, the partners' liability is limited; contains elements of both corporate and partnership-firm structure, hence 'hybrid between a company and a partnership'; **Sec 4:** the Indian Partnership Act, 1932 does NOT apply to LLPs; Act of 81 sections and 4 schedules (First — mutual rights/duties absent agreement; Second/Third/Fourth — conversion of firm/private company/unlisted public company into LLP), administered by MCA and ROC, amended by the LLP (Amendment) Act, 2021.

Key definitions: Designated partner [Sec 2(1)(j)]: “any partner designated as such pursuant to section 7”; LLP agreement [Sec 2(1)(o)]: any WRITTEN agreement between the partners of the LLP or between the LLP and its partners determining mutual rights and duties; Small LLP [Sec 2(1)(ta)]: contribution not exceeding ₹25 lakh (prescribable up to ₹5 crore) AND turnover per the Statement of Accounts and Solvency for the immediately preceding financial year not exceeding ₹40 lakh (prescribable up to ₹50 crore), or such other prescribed requirements.

Sec 5 (who may be partner): any individual or body corporate; but an individual is INCAPABLE if (a) found of unsound mind by a competent court and the finding is in force, (b) an undischarged insolvent, or (c) his application to be adjudicated insolvent is pending.

Sec 6 (minimum partners): every LLP shall have at least TWO partners; if the number falls below two and business is carried on for MORE than six months, the sole partner who knows that fact is

PERSONALLY liable for the LLP's obligations incurred during the period after those six months.

Sec 7 (designated partners — mandatory): at least two designated partners who are INDIVIDUALS, at least one RESIDENT in India (stay of not less than 120 days during the financial year); where all partners are bodies corporate (or a mix), at least two individuals who are partners or nominees of such bodies corporate act as designated partners — in a resident/non-resident mix, verify one designated partner meets the 120-day test; and note the business must be a LAWFUL business carried on WITH A VIEW TO PROFIT, so an LLP cannot be formed for charitable or non-economic purposes.

Remembering memorise · 3 questions

- Sec. 5: any individual or body corporate may be a partner, except an individual of unsound mind (so found by a court), an undischarged insolvent, or one whose insolvency application is pending.
- Sec. 6: minimum two partners; if below two for over six months, the sole partner with knowledge is personally liable for that period's obligations.
- Small LLP [Sec. 2(1)(ta)]: contribution ≤ Rs. 25 lakh AND preceding-year turnover ≤ Rs. 40 lakh (prescribable up to Rs. 5 crore / Rs. 50 crore).

TQ 1.1 · RTP 2019-May [9] · Descriptive · --- · Pg 510	LEVEL I Remembering	Easy
TQ 1.2 · MTP 2024-Jun [2] (c) (i) · Descriptive · 3M · Pg 513 asked 3×	LEVEL I Remembering	Easy
TQ 1.8 · PYQ 2026-Jan [2] (c) (ii) · Descriptive · 2M · Pg 517 asked 3×	LEVEL I Remembering	Easy

Understanding explain with reasons · 7 questions

- Explain the hybrid: limited liability of a company (LLP liable to the full extent of its assets, partners only to agreed contribution) with partnership flexibility (agreement-based internal structure); Partnership Act, 1932 excluded (Sec. 4).
- Designated partners [Secs. 2(1)(j), 7]: mandatory --- at least two individuals, at least one resident in India (120 days' stay during the financial year); if all partners are bodies corporate, two individual nominees act.

TQ 1.4 · PYQ 2024-Sep [2] (c) (ii) · Descriptive · 2M · Pg 514 asked 4×	LEVEL I Understanding	Easy
TQ 1.5 · PYQ 2025-May [2] (c) (i) · Descriptive · 3M · Pg 515 asked 11×	LEVEL I Understanding	Easy
TQ 1.9 · PYQ 2026-May [2] (c) (ii) · Descriptive · 3M · Pg 518	LEVEL I Understanding	Easy
TQ 1.10 · PYQ 2026-Sep [2] (c) (i) · Descriptive · 3M · Pg 518	LEVEL I Understanding	Easy
TQ 1.3 · MTP 2024-Jul [2] (c) · Descriptive · 6M · Pg 513 asked 6×	LEVEL I	Medium

	Understanding	
TQ 1.6 · MTP 2025-Aug S2 [2] (c) · Descriptive · 6M · Pg 515 asked 2×	LEVEL I Understanding	Medium
TQ 1.7 · MTP 2025-Aug S2 [4] (c) · Descriptive · 6M · Pg 516	LEVEL I Understanding	Medium

Application apply provision to facts · 2 questions

- 'Charitable LLP' pattern: an LLP needs a lawful business with a view to PROFIT --- refuse formation for a free school or non-profit object.
- With resident/non-resident mixes, verify two individual designated partners including one meeting the 120-day residence test before concluding validity.

CSQ 1.1 · PYQ 2025-May [2] (c) (ii) · Case Scenario · 3M · Pg 519	LEVEL II Application	Medium
CSQ 1.2 · PYQ 2025-Sep [2] (c) · Case Scenario · 6M · Pg 520	LEVEL II Application	Medium

Topic 2: Characteristics of LLP

P2-C5-U5-T02

Read first Read heading 2 'Characteristics of LLP': the sixteen characteristics (body corporate, perpetual succession, separate legal entity, mutual agency, LLP agreement, artificial legal person, common seal, limited liability, management, partner limits, business for profit only, investigation, compromise/arrangement, conversion, e-filing, foreign LLPs) and the advantages of the LLP form.

NOTES

Sixteen characteristics: (1) body corporate [Secs 2(1)(d), 3]; (2) perpetual succession — death, insanity, retirement or insolvency of partners does not affect its existence; (3) separate legal entity — liable to the full extent of its assets, partners' liability limited to agreed contribution (tangible or intangible), creditors of LLP are creditors of the LLP alone; (4) mutual agency; (5) LLP agreement governs mutual rights/duties (LLP Act provisions apply in its absence); (6) artificial legal person; (7) common seal (optional); (8) limited liability; (9) management — all partners entitled to manage, but only DESIGNATED partners responsible for legal compliances; (10) minimum 2 partners, NO maximum limit; (11) business for profit only — no charitable LLP; (12) investigation — Central Government may investigate affairs; (13) compromise/arrangement including merger and amalgamation per the Act; (14) conversion into LLP of a firm, private company or unlisted public company; (15) e-filing of documents on www.mca.gov.in with digital signature of a partner/designated partner; (16) foreign LLPs [Sec 2(1)(m)] — formed/incorporated/registered outside India with a place of business in India; a foreign LLP can be a partner in an Indian LLP.

Mutual agency the LLP way: every partner is, for the business of the LLP, the agent of the LLP ALONE, not of the other partners — no partner is liable for the independent or unauthorised acts

of other partners, so individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct.

Artificial legal person: created by a legal process and clothed with all rights of an individual — can do everything a natural person can EXCEPT be sent to jail, take an oath, marry/divorce, or practise a learned profession like CA or medicine; invisible, intangible, immortal (dissolved by law alone) but NOT fictitious, because it really exists.

Common seal [Sec 14(c)]: not mandatory — the LLP MAY have one if it so decides; if adopted, it remains in the custody of a responsible official and is affixed in the presence of at least 2 designated partners.

Advantages: organised and operated on the basis of an agreement; flexibility without detailed legal/procedural requirements; easy to form; all partners enjoy limited liability; flexible capital structure; easy to dissolve — suitable vehicle for professionals, small enterprises and venture-capital investment.

Remembering memorise • 1 question

- Memorise the characteristics with anchors: body corporate, separate legal entity, perpetual succession [Secs. 2(1)(d), 3]; liability limited to agreed contribution; minimum 2 partners, no maximum; only designated partners responsible for compliances; business for profit only; conversion of firm/private company/unlisted public company; e-filing on www.mca.gov.in.
- LLP is a hybrid between a company and a partnership --- corporate structure plus partnership-firm flexibility.

TQ 2.2 • PYQ 2024-Jun [2] (c) • Descriptive • 6M • Pg 522 asked 4x

LEVEL I
Remembering

Easy

Understanding explain with reasons • 3 questions

- Mutual agency the LLP way: each partner is agent of the LLP alone, not of other partners --- the LLP is bound by a partner's authorised acts but not where he lacked authority and the third party knew it; partners are shielded from each other's unauthorised acts.
- Artificial legal person: created by legal process with an individual's rights --- can contract and hold property but cannot be jailed, take oath, marry or practise a learned profession; invisible, intangible, immortal but not fictitious.
- Common seal [Sec. 14(c)]: optional; if adopted, kept with a responsible official and affixed before at least 2 designated partners.
- Advantages: easy to form and dissolve, limited liability for all, flexible capital structure, agreement-based governance.

TQ 2.4 • RTP 2026-May [18] • Descriptive • --- • Pg 524

LEVEL I
Understanding

Easy

TQ 2.1 · PYQ 2019-Nov [2] (b) · Descriptive · 5M · Pg 521

LEVEL I
Understanding

Medium

TQ 2.3 · MTP 2025-May S2 [2] (c) · Descriptive · 6M · Pg 523

LEVEL I
Understanding

Medium

Topic 3: Incorporation of LLP

P2-C5-U5-T03

Read first Read heading 3 'Incorporation of LLP' (Secs. 11--17: incorporation document, registration, registered office, effect of registration, name provisions); also revise the linked tested provisions --- changes in partners (Sec. 25), books of account and audit (Sec. 34), fraud (Sec. 30) and winding up by Tribunal (Sec. 64).

NOTES

Sec 11 (incorporation document): two or more persons associated for carrying on a LAWFUL business WITH A VIEW TO PROFIT subscribe their names to an incorporation document, filed with prescribed fees with the Registrar of the STATE where the registered office is to be situated, stating name, proposed business, registered-office address, and names/addresses of partners and designated partners; accompanied by a statement of compliance by an advocate/Company Secretary/Chartered Accountant/Cost Accountant engaged in the formation AND by a subscriber; a person making that statement knowing it false or not believing it true: imprisonment up to 2 years AND fine ₹10,000 to ₹5 lakh.

Sec 12 (registration): on compliance with Sec 11(1)(b)-(c) the Registrar shall, within 14 DAYS, register the incorporation document and issue a certificate of incorporation (signed and sealed), which is CONCLUSIVE evidence that the LLP is incorporated by the name specified. **Sec 14 (effect):** the LLP by its name is capable of (a) suing and being sued, (b) acquiring, owning, holding and developing or disposing of movable/immovable, tangible/intangible property, (c) having a common seal if it decides, (d) doing and suffering such other acts as bodies corporate may lawfully do.

Sec 13 (registered office): mandatory — office to which all communications/notices are addressed; change of registered office takes effect ONLY upon filing the notice with the Registrar; contravention: penalty ₹500 per day of default, maximum ₹50,000, for the LLP AND every partner.

Name provisions: Sec 15: name must end with 'limited liability partnership' or 'LLP'; no registration of a name the Central Government considers undesirable or identical/too nearly resembling another LLP, company or registered trade mark; **Sec 16:** Registrar may reserve an applied name for 3 MONTHS from intimation; **Sec 17:** Central Government may direct an LLP with an identical/too similar name to change it within 3 months (trade-mark proprietor's application within 3 years of incorporation/change); on default CG allots a new name.

Linked tested provisions (outside this extract — remember generically): Sec 25: partner to notify the LLP of changes in his name/address within 15 days; LLP to file notice with the Registrar of a

partner joining or ceasing within 30 days; **Sec 30 (fraud)**: where business is carried on with intent to defraud creditors/others, liability of the LLP and every knowing partner becomes UNLIMITED (LLP not liable if the partner acted without its knowledge/authority); **Sec 34**: proper books of account at the registered office and annual Statement of Account and Solvency within six months of financial year-end, audit exempt for small turnover/contribution as prescribed; **Sec 64**: Tribunal may wind up an LLP where the LLP so decides, partners fall below two for over six months, it acts against sovereignty/integrity of India, it defaults in filings for five consecutive financial years, or it is just and equitable.

Remembering memorise · 4 questions

- Sec. 14 effects: LLP can by its name sue and be sued; acquire, own, hold and dispose of property; have a common seal if it decides to; do all acts of bodies corporate.
- Sec. 13 registered office: mandatory; change effective only on filing; penalty Rs. 500/day, max Rs. 50,000, for the LLP and every partner.
- Sec. 34: books at registered office; Statement of Account and Solvency within six months of year-end; audit exempt if turnover ≤ Rs. 40 lakh or contribution ≤ Rs. 25 lakh.
- Sec. 64 winding-up grounds: LLP so decides; partners below two for six months; acts against sovereignty; five consecutive years' filing default; just and equitable.

TQ 3.7 · MTP 2024-Jun [2] (c) (ii) · Descriptive · 3M · Pg 530 asked 3×	LEVEL I Remembering	Easy
TQ 3.1 · PYQ 2020-Nov [2] (b) · Descriptive · 5M · Pg 524 asked 5×	LEVEL I Remembering	Medium
TQ 3.2 · PYQ 2021-Dec [2] (b) · Descriptive · 5M · Pg 525 asked 2×	LEVEL I Remembering	Medium
TQ 3.4 · RTP 2022-Nov [13] · Descriptive · --- · Pg 527	LEVEL I Remembering	Medium

Understanding explain with reasons · 8 questions

- Secs. 11--12: incorporation document subscribed by two or more persons, filed with the State Registrar with a compliance statement by advocate/CS/CA/Cost Accountant and a subscriber (false statement: 2 years' imprisonment, fine Rs. 10,000--5 lakh); registration within 14 days; certificate conclusive.
- Fraud (Sec. 30): intent to defraud makes liability of the LLP and every knowing partner UNLIMITED; LLP escapes if the partner acted without its knowledge/authority.
- Sec. 25: partner notifies name/address changes within 15 days; LLP files notice of partner joining/ceasing within 30 days.
- Name: 'LLP' suffix (Sec. 15); reservation valid 3 months (Sec. 16); CG may direct change of identical name within 3 months (Sec. 17).

TQ 3.8 · PYQ 2024-Sep [2] (c) (i) · Descriptive · 4M · Pg 530 asked 7×	LEVEL I Understanding	Easy
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TQ 3.11 • PYQ 2026-Sep [2] (c) (ii) • Descriptive • 3M • Pg 533	LEVEL I Understanding	Easy
TQ 3.3 • PYQ 2022-May [2] (b) • Descriptive • 5M • Pg 526 asked 4x	LEVEL I Understanding	Medium
TQ 3.5 • PYQ 2023-Jun [2] (b) • Descriptive • 5M • Pg 528	LEVEL I Understanding	Medium
TQ 3.6 • PYQ 2023-Dec [2] (b) • Descriptive • 5M • Pg 529	LEVEL I Understanding	Medium
TQ 3.9 • PYQ 2026-Jan [2] (c) (i) • Descriptive • 4M • Pg 531	LEVEL I Understanding	Medium
TQ 3.10 • PYQ 2026-May [2] (c) (i) • Descriptive • 3M • Pg 532	LEVEL I Understanding	Medium
CSQ 3.1 • PYQ 2025-Jan [2] (c) • Case Scenario • 6M • Pg 534	LEVEL I Understanding	Medium

Topic 4: Differences With Other Forms of Organisation

P2-C5-U5-T04

Read first Read heading 4: the tabulated distinctions between LLP and partnership firm (15 points) and between LLP and limited liability company (8 points).

NOTES

Orientation: the SM tabulates 15 points of distinction between LLP and partnership firm and 8 between LLP and limited liability company — the high-yield bases follow; for advisory answers, limited liability, perpetual succession and the credibility of mandatory registration favour the LLP over a traditional firm.

LLP	Partnership firm
Regulated by LLP Act, 2008; body corporate, separate legal entity	Indian Partnership Act, 1932; no separate legal entity, not a body corporate
Created by registration — mandatory; sues and is sued in its own name	Created by agreement; registration voluntary (only registered firm can sue third parties)
Perpetual succession — death/insanity/retirement/insolvency of partners no effect	No perpetual succession — such events may affect its existence
Liability limited to agreed contribution, except wilful fraud; 'LLP' suffix compulsory	Liability unlimited, extends to partners' personal assets; any name allowed
Partner is agent of the LLP alone; only designated partners liable for compliances	Partner binds the firm AND co-partners; all partners liable for compliances

Annual accounts, solvency statement and return filed; foreigners allowed; NO minor

No annual filing; foreign nationals cannot be partners; minor admissible to benefits

LLP vs limited liability company — further contrasts: internal governance by the partners' AGREEMENT vs regulated by statute (Companies Act, 2013); contributors are PARTNERS vs MEMBERS/shareholders; minimum 2 partners with NO maximum vs private company 2-200 members, public company minimum 7; liability limited to agreed contribution (except wilful fraud) vs amount UNPAID on shares held; managed by the partners including designated partners authorised in the agreement vs board of DIRECTORS elected by shareholders; minimum 2 designated partners vs 2 directors (private) / 3 directors (public); name suffix 'LLP' vs 'Limited'/'Private Limited'.

Understanding explain with reasons · 2 questions

- Master LLP vs partnership firm on the high-yield bases: regulating Act (LLP Act, 2008 vs Partnership Act, 1932); body corporate/separate entity vs no separate entity; registration mandatory vs voluntary; perpetual succession vs none; liability limited to contribution vs unlimited; agency of LLP alone vs of firm and co-partners; designated partners, common seal, annual filings, foreign nationals allowed, minor NOT admissible to benefits of LLP.
- Master LLP vs LLC/company: internal governance by agreement vs by statute (Companies Act, 2013); partners vs members/shareholders; no maximum partners vs 200 cap for a private company; liability limited to agreed contribution vs amount unpaid on shares; management by partners/designated partners vs elected board of directors; minimum 2 designated partners vs 2/3 directors.
- For advisory questions (traditional firm vs LLP), reason from consequences: limited liability, perpetual succession and credibility of mandatory registration favour LLP; then conclude with a recommendation.

TQ 4.1 · PYQ 2022-Nov [2] (b) · Descriptive · 5M · Pg 536 **asked 4x**

LEVEL I
Understanding

Medium

CSQ 4.1 · RTP 2024-Jun [18] · Case Scenario · --- · Pg 538 **asked 3x**

LEVEL I
Understanding

Medium

CHAPTER 6

The Companies Act, 2013

10 Topics · 83 Classified Questions · Importance: A

ICAI SKILL PROFILE Level I 5–20% · Level II 80–95% — this chapter reads **theory-heavy**

Level I — Remembering & Understanding **42.3%** 146 of 345 marks

Level II — Application & Analysis **57.7%** 199 of 345 marks

Topic 1: Company Meanings & its Features

P2-C6-U6-T01

Read first Read 'Company: Meaning and its Features' in the Companies Act, 2013 chapter --- definition under Sec. 2(20), Haney's definition, and the five features (separate legal entity, perpetual succession, limited liability, artificial legal person, common seal), including the Companies (Amendment) Act, 2015 change making the common seal optional under Sec. 9.

NOTES

Sec 2(20) (SM): “Company means a company incorporated under this Act or under any previous company law”; **Haney:** “A company is an incorporated association, which is an artificial person created by law, having a separate entity, with a perpetual succession and a common seal.”

Five features: (1) separate legal entity (2) perpetual succession (3) limited liability (4) artificial legal person (5) common seal — now optional.

Separate legal entity: on registration company is a person distinct from members — can own property, bank account, raise loans, contract; members can contract with it; *Salomon vs. Salomon*; *Macaura vs. Northern Assurance* — shareholder had no insurable interest in company's timber, so his own-name insurance claim failed.

Perpetual succession & limited liability: members may die or change but company continues till wound up by law (even where all 7 members died in an aircraft, company survived — unlike partnership), shares transmit to heirs; liability limited to unpaid value of shares (guarantee co. — guaranteed amount, only on winding up; unlimited co. — unlimited).

Artificial legal person & seal: created by law, acts only through human agency (directors), can contract, sue and be sued in own name but cannot be jailed, take oath, marry or practise a learned profession; Companies (Amendment) Act, 2015 omitted common seal from Sec 9 — if no seal, authorisation by two directors, or a director and the Company Secretary where one is appointed.

Remembering memorise · 1 question

- Memorise Sec. 2(20): 'company means a company incorporated under this Act or under any previous company law', plus Haney's definition.
- Common seal is OPTIONAL since the Companies (Amendment) Act, 2015; if a company has no seal, authorisation is by two directors, or by a director and the Company Secretary (where one is appointed).
- List the features: separate legal entity, perpetual succession, limited liability, artificial legal person, common seal (optional).

TQ 1.1 · PYQ 2025-Jan [3] (b) (ii) · Descriptive · 2M · Pg 542

LEVEL I
Remembering**Easy****Understanding** explain with reasons · 3 questions

- Explain separate legal entity with Salomon vs. Salomon and Macaura vs. Northern Assurance (member has no insurable interest in company property).
- Explain 'artificial legal person': created by law, acts only through human agency (directors), can contract/sue/be sued, but cannot marry, take oath or be jailed.
- Limited liability: members liable only for unpaid value of shares (or guaranteed amount in guarantee companies).

TQ 1.3 · PYQ 2026-Jan [2] (b) (i) · Descriptive · 3M · Pg 544

LEVEL I
Understanding**Easy**

TQ 1.2 · MTP 2025-Aug S1 [2] (b) (i) · Descriptive · 7M · Pg 543

LEVEL I
Understanding**Medium**

CSQ 1.4 · PYQ 2025-Sep [1] (b) {C} · Case Scenario · 7M · Pg 547

LEVEL I
Understanding**Medium****Application** apply provision to facts · 3 questions

- Practise perpetual-succession scenarios: death of all/major members does not end the company --- shares transmit to legal heirs; the company continues (contrast with partnership).
- For document-authentication scenarios, apply the post-2015 rule: share certificates etc. validly issued without seal if signed by two directors or a director plus CS.
- Answer format: state the feature/provision, apply to facts, conclude on the company's continued existence or validity of the act.

CSQ 1.1 · MTP 2024-Apr [3] (b) (ii) · Case Scenario · 3M · Pg 545 **asked**
6x**LEVEL II**
Application**Medium**CSQ 1.2 · PYQ 2024-Jun [3] (b) (ii) · Case Scenario · 3M · Pg 546 **asked**
5x**LEVEL II**
Application**Medium**CSQ 1.3 · PYQ 2024-Sep [3] (b) (ii) · Case Scenario · 3M · Pg 546 **asked**
3x**LEVEL II**
Application**Medium**

Topic 2: Corporate Veil Theory

P2-C6-U6-T02

Read first Study 'Corporate Veil Theory' --- the Salomon vs. Salomon & Co. Ltd. principle of independent corporate personality and the five circumstances in which courts lift the corporate veil.

NOTES

Corporate veil: company identified separately from its members — members shielded from company's debts and defaults ('corporate insulation'); foundation laid in Salomon vs. Salomon & Co. Ltd.: "The Company is at law a different person altogether from the subscribers to the memorandum" — so Salomon, though one-man owner, was not personally liable and ranked as secured creditor on his debentures.

Lifting the veil: looking behind the company as a legal person — disregarding the corporate entity and paying regard to the realities behind the legal facade; courts lift only in appropriate circumstances, when questions of control (not mere ownership) are involved.

Five grounds to lift: (1) determine enemy character — Daimler Co. vs. Continental Tyre & Rubber Co. (2) protect revenue/tax — Dinshaw Maneckjee Petit: private companies a sham to split dividend/interest income, veil lifted to find real owner (3) avoid a legal obligation — Workmen vs. Associated Rubber Industries: shares transferred to wholly-owned subsidiary to cut workers' bonus, veil pierced (4) subsidiaries formed as agents — Merchandise Transport vs. British Transport Commission: subsidiary created to get vehicle licences, parent and subsidiary one commercial unit (5) fraud/improper conduct or to defeat law — Gilford Motor Co. vs. Horne.

Understanding explain with reasons · 2 questions

- Explain corporate veil = members are shielded from company's liabilities ('corporate insulation'); Salomon's case established the company as a person distinct from members.
- 'Lifting the veil' means disregarding the corporate entity and looking at the realities behind it --- done only when control (not mere ownership) is in question.
- Memorise the 5 grounds: determining enemy character (Daimler vs. Continental Tyre); protecting revenue/tax; avoiding a legal obligation; subsidiaries formed as agents; fraud/improper conduct or defeating law.

TQ 2.1 · PYQ 2024-Sep [2] (b) (i) · Descriptive · 7M · Pg 548 **asked 3x**LEVEL I
Understanding

Medium

TQ 2.2 · PYQ 2026-Sep [2] (b) · Descriptive · 7M · Pg 550

LEVEL I
Understanding

Medium

Application apply provision to facts · 9 questions

- Match facts to the leading case: splitting income into private companies to evade tax = Dinshaw Maneckjee Petit; ex-employee's company to dodge non-solicitation covenant = Gilford Motor vs. Horne;

subsidiary formed to get vehicle licences = Merchandise Transport vs. British Transport Commission;
transferring shares to a subsidiary to cut workers' bonus = Workmen vs. Associated Rubber Industries.

- Salomon-type facts (one-man company, secured debentures to owner) --- veil NOT lifted; the shareholder is not personally liable and can rank as secured creditor.
- Structure: state Salomon rule → identify the exception attracted → apply → conclude whether members/controllers are personally liable.

CSQ 2.1 • PYQ 2019-Nov [6] (c) • Case Scenario • 3M • Pg 551	LEVEL II Application	Medium
CSQ 2.2 • RTP 2022-May [17] • Case Scenario • --- • Pg 551 asked 3×	LEVEL II Application	Medium
CSQ 2.3 • RTP 2022-Nov [14] • Case Scenario • --- • Pg 553	LEVEL II Application	Medium
CSQ 2.4 • MTP 2023-May [6] (c) • Case Scenario • 3M • Pg 553 asked 2×	LEVEL II Application	Medium
CSQ 2.5 • RTP 2024-Jun [19] • Case Scenario • --- • Pg 554 asked 3×	LEVEL II Application	Medium
CSQ 2.6 • MTP 2024-Jul [2] (b) (i) • Case Scenario • 4M • Pg 555 asked 2×	LEVEL II Application	Medium
CSQ 2.7 • MTP 2024-Aug [2] (b) • Case Scenario • 7M • Pg 556 asked 5×	LEVEL II Application	Medium
CSQ 2.8 • PYQ 2026-Jan [1] (b) {C} • Case Scenario • 7M • Pg 557	LEVEL II Application	Medium
CSQ 2.9 • RTP 2026-May [19] • Case Scenario • --- • Pg 558	LEVEL II Application	Medium

Topic 3: Classes of Companies Under the Act

P2-C6-U6-T03

Read first Study 'Classes of Companies under the Act' --- classification by liability (Secs. 2(22), 2(21), 2(92)), members (OPC 2(62), private 2(68), public 2(71), small 2(85)), control (holding 2(46), subsidiary 2(87), associate 2(6)), access to capital (listed 2(52)), and other companies (government 2(45), foreign 2(42), Section 8, dormant Sec. 455).

NOTES

By liability: limited by shares [Sec 2(22)] — liability limited by MOA to amount unpaid on shares, callable any time; limited by guarantee [Sec 2(21)] — limited to amount undertaken in MOA, callable only on winding up; unlimited [Sec 2(92)] — no limit, but liability ceases when membership ceases.

By members: OPC [Sec 2(62)] one member — MOA names nominee with prior written consent, only a natural person who is an Indian citizen 'resident in India' (stay ≥ 120 days in immediately preceding FY), no minor, one OPC per person, cannot be/convert to Sec 8 or do NBFC activities;

private [Sec 2(68)] — min 2, max 200 members (joint holders = one; present and past employee-members excluded), restricts share transfer, prohibits public invitation; public [Sec 2(71)] — min 7, no maximum, and a private subsidiary of a public company is deemed public despite private articles; small [Sec 2(85)] — private co. with paid-up capital $\leq$ ₹4 crore AND turnover $\leq$ ₹40 crore, never a holding/subsidiary, Sec 8 or special-Act company.

By control: holding [Sec 2(46)]; subsidiary [Sec 2(87)] — holding co. controls composition of Board (can appoint/remove majority of directors) or exercises/controls more than one-half of total voting power, alone or with other subsidiaries (subsidiary of a subsidiary is also a subsidiary); associate [Sec 2(6)] — significant influence (control of at least 20% of total voting power or control of/participation in business decisions under an agreement) but not a subsidiary; includes joint venture.

By access to capital: listed [Sec 2(52)] — has any of its securities listed on any recognised stock exchange; unlisted — any other company.

Other companies: Government co. [Sec 2(45)] — $\geq$ 51% of paid-up share capital held by CG, SG(s) or both (with DVRs, 'paid-up share capital' read as total voting power), includes its subsidiary; foreign co. [Sec 2(42)] — incorporated outside India AND has place of business in India (itself/agent, physically or electronically) AND conducts any business activity in India; Sec 8 (charitable) — CG licence, no 'Ltd/Pvt Ltd', profits applied to objects, no dividend, 14 clear days' meeting notice, firm can be member, licence revocable for contravention/fraud; dormant [Sec 455] — formed for future project or to hold asset/IP with no significant accounting transaction, or inactive company, on application to Registrar.

Remembering memorise · 1 question

- Listed company [Sec. 2(52)]: has any securities listed on a recognised stock exchange; unlisted = any other company.
- Key numbers: private max 200 members; public min 7; small co. paid-up capital $\leq$ ₹4 crore AND turnover $\leq$ ₹40 crore; associate = significant influence $\geq$ 20% voting power; government co. $\geq$ 51% paid-up capital.

TQ 3.4 · PYQ 2022-Nov [5] (b) (ii) · Descriptive · 2M · Pg 563 **asked 3x**

LEVEL 1
Remembering

Easy

Understanding explain with reasons · 6 questions

- OPC [Sec. 2(62)]: one member; MOA names a nominee (prior written consent); only a natural person, Indian citizen, in India $\geq$ 120 days in preceding FY; no minor; cannot be/convert to Sec. 8 or do NBFC activities.
- Section 8 privileges: no 'Ltd/Pvt Ltd', CG licence, profits applied to objects, no dividend, 14 days' meeting notice, firm can be a member; licence revocable.
- Control: subsidiary [Sec. 2(87)] = holding co. controls Board composition or $>$ half total voting power (incl. via other subsidiaries); associate [Sec. 2(6)] = significant influence, not subsidiary; guarantee vs. shares --- liability callable only on winding up vs. any time.

TQ 3.8 · PYQ 2026-Jan [2] (b) (ii) · Descriptive · 4M · Pg 566 asked 2×	LEVEL I Understanding	Easy
TQ 3.1 · PYQ 2018-May [5] (b) · Descriptive · 6M · Pg 560 asked 6×	LEVEL I Understanding	Medium
TQ 3.2 · PYQ 2020-Nov [5] (b) · Descriptive · 6M · Pg 561 asked 2×	LEVEL I Understanding	Medium
TQ 3.3 · PYQ 2021-Jul [5] (b) · Descriptive · 6M · Pg 562 asked 4×	LEVEL I Understanding	Medium
TQ 3.5 · MTP 2022-Nov S1 [5] (ii) · Descriptive · 6M · Pg 563 asked 3×	LEVEL I Understanding	Medium
TQ 3.7 · PYQ 2024-Jun [2] (b) · Descriptive · 7M · Pg 565 asked 3×	LEVEL I Understanding	Medium

Application apply provision to facts · 23 questions

- Foreign company [Sec. 2(42)]: incorporated outside India + place of business in India (self/agent, physical/electronic) + business activity in India --- apply both limbs.
- Government company: 51% of paid-up capital by CG/SG/both; with DVRs, read it as total voting power --- recompute.
- Sec. 8 company earning profits must apply them to objects; declaring dividend breaches the licence --- revocation and penalties.

TQ 3.6 · PYQ 2022-Nov [6] (c) · Descriptive · 3M · Pg 564 asked 7×	LEVEL II Application	Medium
CSQ 3.1 · PYQ 2018-Nov [1] (b) {C} · Case Scenario · 4M · Pg 568 asked 4×	LEVEL II Application	Medium
CSQ 3.4 · PYQ 2021-Jan [6] (c) · Case Scenario · 3M · Pg 571	LEVEL II Application	Medium
CSQ 3.5 · PYQ 2021-Jul [1] (b) {C} · Case Scenario · 4M · Pg 571 asked 3×	LEVEL II Application	Medium
CSQ 3.6 · PYQ 2021-Dec [6] (c) · Case Scenario · 3M · Pg 572 asked 4×	LEVEL II Application	Medium
CSQ 3.8 · PYQ 2022-Nov [5] (b) (i) · Case Scenario · 4M · Pg 574 asked 4×	LEVEL II Application	Medium
CSQ 3.9 · PYQ 2023-Jun [6] (c) · Case Scenario · 3M · Pg 575 asked 2×	LEVEL II Application	Medium
CSQ 3.11 · PYQ 2023-Dec [6] (c) · Case Scenario · 3M · Pg 577 asked 2×	LEVEL II Application	Medium
CSQ 3.13 · MTP 2024-May [1] (b) (ii) {C} · Case Scenario · 4M · Pg 579	LEVEL II Application	Medium
CSQ 3.15 · PYQ 2024-Jun [3] (b) (i) · Case Scenario · 4M · Pg 581 asked 5×	LEVEL II Application	Medium
CSQ 3.16 · MTP 2024-Jul [2] (b) (ii) · Case Scenario · 3M · Pg 582 asked 3×	LEVEL II Application	Medium

CSQ 3.17 • PYQ 2024-Sep [1] (b) (i) {C} • Case Scenario • 4M • Pg 584	LEVEL II Application	Medium
CSQ 3.18 • PYQ 2024-Sep [1] (b) (ii) {C} • Case Scenario • 3M • Pg 585 asked 4×	LEVEL II Application	Medium
CSQ 3.19 • RTP 2024-Sep [20] • Case Scenario • --- • Pg 586 asked 4×	LEVEL II Application	Medium
CSQ 3.20 • PYQ 2025-Jan [1] (b) (i) {C} • Case Scenario • 4M • Pg 587 asked 2×	LEVEL II Application	Medium
CSQ 3.21 • PYQ 2025-Jan [3] (b) (i) • Case Scenario • 5M • Pg 588	LEVEL II Application	Medium
CSQ 3.22 • PYQ 2025-May [1] (b) (i) {C} • Case Scenario • 4M • Pg 590 asked 5×	LEVEL II Application	Medium
CSQ 3.23 • PYQ 2025-May [1] (b) (ii) {C} • Case Scenario • 3M • Pg 591 asked 7×	LEVEL II Application	Medium
CSQ 3.24 • PYQ 2025-May [3] (b) (ii) • Case Scenario • 3M • Pg 591 asked 2×	LEVEL II Application	Medium
CSQ 3.26 • RTP 2026-Jan [20] • Case Scenario • --- • Pg 594	LEVEL II Application	Medium
CSQ 3.27 • PYQ 2026-Jan [3] (b) (i) • Case Scenario • 3M • Pg 594	LEVEL II Application	Medium
CSQ 3.28 • PYQ 2026-Jan [3] (b) (ii) • Case Scenario • 2M • Pg 595	LEVEL II Application	Medium
CSQ 3.29 • PYQ 2026-Jan [3] (b) (iii) • Case Scenario • 2M • Pg 596	LEVEL II Application	Medium

Analysis untangle multi-issue scenarios • 9 questions

- Member-count problems: apply the 200 cap excluding present/past employee- members, joint holders count as one --- conclude on private status.
- Deemed public: a private subsidiary of a public company is public [proviso to Sec. 2(71)] despite private articles --- untangle holding chains first.
- Small company exceptions: holding/subsidiary, Sec. 8 and special-Act companies can never be small companies.

CSQ 3.2 • PYQ 2019-Jun [6] (c) • Case Scenario • 3M • Pg 569 asked 2×	LEVEL II Analysis	Medium
CSQ 3.3 • PYQ 2021-Jan [1] (b) {C} • Case Scenario • 4M • Pg 569 asked 9×	LEVEL II Analysis	Medium
CSQ 3.7 • PYQ 2022-May [6] (c) • Case Scenario • 3M • Pg 573 asked 3×	LEVEL II Analysis	Medium
CSQ 3.10 • PYQ 2023-Dec [1] (b) {C} • Case Scenario • 4M • Pg 575 asked 8×	LEVEL II Analysis	Medium
CSQ 3.12 • MTP 2025-Aug S2 [1] (b) • Case Scenario • 7M • Pg 578 asked 4×	LEVEL II Analysis	Hard

CSQ 3.14 · PYQ 2024-Jun [1] (b) {C} · Case Scenario · 7M · Pg 579 asked 3x	LEVEL II Analysis	Hard
CSQ 3.25 · PYQ 2025-Sep [3] (b) · Case Scenario · 7M · Pg 592	LEVEL II Analysis	Hard
CSQ 3.30 · PYQ 2026-May [1] (b) {C} · Case Scenario · 7M · Pg 597	LEVEL II Analysis	Hard
CSQ 3.31 · PYQ 2026-May [3] (b) · Case Scenario · 7M · Pg 599	LEVEL II Analysis	Hard

Topic 4: Mode of Registration/Incorporation of Company

P2-C6-U6-T04

Read first Study 'Mode of Registration/Incorporation of Company' --- promoter [Sec. 2(69)], formation [Sec. 3], incorporation procedure and documents [Sec. 7], effect of registration [Sec. 9] and effect of memorandum and articles [Sec. 10], plus SPICe.

NOTES

Promoter [Sec 2(69)]: person (a) named as such in prospectus or identified in annual return u/s 92, or (b) with control over company's affairs directly/indirectly as shareholder, director or otherwise, or (c) per whose advice/directions/instructions the Board is accustomed to act; persons acting only professionally (solicitor, banker, accountant) are not promoters; **Sec 3 formation:** public — 7 or more, private — 2 or more, OPC — one person.

Sec 7(1) filings with Registrar: (1) MOA and AOA signed by all subscribers (2) declaration by a professional engaged in formation (advocate/CA/cost accountant/CS in practice) and by a person named in the articles that all requirements of the Act are complied with (3) declaration from each subscriber and first directors — not convicted of offence in promotion/formation/management, not guilty of fraud/misfeasance/breach of duty in last five years, documents correct, complete and true (4) address for correspondence till registered office established (5) particulars of subscribers with proof of identity (6) particulars of first directors with DIN, their interests in other firms/bodies corporate and consent to act.

On registration: Registrar issues certificate of incorporation and allots Corporate Identity Number (CIN) from the date in the certificate; company must preserve copies of all filed documents till dissolution; false/incorrect information or suppression at or after incorporation attracts fraud liability under Sec 447, and Tribunal may regulate management, make members' liability unlimited, remove the name or wind up; **SPICe:** MCA's Simplified Proforma for Incorporating Company Electronically eases filing.

Sec 9 effect: from the date of incorporation the subscribers and future members become a body corporate by the name in the memorandum, with perpetual succession and power to acquire, hold and dispose of property, contract, and sue and be sued in its own name.

Sec 10 effect: registered MOA and AOA bind the company and its members as if signed by the

company and each member, as an agreement to observe all their provisions; all monies payable by a member under them are a debt due from him to the company.

Remembering memorise • 1 question

- List Sec. 7(1) filings with the Registrar: MOA and AOA signed by all subscribers; declaration by professional (advocate/CA/CMA/CS) and by a person named in articles; declaration from subscribers/first directors (no conviction, no fraud in last 5 years, documents true); address for correspondence; particulars of subscribers; particulars with DIN of first directors and their interests/consent.
- After registration: certificate of incorporation issued and Corporate Identity Number (CIN) allotted; copies of documents preserved till dissolution; false information attracts fraud liability under Sec. 447.

TQ 4.2 • MTP 2025-Apr S1 [2] (b) • Descriptive • 7M • Pg 602

LEVEL I
Remembering

Medium

Understanding explain with reasons • 1 question

- Sec. 10: registered MOA and AOA bind the company and its members as if signed by both, as an agreement to observe all their provisions; money payable by a member under them is a debt due to the company.
- Sec. 9 effect: from the date in the certificate, the subscribers become a body corporate with perpetual succession, able to hold property, contract, sue and be sued in its own name.

TQ 4.1 • PYQ 2024-Sep [2] (b) (ii) • Descriptive • 7M • Pg 601 **asked 2x**

LEVEL I
Understanding

Medium

Topic 5: Classification of Capital

P2-C6-U6-T05

Read first Study 'Classification of Capital' --- nominal/authorised [Sec. 2(8)], issued [Sec. 2(50)], subscribed [Sec. 2(86)], called-up [Sec. 2(15)] and paid-up capital, together with the nature of shares (Secs. 44 and 45).

NOTES

Capital ladder: authorised/nominal [Sec 2(8)] — maximum share capital authorised by the memorandum, on which stamp duty is paid; issued [Sec 2(50)] — part issued for subscription, including shares allotted for consideration other than cash; subscribed [Sec 2(86)] — part for the time being subscribed by members; called-up [Sec 2(15)] — part called for payment; paid-up — total amount paid/credited as paid up = called-up capital less calls in arrears.

Nature of a share (Borland's Trustee vs. Steel Bros.): “a share is not a sum of money but is an interest measured by a sum of money and made up of various rights contained in the contract” —

shareholders are not, in law, part owners of the undertaking or its assets.

Sec 44: shares, debentures and other interests of a member are movable property transferable in the manner provided by the articles; **Sec 45:** every share shall be distinguished by its distinctive number — except shares held in dematerialised (depository) form.

Understanding explain with reasons · 2 questions

- Explain the ladder: authorised = maximum capital stated in MOA; issued = part offered for subscription (incl. shares for non-cash consideration); subscribed = part taken up by members; called-up = part called for payment; paid-up = called-up minus calls in arrears.
- Nature of shares: a share is not a sum of money but an interest measured by a sum of money made up of rights in the contract (Borland's Trustee vs. Steel Bros.) --- shareholders are not co-owners of company assets.
- Sec. 44: shares are movable property transferable in the manner provided by the articles; Sec. 45: every share must bear a distinctive number, except shares held in depository (dematerialised) form.

TQ 5.1 · PYQ 2021-Dec [5] (b) · Descriptive · 6M · Pg 603 asked 3x

LEVEL I
Understanding

Medium

TQ 5.2 · MTP 2025-Aug S2 [2] (b) · Descriptive · 7M · Pg 604

LEVEL I
Understanding

Medium

Topic 6: Shares

P2-C6-U6-T06

Read first Study 'Shares' --- Sec. 2(84) definition and Sec. 43 kinds of share capital: equity (with voting rights or with differential rights) and preference share capital, with the explanation defining when capital is preference capital.

NOTES

Sec 2(84): 'share' means a share in the share capital of a company and includes stock — a measure of the shareholder's interest in the company.

Sec 43 kinds: share capital of a company limited by shares is of two kinds — (i) equity share capital, either with voting rights or with differential rights as to dividend, voting or otherwise per prescribed rules (DVRs, e.g. Tata Motors 2008 'A' shares: 10 shares = 1 vote but 5 percentage points more dividend), and (ii) preference share capital; **Exception:** Sec 43 does not apply where a private company's MOA/AOA so provides.

Explanation to Sec 43: 'preference share capital' = part of issued capital carrying a preferential right to (a) payment of dividend, as a fixed amount or at a fixed rate, and (b) repayment of capital on winding up/repayment of capital; 'equity share capital' = all share capital which is not

preference share capital.

Understanding explain with reasons · 2 questions

- Sec. 43: share capital of a company limited by shares is of two kinds --- equity share capital (with voting rights, or with differential rights as to dividend/voting per prescribed rules) and preference share capital; note the exception where a private company's MOA/AOA excludes Sec. 43.
- Capital is 'preference' when it carries a preferential right to (a) payment of dividend (fixed amount or fixed rate) and (b) repayment of capital on winding up; equity capital = all capital that is not preference.
- Distinguish DVR equity from preference shares: DVR holders are equity shareholders with varied voting/dividend rights (e.g., Tata Motors 'A' shares), while preference shareholders get priority in dividend and repayment but normally restricted voting.

TQ 6.2 · PYQ 2026-May [2] (b) (i) · Distinguish Between · 3M · Pg 606

LEVEL I
Understanding

Easy

TQ 6.1 · PYQ 2023-Dec [5] (b) · Descriptive · 6M · Pg 605

LEVEL I
Understanding

Medium

Topic 7: Memorandum of Association

P2-C6-U6-T07

Read first Study 'Memorandum of Association' --- MOA as the charter of the company, Sec. 4 contents and forms in Tables A to E of Schedule I, and the object of registering an MOA (public document under Sec. 399).

NOTES

Charter of the company: MOA defines its constitution and the scope of its powers — the company cannot depart from it however imperative the necessity; a contract or business beyond it is ultra vires the company and void.

Contents [Sec 4]: (1) Name clause — last word 'Limited'/'Private Limited' (not applicable to Sec 8 companies) (2) Registered Office clause — the State (3) Object clause — objects and matters in furtherance (4) Liability clause — limited by shares/guarantee or unlimited (5) Capital clause — authorised capital in shares of fixed amount (not needed if no share capital) (6) Association/Subscription clause — each subscriber takes at least one share; OPC adds the nominee's name; a minor cannot subscribe (guardian signs in personal capacity).

Form and status: MOA must be in the forms in Tables A to E of Schedule I (A — shares; B — guarantee, no share capital; C — guarantee with share capital; D — unlimited; E — unlimited with share capital) and cannot contain anything contrary to the Act; it is a public document under Sec 399, so every person contracting with the company is presumed to know its contents — registration lets shareholders, creditors and outsiders know its powers and permitted activities.

Understanding explain with reasons · 1 question

- 'Charter of the company': MOA defines its constitution and the scope of its powers; the company cannot depart from it --- acts beyond it are ultra vires and void.
- Contents [Sec. 4]: Name clause (Ltd/Pvt Ltd; N/A to Sec. 8 companies), Registered Office clause (State), Object clause, Liability clause (limited by shares/guarantee or unlimited), Capital clause (authorised capital; not needed if no share capital) and Association/Subscription clause; OPC adds a nomination clause.
- Purpose of registration: shows shareholders and outsiders the company's powers; every person dealing with the company is presumed to know its contents (public document, Sec. 399); MOA must follow Tables A--E and cannot contradict the Act.

TQ 7.1 · PYQ 2019-Nov [5] (b) · Descriptive · 6M · Pg 608 asked 3x

LEVEL I
Understanding

Medium

Topic 8: Doctrine of Ultra Vires

P2-C6-U6-T08

Read first Study 'Doctrine of Ultra Vires' --- meaning ('beyond powers'), Ashbury Railway Carriage & Iron Co. vs. Riche, consequences of ultra vires acts and the four-point summary on ratification.

NOTES

Meaning: ultra vires = “beyond (their) powers” — an act or contract beyond the objects in the memorandum is wholly void and inoperative, not binding on the company; the company can neither sue nor be sued on it, and since the MOA is a public document the outsider is deemed to know the company's powers.

Ashbury Railway Carriage & Iron Co. vs. Riche (1875): company with railway-carriage objects financed construction of a railway line in Belgium; contract held null and void though ratified by special resolution — ‘general contractors’ read with the main business; an ultra vires contract can never become intra vires by estoppel, acquiescence, lapse of time, delay or ratification.

Four-point summary: (1) act not authorised by the object clause or statute — ultra vires the company, null and void (2) ultra vires the company — cannot be ratified even by unanimous consent of all shareholders (3) ultra vires the directors but intra vires the company — ratifiable by members by resolution in general meeting (4) ultra vires the articles — ratifiable by altering the articles by special resolution.

Lender's limited remedies: if the ultra vires loan money is still unspent, injunction to stop the company parting with it (company never becomes owner — lender takes back property in specie); if it discharged lawful debts, lender is subrogated to the paid-off creditor's position and recovers to that extent.

Understanding explain with reasons · 1 question

- Ultra vires the company = act beyond the object clause of MOA: null and void, not binding, cannot be ratified even by unanimous consent of all shareholders (Ashbury vs. Riche).
- Grades of ultra vires: ultra vires the directors but intra vires the company --- ratifiable by members in general meeting; ultra vires the articles --- ratifiable by altering the AOA by special resolution.
- Consequences: company can neither sue nor be sued on the transaction; outsiders are deemed to know the MOA (public document), so they cannot enforce an ultra vires contract.

TQ 8.1 · PYQ 2022-May [5] (b) · Descriptive · 6M · Pg 609 asked 5x

LEVEL I
Understanding**Medium****Application** apply provision to facts · 4 questions

- Borrowing beyond the MOA borrowing limit (e.g., ₹36 crore borrowed against a ₹30 crore cap): the excess borrowing is ultra vires and void --- the lender cannot sue the company on it.
- Lender's limited remedies: injunction to restrain the company from parting with money still identifiable/unspent (company never becomes owner), and subrogation to the extent the loan discharged lawful debts.
- Business outside the object clause (e.g., new line of trade not in MOA): restrainable by injunction; conclude with provision → facts → validity of the transaction.

CSQ 8.1 · PYQ 2021-Dec [1] (b) {C} · Case Scenario · 4M · Pg 610 asked 3x

LEVEL II
Application**Medium**

CSQ 8.2 · PYQ 2024-Sep [3] (b) (i) · Case Scenario · 4M · Pg 611 asked 2x

LEVEL II
Application**Medium**

CSQ 8.3 · PYQ 2025-May [3] (b) (i) · Case Scenario · 4M · Pg 613 asked 2x

LEVEL II
Application**Medium**

CSQ 8.4 · RTP 2026-Jan [19] · Case Scenario · --- · Pg 614

LEVEL II
Application**Medium****Topic 9: Articles of Association**

P2-C6-U6-T09

Read first Study 'Articles of Association' --- AOA as internal regulations/bye-laws, Sec. 5 (contents, entrenchment, model articles in Tables F to J of Schedule I), Sec. 10 binding effect, and the MOA vs. AOA distinction.

NOTES

Nature: AOA are the rules, regulations and bye-laws for internal management (Guinness vs. Land Corporation of Ireland); per Lord Cairns in Ashbury Carriage vs. Riche, "the articles play a part subsidiary to memorandum of association" — they define the duties, rights and powers of the

governing body and the mode of carrying on business.

Sec 5: articles contain regulations for management plus prescribed and additional matters; **entrenchment:** specified articles alterable only on conditions more restrictive than a special resolution — made on formation, or later by agreement of ALL members (private co.) / special resolution (public co.), with notice to the Registrar; forms per Tables F to J of Schedule I; model articles apply so far as not excluded/modified.

Binding force [Sec 10]: registered articles bind the company and members as if signed by each — enforceable between company and members, but create no contract with outsiders (an outsider, e.g. a legal advisor named in the articles, cannot sue on them); company has absolute power to alter its articles by special resolution, subject to the Act and the MOA.

Memorandum of Association	Articles of Association
Defines and delimits objectives of the company	Rules for internal management; how objectives achieved
Relationship of company with outside world	Relationship between company and its members
Altered only per the Act — usually Regional Director/Tribunal approval	Altered simply by special resolution
Acts beyond MOA void; unratifiable even by unanimous consent	Acts ultra vires AOA ratifiable by special resolution

Understanding explain with reasons • 2 questions

- Sec. 5: articles contain regulations for management, prescribed matters and any additional matters; entrenchment provisions allow specified articles to be altered only by conditions more restrictive than a special resolution --- made at formation, or later by ALL members (private co.) / special resolution (public co.), with notice to Registrar.
- AOA are subsidiary to the MOA (Ashbury Carriage vs. Riche); they define the duties, rights and powers of the governing body and the mode of carrying on business.
- MOA vs. AOA: objectives vs. internal rules; relationship with outside world vs. with members; MOA alteration needs statutory approval, AOA altered by special resolution; ultra vires MOA acts void and unratifiable, ultra vires AOA acts ratifiable by special resolution.

TQ 9.1 • PYQ 2025-Jan [2] (b) • Descriptive • 7M • Pg 615

LEVEL I
Understanding

Medium

TQ 9.2 • PYQ 2025-Sep [2] (b) • Descriptive • 7M • Pg 616

LEVEL I
Understanding

Medium

Application apply provision to facts · 4 questions

- Sec. 10: registered articles bind the company and members as if signed by each --- enforce article clauses (e.g., sale of an insolvent member's shares) between company and members.
- Outsider scenarios (e.g., a legal advisor named in articles): articles create no contract between the company and outsiders --- an outsider cannot sue on the articles.
- Alteration scenarios (e.g., changing quorum rules): company has power to alter articles by special resolution, subject to the Act and the MOA.

CSQ 9.1 · MTP 2023-Nov [5] (b) · Case Scenario · 6M · Pg 618	LEVEL II Application	Medium
CSQ 9.2 · PYQ 2025-Jan [1] (b) (ii) {C} · Case Scenario · 3M · Pg 619 asked 2x	LEVEL II Application	Medium
CSQ 9.3 · RTP 2025-May [18] · Case Scenario · --- · Pg 620	LEVEL II Application	Medium
CSQ 9.4 · PYQ 2026-Sep [3] (b) · Case Scenario · 7M · Pg 620	LEVEL II Application	Medium

Topic 10: Doctrine of Indoor Management

P2-C6-U6-T10

Read first Study 'Doctrine of Indoor Management' --- doctrine of constructive notice (Sec. 399 public documents), the Turquand rule (Royal British Bank vs. Turquand) as its exception, and the three exceptions to indoor management.

NOTES

Constructive notice: MOA, AOA and registered documents (incl. special resolutions) are public documents open to inspection [Sec 399] — every person dealing with the company is presumed to have read AND understood them in their true perspective; a contract beyond the company's or directors' powers gives him no rights against the company.

Indoor management (Turquand rule): the exception protecting OUTSIDERS — constructive notice never extends to internal affairs; if an act is authorised by the MOA/AOA, an outsider may assume all detailed internal formalities (e.g. passing of a resolution) have been observed; Royal British Bank vs. Turquand — bond signed by two directors under seal held valid though no borrowing resolution specified the amount: the company's indoor affairs are the company's problem.

Three exceptions: (1) actual or constructive knowledge of the irregularity — Howard vs. Patent Ivory Manufacturing Co., Morris v Kanssen (2) suspicion of irregularity/negligence — unusual transactions put the outsider on inquiry: Anand Bihari Lal vs. Dinshaw & Co. (transfer of company property by its accountant void), Haughton & Co. vs. Nothard, Lowe & Wills (3) forgery — a complete nullity: Ruben v Great Fingall Consolidated (secretary forged directors' signatures on share certificate; company not estopped).

Trap: constructive notice protects the COMPANY against outsiders; indoor management protects OUTSIDERS acting in good faith against the company — do not reverse them.

Remembering memorise · 1 question

- Limitations of the Turquand rule: (a) actual or constructive knowledge of irregularity; (b) suspicion of irregularity/negligence --- unusual transactions put the outsider on inquiry; (c) forgery --- a complete nullity.
- Case tags: knowledge --- Howard vs. Patent Ivory Mfg. Co., Morris v Kanssen; suspicion --- Anand Bihari Lal vs. Dinshaw & Co., Haughton vs. Nothard, Lowe & Wills; forgery --- Ruben v Great Fingall Consolidated.

TQ 10.1 · PYQ 2018-May [6] (c) · Descriptive · 3M · Pg 622 **asked 2×**

LEVEL I
Remembering

Easy

Understanding explain with reasons · 2 questions

- Constructive notice: MOA/AOA and registered documents are public (Sec. 399); every person dealing with the company is presumed to have read AND understood them.
- Indoor management is the exception protecting OUTSIDERS: they may assume internal formalities (e.g., passing of a resolution) have been complied with --- company's indoor affairs are the company's problem (Turquand rule).
- Trap: constructive notice protects the company against outsiders; indoor management protects outsiders against the company --- do not reverse them.

TQ 10.3 · PYQ 2026-May [2] (b) (ii) · Descriptive · 4M · Pg 626

LEVEL I
Understanding

Easy

TQ 10.2 · PYQ 2025-May [2] (b) · Descriptive · 7M · Pg 623 **asked 6×**

LEVEL I
Understanding

Medium

Application apply provision to facts · 5 questions

- Borrowing scenarios (articles allow board loans up to a limit / subject to resolution): a lender in good faith can assume the resolution was passed and recover --- cite Turquand.
- Payment to an unauthorised officer (e.g., repaying dues to an accountant/cashier who absconds): transaction outside apparent authority puts the payer on inquiry --- indoor management does not protect him.
- Structure: constructive notice rule → indoor management exception → test facts against the three limitations → conclude who bears the loss.

CSQ 10.1 · PYQ 2018-Nov [6] (c) · Case Scenario · 3M · Pg 627 **asked 6×**

LEVEL II
Application

Medium

CSQ 10.2 · PYQ 2022-May [1] (b) {C} · Case Scenario · 4M · Pg 628
asked 2×

LEVEL II
Application

Medium

CSQ 10.3 · PYQ 2022-Nov [1] (b) {C} · Case Scenario · 4M · Pg 629 asked 4x	LEVEL II Application	Medium
CSQ 10.4 · RTP 2023-Jun [19] · Case Scenario · --- · Pg 630 asked 2x	LEVEL II Application	Medium
CSQ 10.5 · PYQ 2026-Sep [1] (b) {C} · Case Scenario · 7M · Pg 631	LEVEL II Application	Medium

CHAPTER 7

The Negotiable Instruments Act, 1881

9 Topics · 46 Classified Questions · Importance: B

ICAI SKILL PROFILE Level I 5–20% · Level II 80–95% — this chapter reads **theory-heavy**

Level I — Remembering & Understanding **48.0%** 98 of 204 marks

Level II — Application & Analysis **52.0%** 106 of 204 marks

Topic 1: Meaning of Negotiable Instruments

P2-C7-U7-T01

Read first Read 'Meaning of Negotiable Instruments' in the Negotiable Instruments Act, 1881 chapter --- Sec. 13 (promissory note, bill of exchange, cheque payable to order or bearer) and the eight essential characteristics of negotiable instruments.

NOTES

No statutory definition: the Act does not define 'negotiable instrument'; Sec 13 provides only three kinds — promissory note, bill of exchange and cheque, payable either to order or to bearer; Hundis, Treasury Bills, Bearer Debentures, Railway Receipts, Delivery Orders, Bills of Lading are negotiable by mercantile custom/usage or other enactments.

Concept: an instrument (document) freely transferable by mere delivery or by indorsement and delivery; the property in it passes to a bona fide transferee for value.

Payable to order [Sec 13]: when expressed to be so payable, or payable to a specified person without words prohibiting transfer; **payable to bearer:** when expressed so payable, or when the only/last indorsement on it is an indorsement in blank.

Eight characteristics: (1) necessarily in writing; (2) signed; (3) freely transferable; (4) holder's title free from defects; (5) transferable any number of times till satisfaction; (6) unconditional promise/order to pay money only; (7) certainty of sum payable, time of payment and payee; (8) delivery essential — mere drawing creates no liability.

Understanding explain with reasons · 1 question

- The Act does not define 'negotiable instrument'; Sec. 13 only lists three kinds --- promissory note, bill of exchange and cheque, payable either to order or to bearer; hundis, treasury bills, bearer debentures etc. are negotiable by custom/usage.

- Explain the 8 characteristics: in writing; signed; freely transferable; holder's title free from defects; transferable any number of times; unconditional promise/order to pay money only; certainty of sum, time and payee; delivery essential.
- Payable to order = expressed so payable, or payable to a specified person without words prohibiting transfer; payable to bearer = expressed so payable, or the only/last indorsement is in blank.

TQ 1.1 · MTP 2025-May S2 [4] (b) · Descriptive · 7M · Pg 638 asked 3x

LEVEL I
Understanding

Medium

Topic 2: Promissory Note

P2-C7-U7-T02

Read first Study 'Promissory Note' --- the Sec. 4 definition, parties (maker and payee) and the essential characteristics (a) to (h), including the bar under Sec. 31 of the RBI Act, 1934 on notes payable to bearer.

NOTES

Sec 4 (SM): "A 'promissory note' is an instrument in writing (not being a bank-note or a currency-note) containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument." **Parties:** maker (debtor, must sign) and payee.

Essentials (a)-(h): in writing (oral promise insufficient); express promise — "Mr B, I.O.U ₹1,000" is a mere acknowledgment, invalid; definite and unconditional — "₹500 seven days after my marriage with C" invalid, but "₹500 on D's death" valid (event certain to happen); signed by maker; money only (₹500 plus my black horse — invalid); certain sum ("₹500 and all other sums due" invalid, ₹500 with 12% p.a. interest valid as ascertainable); maker and payee certain, definite and different persons; properly stamped per the Indian Stamp Act with stamp duly cancelled.

Sec 31, RBI Act 1934: a promissory note cannot be made payable to bearer — only the Reserve Bank or Central Government can issue a note 'payable to bearer'; hence "I promise to pay a sum of ₹10,000 after three months" naming no payee is a bearer instrument, illegal and unenforceable.

Answer pattern: quote Sec 4, test each essential against the wording, conclude valid/invalid naming the essential that fails (conditional promise, payee uncertain, money plus goods, sum uncertain).

Remembering memorise · 1 question

- Memorise Sec. 4: an instrument in writing (not a bank-note or currency-note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person or the bearer.

- Essentials: in writing; express promise (mere acknowledgment/IOU is not enough); definite and unconditional; signed by maker; money only; certain sum; certain and different maker and payee; properly stamped.
- Per Sec. 31, RBI Act, 1934, only RBI/Central Government can issue a promissory note payable to bearer.

TQ 2.2 · PYQ 2026-Jan [4] (b) · Descriptive · 7M · Pg 640

LEVEL I
Remembering

Medium

Application apply provision to facts · 1 question

- Test validity against essentials: 'I promise to pay ₹10,000 after three months' with no named payee --- invalid (payee uncertain); conditional promises (payable on marriage) invalid, but promises tied to a certain event (on D's death) valid.
- Instrument with no time for payment stated is treated as payable on demand --- still a valid note.
- Answer pattern: quote Sec. 4 → test each essential against the wording → conclude valid/invalid with the specific essential that fails (e.g., uncertainty of payee, promise of money plus goods, uncertain amount).

TQ 2.1 · MTP 2024-Jul [6] (a) (ii) · Descriptive · 3M · Pg 640

LEVEL II
Application

Easy

Topic 3: Bills of Exchange

P2-C7-U7-T03

Read first Study 'Bills of Exchange' --- the Sec. 5 definition, the three parties (drawer, drawee/acceptor, payee), essential characteristics, and the tabular differences between a promissory note and a bill of exchange.

NOTES

Sec 5 (SM): "A 'bill of exchange' is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument."

Three parties: drawer (maker of the bill); drawee (person on whom drawn — on acceptance becomes acceptor with primary and unconditional liability); payee; the three need not be different persons — one can play two roles, but there must be two distinct persons in any case.

Essentials: in writing; express order to pay; definite and unconditional; signed by drawer; drawer, drawee and payee certain; sum certain; money only; stamped; per Sec 31 RBI Act a bill cannot be payable to bearer on demand — "On demand pay to bearer ₹500" invalid, but "On demand pay to A or order" valid.

Distinction P/N vs BOE: note is a 2-party promise needing no acceptance; bill is a 3-party order

needing acceptance —

Promissory Note	Bill of Exchange
Contains a promise to pay money	Contains an order for making payment
2 parties: maker and payee	3 parties: drawer, drawee and payee
No acceptance needed — signed by the person liable to pay	Needs acceptance from the drawee
Can never be made payable to bearer	Can be payable to bearer, but never to bearer on demand

Understanding explain with reasons • 2 questions

- Sec. 5: an instrument in writing containing an unconditional ORDER, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or the bearer.
- P/N vs. BOE: promise vs. order; 2 parties (maker, payee) vs. 3 (drawer, drawee, payee); note needs no acceptance, bill needs drawee's acceptance; note can never be payable to bearer, bill can (but never payable to bearer ON DEMAND --- Sec. 31 RBI Act).
- Acceptor's liability is primary and unconditional; drawer's is secondary/conditional.

TQ 3.1 • PYQ 2025-May [4] (b) (ii) • Distinguish Between • 4M • Pg 641
asked 2×

LEVEL I
Understanding

Easy

TQ 3.2 • MTP 2026-Apr S1 [4] (b) • Descriptive • 7M • Pg 643

LEVEL I
Understanding

Medium

Application apply provision to facts • 5 questions

- Fictitious-name and same-person scenarios: drawer, drawee and payee need not be three different persons, but at least two distinct persons must exist --- test bill validity accordingly.
- Forged indorsement scenarios (stolen order cheque/bill): forgery confers no title and is a nullity --- subsequent indorsees acquire no rights; contrast blank indorsement, which makes the instrument payable to bearer and transferable by mere delivery.
- Bills payable 'after sight' run from presentment for acceptance --- practise computing maturity and the effect of delayed presentment (Sec. 61: present within reasonable time, else parties are discharged).

CSQ 3.5 • PYQ 2025-Sep [6] (a) (i) • Case Scenario • 3M • Pg 646

LEVEL II
Application

Easy

CSQ 3.1 • PYQ 2019-Nov [1] (d) {C} • Case Scenario • 3M • Pg 644

LEVEL II
Application

Medium

CSQ 3.2 • PYQ 2019-Nov [2] (d) • Case Scenario • 3M • Pg 644

LEVEL II
Application

Medium

CSQ 3.3 · PYQ 2021-Jan [1] (d) {C} · Case Scenario · 3M · Pg 645

LEVEL II
Application

Medium

CSQ 3.4 · PYQ 2021-Dec [1] (d) {C} · Case Scenario · 3M · Pg 646

LEVEL II
Application

Medium

Topic 4: Cheque

P2-C7-U7-T04

Read first Study 'Cheque [Section 6]' --- cheque as a bill of exchange drawn on a specified banker and payable on demand, including electronic cheques and truncated cheques, and the parties (drawer, drawee bank, payee).

NOTES

Sec 6 (SM): "A 'cheque' is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form."

Essentials: all essentials of a bill of exchange + drawn on a specified banker + payable on demand (whenever the holder chooses to present); needs neither stamping nor acceptance; all cheques are bills but all bills are not cheques; "banker" includes any person acting as a banker and any post office savings bank [Sec 3].

Parties: drawer — maker/debtor, liability primary and conditional; drawee — always the specified bank which pays; payee — person in whose favour issued (may be the drawer himself or a third party); "drawee in case of need" — additional person named in the bill/indorsement to be resorted to in case of need.

Electronic forms: cheque in electronic form — drawn using a computer resource and signed in a secure system with digital signature (with/without biometric) or electronic signature (IT Act, 2000 meanings apply); truncated cheque — truncated during a clearing cycle by clearing house or bank immediately on generation of an electronic image, substituting further physical movement of the cheque.

Remembering

 memorise · 1 question

- Memorise Sec. 6: a cheque is a bill of exchange drawn on a specified banker, not expressed to be payable otherwise than on demand, and includes the electronic image of a truncated cheque and a cheque in electronic form.
- Essentials: all essentials of a bill of exchange + drawn on a specified banker + payable on demand; a cheque needs neither stamping nor acceptance; drawer's liability is primary and conditional; 'banker' includes post office savings bank [Sec. 3].
- Definitions of 'cheque in electronic form' (digital/electronic signature in secure system) and 'truncated cheque' (physical movement substituted by electronic image during clearing).

TQ 4.1 · MTP 2024-Aug [4] (b) · Descriptive · 7M · Pg 647

LEVEL I
Remembering

Medium

Application apply provision to facts · 5 questions

- Gift cheque scenarios: donee is a holder but NOT a holder in due course (no consideration); he cannot sue the drawer for dishonour of a gift cheque as there is no legally enforceable debt.
- Lost bearer/blank-indorsed cheques: a finder can pass good title to one who takes for value in good faith, and the paying banker gets discharge by payment in due course --- the true owner bears the loss.
- Minor scenarios: a minor may draw/indorse a cheque so as to bind all parties EXCEPT himself --- indorsee can enforce against prior/other parties, not the minor.

CSQ 4.1 · PYQ 2018-May [2] (c) · Case Scenario · 4M · Pg 648

LEVEL II
Application

Medium

CSQ 4.2 · PYQ 2018-Nov [2] (c) · Case Scenario · 4M · Pg 649

LEVEL II
Application

Medium

CSQ 4.3 · PYQ 2018-Nov [2] (d) · Case Scenario · 4M · Pg 650

LEVEL II
Application

Medium

CSQ 4.4 · PYQ 2020-Nov [5] (a) (ii) · Case Scenario · 3M · Pg 650

LEVEL II
Application

Medium

CSQ 4.5 · PYQ 2022-May [2] (d) · Case Scenario · 3M · Pg 651

LEVEL II
Application

Medium

Topic 5: Classification of Negotiable Instruments

P2-C7-U7-T05

Read first Study 'Classification of Negotiable Instruments' --- bearer/order instruments [Sec. 13], inland/foreign instruments [Secs. 11, 12, 134], and inchoate [Sec. 20] and ambiguous [Sec. 17] instruments.

NOTES

Bearer vs order [Sec 13]: bearer — payee's name blank, or specified with “or bearer”, or last indorsement in blank; negotiated by mere delivery; order — payable to a person, to a person or his order, or to order of a person, or last indorsement in full; negotiated by indorsement and delivery.

Inland [Sec 11]: drawn or made in India AND (payable in India OR drawn upon a person resident in India) — bill drawn in Mumbai on a Mathura merchant is inland even if accepted payable in London; drawn in Agra payable in Delhi is inland even if drawee is a New York merchant; an inland instrument remains inland though indorsed in a foreign country; **Foreign [Sec 12]:** any instrument not inland.

Sec 134 (foreign instruments): liability of maker/drawer governed by the law of the place where he made the instrument; liability of acceptor and indorser by the law of the place where payable — bill drawn in Berkley (15%) accepted payable in Washington (6%): acceptor pays 6%, drawer

15%.

Inchoate [Sec 20]: signed and stamped but wholly/partly blank — signer gives prima facie authority to the holder to complete it for any amount covered by the stamp; rule rests on estoppel; a holder recovers only the amount intended by the signer, a holder in due course any amount within the stamp limit; but no delivery, no liability — blank acceptance stolen from a drawer and filled for ₹20,000 did not bind the signer even to a holder in due course.

Ambiguous [Sec 17]: instrument construable as either promissory note or bill of exchange — the holder may at his election treat it as either, and once the option is exercised the instrument is thenceforward treated accordingly (he cannot change).

Remembering memorise · 2 questions

- Bearer: payee blank, or 'or bearer', or last indorsement in blank --- negotiated by mere delivery; order: payable to a person/his order, or last indorsement in full --- indorsement plus delivery.
- Inland [Sec. 11]: drawn/made in India AND (payable in India OR drawn upon a person resident in India); foreign [Sec. 12]: any instrument not inland.
- Inchoate [Sec. 20]: signed, stamped but wholly/partly blank; ambiguous [Sec. 17]: construable as either P/N or BOE --- holder elects once and is bound.

TQ 5.3 · RTP 2026-Jan [23] · Descriptive · --- · Pg 654

LEVEL I
Remembering

Easy

TQ 5.2 · PYQ 2025-Sep [4] (b) · Descriptive · 7M · Pg 653

LEVEL I
Remembering

Medium

Understanding explain with reasons · 2 questions

- Inchoate instruments rest on estoppel: a holder recovers only the amount intended by the signer; a holder in due course recovers any amount covered by the stamp --- but no liability without delivery.
- An inland instrument stays inland even if indorsed abroad; under Sec. 134 the drawer of a foreign instrument is liable by the law of the place of making, the acceptor/indorser by the place of payment.

TQ 5.1 · MTP 2025-Jan [4] (b) · Descriptive · 7M · Pg 652 asked 2x

LEVEL I
Understanding

Medium

TQ 5.4 · PYQ 2026-Sep [4] (b) · Descriptive · 7M · Pg 655

LEVEL I
Understanding

Medium

Application apply provision to facts · 2 questions

- Classify from three facts --- where drawn, where payable, drawee's residence: drawn in India on an Indian resident is inland even if payable abroad; drawn and payable in India is inland even if the drawee resides abroad.
- Blank signed cheque: Sec. 20 --- a holder filling in excess cannot recover beyond the intended amount; a holder in due course can (within the stamp limit).

CSQ 5.1 • PYQ 2024-Sep [6] (a) (ii) • Case Scenario • 3M • Pg 656

LEVEL II
Application

Medium

CSQ 5.2 • RTP 2026-Jan [22] • Case Scenario • --- • Pg 657

LEVEL II
Application

Medium

Analysis untangle multi-issue scenarios • 1 question

- Multi-instrument validity questions: first test each against the Sec. 4/5/6 essentials (unconditional? certain sum? certain payee?), then classify --- keep the two stages separate.
- 'Payable to bearer on demand' trap: valid for cheques, invalid for bills/notes (Sec. 31, RBI Act).

CSQ 5.3 • PYQ 2026-May [6] (a) • Case Scenario • 7M • Pg 657

LEVEL II
Analysis

Hard

Topic 6: Negotiation (Transfer) of Negotiable Instruments

P2-C7-U7-T06

Read first Study 'Negotiation (Transfer) of Negotiable Instruments' --- Sec. 14 (negotiation), Sec. 46 (delivery, actual and constructive), Sec. 47 (negotiation by delivery of bearer instruments), Sec. 48 (indorsement plus delivery for order instruments) and Sec. 57 (legal representative cannot complete an undelivered indorsement).

NOTES

Sec 14: negotiation = transfer of an instrument to any person so as to constitute that person its holder (transfer of ownership); **modes:** bearer instruments — by mere delivery [Sec 47]; order instruments — by indorsement and delivery of the holder [Sec 48]; both subject to Sec 58 (instruments obtained unlawfully).

Delivery [Sec 46]: essential for bearer and order instruments alike, at making/drawing and at negotiation; must be voluntary with the object of passing property; may be actual (physical change of hands) or constructive (delivery to indorsee's agent/clerk/servant, or indorser after indorsement holding as indorsee's agent); until delivery the contract remains incomplete and revocable — posting one half of a cut note is not constructive delivery of the whole.

Conditional delivery: an instrument delivered conditionally or for a special purpose passes no property to the transferee even though indorsed, unless negotiated to a holder in due course; between immediate parties conditional/special-purpose delivery may be shown.

Indorsement without delivery [Sec 57]: rights pass only on delivery after indorsement — Y indorsed X's cheque to Z but kept it in his drawer; on Y's death Z finding it is not holder; the legal representative of a deceased indorser cannot complete negotiation by mere delivery (he is not the deceased's agent); contrast delivery to the indorsee's agent, which is good delivery — Arjun could recover where the note was delivered to his agent.

Understanding explain with reasons · 2 questions

- Sec. 14: negotiation = transfer of the instrument so as to constitute the transferee its holder; bearer --- by delivery [Sec. 47]; order --- by indorsement and delivery [Sec. 48].
- Sec. 46: delivery is essential for both bearer and order instruments; it must be voluntary, with intent to pass property, and may be actual or constructive (delivery to indorsee's agent, or indorser holding as indorsee's agent); until delivery the contract is incomplete and revocable.
- Conditional/special-purpose delivery passes no property except in favour of a holder in due course.

TQ 6.1 · PYQ 2025-May [4] (b) (i) · Descriptive · 3M · Pg 659

LEVEL I
Understanding**Easy**

TQ 6.2 · PYQ 2026-May [4] (b) · Descriptive · 7M · Pg 660

LEVEL I
Understanding**Medium****Application** apply provision to facts · 3 questions

- Indorsement without delivery: an indorsee who merely finds the instrument (e.g., in the deceased indorser's drawer) is not a holder; under Sec. 57 the legal representative cannot complete negotiation by mere delivery of an instrument indorsed but undelivered by the deceased.
- Structure: bearer or order? → mode used → voluntary delivery? → conclude whether the transferee became holder and can sue.

CSQ 6.2 · MTP 2024-Aug [6] (a) (i) · Case Scenario · 4M · Pg 663

LEVEL II
Application**Medium**

CSQ 6.3 · PYQ 2024-Sep [6] (a) (i) · Case Scenario · 4M · Pg 664

LEVEL II
Application**Medium**CSQ 6.4 · PYQ 2025-Jan [6] (a) (i) · Case Scenario · 4M · Pg 665 **asked 2×****LEVEL II**
Application**Medium****Analysis** untangle multi-issue scenarios · 1 question

- Accommodation bill transferred AFTER maturity: transferee cannot be a holder in due course and takes subject to defects --- work out each party's liability step by step.
- 'Not negotiable' crossing on a filled-up blank cheque: transferee gets no better title than his transferor --- combine with Sec. 20 (amount filled beyond authority) to fix who recovers what.
- Untangle first: consideration present? transfer before/after maturity? delivery complete? --- then apply holder vs. holder-in-due-course rights.

CSQ 6.1 · PYQ 2020-Nov [3] (d) · Case Scenario · 3M · Pg 662

LEVEL II
Analysis**Medium**

Topic 7: Dishonour of Cheques for Insufficiency of Funds in the Accounts (Section 138 to 142)

P2-C7-U7-T07

Read first Study 'Dishonour of Cheques for Insufficiency of Funds in the Accounts [Sections 138 to 142]' --- ingredients and conditions of the Sec. 138 offence, the Sec. 139 presumption, Sec. 140, plus 'Rules of Compensation' (Sec. 117) and noting/protest.

NOTES

Sec 138 offence: cheque drawn on the drawer's account for discharge, in whole or part, of a legally enforceable debt or other liability, returned unpaid because funds are insufficient or exceed the arrangement with the bank — punishment: imprisonment up to 2 years, or fine up to twice the cheque amount, or both; cheques given as gift or donation, as security, for a mere moral obligation or for illegal consideration fall outside the section.

Three conditions precedent: (a) cheque presented within 3 months from the date drawn or its validity period, whichever earlier; (b) payee/holder in due course demands payment by written notice to the drawer within 30 days of information of return; (c) drawer fails to pay within 15 days of receipt of notice — complaint only after the 45 days (30 + 15) run out.

Sec 139: rebuttable presumption that the holder received the cheque for discharge of a debt/liability — evidential burden shifts to the accused drawer; **Sec 140:** that the drawer had no reason to believe the cheque would be dishonoured is not a defence.

Stop payment/post-dated: stop-payment instructions to the bank still attract Sec 138 irrespective of funds (Bholenath case — Sec 139 presumption follows once the cheque is issued); a post-dated cheque is deemed drawn on the date it bears and the 3 months run from that date.

Sec 117 compensation: holder entitled to the amount due plus expenses properly incurred in presenting, noting and protesting; person charged residing elsewhere — sum at current rate of exchange; an indorser who pays recovers the amount with interest at 18% p.a. from payment till tender/realisation plus all expenses; the party entitled may draw a bill at sight/on demand on the party liable, accompanied by the dishonoured instrument and protest (if any).

Remembering memorise · 1 question

- Sec. 138: imprisonment up to 2 years, or fine up to twice the cheque amount, or both; conditions --- presentment within 3 months of the cheque's date (or validity, whichever earlier), demand notice within 30 days of the return memo, drawer's failure to pay within 15 days of notice.
- Noting = Notary Public's record of dishonour (fact, date, reason, charges); protest = formal notarial certificate; protest for better security = acceptor insolvent/credit shaken before maturity.
- Sec. 117: amount due + expenses of presenting, noting and protesting; a paying indorser recovers with interest at 18% p.a.

TQ 7.3 · PYQ 2025-Jan [4] (b) · Descriptive · 7M · Pg 669 **asked 2x****LEVEL I**
Remembering**Medium****Understanding** explain with reasons · 1 question

- The cheque must discharge a legally enforceable debt or liability --- cheques given as gift, donation, security, for a moral obligation or illegal consideration fall OUTSIDE Sec. 138.
- Sec. 139: rebuttable presumption the cheque was for discharge of a debt --- burden shifts to the drawer; Sec. 140: 'no reason to believe it would bounce' is no defence.
- Dishonour by non-acceptance: drawee refuses/gives qualified acceptance, cannot be found, or is incompetent.

TQ 7.2 · PYQ 2024-Sep [4] (b) · Descriptive · 7M · Pg 667

LEVEL I
Understanding**Medium****Application** apply provision to facts · 6 questions

- Stop-payment still attracts Sec. 138 (Sec. 139 presumption follows); a post-dated cheque is 'drawn' on the date it bears --- count 3 months from that date.
- Gift/donation cheques: no legally enforceable debt, so dishonour is NOT an offence.
- Timeline sums: check presentment within validity, 30-day notice, 15-day payment window; cause of action arises only after the 15 days expire.

TQ 7.1 · PYQ 2018-May [2] (d) · Descriptive · 4M · Pg 666 **asked 3x****LEVEL II**
Application**Medium**

CSQ 7.1 · MTP 2024-May [6] (a) (ii) · Case Scenario · 3M · Pg 670

LEVEL II
Application**Medium**CSQ 7.2 · PYQ 2024-Jun [6] (a) · Case Scenario · 7M · Pg 671 **asked 4x****LEVEL II**
Application**Medium**

CSQ 7.3 · RTP 2024-Jun [22] · Case Scenario · --- · Pg 672

LEVEL II
Application**Medium**CSQ 7.4 · RTP 2024-Sep [22] · Case Scenario · --- · Pg 672 **asked 2x****LEVEL II**
Application**Medium**

CSQ 7.6 · PYQ 2026-Jan [6] (a) · Case Scenario · 7M · Pg 675

LEVEL II
Application**Medium****Analysis** untangle multi-issue scenarios · 1 question

- Time-barred debt: not legally enforceable → Sec. 138 fails even if all timelines are met --- check enforceability FIRST, then the procedural limbs.
- Multi-issue problems mixing consideration (accommodation/gift), validity and notice periods: separate the substantive ingredient (debt + insufficiency) from the three procedural conditions before concluding.

CSQ 7.5 · PYQ 2025-May [6] (a) · Case Scenario · 7M · Pg 673

LEVEL II
Analysis**Hard**

Topic 8: Presentment of Instruments

P2-C7-U7-T08

Read first Study 'Presentment of Instruments' --- presentment for acceptance [Sec. 61], note for sight [Sec. 62], drawee's 48 hours [Sec. 63], presentment for payment [Secs. 64 to 75A] and when presentment is unnecessary [Sec. 76].

NOTES

Sec 61 (acceptance — bill payable after sight): present to the drawee within a reasonable time after drawing, in business hours on a business day; in default no party is liable to the person defaulting; drawee not found after reasonable search — bill dishonoured; if directed to the drawee at a particular place, present there; registered post suffices where authorised; **Sec 63:** holder must allow the drawee 48 hours (exclusive of public holidays) to consider acceptance.

Sec 62 (note for sight): a promissory note payable a certain period after sight must be presented to the maker for sight within reasonable time, in business hours on a business day; in default no party is liable to the person making the default.

Payment [Secs 64–75A]: Sec 64 — present to maker (P/N), acceptor (BOE) or drawee (cheque), else the other parties are not liable to that holder; exception — a demand note not payable at a specified place needs no presentment to charge the maker; Sec 65 — usual business hours (banker: banking hours); Sec 66 — after-date/after-sight instruments presented at maturity; Sec 67 — instalment notes on the 3rd day after each instalment date; Secs 68–70 — at the specified place, else place of business/usual residence; Sec 71 — no known place: wherever found; Sec 74 — demand instruments within reasonable time; Sec 75A — delay excused if caused by circumstances beyond the holder's control, present within reasonable time once the cause ceases.

Sec 76 (presentment unnecessary — instrument dishonoured at due date): (1) maker/drawee/acceptor intentionally prevents presentment; (2) instrument payable at his business place which he closes on a business day during business hours; (3) no one attends the specified place in business hours; (4) not payable at a specified place and he cannot be found after due search; (5) party has engaged to pay notwithstanding non-presentment; (6) after maturity, with knowledge of non-presentment, party makes part payment, promises to pay, or waives the default; (7) against the drawer, if he could not suffer damage from want of presentment.

Remembering memorise · 1 question

- Sec. 76 (presentment unnecessary): presentment intentionally prevented; business place closed on a business day; no one attends the specified place; party not found after due search; engagement to pay despite non-presentment; part- payment/promise/waiver after maturity; drawer suffered no damage.
- Sec. 63: drawee gets 48 hours (excluding public holidays) to consider acceptance; Sec. 66: instruments payable after date/sight presented at maturity; Sec. 67: instalment notes --- 3rd day after each instalment date.

- Sec. 62: a note payable a certain period after sight must be presented for SIGHT within reasonable time, in business hours on a business day; default discharges the parties as to that holder.

TQ 8.1 · PYQ 2024-Jun [4] (b) · Descriptive · 7M · Pg 676 **asked 6×****LEVEL I**
Remembering**Medium****Understanding** explain with reasons · 2 questions

- Sec. 64: instruments must be presented for payment to the maker/acceptor/drawee; in default the OTHER parties are not liable to that holder; exception --- a demand note not payable at a specified place needs no presentment to charge the maker.
- Sec. 61 (acceptance --- bills payable after sight): present within reasonable time, business hours, business day; drawee not found after reasonable search = dishonour; delay excused under Sec. 75A if beyond the holder's control.

TQ 8.2 · MTP 2025-Apr S1 [4] (b) · Descriptive · 7M · Pg 677

LEVEL I
Understanding**Medium**

TQ 8.3 · MTP 2025-Aug S1 [4] (b) · Descriptive · 7M · Pg 678

LEVEL I
Understanding**Medium****Application** apply provision to facts · 4 questions

- Demand note with no specified place: non-presentment does not discharge the maker (Sec. 64 exception).
- Premature presentment (before due date) is invalid --- the drawee may rightly refuse; re-present at maturity (Sec. 66); late presentment may discharge indorsers, not the maker/acceptor.
- Bill sent for acceptance: allow 48 hours before treating silence as dishonour; answer as provision → dates/facts → who is discharged.

CSQ 8.1 · RTP 2024-Jun [23] · Case Scenario · --- · Pg 679 **asked 2×****LEVEL II**
Application**Medium**

CSQ 8.2 · MTP 2024-Aug [6] (a) (ii) · Case Scenario · 3M · Pg 680

LEVEL II
Application**Medium**CSQ 8.3 · PYQ 2025-Jan [6] (a) (ii) · Case Scenario · 3M · Pg 680 **asked 2×****LEVEL II**
Application**Medium**

CSQ 8.4 · PYQ 2025-Sep [6] (a) (ii) · Case Scenario · 4M · Pg 681

LEVEL II
Application**Medium****Topic 9: Rules of Compensation**

P2-C7-U7-T09

Read first Read §9 of Chapter 7: Section 117 and the five rules determining compensation on dishonour of a promissory note, bill of exchange or cheque.

NOTES

Section 117 — the holder: the holder is entitled to the **amount due upon the instrument**, together with the expenses properly incurred in **presenting, noting and protesting** it.

Different places: where the person charged resides at a place different from that at which the instrument was payable, the holder is entitled to receive such sum at the **current rate of exchange** between the two places; the same rule applies between an endorser and the person charged where they reside at different places.

The paying endorser: an endorser who, being liable, has paid the amount due is entitled to that amount **with interest at 18% per annum** from the date of payment until tender or realisation, together with all expenses caused by the dishonour and payment.

Re-drawing: the party entitled to compensation may **draw a bill** upon the party liable, payable at sight or on demand, for the amount due plus expenses properly incurred; the bill must be accompanied by the dishonoured instrument and the protest (if any), and if that bill is itself dishonoured the party dishonouring it is liable to compensate in the same manner as on the original bill.

Application work the problem · 1 question

CSQ 9.1 · PYQ 2026-Sep [6] (a) · Case Scenario · 7M · Pg 682

LEVEL II
Application

Medium